
2012 Income Tax Credit Review

**Joint Legislative Income Tax
Credit Review Committee**

December 6, 2012

JLBC

Joint Legislative Income Tax Credit Review Committee

- Annually Reviews Credits As Determined in Statute

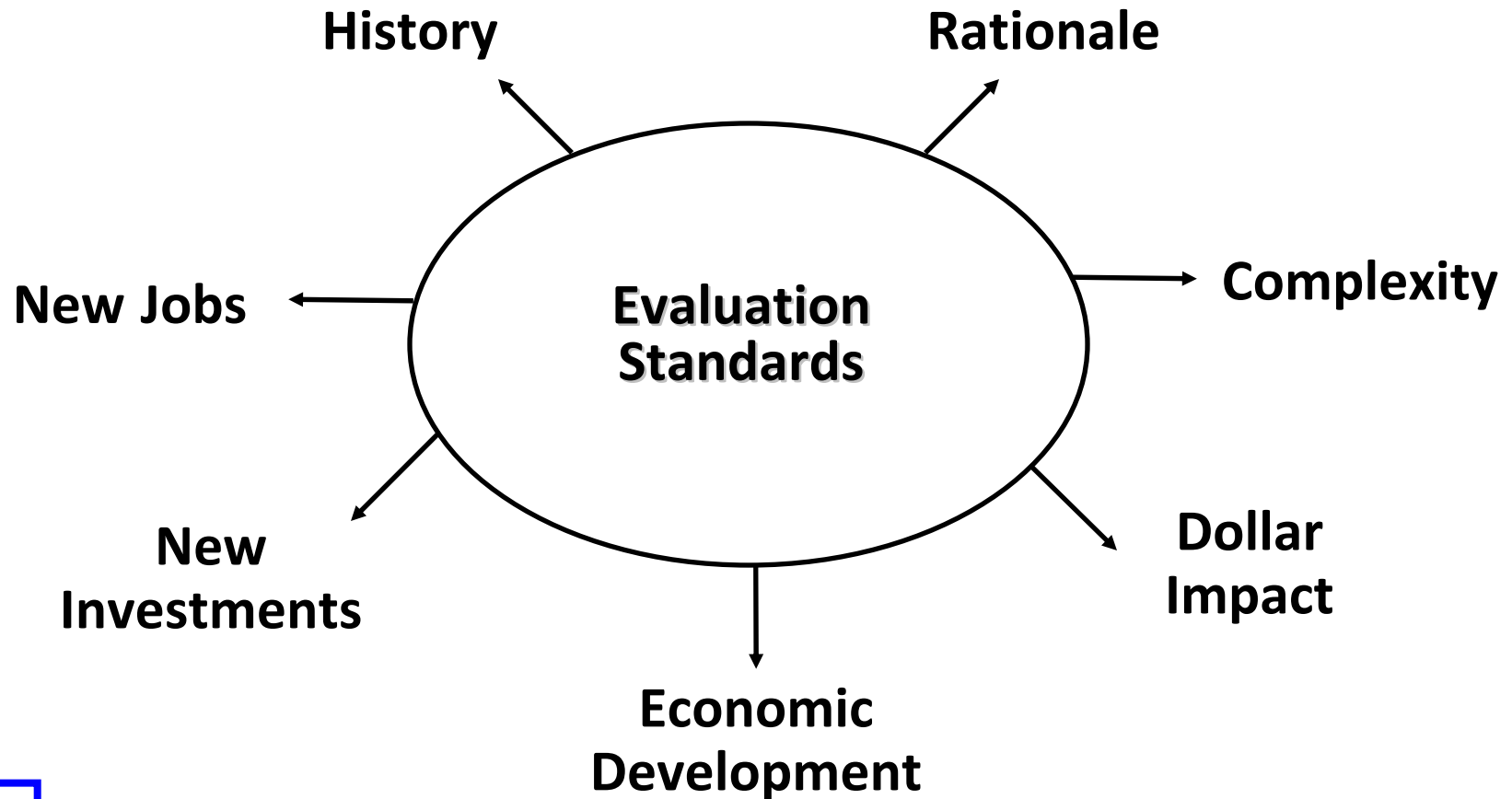
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* 3 Credits Will Be Reviewed in Executive Session

Role of the Committee

- Determine original purpose of tax credit
- Establish standards for evaluating and measuring success or failure
- Recommend changes

Statute Provides Possible Standards



Confidential Taxpayer Information

- ❑ Laws 2010, Chapter 225 authorizes DOR to disclose confidential “statistical information” only to the Committee and JLBC 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
- ❑ Three of the credits on the 2012 review schedule include confidential statistical information

Issues Affecting Evaluation

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

Evaluation of Arizona Tax Credit Reviews

- ❑ The Pew Center on the States rates Arizona among 13 states that are “leading the way” in the evaluation of tax incentives
- ❑ Arizona ranked highly for its systematic process of reviewing all income tax credits
- ❑ The Pew Center, however, questioned the quality of the reviews due to a lack of both economic impacts and clear conclusions

Family Income Tax Credit

Family Income Tax Credit

– Summary

- ❑ Cost – \$5.8 million in tax year 2011
 - 516,800 claims at an average of \$11 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 Credit

- Credit is \$40 for each household member for whom a personal or dependent exemption is allowed
- 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 single 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

<u>Filing Status</u>	<u>Income Limit</u>
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

