Joint Legislative Budget Committee
Staff Memorandum

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DATE: December 5, 2022

TO: David Livingston, Chairman of Senate Finance Committee
Shawnna Bolick, Chairman of House Ways and Means Committee

FROM: Hans Olofsson, Chief Economist

SUBJECT: 2022 INCOME TAX CREDIT REVIEW

Each year, the JLBC Staff prepares background materials for the Joint Legislative Income Tax Credit Review Committee as prescribed by A.R.S. § 43-221. At this time, a committee meeting has not been scheduled. Given that our background information may still be of interest, we are now transmitting our material (including a PowerPoint slideshow) for the credits on the 2022 review schedule.

Background

Laws 2002, Chapter 238 established the Joint Legislative Income Tax Credit Review Committee and specified a schedule for review of corporate and individual income tax credits. Pursuant to A.R.S. § 43-222, there are 7 credits scheduled for review in 2022, which are listed below.

Credit Page #

The Joint Legislative Income Tax Credit Review Committee is charged with determining the original purpose of each of the existing income tax credits and establishing a standard for evaluating the success or failure of the credit. Pursuant to A.R.S. § 43-221, the standard for evaluation of the credits may include: (1) the history, rationale, and revenue impact, (2) the benefit to the state in various economic terms, and (3) the complexity in the use and administration of the credit.

(Continued)

Each of the credits listed above was included on the 2017 review schedule.

Limitations

There are certain limitations affecting the evaluation of income tax credits. The lack of performance measures for tax credits is one such example. None of the credits reviewed this year has stated performance measures. Laws 2002, Chapter 238, requires any new credit to include a clause that explains the rationale and objective of the credit (A.R.S. § 43-223).

Moreover, the evaluation of tax credits in terms of their economic benefits to the state is often difficult to conduct since the data required to do so is rarely available.

2022 Review

The following information is provided (where applicable) for each of the credit categories:

Description - The definition of the tax credit, including how the credit is calculated.

Refundable - Whether the credit is refundable or nonrefundable. A nonrefundable credit can never exceed the taxpayer's tax liability. Instead, any amounts not used to offset the taxpayer's liability in a taxable year either can be carried forward to future tax years or must be forfeited in the same tax year.

By contrast, a refundable credit can exceed the taxpayer's tax liability and any excess amounts are refunded to the taxpayer.

None of the credits in this cycle is refundable.

Carry Forward - Whether any unused nonrefundable credit may be carried forward into subsequent tax years, and if so, for how many years.

History and Rationale - The year the tax credit was implemented, revisions to the credit since its enactment, and relevant information regarding the intended purpose of the credit.

Revenue Impact - Based on data reported by DOR, information by fiscal year on the number of claims and the amount of credit used. In addition, the review includes similar information by tax year.

Economic Benefits - A summary of information available related to any economic benefits associated with each tax credit, including economic development, new investments, job creation or retention of existing jobs, and any other economic benefits that may be specific to each credit.

Complexity - Information related to the complexity of administration and application of each tax credit, including the perspective of the state agencies administering the credit, as well as the trade associations and representatives of the corporations and/or individuals claiming the credit.

Potential Performance Measures - A listing of potential measures that might be used to evaluate each of the income tax credits.

The reported information was obtained from a variety of sources. The JLBC Staff reviewed the statutes establishing each of the credits, as well as the tax forms and instructions used by businesses and individuals to claim the credits.

The JLBC Staff also reviewed summaries and minutes of committee and subcommittee hearings that were held prior to adoption of the credits. Various agencies were contacted, including the Department of Revenue and the Arizona Department of Veterans Services.

HO:kp
Attachment
xc: Fletcher Montzingo, Director of Fiscal Policy, Senate
Sean Laux, Senior Policy Advisor, Senate
Molly Graver, Deputy Director of Senate Research and Analyst of Senate Finance Committee
Ryan Sullivan, Director of Fiscal Policy, House
Nicole Lovato, Policy Advisor, House
Vince Perez, Senior Research Analyst, House Ways and Means Committee

Family Income Tax Credit

Family Income Tax Credit

Summary

- The cost of the individual credit was an estimated $756,370 in FY 2022.
- In FY 2022, the individual credit was claimed by 526,918 taxpayers at an average of $1.44 per claim.
- The credit is not refundable, and any unused amounts cannot be carried forward to future tax years.
- Average credit use is declining as other tax law changes have assisted low-income taxpayers.
- While labeled as a family tax credit, single households with no dependents may also claim the credit.

