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# **2011 Income Tax Credit Review**

**Joint Legislative Income Tax  
Credit Review Committee**

**December 7, 2011**

**JLBC**

## Joint Legislative Income Tax Credit Review Committee

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- Annually reviews credits as determined in statute.
- This year's review includes:
  - Angel Investment Credit
  - Residential Solar Energy Device Credit
  - Corporate Private School Tuition Credit
- Solar energy device credit was last reviewed in 2004.

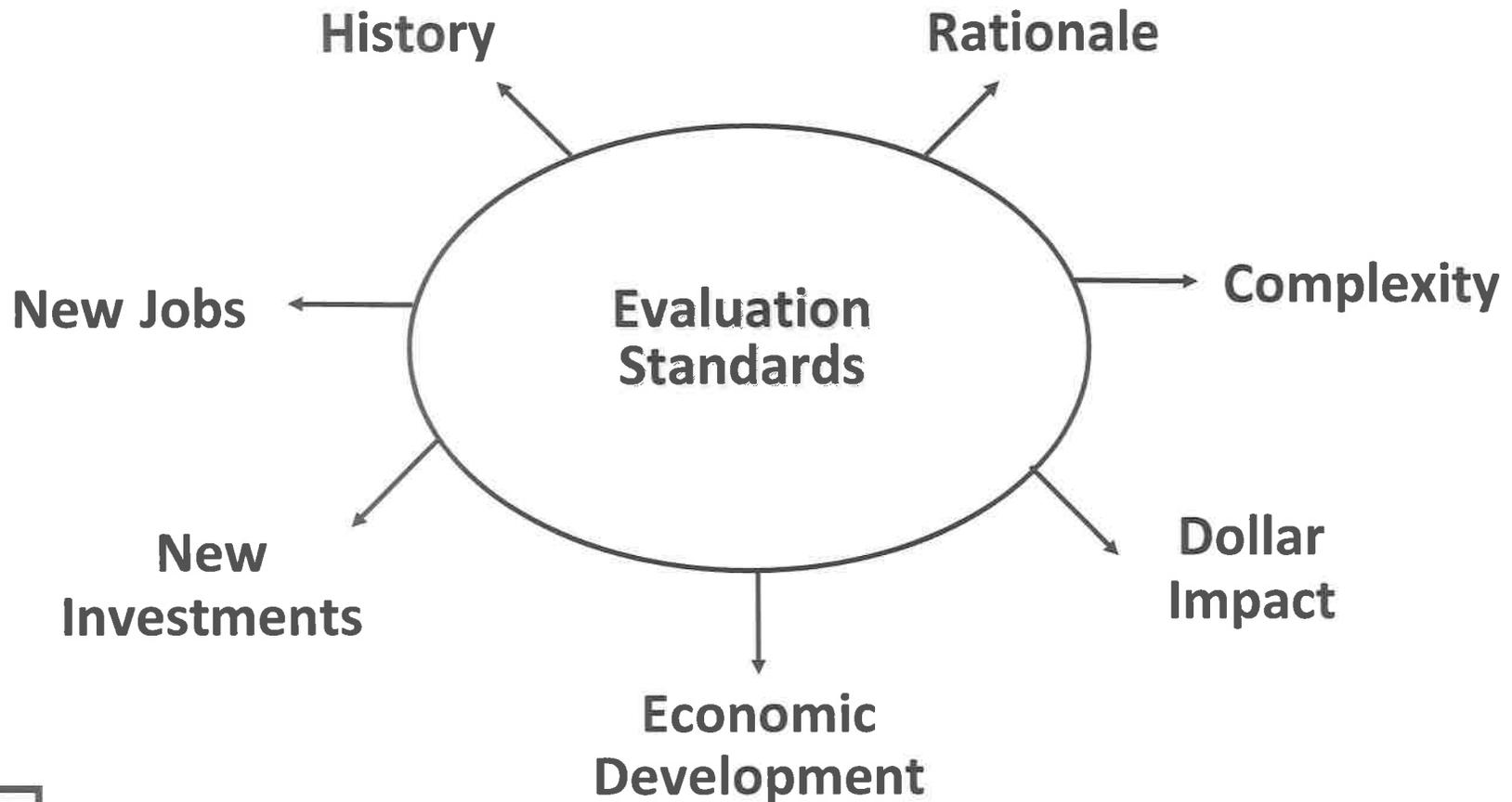
# Role of the Committee

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

# Statute Provides Possible Standards

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# Issues Affecting Evaluation