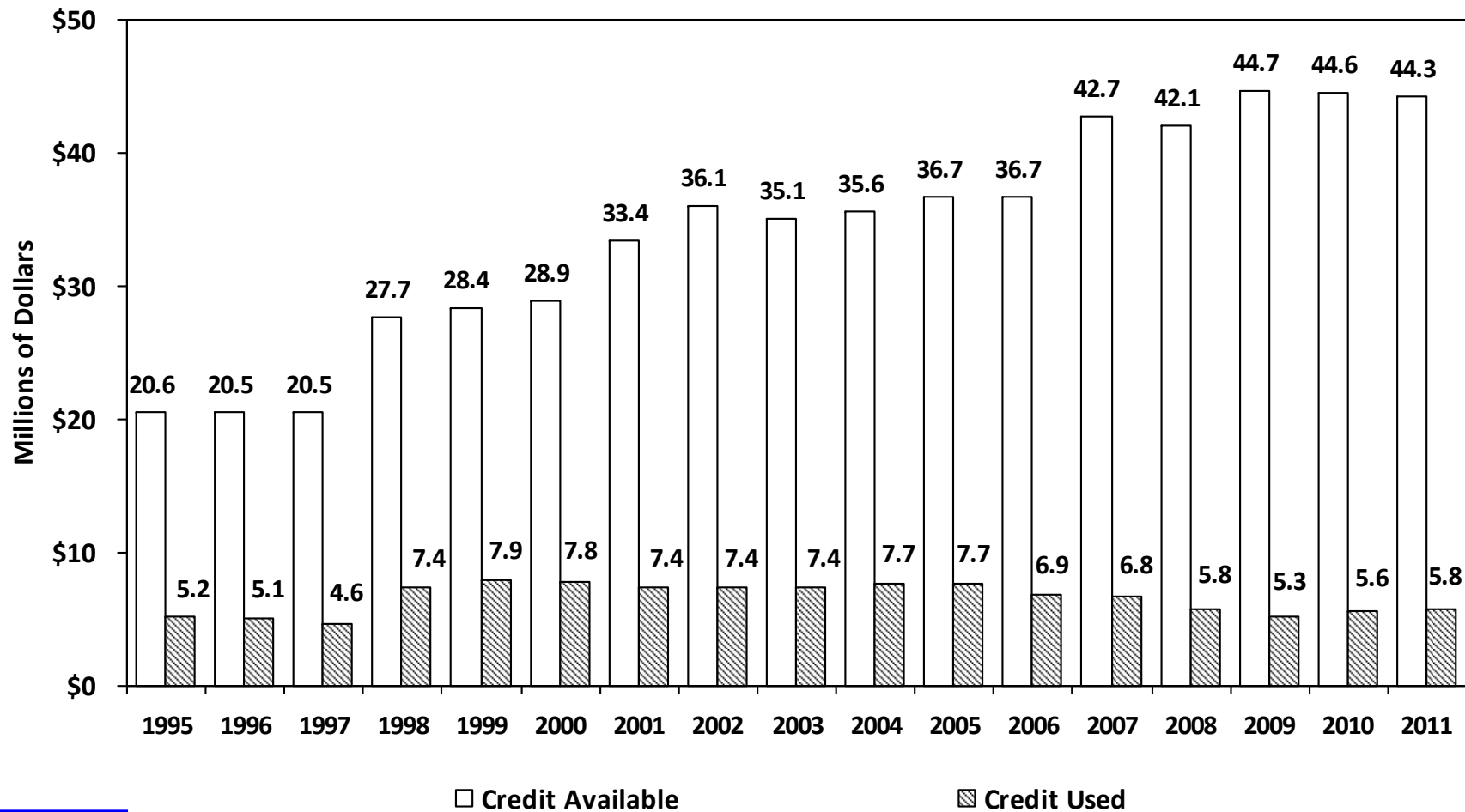
Family Income Tax Credit

– 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

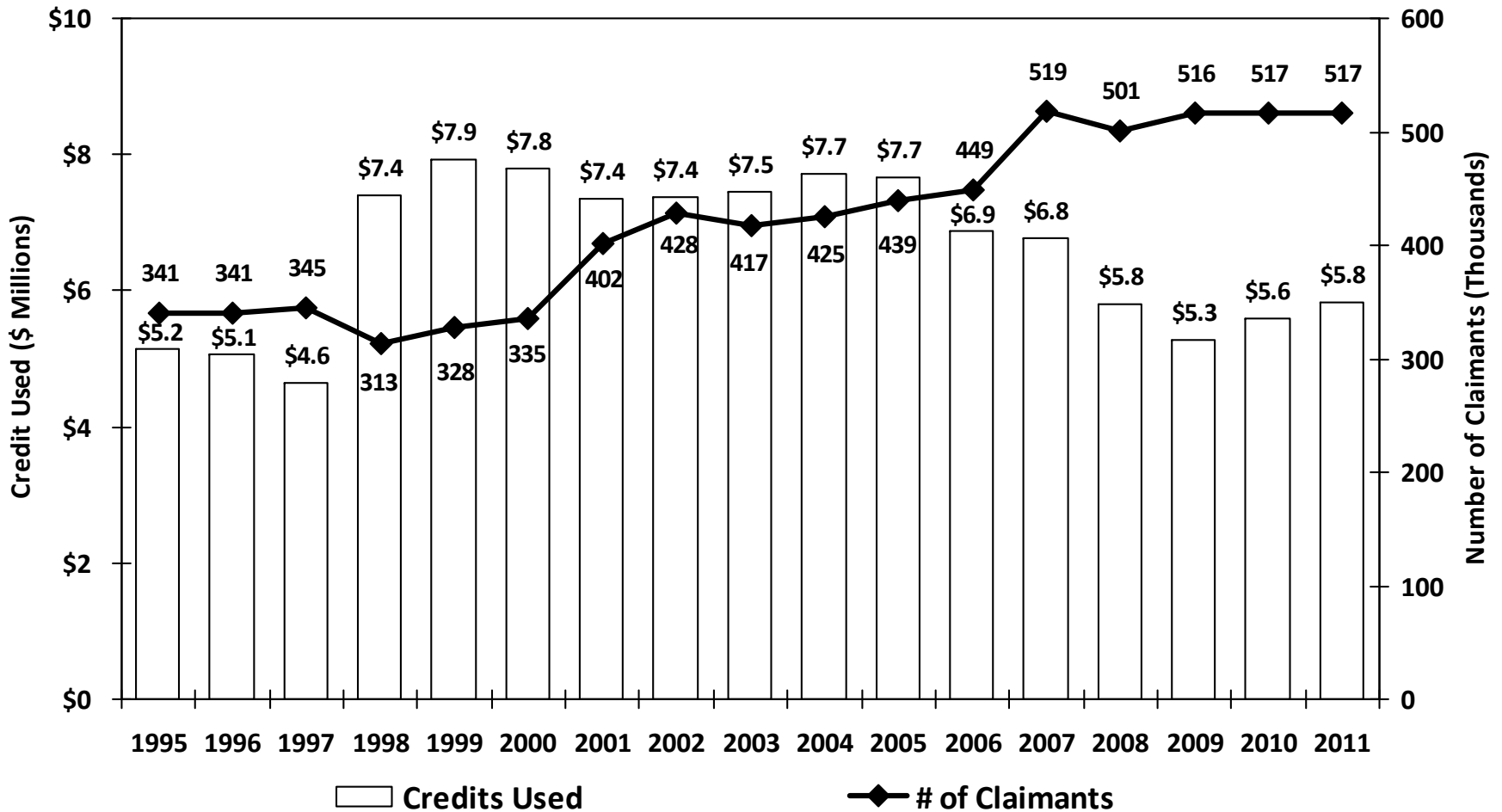
Family Income Tax Credit

– Total Available Credit versus Actual Credit Used



Family Income Tax Credit Credit

– Amount of Credits Used & Number of Claimants



Family Income Tax Credit

– Benefits to the Arizona Economy

- ❑ Credit has the effect of raising the disposable income of low-income households
- ❑ Economic theory predicts that a higher disposable income will increase consumer spending, which in turn will spur economic activity
- ❑ However, since the total amount of the credit claimed is small (less than \$6 mil.), the impact on the Arizona economy is likely minimal