Statute

A.R.S. § 43-1073 (Individual Income Tax)

Description

This credit was last reviewed in 2017. The description of the credit as well as other sections of the credit review have been updated from our 2017 report when relevant.

This credit is provided to taxpayers below certain income levels. A taxpayer's income limit depends on both their filing status and the number of dependents claimed on their tax return.

The credit is $40 for each member of a household who is either the taxpayer, the taxpayer's spouse who does not file a return, or a dependent. However, the total amount of credit claimed cannot exceed $240 for married taxpayers filing joint returns or for single persons filing as head of household. The credit is limited to $120 for singles and married couples filing separate returns.

For taxpayers whose filing status is single or married filing separately, their Arizona adjusted gross income, plus any amounts subtracted for certain exemptions, such as being age 65 or older, blind, or claiming an exemption for a qualifying parent or grandparent, must be less than or equal to $10,000 to qualify for the credit. The income thresholds and maximum credits available for other taxpayers are shown in *Table 1* below.

Table 1

Income Limit and Maximum Credit
By Filing Status and Number of Dependents

Filing Status	# of Dependents	Income Limit	Maximum Credit
MFJ 1/	0 or 1	$20,000	$120
MFJ	2	$23,600	$160
MFJ	3	$27,300	$200
MFJ	≥ 4	$31,000	$240
HOH 2/	0 or 1	$20,000	$80
HOH	2	$20,135	$120
HOH	3	$23,800	$160
HOH	4	$25,200	$200
HOH	≥ 5	$26,575	$240

1/ Married couples filing joint returns.
2/ Single persons filing as head of household.

Refundable

The credit is not refundable.

Carry Forward

No carry-forward of unused credits is allowed.

History and Rationale

This credit was created by Laws 1995, 1st Special Session, Chapter 9 and became effective retroactively from January 1, 1995. According to both House Ways and Means and Senate Finance Committee minutes from March 15, 1995, the credit was intended to help reduce tax liability of low-income households.

Laws 1998, 4th Special Session, Chapter 3 increased the per-person credit from $30 to $40 and expanded the application of the credit from 4 to 6 household members, as reflected in the table on the previous page. The maximum credit per taxpayer was increased from $120 to $240 for married couples filing joint returns and for unmarried persons filing as head of household, and from $60 to $120 for all other taxpayers.

Revenue Impact

Beginning in FY 2015, the Department of Revenue (DOR) is required to report the use of individual income tax credits on a fiscal year basis. *Table 2* below shows the cost of the credit by fiscal year going back to FY 2015.

Table 2

Family Income Tax Credit by Fiscal Year

Fiscal Year	# of Claimants	Credit Used
2015	578,186	$4,615,386
2016	603,218	$4,505,527
2017	588,618	$4,342,384
2018	565,444	$3,846,271
2019	537,335	$3,246,191
2020	491,390	$1,366,086
2021	600,326	$887,343
2022	526,918	$756,370

# of Claimants - the number of taxpayers who claimed the credit each year
Credit Used - the total amount of credits used to reduce tax revenue each fiscal year

DOR additionally reports credit use by tax year. Such data is available from the tax year the credit was established, as displayed below in *Table 3*. Credit use by tax year differs from credit use by fiscal year for several reasons, including the filing of extended and amended tax returns and time periods that do not fully overlap.

Credit use by tax year has been trending down since 2000, steadily declining from a high of $7.9 million in TY 1999 to $0.7 million in TY 2021.

The family income credit will only reduce a taxpayer's liability and any amount in excess of their liability cannot be refunded or carried over to the next tax year. This means that a taxpayer may only be able to use a portion of the maximum credit available.

As shown in *Table 3,* the average available per-person credit declined slowly from a high of $88 in TY 1998 to a low of $71 in TY 2021. By way of comparison, the average credit used to offset actual tax liability declined precipitously during the same period, from a high of $24 in TY 1998 to a low of $1 in TY 2021.

The decline of the average credit used is largely attributable several tax law changes enacted after 1998, such as a series of tax rate reductions, conforming the amount of the state standard deduction to the federal standard deduction and the enactment of the dependent tax credit. These tax law changes have reduced the tax liability for all taxpayers, including low-income earners. This means that a smaller fraction of a low-income earner's available credit is now required to reduce their tax liability to $0 than previously.