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

# Angel Investment Tax Credit

## – Summary

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- Cost – \$581,000 in tax year 2010.
  - 163 claims at an average of \$3,600 per claim.
- Cap – credit is limited to \$20 million over the life of the program. To date, \$10.1 million has been authorized and \$1.75 million has been used.
- Purpose – encourage investments in businesses that are in the early stages of development.
- Complexity – simple to use and administer.
- Performance Measures – none in statute.

# Angel Investment Tax Credit

## – Description of Credit

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- Credit is only available to individual income tax-filers.
- Credit is limited to investments of between \$25,000 and \$250,000.
- Credit is claimed over 3 years and equals:
  - 35% of investment in rural or bioscience companies
  - 30% of investment in all other qualified businesses

# Angel Investment Tax Credit

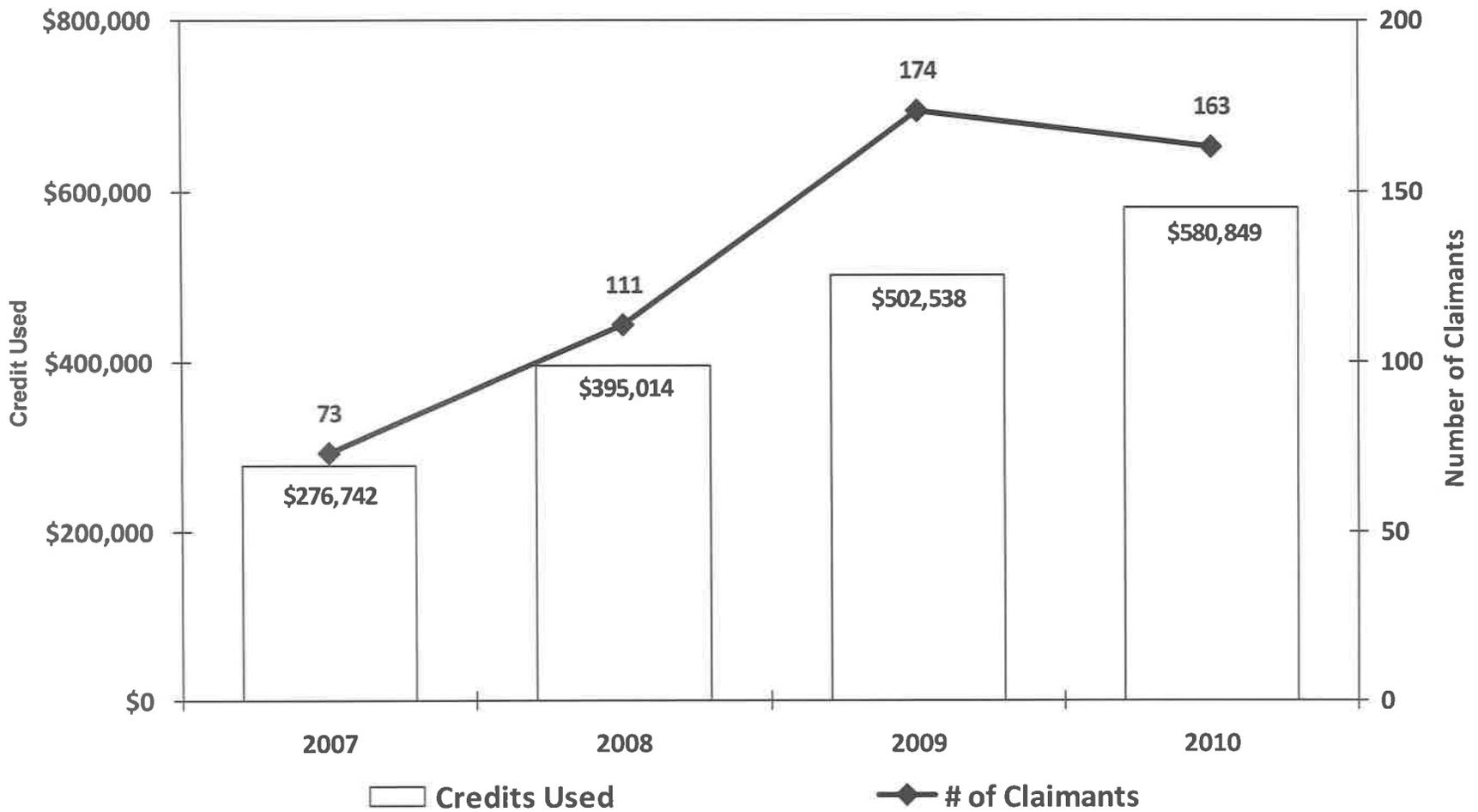
## – Description of Credit (cont.)