Family Income Tax Credit

– Potential Performance Measures

- There are no performance measures for this credit

Commercial Solar Device Energy Tax Credit

Commercial Solar Energy Device Tax Credit

– Summary

- ❑ Cost – \$129,500 in 2010 for the corporate credit and \$51,400 in 2011 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

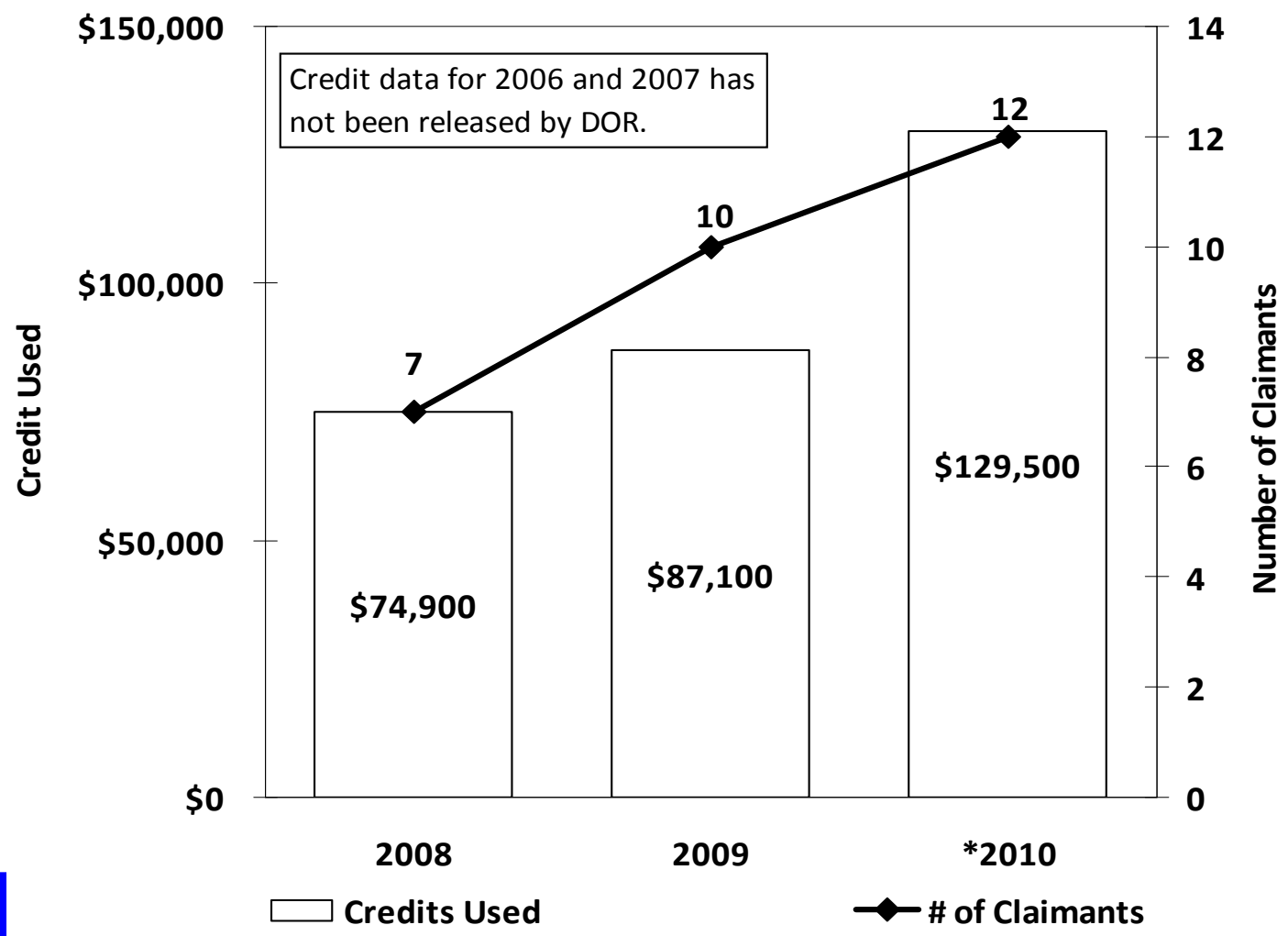
Commercial Solar Energy Device Tax Credit

– Description of the Credit

- ❑ Individual and corporate tax credits for 10% of the cost of 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 is available through 2018 and is capped at \$1 million per year
- ❑ Credit is non-refundable, but unused amounts can be carried forward for up to 5 years