Table 3

Family Income Tax Credit – Credit Claims by Tax Year

Tax Year	# of Claimants	Total Credit Available	Avg. Credit Available	Credit Used	Avg. Credit Used
1995	340,844	$20,600,000	$60	$5,150,000	$15
1996	340,790	$20,526,564	$60	$5,071,340	$15
1997	345,223	$20,483,252	$59	$4,637,593	$13
1998 1/	312,768	$27,669,951	$88	$7,390,406	$24
1999	327,974	$28,374,663	$87	$7,925,721	$24
2000	335,253	$28,924,670	$86	$7,799,840	$23
2001	402,094	$33,377,585	$83	$7,356,939	$18
2002	427,798	$36,064,781	$84	$7,382,178	$17
2003	417,451	$35,068,208	$84	$7,445,937	$18
2004	425,484	$35,617,953	$84	$7,709,270	$18
2005	439,056	$36,737,292	$84	$7,661,867	$17
2006	448,960	$37,349,413	$83	$6,867,294	$15
2007	518,820	$42,706,477	$82	$6,784,150	$13
2008	501,013	$42,060,538	$84	$5,811,534	$12
2009	515,867	$44,711,520	$87	$5,270,319	$10
2010	516,513	$44,548,440	$86	$5,594,106	$11
2011	533,345	$45,490,320	$85	$5,905,317	$11
2012	520,448	$43,457,960	$84	$5,399,635	$10
2013	538,319	$43,639,520	$81	$5,017,004	$9
2014	580,028	$46,798,120	$81	$4,770,007	$8
2015	594,928	$46,682,890	$78	$4,417,745	$7
2016	581,877	$44,929,720	$77	$4,298,041	$7
2017	558,737	$42,556,920	$76	$3,778,067	$7
2018	534,595	$39,759,670	$74	$3,214,670	$6
2019	530,175	$37,761,985	$71	$1,208,198	$2
2020	571,958	$38,541,880	$67	$871,031	$2
2021 2/	501,713	$35,735,040	$71	$726,581	$1

1/ Laws 1998, 4th Special Session, Chapter 3 increased the per-person credit from $30 to $40.
2/ Tax Year 2021 data is preliminary.
# of Claimants – the number of taxpayers who claimed the credit in each year.
Total Credit Available – the total tax credits identified in each tax year.
Credit Used – the total value of credits claimed in each year.

Economic Benefits

Measurable Economic Development
New Investments
Creation of New Jobs or Retention of Existing Jobs

According to DOR's August 2000 report "Income Tax Credits in Arizona," the family income tax credit is intended to alleviate the tax burden on low-income individuals. Although the credit was not directly intended to promote economic growth, it may still provide some economic benefits to society insofar as it increases the disposable income of low-income households. However, since the total amount of credit use is less than $1.0 million, the impact on the Arizona economy is likely negligible.

Complexity

Unlike most other credits, the family income tax credit does not require a separate form to be appended to the individual income tax return filed by the taxpayer. Instead, the income tax form instruction includes a worksheet for the taxpayer to determine eligibility and the amount of the credit. According to DOR, this worksheet is relatively easy to use since all the information that is necessary for the credit calculation is included on the individual's income tax form. For this reason, the credit requires no separate administration or approval process by DOR.

Potential Performance Measures

There are no suggested performance measures.

Prior Review

The credit was last reviewed by the Joint Legislative Income Tax Credit Review Committee in 2017. However, since the Joint Legislative Income Tax Credit Review Committee did not meet that year, no recommendations were made by the Committee. When the credit was reviewed in 2012, the Committee recommended that the family income tax credit be retained and placed on the review schedule in 2017.

During a 2006 review, the Committee recommended the credit be adjusted for inflation each year. A bill was introduced during the 2007 regular session (HB 2080) that would have provided for an annual inflation-adjustment of the income thresholds to qualify for the credit. This bill, however, was never heard in any committee.

Commercial and Industrial Solar Energy Device Tax Credit

Commercial and Industrial Solar Energy Device Tax Credit

Summary

- The cost of the individual tax credit was $109,702 in FY 2022. The credit was claimed by 51 individual taxpayers at an average of $2,151 per claim.
- The cost of the corporate tax credit was $6,312 in FY 2022. The credit was claimed by 4 corporate taxpayers at an average of $1,578 per claim.
- While this credit is for the use of solar energy devices in commercial and industrial applications, the state also offers a separate individual income tax credit for residential solar energy devices.
- This credit expired on December 31, 2018. Therefore, no new credits can be established after this date. However, taxpayers can carry forward unused credit amounts through Tax Year (TY) 2023.

Statute

A.R.S. § 43-1085 (Individual Income Tax)
A.R.S. § 43-1164 (Corporate Income Tax)
A.R.S. § 41-1510.01 (Credit Certification)

Description

This credit was last reviewed in 2017. The description of the credit as well as other sections of the credit review have been updated from our 2017 report when relevant.