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- Angel investor cannot possess more than 30% of the start-up company's voting power.
- Firms engaging in human cloning or embryonic stem cell research are excluded from receiving credit-eligible investments.
- To receive credit-eligible investments, a firm's total assets cannot exceed a certain amount.
- Credit is nonrefundable.
- Credit carry-forward is 3 years.

# Angel Investment Tax Credit Credit

## – Amount of Credits Used & Number of Claimants



# Angel Investment Tax Credit

## – Benefits to the Arizona Economy

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- To date, ACA has authorized qualified angel investments totaling \$31.1 million.
- There is no data, however, on the number of new jobs that these investments have created.
- It is also unknown how many of the certified “angel businesses” that have been successful.
- 2010 national report estimates that each angel investment on average creates 6 new jobs.

# Angel Investment Tax Credit

## – Potential Performance Measures

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- Number of new jobs created by the Angel Investment Program.
- Allocation of angel investments by industry.
- Number of businesses receiving angel investments that are associated with successful “exits” such as IPOs or buyouts.

# Residential Solar Energy Device Tax Credit

## - Summary

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- Cost - \$922,400 in 2009.
- Purpose – to promote development of Arizona’s solar energy industry, and to conserve non-renewable energy sources.
- Complexity - simple to use and administer.
- Performance Measures – none in statute.

