

# 2021 Income Tax Credit Review

## Joint Legislative Income Tax Credit Review Committee

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# 2021 Credit Reviews

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- ❑ Annually reviews credits as determined in statute
  
- ❑ This year's review includes:
  - Angel Investment Credit
  - Corporate Contributions to School Tuition Organizations Credit
  - Residential Solar Energy Device Credit
  - Renewable Energy Production Credit
  
- ❑ All the credits were last reviewed in 2016

# Role of the Committee

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- ❑ 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- ❑ After review process, recommend whether credit should be amended, repealed or retained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

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- ❑ 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

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- 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
- Renewable Energy Credit has confidential information for TY 2011 and TY 2012.
- Since no material impact on evaluation, data is excluded from credit review.

# Issues Affecting Evaluation

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

# Angel Investment Tax Credit

## – Summary

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- ❑ Cost – \$1.6 million in FY 2021
  - 268 claims at an average of \$6,200 per claim
- ❑ Credit Authorization – Through CY 2020, ACA authorized a total of \$30 million in credits
- ❑ Cap – ACA may authorize up to \$2.5 million in credits each year from FY 2022 to FY 2031
- ❑ 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 \$500,000
- ❑ 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

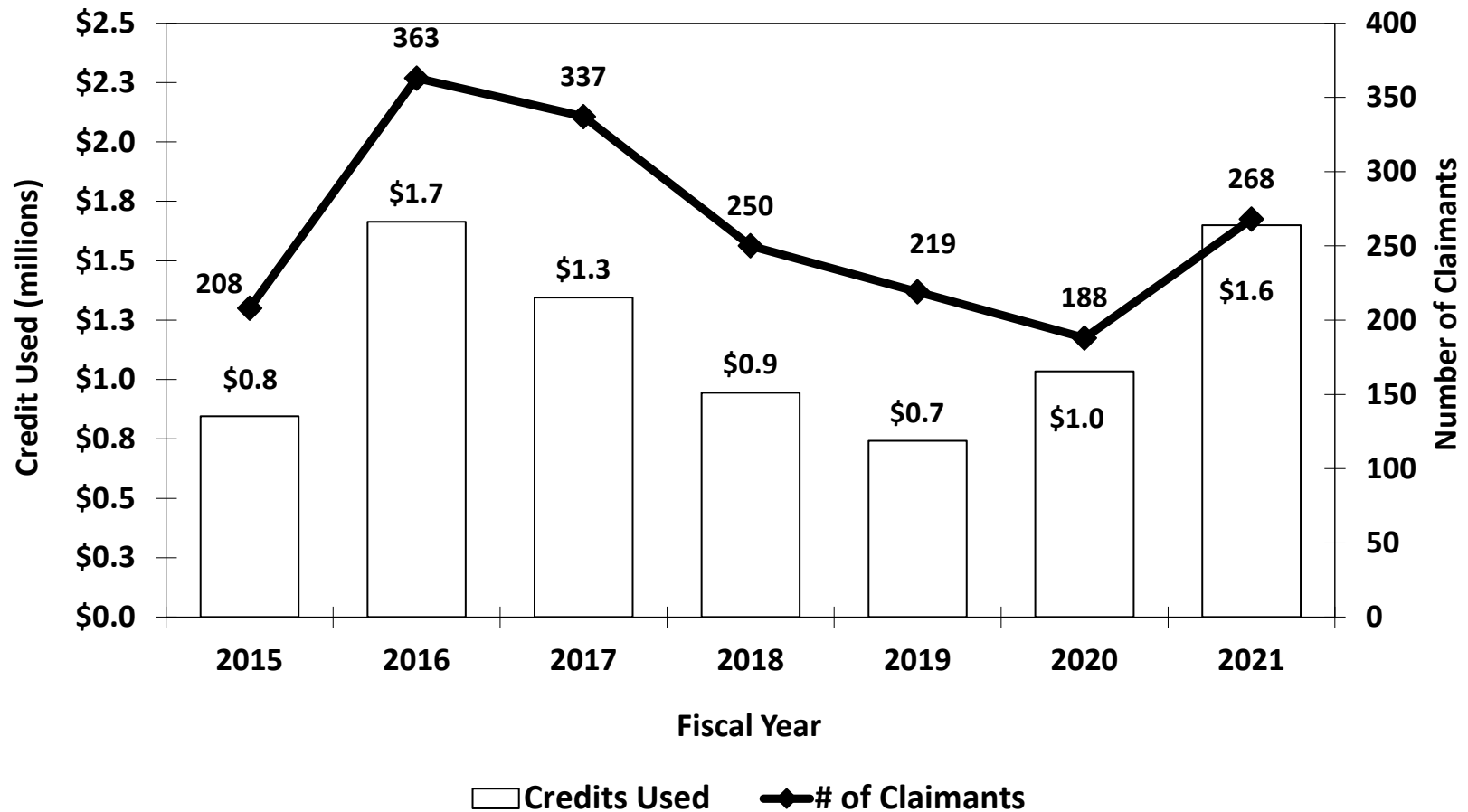
## – Description of Credit (cont.)