The statutes provide individuals or corporations with an income tax credit for the installed cost of a solar energy device used in their trade or business. Solar energy devices are defined in A.R.S. § 42-5001 as systems or mechanisms that provide heating, cooling, electrical and mechanical power, daylighting, and energy storage.

Through December 31, 2018, a taxpayer could claim a credit equal to 10% of the installed cost of a solar energy device used in their trade or business. The credit was limited to $25,000 per building annually or $50,000 in total per business in any year. The credit was available between tax years 2006 and 2018 and was capped at $1.0 million per year pursuant to A.R.S. § 41-1510.01F. Tax credits were authorized on a first come, first served basis as determined by the Arizona Commerce Authority. The credit could also be transferred to a third party that manufactured or installed a qualifying device.

Refundable

The credit is not refundable.

Carry Forward

The unused portion of the credit may be carried forward for a maximum of 5 consecutive years. Since the credit expired on December 31, 2018, unused credits earned before this date can be carried forward through TY 2023.

History and Rationale

Arizona's commercial and industrial solar energy device tax credit was signed into law in June 2006 (Laws 2006, Chapter 333) and became effective for the 2006 tax year. Chapter 333 included language stating the purpose of the credit is "to stimulate the production and use of solar energy in commercial and industrial applications in this state." Laws 2010, Chapter 294 extended the tax credits expiration date from December 31, 2012 to December 31, 2018. The credit created an incentive to purchase solar energy systems by reducing the cost.

The state also provides tax credits to reduce installation costs of residential solar energy devices. Individual filers can receive a credit equal to 25% of the cost of installing a solar energy device at their residence, up to maximum of $1,000.

Revenue Impact

Beginning in FY 2015, the Department of Revenue (DOR) is required to report individual income tax credit use on a fiscal year basis. The same requirement applies to corporate income tax credits, beginning in FY 2016. *Table 1* below shows the cost of the individual credit by fiscal year going back to FY 2015. The number of individual credit claims and the amounts used to offset tax liability have trended down since FY 2019, following the expiration of the credit program on December 31, 2018.

Table 1
Individual Income Tax Credit Use by Fiscal Year

Fiscal Year	# of Claims	Credit Used
2015	60	$194,815
2016	119	$432,329
2017	112	$448,822
2018	113	$324,882
2019	83	$276,407
2020	80	$234,931
2021	50	$79,009
2022	51	$109,702

# of Claimants - the number of taxpayers who claimed the credit each year
Credit Used - the total amount of credits used to reduce tax revenue each fiscal year

Table 2 below shows the cost of the corporate credit by fiscal year going back to FY 2016. As with the individual credit, corporate credit claims have been significantly smaller, beginning in FY 2019.

Table 2
Corporate Income Tax Credit Use by Fiscal Year

Fiscal Year	# of Claims	Credit Used
2016	9	$72,260
2017	14	$195,511
2018	16	$156,814
2019	10	$20,807
2020	16	$55,460
2021	6	$27,327
2022	4	$6,312

# of Claimants - the number of taxpayers who claimed the credit each year
Credit Used - the total amount of credits used to reduce tax revenue each fiscal year

DOR also reports credit use on a tax year basis. This data is available from when the credit was first established. It should be noted that this data differs from credit use by fiscal year for several reasons, including the filling of extended and amended tax returns and time periods that do not fully overlap.

Table 3

Commercial Solar Energy Device Credit – Individual Credit Claims by Tax Year

Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward
2006	5	$27,507	$18,086	$9,421
2007	15	75,549	54,558	20,991
2008	53	428,724	279,874	148,850
2009	81	549,543	325,054	224,489
2010	129	910,731	543,109	367,622
2011	119	963,770	506,006	457,764
2012	157	966,809	639,332	327,477
2013	117	729,977	408,692	346,285
2014	108	737,819	324,529	399,031
2015	123	1,100,042	465,781	574,549
2016	124	979,663	373,231	423,884
2017	97	802,636	331,657	389,430
2018	94	920,512	274,308	576,924
2019	59	561,750	100,185	454,565
2020	37	499,763	122,504	NIA
2021 1/	32	466,265	155,032	NIA

1/ Tax year 2021 data is preliminary. In addition, TY 2021 credit data for individuals filing under the Small Business Income Tax established by Laws 2021, Chapter 436 (SB 1783) has not been publicly released by the Department of Revenue.
# of Claimants – the number of taxpayers who claimed the credit in each year.
Total Credit Available – the total tax credits identified in each tax year, including any new credits and any credits carried over from a previous year and identified in that year.
Credit Used– the total value of credits claimed in each year.
Carry Forward– the total credit identified but not used in each year. The full carry forward may not be reflected in the following year's estimate. For example, an individual could have $500 in credit identified in tax year 2008, use $400 of it in 2008 (leaving $100 as a carry forward). If that individual did not identify or claim that credit in 2009, that $100 carry forward could not be included in the carry forward total for 2009.
NIA – No Information Available.