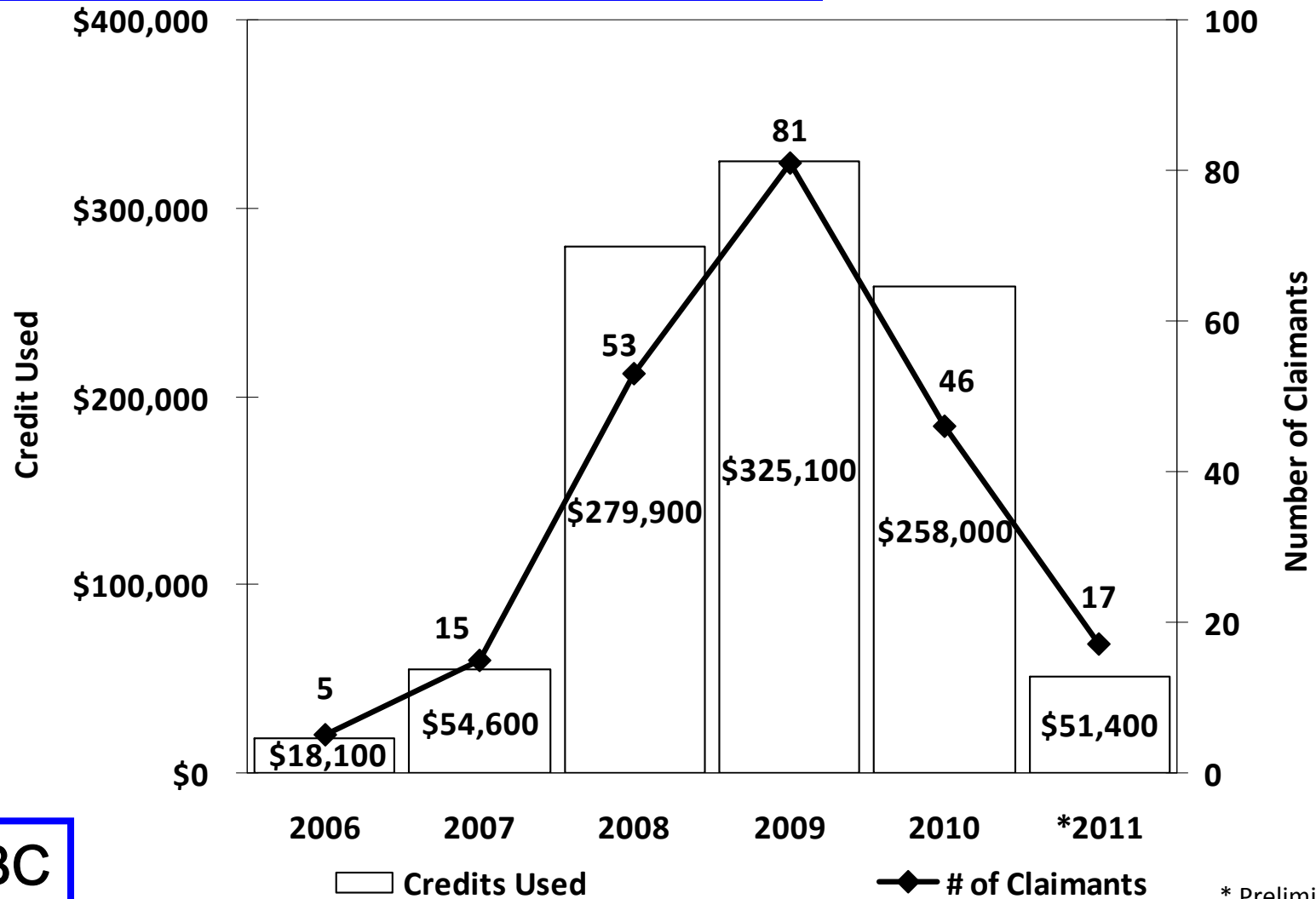
Commercial Solar Energy Device Tax Credit

– Amount of Corporate Credits Used & Number of Claimants



Commercial Solar Energy Device Tax Credit

– Amount of Individual Credits Used & Number of Claimants



Commercial Solar Energy Device Tax Credit

– Recent Trends

- ❑ PV units are becoming less expensive and more efficient
- ❑ Arizona instituted a Renewable Energy Standard (15% by 2025)
- ❑ Federal residential and commercial solar energy credits of 30% are available through end of CY 2016
- ❑ Utility rebates, state credits, and federal credits collectively reduce PV system costs by 50%

Commercial Solar Energy Device Tax Credit

– Benefits to the Arizona Economy

- ❑ In 2010, credits were applied against \$7.5 million of investments in solar energy devices
- ❑ There is no data on the number of new jobs created from purchases related to this credit
- ❑ However, studies show Arizona's total solar related employment has increased recently

Commercial Solar Energy Device Tax Credit

– Potential Performance Measures

- Total megawatt hours of electricity generated from solar energy devices
- Total megawatt hours of electricity conserved from non-renewable energy sources
- Number of persons employed in businesses that manufacture, install, or service residential energy solar devices

Military Family Relief Fund Tax Credit

Military Family Relief Fund Tax Credit

– Summary

- ❑ Cost – \$996,700 in tax year 2011.
 - 3,007 claims averaging \$331 a 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