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- Angel investor cannot possess more than 30% of the start-up company's voting power
- To receive credit-eligible investments, a firm's total assets cannot exceed \$10 million
- A firm may receive up to \$2 million in credit-eligible investments over the lifetime of the program
- Credit is nonrefundable
- Credit carry-forward is 3 years

# Angel Investment Tax Credit

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



# Angel Investment Tax Credit

## – Benefits to the Arizona Economy

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- ❑ Through CY 2020, ACA has authorized 1,426 angel investments with \$30 million in credits
  - The total \$ value of the investments was \$93 million
- ❑ 202 businesses received investments for an average of \$462,400 per business
- ❑ ACA's consultants estimate that 1,200 workers have been employed and directly contributed \$200 million in economic output in CY 2020

# Angel Investment Tax Credit

## – Potential Performance Measures

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- Number of jobs at companies that received qualified investments
- Number of companies that have received investments that are still in business
- Allocation of angel investments by industry

# C – Corporations STO “Low-Income” Credit

## – Summary

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- ❑ C corporations used \$20.1 M of credit in FY21
- ❑ C corporations, S corporations, and insurers combined used \$95.9 M in low-income credits in FY21 – compared to \$123.0 M credit cap
- ❑ 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 cap is shared by C-corps, S-corps & Insurers
- ❑ Credit cap is \$142.1 M in FY23. Thereafter adjusted by greater of 2% or Phoenix CPI growth
- ❑ Credit is nonrefundable
- ❑ Carry forward is 5 years