Table 3 shows the cost of the individual tax credit by tax year since the credit's inception, while *Table 4* below displays the same information for the corporate tax credit.

Table 4

Commercial Solar Energy Device Credit – Corporate Credit Claims by Tax Year

Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward
2006	1	x	x	x
2007	1	x	x	x
2008	7	$85,550	$74,899	$10,651
2009	10	206,102	87,118	118,939
2010	13	244,779	129,528	115,251
2011	11	274,620	181,978	92,642
2012	18	290,650	183,016	107,634
2013	16	262,893	164,752	98,141
2014	13	218,675	141,059	77,616
2015	14	301,662	200,140	101,522
2016	14	228,174	83,314	119,860
2017	15	201,337	26,121	154,010
2018	15	226,988	43,248	178,266
2019	7	153,193	23,112	NIA
2020 1/	x	x	x	x

1/ Tax year 2020 data is preliminary.
# of Claimants – the number of taxpayers who claimed the credit in each year.
Total Credit Available – the total tax credits identified in each tax year, including any new credits and any credits carried over from a previous year and identified in that year.
Credit Used– the total value of credits claimed in each year.
Carry Forward– the total credit identified but not used in each year. The full carry forward may not be reflected in the following year's estimate. For example, an individual could have $500 in credit identified in tax year 2008, use $400 of it in 2008 (leaving $100 as a carry forward). If that individual did not identify or claim that credit in 2009, that $100 carry forward could not be included in the carry forward total for 2009.
NIA – No Information Available.
x – No data has been publicly released by the Department of Revenue.

Economic Benefits

Measurable Economic Development
New Investments
Creation of New Jobs or Retention of Existing Jobs

There are no studies of the magnitude of economic development, new investment, or the creation or retention of jobs related to this specific credit. According to the Department of Revenue's most recent Tax Credit report, taxpayers that claimed the credit incurred a total cost of $139.7 million for solar energy devices purchased from 2006 to 2020, or on average $9.3 million per year. This level of purchase likely had some positive impact on the solar industry, but it is difficult to know whether the same level of devices would have been purchased without the 10% discount effectively provided by the credit.

Complexity

The solar energy device credit did not appear to be unusually complex in terms of its application, administration, and approval process.

Potential Performance Measures

Since the credit expired on December 31, 2018, we have not identified any potential performance measures for this review.

Prior Review

The credit was last reviewed by the Joint Legislative Income Tax Credit Review Committee in 2017. However, since the Joint Legislative Income Tax Credit Review Committee did not meet that year, no recommendations were made by the Committee. When the credit was reviewed in 2012, the Committee recommended at that time that the credit be amended to enhance performance measures and placed on the review schedule for 2017. However, no legislation was introduced that would have enhanced performance measures.

Donation to the Military Family Relief Fund Tax Credit

Donation to the Military Family Relief Fund Tax Credit

Summary

- The cost of the Donation to the Military Family Relief Fund (MFRF) Individual Income Tax Credit was $934,745 in FY 2022.
- In FY 2022, the credit was claimed by 3,002 taxpayers at an average of $311 per claim.
- The credit is available only to individuals, not to business entities, filing an individual income tax form.
- The MFRF balance will transfer to the Veterans' Donation Fund in January 2027.

Statute

A.R.S. § 43-1086 (Individual Income Tax)

Description

This credit was last reviewed in 2017. The description of the credit as well as other sections of the credit review have been updated from our 2017 report when relevant.

This credit is available only to individuals who make cash donations to the MFRF. Corporations cannot claim the credit. A partnership is not allowed to pass the credit through to its partners and an S Corporation cannot pass the credit through to its shareholders.

The fund provides financial assistance for deployed or veteran service members and their families faced with financial hardship. The Arizona Department of Veterans Services (DVS) receives donations and administers the fund established by Laws 2007, Chapter 258.

Taxpayers can claim a credit up to $200 if filing as single or head of household and $400 for those filing as a married couple. The credit is available between tax years 2008 and 2026 and is capped at $1 million per year. The credit may not be transferred to a third party.