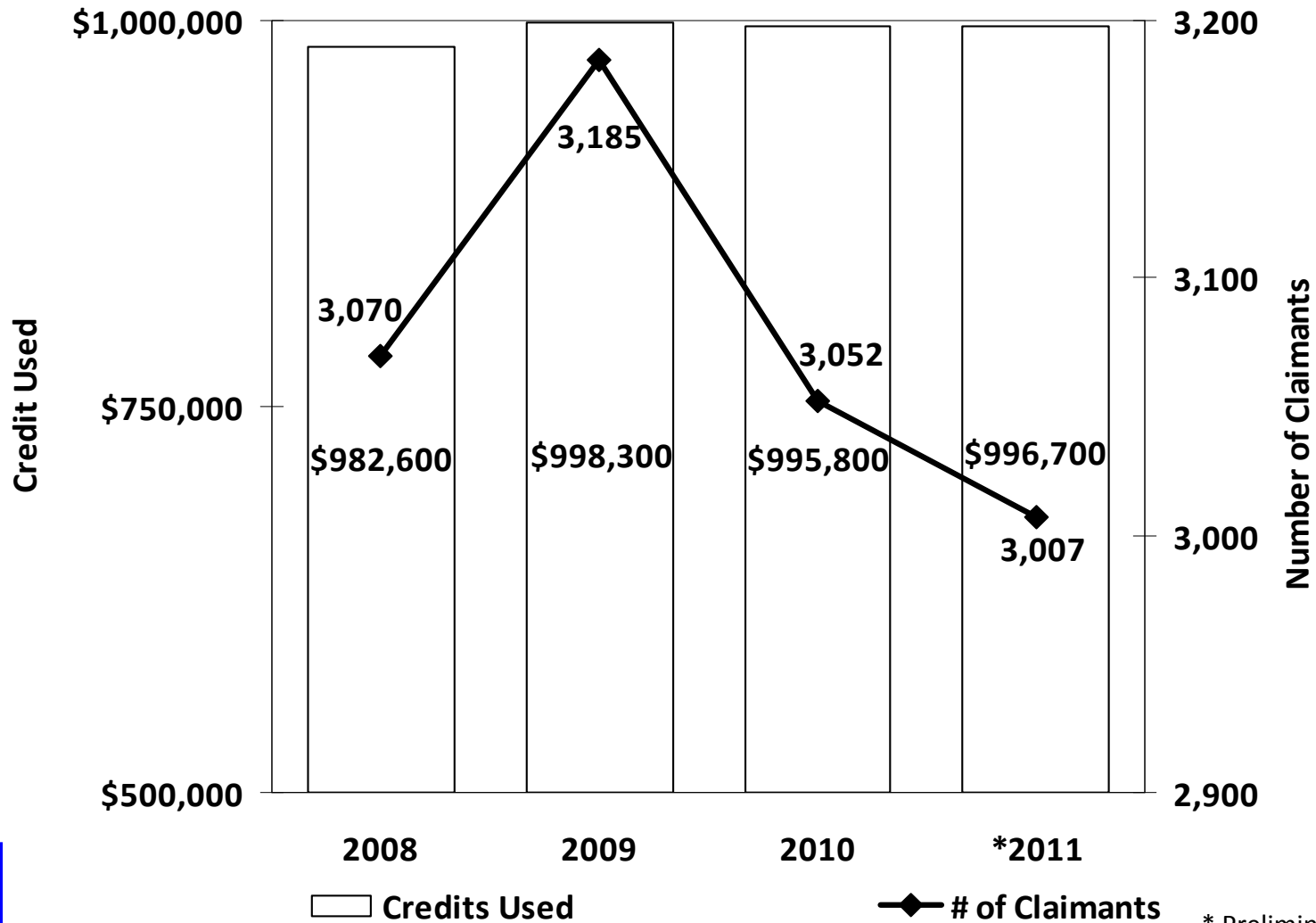
Military Family Relief Fund Tax Credit

– Description of 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 2018 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

– Amount of Credits Used & Number of Claimants



* Preliminary Numbers

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 since September 11, 2001
 - 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 2012, the committee made \$562,100 in grants
 - 2010 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)
TY '08/FY '09	\$993	\$12
TY '09/FY '10	1,005	127
TY '10/FY '11	1,000	233
TY '11/FY '12	999	562

Military Family Relief Fund Tax Credit

– Potential Performance Measures

- Number and dollar amount of donations
- Number and dollar amount of grants

Private School Tuition Organization Credit

Private School Tuition Organization Credit

– Summary

- ❑ Cost – \$43.2 million in tax year 2010
 - 62,941 claims (average = \$686)
- ❑ Purpose – assist parents with the cost of private school tuition
- ❑ Complexity – simple to use
 - administration now “significantly more complex for STOs” due to 2nd individual STO credit created by Laws 2012, Chapter 4
- ❑ Performance Measures – none in statute

Private 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 (CY 2012):
 - \$503 for single individual or head of household
 - \$1,006 for married couple filing joint return
 - adjusted annually for inflation
- 5-year carry-forward
- 53 STOs received contributions in CY 2012