# Corporate STO “Low-Income Scholarship” Credit

## – Student Qualifications for Scholarships

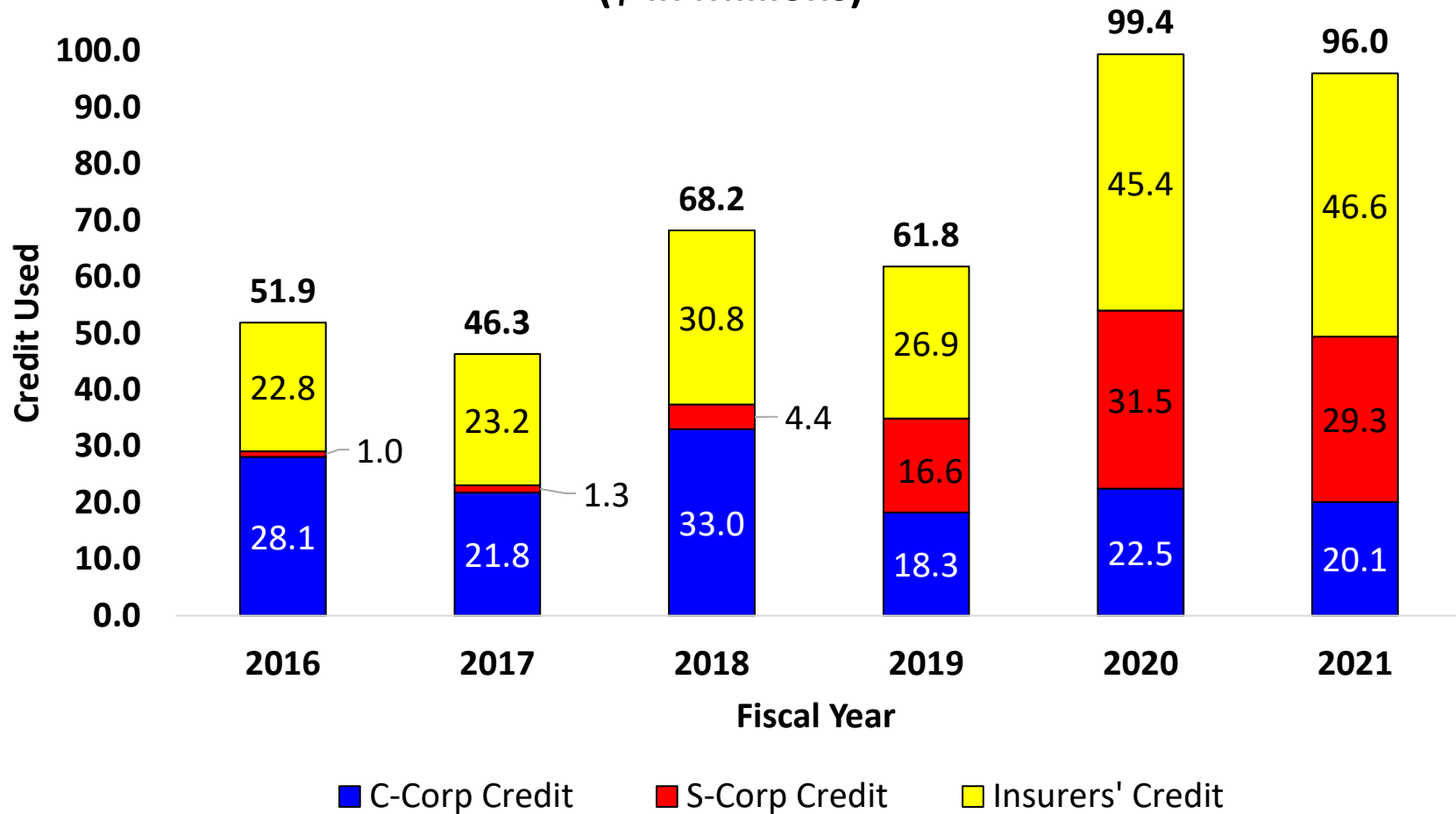
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- ❑ Family income cannot exceed 185% of “reduced price lunch” limit (\$91 K for family of 4 for FY21)
- ❑ Student must meet one of the following requirements:
  - was homeschooled or attended public school in prior year
  - military dependent
  - moved to AZ from another state
  - participated in an ESA in prior year
  - enroll in private Kindergarten or preschool disabled program--  
received “low-income scholarship” in prior year
- ❑ Maximum scholarship = \$5,600 (K-8) and \$7,500 (HS) for FY 21 (both increase \$200 annually)

# Corporate STO “Low-Income Scholarship” Credit

## – Credits Used by Fiscal Year

Low-Income STO Tax Credit Use by Fiscal Year  
(\$ in Millions)





# Low-Income is 1 of 4 STO Tax Credits

– \$215.7 M Claimed Across the 4 Credits in FY21



## STO Credit Used in FY21 (\$ in Millions)

<u>STO Tax Credit</u>	<u>Individual</u>	<u>S Corps</u>	<u>C Corps</u>	<u>Insurers</u>	<u>Total</u>
Individual – Original	71.1				71.1
Individual – Switcher	43.2				43.2
Corporate – Low Income		29.3	20.1*	46.6	96.0
Corporate – Displaced/Disabled		<u>0.8</u>	<u>0.3</u>	<u>4.3</u>	<u>5.4</u>
<b>Total</b>	<b>114.3</b>	<b>30.1</b>	<b>20.4</b>	<b>50.9</b>	<b>215.7</b>