# Residential Solar Energy Device Tax Credit

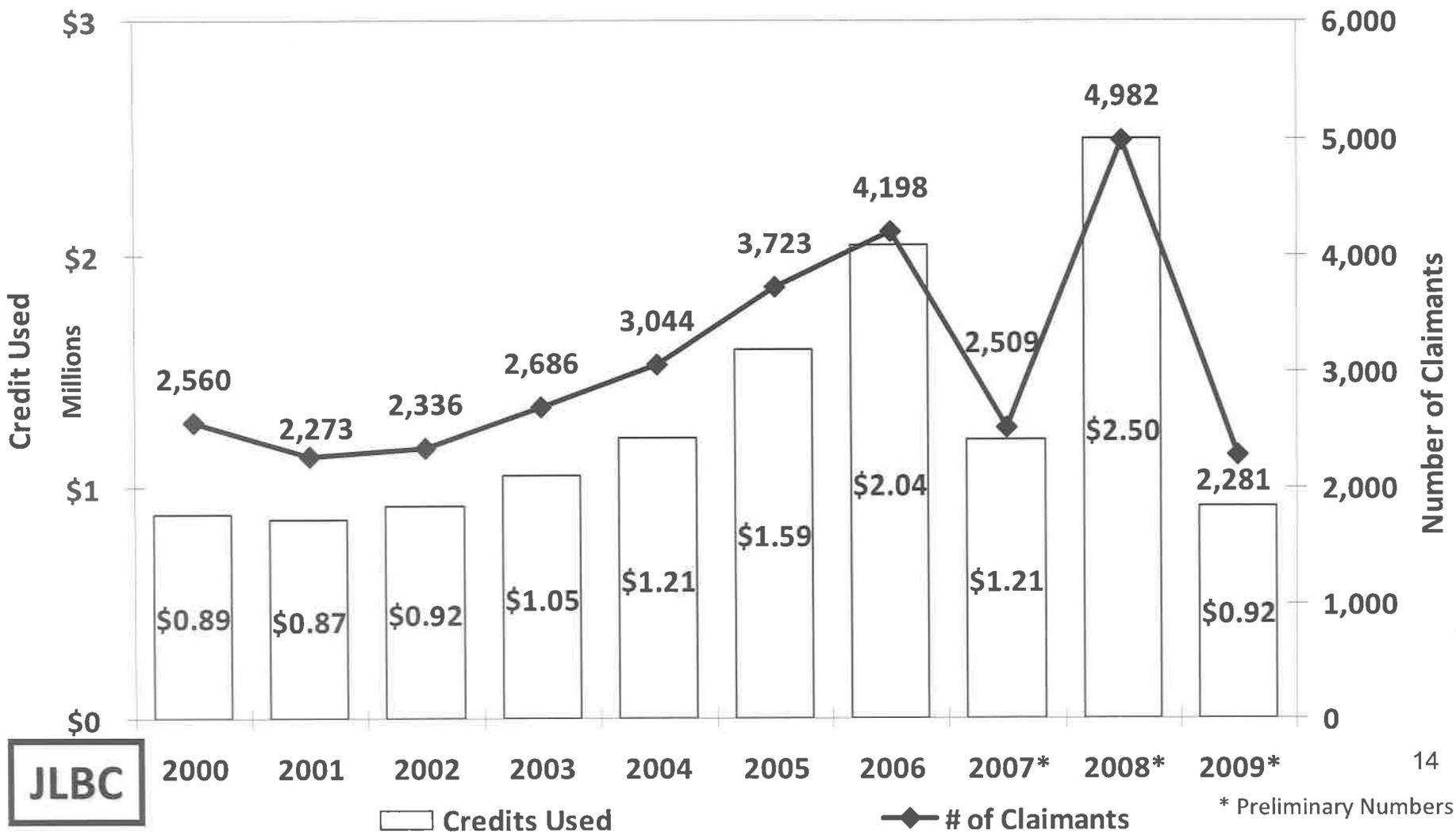
## – Description of the Credit

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- Individual income tax credit for 25% of the cost of a solar energy device up to a maximum of \$1,000 per residence.
- Solar devices include photovoltaic electricity generators, water heaters, and daylighting systems.
- 5-year carry-forward.
- Credit is non-refundable

# Residential Solar Energy Device Tax Credit

– Amount of Credits Used & Number of Claimants



# Residential Solar Energy Device Tax Credit

## – Recent Trends

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- Photovoltaic units are becoming less expensive and more efficient.
- Arizona instituted a Renewable Energy Standard (15% by 2025).
- Congress offering an individual solar energy credit of 30% through end of CY 2016.

# Residential Solar Energy Device Tax Credit

## – Benefits to the Arizona Economy

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- There is no data on the number of new jobs that purchases related to this credit have created.
- However, studies show Arizona's total solar related employment has increased recently.
- Participants in the solar industry have indicated that the credit has helped Arizona remain active in encouraging energy conservation and the development of solar photovoltaic energy generation and technology.

# Residential Solar Energy Device Tax Credit

## – Potential Performance Measures

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- 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.

# Corporate STO “Low-Income Scholarship” Credit

## – Summary

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- Direct Cost – \$5.5 million in tax year 2009  
– also reduces state’s K-12 costs
- Purpose – fund “low-income scholarships” for pupils attending private schools
- Complexity – DOR must pre-approve contributions; each School Tuition Organization (STO) must report contribution and scholarship data to DOR annually; “low-income” only
- Performance Measures – none in statute.

# Corporate STO “Low-Income Scholarship” Credit

## – Description of Credit

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- ❑ Credit capped at \$20.7 M statewide (FY11)
  - cap increases 20% annually
  - no cap for individual corporations (“first come, first served”)
  - cap also applies to insurers
- ❑ Credit is nonrefundable.
- ❑ Carry forward is 5 years.