Refundable

The credit is not refundable.

Carry Forward

No carry-forward of unused credits is allowed.

History and Rationale

Though no specific federal tax credit exists for military-focused donations, taxpayers can deduct charitable contributions to military non-profit organizations from their federal adjusted gross income. The War Revenue Act of 1917 first allowed these deductions of charitable donations. Currently, federal tax filers can deduct the entire donation amount, up to 60% of their adjusted gross income for cash donations. However, this will revert to 30% beginning in the 2026 tax year. Federal tax filers can also deduct 20% of their adjusted gross income for property donations.

Arizona's Donations to the MFRF tax credit was signed into law in June 2007 (Laws 2007, Chapter 258) and became effective for the 2008 tax year. Laws 2018, Chapter 199 extended the tax credit's expiration date from December 31, 2018 to December 31, 2026. Since the credit became available to taxpayers in 2008, donations have been near the $1 million annual cap each year.

Laws 2007, Chapter 258 states that the purpose of the credit is to "encourage contributions for the compassionate relief of military widows, widowers, spouses and minor children of military personnel in this state who were killed or wounded in the line of duty" after September 11, 2001. Laws 2010, Chapter 254 extended eligibility for grants made from cash donations to families of all military personnel deployed to a combat zone since September 11, 2001 who are experiencing financial hardship.

Financial assistance applications are evaluated by the Governor-appointed Military Family Relief Advisory Committee. Prior to 2015, a two-thirds vote from the committee was required for awards above $10,000 per family, and a cap was set at $20,000. Laws 2015, Chapter 200 permanently increased the financial assistance cap to $20,000 and removed the requirement for a two-thirds vote.

Laws 2018, Chapter 258 extended eligibility for military assistance to all military personnel. It divided the MFRF into two sub-accounts: a Pre-9/11 Veterans Subaccount and a Post-9/11 Veterans Subaccount. The subaccount that provides financial assistance to Arizona service members and their families depends on whether the event that led to financial hardship occurred before or after September 11, 2001. Chapter 258 also established separate advisory committees for each subaccount. Donors may choose to deposit 100% of their donation to either subaccount, or they may split it evenly between both.

Revenue Impact

Beginning in FY 2015, the Department of Revenue (DOR) is required to report the use of individual income tax credits on a fiscal year basis. The same requirement applies to corporate income tax credits, beginning in FY 2016. *Table 1* displays the individual income tax revenue impact of the MFRF since FY 2015.

Table 1

Military Family Relief Fund Tax Credit Use by Fiscal Year

Fiscal Year	# of Claimants	Credit Used
2015	2,692	$ 857,085
2016	3,185	1,000,570
2017	3,114	990,780
2018	3,094	993,186
2019	3,023	956,432
2020	3,049	968,481
2021	3,370	1,064,475
2022	3,002	934,745

DOR additionally reports credit use by tax year. Such data is available from the tax year the credit was established, as displayed below in *Table 2*. Credit use by tax year differs from credit use by fiscal year for several reasons, including the filing of extended and amended tax returns and time periods that do not fully overlap.

Table 2

Military Family Relief Fund Credit – Credit Claims by Tax Year

Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward [1/]
2008	3,070	$ 982,575	$ 982,575	$ 0
2009	3,185	998,331	998,331	0
2010	3,052	995,849	995,849	0
2011	3,007	996,695	996,695	0
2012	2,967	989,868	989,868	0
2013	2,936	989,606	989,606	0
2014	2,994	971,838	953,251	0
2015	3,118	1,006,248	980,331	0
2016	3,102	1,011,959	989,958	0
2017	3,092	1,016,743	996,134	0
2018	3,208	1,053,281	1,022,673	0
2019	3,159	1,026,772	994,079	0
2020	3,113	1,022,228	983,559	0
2021 [2/]	2,940	953,779	918,604	0

# of Claimants – the number of taxpayers who claimed the credit in each year.
Total Credit Available – the total tax credits identified in each tax year, including and new credits and any credits carried over from a previous year and identified in that year.
Credit Used – the total value of credits claimed in each year.
Carry Forward – This tax credit may not be carried forward.
1/ Unused credits are not allowed to be carried forward.
2/ TY 2021 data is preliminary.

Economic Benefits

Measurable Economic Development
New Investments
Creation of New Jobs or Retention of Existing Jobs

This credit is not directly designed to promote economic development or spur new investments that would result in new jobs. The credit may still provide some economic benefits since the additional

donations raise the disposable income of grantee families under financial hardship. The economic impact would be small however, since the credit can only be claimed up to $1 million each year.