\* STO credit under current review

# 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
  - 29,829 scholarships awarded in FY20 (actual number of students unknown)
- ❑ Reduces K-12 spending if scholarship recipients would have otherwise gone to public school
- ❑ Foregone K-12 formula spending of \$7,200 for every student that switches to private school

# 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)
- STO scholarship money spent per student

# Residential Solar Energy Device Tax Credit

## - Summary

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- ❑ Cost – \$11.0 million in FY 2021
  - 17,998 claims at an average of \$614 per claim
- ❑ Purpose – promote growth of solar energy industry
- ❑ Complexity – simple to use and administer
- ❑ Performance Measures – none in statute

# Residential Solar Energy Device Tax Credit

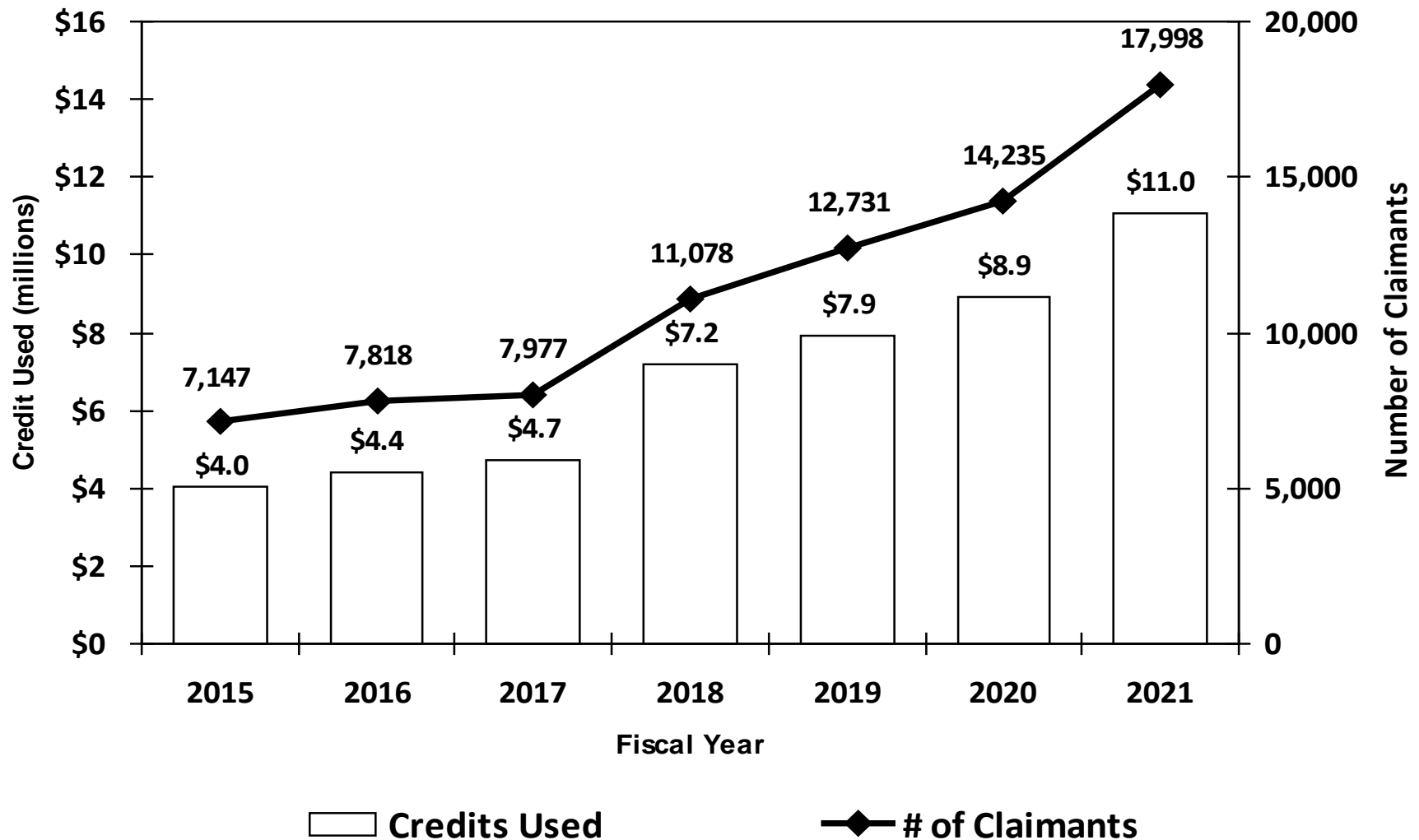
## - Description of Credit

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- Solar energy devices must provide heating, cooling, electrical or mechanical power, daylighting or energy storage
- Credit is restricted to individual income tax filers
- Credit equals 25% of device cost; maximum amount of \$1,000
- No residence can claim more than \$1,000 in total
- Credit is nonrefundable
- Credit carry-forward is a maximum of 5 years

# Residential Solar Energy Device Tax Credit

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



# Residential Solar Energy Device Tax Credit

## - Benefits to the Arizona Economy

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- ❑ Solar energy device purchases directly attributable to state tax credit is difficult to determine
- ❑ Besides state tax credit, a person's decision may also depend on availability of federal tax credits and public utility incentives
- ❑ In 2020, 55% of all solar installations were for residential units.

# Residential Solar Energy Device Tax Credit

## - Potential Performance Measures

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



# Renewable Energy Production Tax Credit

## - Summary

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- ❑ Cost – In FY 2021, \$1.6 million for corporate credit and \$131,100 for individual credit
  - 11 corporate claims at an average of \$148,100 per claim
  - 4 individual claims at an average of \$32,800 per claim
- ❑ Cap – \$20 million annual cap; \$2 million annual limit per facility
- ❑ Purpose – promote investment in renewable energy
- ❑ Complexity – complex in certification and administration
- ❑ Performance Measures – none in statute

# Renewable Energy Production Tax Credit

## - Description of Credit

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- Available to both corporate and individual income tax filers
- Credit is for electricity production by a qualified energy generator
  - At least 5 megawatts generating capacity
  - Must use solar light, solar heat, wind or biomass
- Credit is nonrefundable
- Credit carry-forward is a maximum of 5 years