Private School Tuition Organization Credit

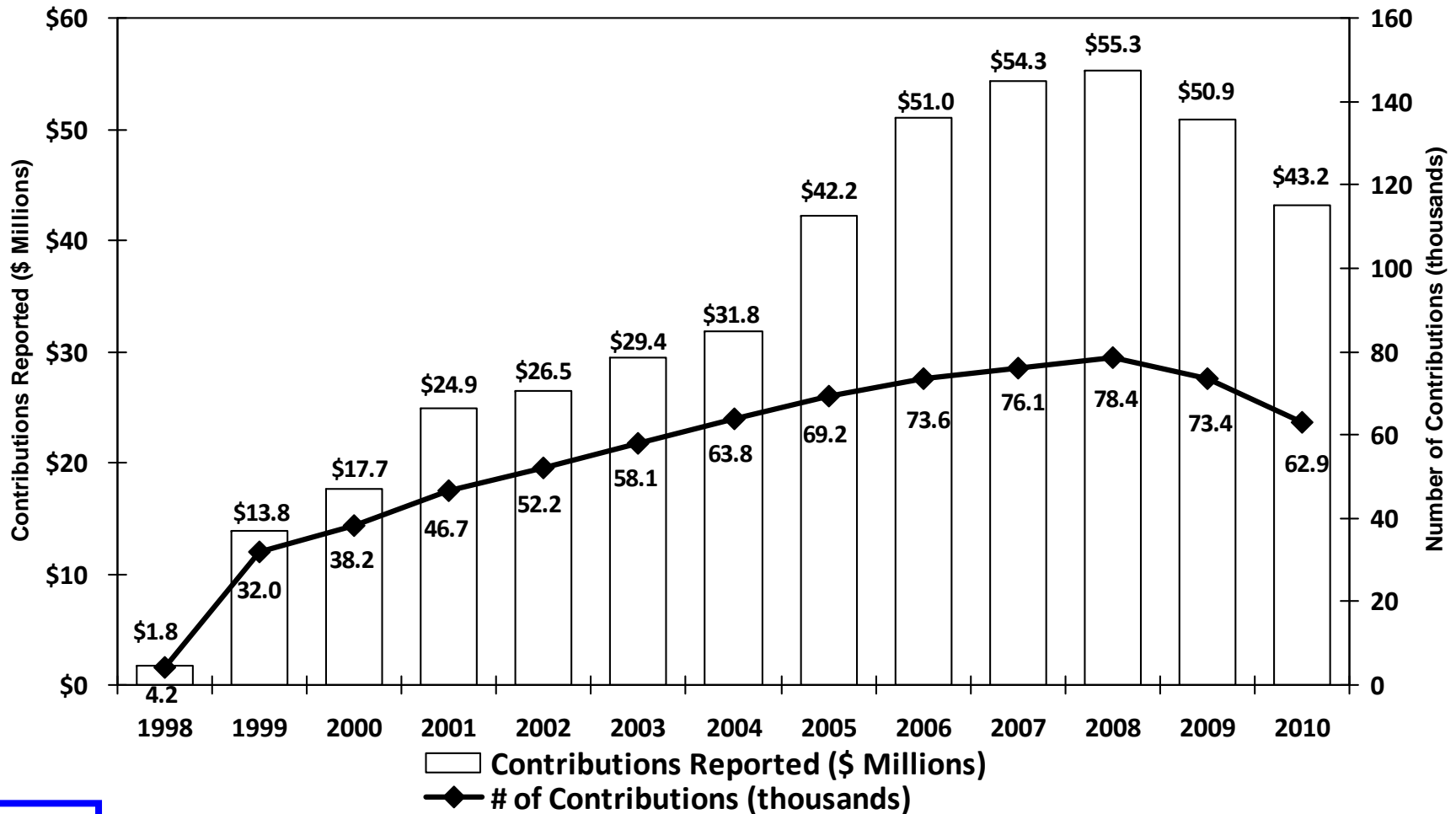
– Related STO Credits

Three other STO tax credits exist (none under review this year):

- 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 (new for CY 2012)
 - scholarships for students who switch to private schools
 - donor must first take maximum “original” STO credit

Private School Tuition Organization Credit

– In 2010, Average Contribution Was \$686



Private School Tuition Organization Credit

– Impact on State K-12 Cost

- ❑ Revenue loss is offset to the extent that credit allows students to attend private school who otherwise would have attended public school
- ❑ State K-12 Costs:
 - Operating - \$5,300 per ADM
 - Capital – New construction and building renewal savings

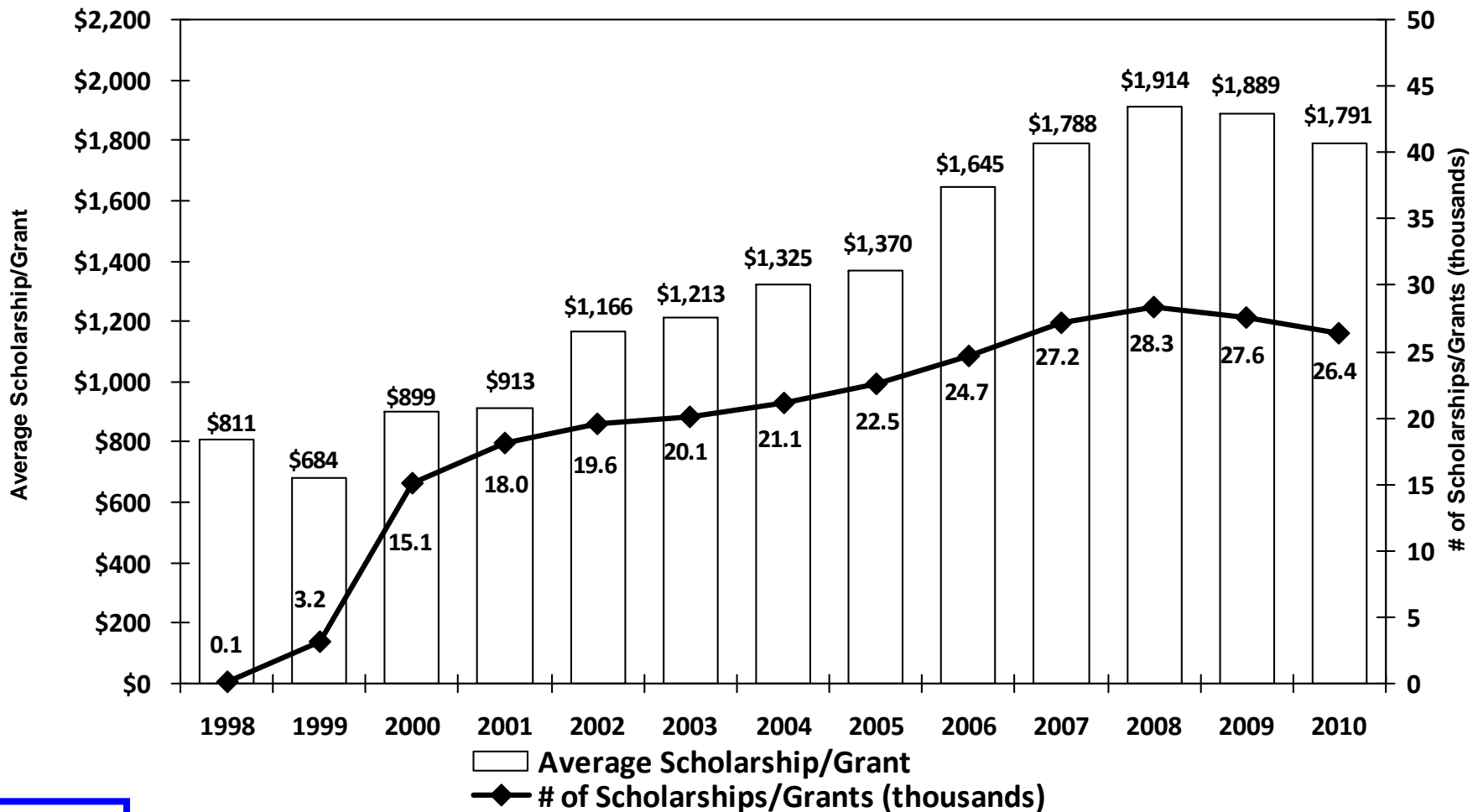
Private School Tuition Organization Credit

– Impact on State K-12 Costs

- ❑ No net GF cost if at least 8,150 students otherwise would be attending public schools ($8,150 \times \$5,300 = \43.2 million)
- ❑ Total STO scholarship recipients estimated at 23,800, but actual number of “switchers” is unknown
- ❑ Private school enrollment had grown over past decade prior to Great Recession (NCES survey)
 - 44,060 in 2000
 - 51,590 in 2008
 - 44,559 in 2010

Private School Tuition Organization Credit

– Over 26,400 awards distributed in 2010 (Average = \$1,791)