# Corporate STO “Low-Income Scholarship” Credit

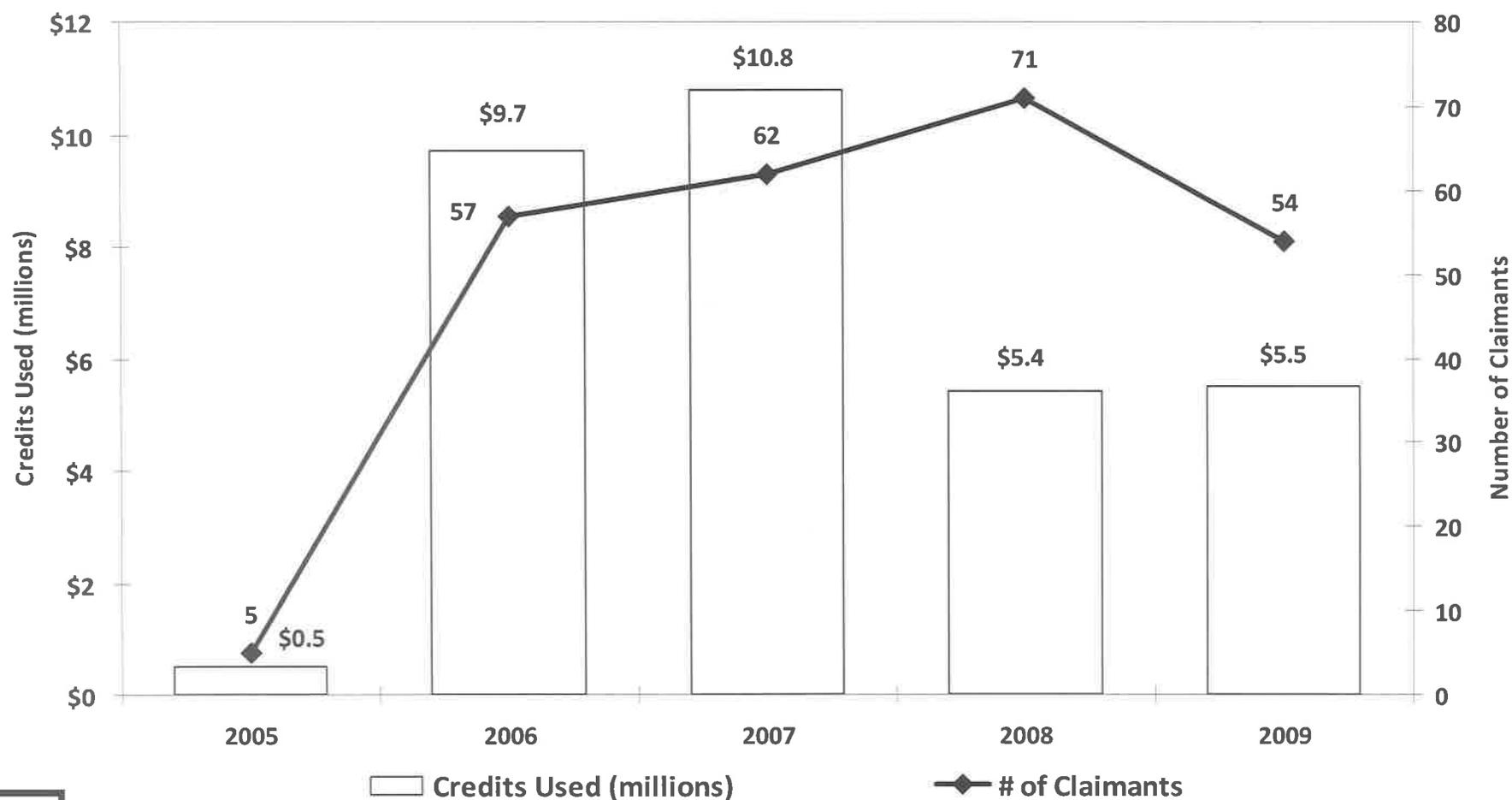
## – Student Qualifications for Scholarships

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- Family income cannot exceed 185% of “reduced price lunch” limit (\$75 K for family of 4 for FY10)
- Student must meet one of the following requirements:
  - attended public school in prior year
  - enroll in private school Kindergarten
  - received “low-income scholarship” in prior year

# Corporate STO “Low-Income Scholarship” Credit

## – Amount of Credits Used & Number of Claimants



## Corporate STO “Low-Income Scholarship” Credit

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- Not directly designed to promote economic development or spur new investments
- Enables more students to attend private schools
  - 4,215 scholarships currently awarded (unsure of actual number of students)
- Current \$5.5 M cost would be offset if 1,100+ students have left public schools (1,100 X \$5,000 per student = \$5.5 M)

# Corporate STO “Low-Income Scholarship” Credit

## – Potential Performance Measures

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- Percentage of STO revenues retained for administrative costs (at least 90% must be used for scholarships)
- Percentage of private school tuition paid for with award funding