More Background

In FY 2022, $1,251,000 in grants were made to families from donations to the MFRF (*see Table 3*). Prior to FY 2017, less than half of annual donations to the fund were distributed. As a result, a balance has accumulated in the MFRF which allowed DVS to distribute more than $1,000,000 in FY 2022.

While donations to the MFRF have historically exceeded grants, the annual difference between the two decreased after Laws 2010, Chapter 254 expanded eligibility criteria for grant applicants. After Laws 2018, Chapter 258 expanded grant eligibility further, grants have approximately matched donations to the MFRF on balance over several years. In Calendar Year (CY) 2010, funds were distributed to 92 families at an average award of $2,800 per family. In CY 2021, 106 families received an average award of $8,800, a 214% increase from CY 2010.

Donation amounts that are not used for grant making remain in the MFRF until the credit's expiration on December 31, 2026. If the credit is not extended at that time, any remaining fund balance will be transferred to the Veterans' Donations Fund (VDF). The VDF is more broadly used to benefit veterans. It includes grant making to provide help to homeless veteran women and need-based scholarships for children of U.S. military members. The MFRF had a balance of $7 million and the VDF had a balance of $4.2 million at the end of FY 2022.

Table 3

Grants from the MFRF

Fiscal Year	Total Grants
2009	$ 11,600
2010	126,600
2011	233,400
2012	562,100
2013	383,800
2014	311,500
2015	476,800
2016	492,300
2017	1,119,300
2018	1,051,800
2019	901,600
2020	650,500
2021	606,800
2022	1,251,000

The federal government also has many programs in place to aid veterans financially. For example, the U.S. Department of Veterans Affairs (VA) has programs that provide financial assistance to specific subpopulations of veterans, such as specially adapted housing for disabled veterans. Another program allows the VA to guarantee a portion of a home loan, which allows vendors to provide more favorable loan terms to veterans and families. There is no federal program that provides a direct grant to relieve financial hardship as the MFRF program does.

Complexity

The credit is not simple to administer because once the $1 million cap is reached, DVS physically mails back subsequent contributions. Donations may exceed $1 million as some donors contributed more than the $200 or $400 maximum eligible for a credit. Laws 2021, Chapter 70 permits the Military Family Relief Advisory Committee to use up to 10% of donations for the costs of administering the financial assistance program.

Potential Performance Measures

Performance measures could include:

1. Number and dollar amount of donations made to the Military Family Relief Fund.

2. Number and dollar amount of grants made from the Military Family Relief Fund to military families by type of assistance and/or characteristics of families receiving assistance.

The statute does not impose any requirements related to these measures. DOR provides data on donations to the fund in their annual Credit History report. Therefore, this information is already available to evaluate the program. DVS provides grant data in their annual budget request, but this information does not provide detail on the type of assistance provided or characteristics of families. Type of assistance could include mortgage, utilities, or auto insurance. Family characteristics could include families with a currently deployed service member or families of deceased or wounded veterans.

Prior Review

The credit was last reviewed by the Joint Legislative Income Tax Credit Review Committee in 2017. However, since the Joint Legislative Income Tax Credit Review Committee did not meet that year, no recommendations were made by the Committee. When the credit was reviewed in 2012, the Committee recommended that the credit be amended to enhance performance measures to require the number and dollar amounts of donations and grants be reported, and that the Military Family Relief Fund balance not revert to any other fund. Since 2012, no legislative action has been taken to adopt these recommendations.

Private School Tuition Organization
"Original" Tax Credit

Private School Tuition Organization Individual Income Tax Credit - Original

Summary

- This review pertains only to the original private school STO individual income tax credit. A second credit, commonly referred to as the "switcher" credit, is also under review this year.
- The cost of the original individual tax credit was $73.8 million in FY 2022.
- In FY 2022, the original credit was claimed by 91,921 taxpayers at an average of $802 per claim.
- The maximum original tax credits allowed in Tax Year (TY) 2022 are $623 for single filers and $1,245 for married couples filing jointly. Those maximums are adjusted annually for inflation.
- In total, there are 4 private school tax credits claimed by individuals, corporations, and insurers with a total dollar value of $209.8 million for FY 2022.

Statute

A.R.S. § 43-1089 (Individual Income Tax).

Description

This credit was last reviewed in 2017. The description of the credit as well as other sections of the credit review have been updated from our 2017 report when relevant.