# Renewable Energy Production Tax Credit

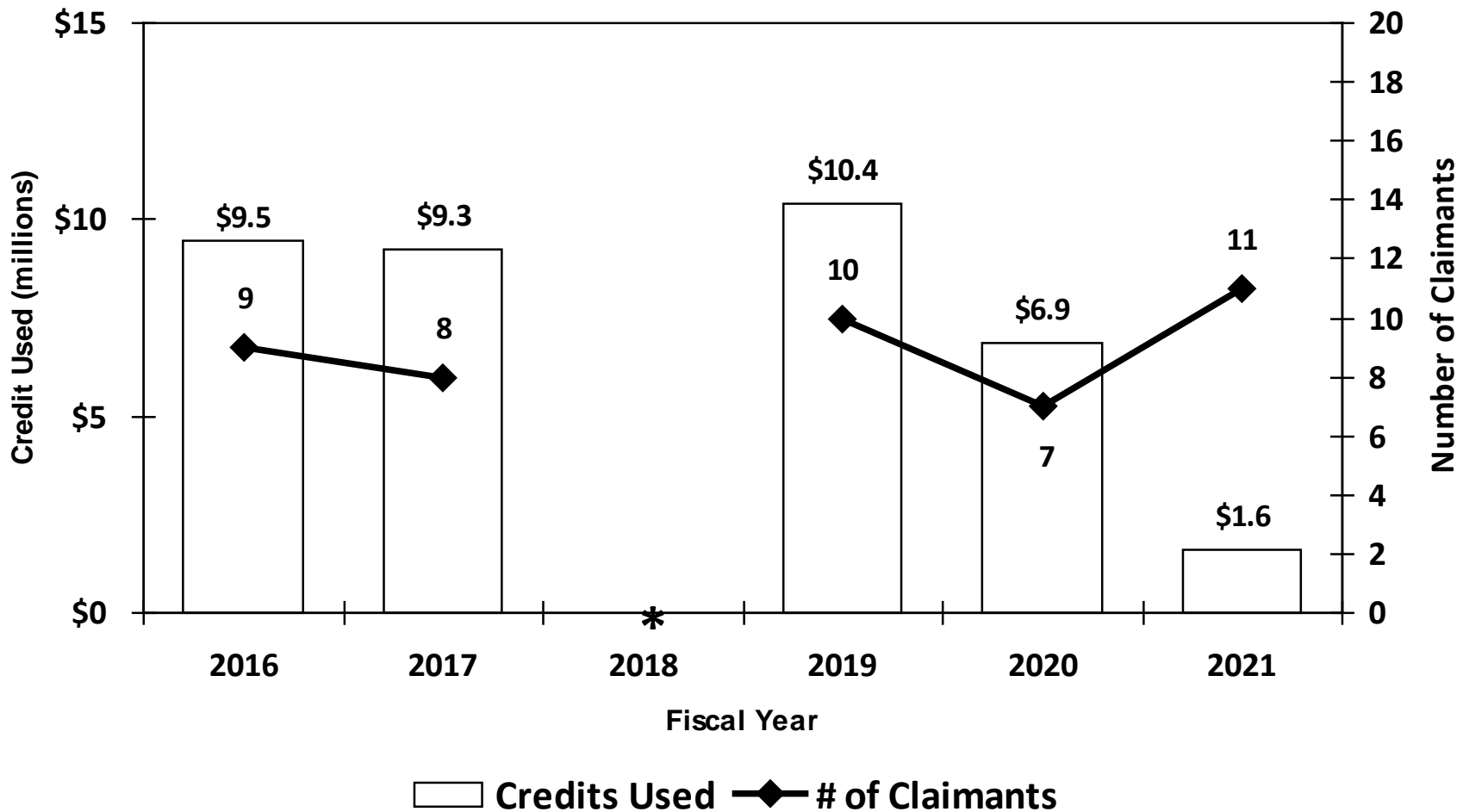
## - Description of Credit (cont.)

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- ❑ For wind and biomass systems, credit equals \$0.01 per kWh for first 200,000 MWh of electricity produced in calendar year for period of 10 years
- ❑ For photovoltaic and solar thermal electric systems, credit equals \$0.04 per kWh in 1<sup>st</sup> calendar year, gradually decreasing to \$0.01 per kWh in 10<sup>th</sup> calendar year