Private School Tuition Organization Credit

– Average Scholarship Funding and Tuition

- ❑ Estimated 53% of private school population receives STO scholarship/grant
 - some students receive more than one award
- ❑ STO scholarships cover an estimated 22% of private school tuition costs
 - Average tuition cost of \$8,549 (NCES survey 2008)
 - $\$1,914 \div \$8,549$ ('08 scholarship average) = 22.4%

Private 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

Public School Extracurricular Activity Fee Credit

Public School Extracurricular Activity Fee Credit

– Summary

- ❑ Cost – \$48.4 million in tax year 2011.
 - 250,210 claims averaging \$194 per claim
- ❑ Purpose – assist parents with the cost of extracurricular activities
- ❑ Complexity – simple to use
 - recent law changes have increased school district reporting requirements, adding data collection duties to DOR
- ❑ 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

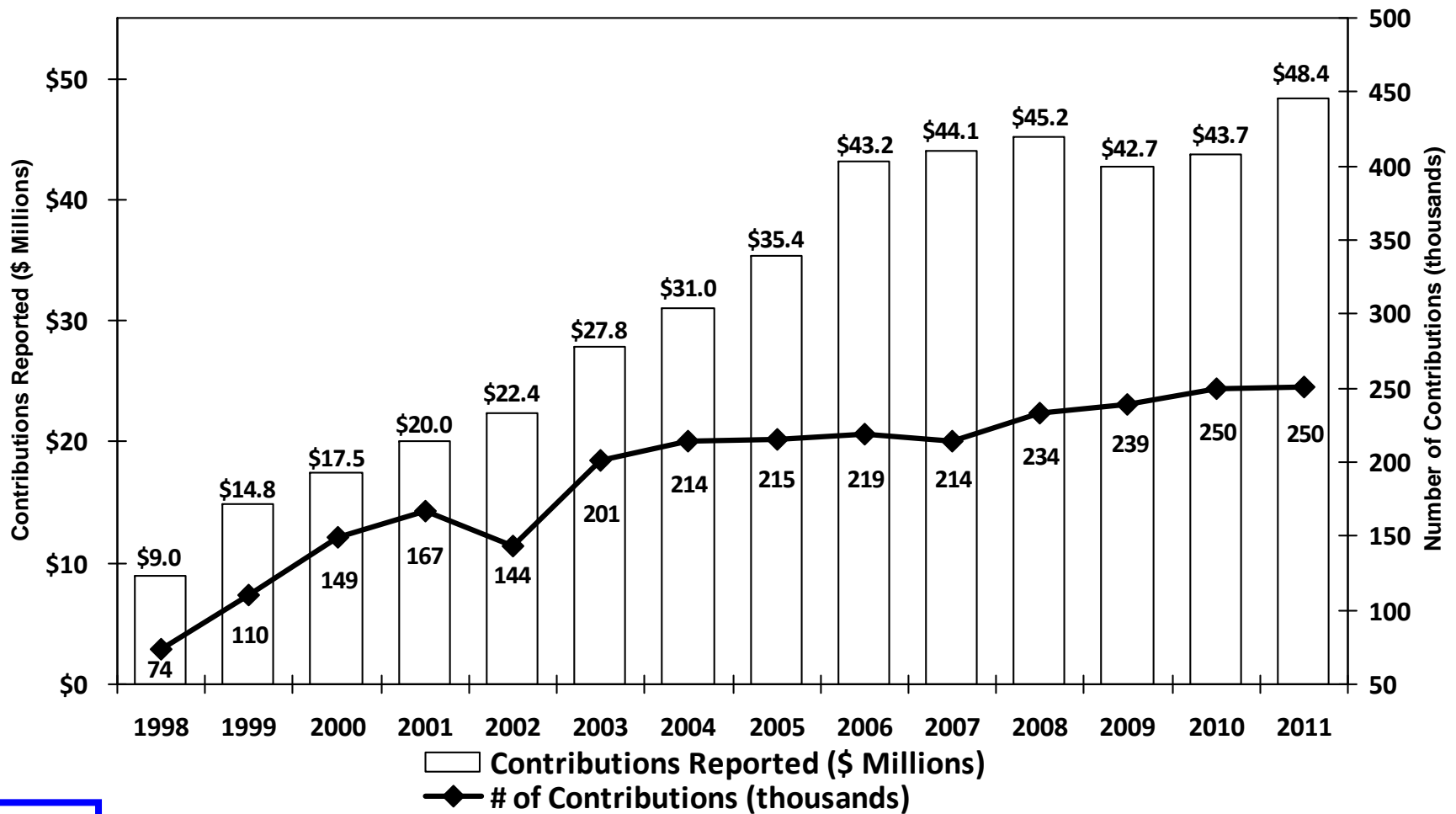
Public School Extracurricular Activity Fee Credit

– 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

Public School Extracurricular Activity Fee Credit

– In 2011, Average Contribution Was \$194



Public School Extracurricular Activity Fee Credit

– 12 Districts Received 54% of Contributions in '11
(represents 34% of Statewide Enrollment)

District	Contributions (\$ in millions)	District	Contributions (\$ in millions)
Mesa Unified	\$5.9	Kyrene Elementary	\$2.0
Tucson Unified	\$3.0	Peoria Unified	\$1.5
Scottsdale Unified	\$2.5	Deer Valley Unified	\$1.4
Gilbert Unified	\$2.3	Prescott Unified	\$1.3
Paradise Valley Unified	\$2.2	Catalina Foothills	\$1.0
Chandler Unified	\$2.2	Tempe Union	\$1.0

Public School Extracurricular Activity Fee Credit

– Charters Receive Higher Average Contribution Per Pupil

- ❑ Average contribution per pupil:
 - School Districts - \$45
 - Charter Schools - \$52
- ❑ Highest average contribution per pupil:
 - Prescott Unified - \$261
 - Tempe Preparatory Academy (charter) - \$390
- ❑ Some districts and charters reported receiving no contributions

Public School Extracurricular Activity Fee Credit

– Family Income Levels Impact Contributions

- ❑ Higher income districts received more contributions per student:
 - Particularly true for larger districts
 - Only a minimal impact on smaller districts
- ❑ Other factors in determining contribution levels could include:
 - School administration (advertising, accessibility)
 - Community involvement