# Renewable Energy Production Credit

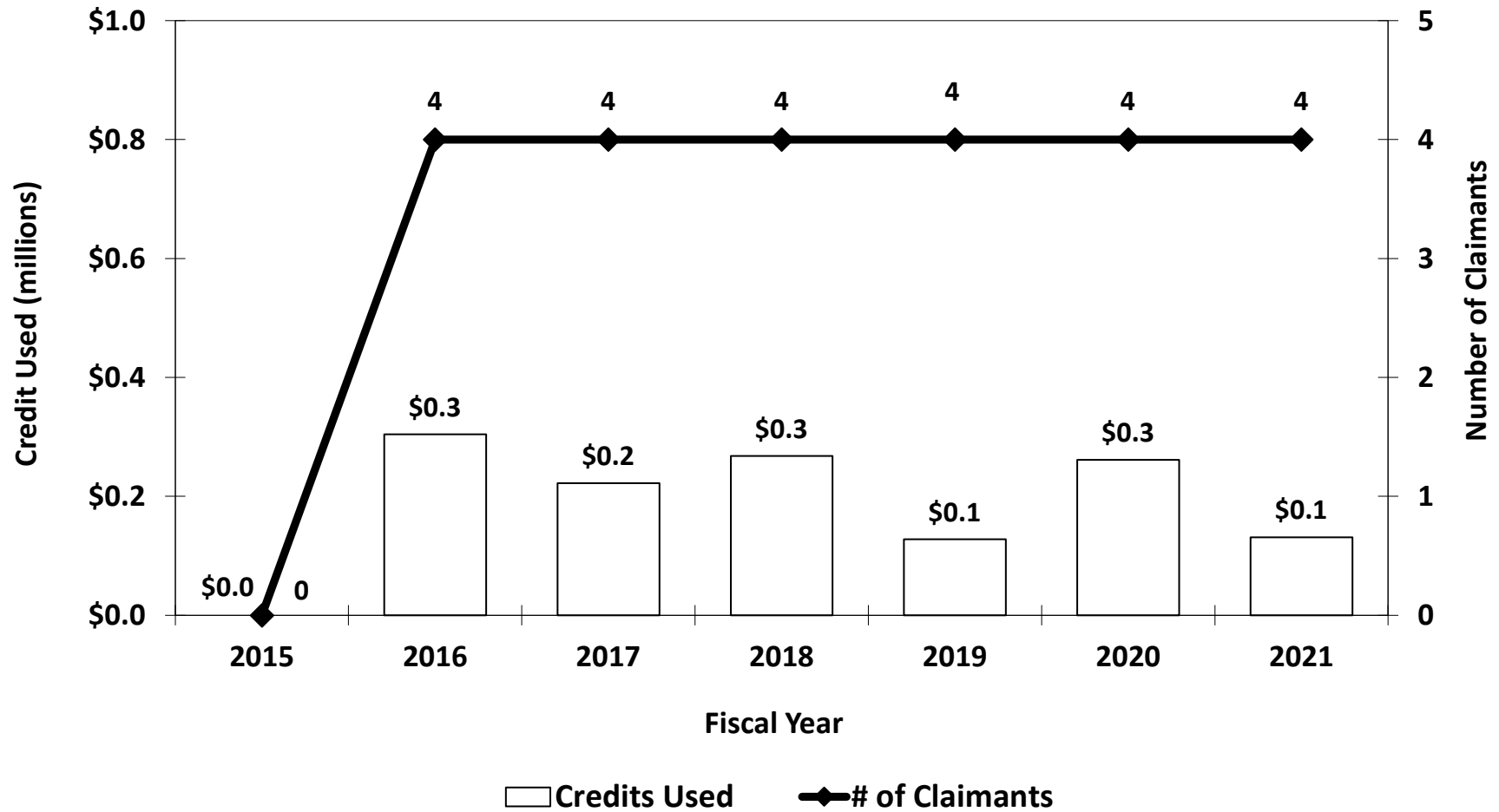
## - Corporate Credits Used & Number of Claimants by Fiscal Year