Public School Extracurricular Activity Fee Credit

– Laws 2011, Chapter 195 Increased Reporting Requirements

- ❑ Schools must now report spending “categorized by specific extracurricular activity”
- ❑ Most reported FY11 spending was for Athletics and Field Trips:
 - Athletics or Sports (\$12.2 M / 27%)
 - Field Trips (\$9.5 M / 21%)
 - Other Clubs (\$5.8 M / 13%)
 - All Other (16 subcategories)(\$18.1 M / 39%)
- ❑ Increases school and DOR administrative duties

Public School Extracurricular Activity Fee Credit

– Laws 2011, Chapter 195 Permits Limited Spending on “Short Term Capital Items”

- ❑ Schools may use up to 50% of unencumbered contributions received prior to FY11 to buy “short-term capital items”
- ❑ Must report spending annually to JLBC
- ❑ Most FY11 spending (\$1.6 M total) was for technology, furniture and equipment:
 - Technology (\$753K / 47%)
 - Furniture & Equipment (\$462K / 29%)
 - Instructional Aids (\$212K / 13%)
 - Textbooks(\$144K / 9%)
 - Library Resources (\$43K / 2%)

Public School Extracurricular Activity Fee Credit

– Potential Performance Measures

- Student participation in extracurricular activities and character education programs
- Funding by type of activity

Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets Tax Credit

Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets Tax Credit

– Summary

- Cost – \$1,600 in tax year 2009
 - 16 claims averaging \$98 a claim
- Purpose – none in statute
- Complexity – simple to use and administer
- Performance Measures – none in statute

Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets Tax Credit

– Description of the Credit

- Corporate and individual income tax credits for:
 - Stub outs, or plumbing fixtures, designed to accommodate solar water heater installations
 - Electric vehicle recharge outlets

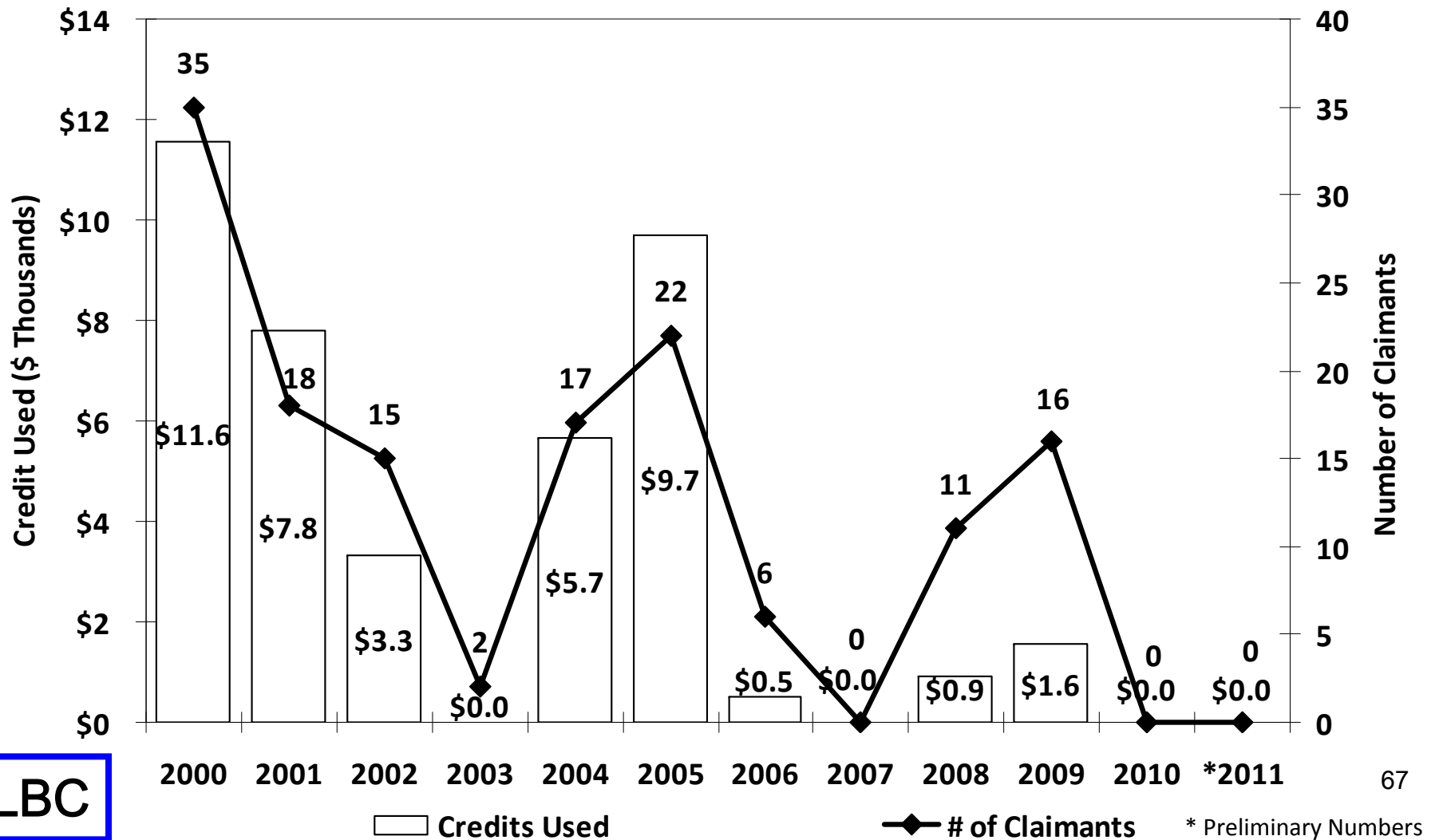
- Corporate credit not claimed since 2000

- Credit of up to \$75 for the installation of qualifying devices

- Non-refundable with 5-year carry-forward

Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets Tax Credit

- Amount of Credits Used & Number of Claimants



Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets Tax Credit

– Recent Trends

- ❑ Solar water heater units are becoming less popular as photovoltaic units become less expensive and more efficient
- ❑ Demand for new electric vehicle models remains well below demand for non plug-in hybrid vehicles
- ❑ Other forms of renewable energy increasingly compete for investment (wind, biomass, biofuels)

Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets Tax Credit

– Economic Benefits & Performance Measures

- No economic development at this level of credit usage
- Cost of administering performance measures exceeds the tax expenditure