\*No data publicly released by DOR for FY 2018

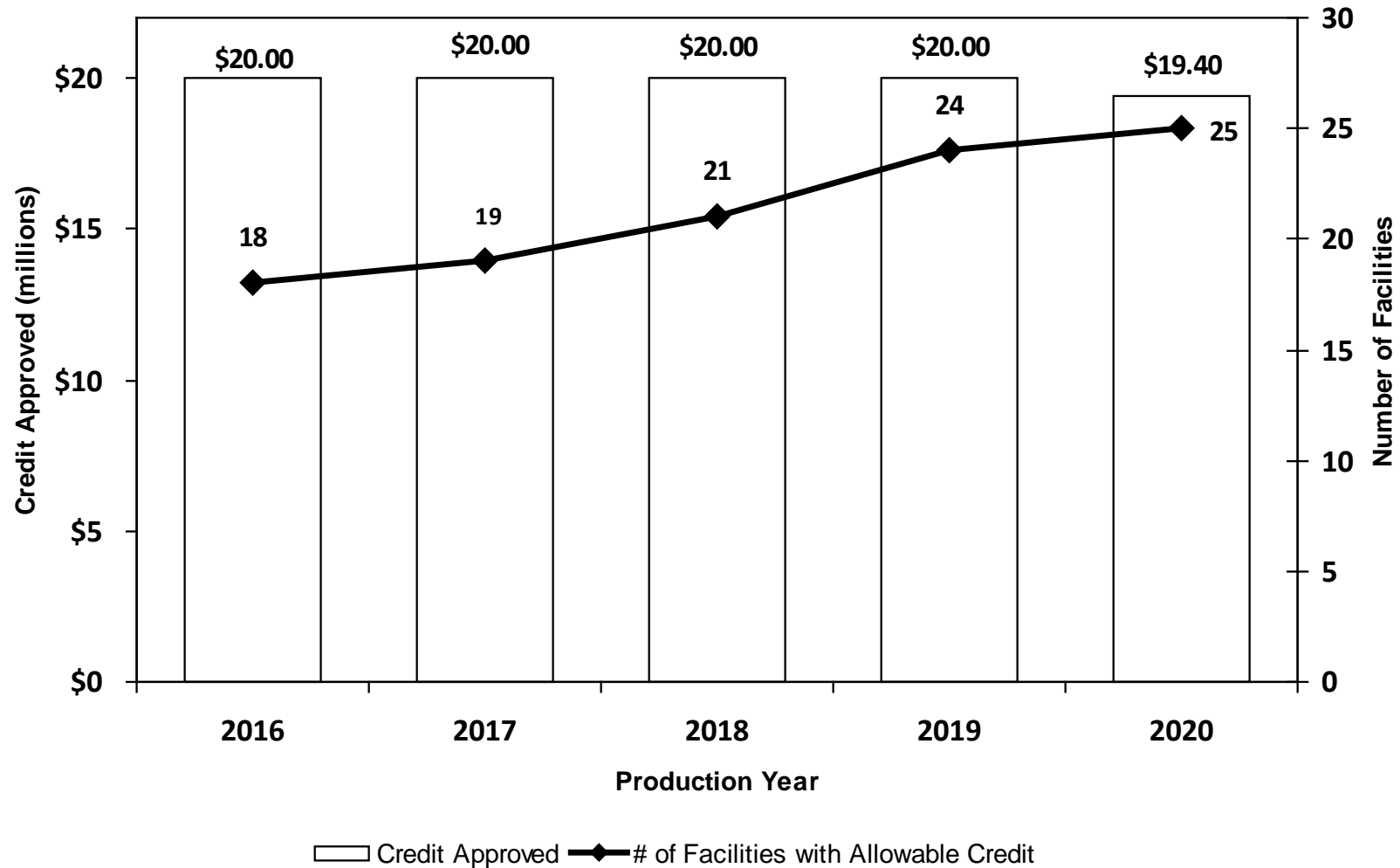
# Renewable Energy Production Credit

## - Individual Credits Used & Number of Claimants by Fiscal Year



# Renewable Energy Production Credit

## - Credit Approval for Qualified Facilities



# Renewable Energy Production Tax Credit

## - Benefits to the Arizona Economy

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- ❑ Economic benefits from credit depend on extent to which investment and job creation would have occurred without the incentive, which is unknown.
  
- ❑ Enhances Arizona's competitiveness for renewable energy industry
  - 4 other states (CO, IA, UT, NM) offer corporate credit
  - 4 other states (MA, IA, NM, UT) offer individual credit

# Renewable Energy Production Tax Credit

## - Potential Performance Measures

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- ❑ Total megawatt hours of electricity generated from qualified energy generators
- ❑ Number of persons employed in businesses that manufacture, install or service qualified energy generators