There are 4 different private School Tuition Organization (STO) tax credits. The original private STO individual income tax credit and "switcher" credit are tax credits for individuals. Corporations and insurers also may receive tax credits for contributions to STOs under separately authorized programs. The corporate STO tax credits are not subject to Committee review this year. An overview of all current STO tax credit programs is provided in *Appendix B* of the 2022 Tax Handbook.

This credit is provided for voluntary contributions to STOs. A STO is defined as a charitable organization that is exempt from federal taxation and that allocates at least 90% of its tax credit-eligible revenue for educational scholarships or tuition grants to children to attend non-governmental elementary or secondary schools. A STO may use up to 10% of tax credit-eligible contributions for administration expenses. The "90% for scholarships" restriction does not apply to STO revenues (if any) that are not linked to tax credits, such as interest earnings or employer matching contributions. The 90% requirement is assessed over a period of years, as STOs are allowed to reserve an unspecified portion of current year donations for future year scholarships. The following restrictions apply to all STO credits:

1) The credit is not allowed if the taxpayer designates the taxpayer's contribution to the STO for the direct benefit of any dependent of the taxpayer or if the taxpayer designates a student beneficiary as a condition of the taxpayer's contribution to the STO.
2) The tax credit is not allowed if the taxpayer, with the intent to benefit the taxpayer's dependent, agrees with one or more other taxpayers to designate each taxpayer's contribution to the school tuition organization for the direct benefit of the other taxpayer's dependent.
3) A STO cannot award, restrict, or reserve scholarships solely on the basis of a donor's recommendation.
4) If a STO scholarship exceeds a school's total cost of educating the recipient, the school must return the excess portion to the STO.

This review addresses the Original STO tax credit. Students do not have to switch from a public school to a private school to be eligible for scholarships funded through this credit; current private school students therefore can qualify. The amount of credit a taxpayer may claim is adjusted annually for inflation. For TY 2022, the inflation-adjusted maximums are $623 for single filers and $1,245 married couples filing jointly.

Refundable

The credit is not refundable.

Carry Forward

The unused portion of the credit may be carried forward for a maximum of 5 consecutive years. The amount of credits carried forward to TY 2020 was $12.6 million.

History and Rationale

The original private school STO individual income tax credit was created by Laws 1997, Chapter 48 and became effective January 1, 1998. Chapter 48 also established the public school extracurricular activity fee tax credit.

The program has been subject to litigation. In *Kotterman v. Killian* (September 1997), opponents of the tax credit challenged its constitutionality in state court, claiming that it violated both federal and state prohibitions against using public monies to support a religious establishment, and a state prohibition against using public monies for private or sectarian schools. The Arizona Supreme Court upheld the tax credit in January 1999, ruling that STO scholarship monies never enter the state's control or reach the State Treasury. In *Winn v. Hibbs* (February 2000) opponents filed a challenge to the program in federal court. In April 2011, the U.S. Supreme Court upheld the program, ruling that the plaintiffs did not have legal standing to challenge it.

As originally enacted, the maximum credit allowed under the original private school STO individual income tax credit was $500. Laws 2000, Chapter 1, 5th Special Session increased the cap to $625 for married taxpayers filing a joint return. The credit caps were further increased over time. Laws 2010, Chapter 293 then required annual inflation adjustments to the maximum credit amounts. As noted previously, for TY 2022, the inflation-adjusted maximums are $623 and $1,245 for single and married filers, respectively.

Laws 2012, Chapter 4 established a second private school STO individual tax credit (commonly referred to as the "switcher" credit) starting in TY 2012 pursuant to A.R.S § 43-1089.03. The "switcher" credit is allowed only after the taxpayer has used the maximum credit available under original private school STO individual income tax credit program. Prior to TY 2021, "switcher" scholarships could only be awarded to public school transfers, kindergarteners, preschool disabled students, military dependents, or pupils who received a corporate STO or "switcher" scholarship in the prior year. Laws 2021, Chapter 412 expanded the eligibility for students receiving "switcher" or low-income corporate STO scholarships to include those who were previously homeschooled or held an Empowerment Scholarship Account (ESA) or moved from out of state. These restrictions do not apply to the original private school STO individual income tax credit program.

The statute creating the original private STO individual income tax credit program does not include a specific statement of purpose or a rationale. Minutes from committee meetings indicate supporters were seeking to provide more educational opportunities for children from low-income families.

Revenue Impact

Beginning in FY 2015, the Department of Revenue (DOR) is required to report the use of individual income tax credits on a fiscal year basis. The same requirement applies to corporate income tax credits, beginning in FY 2016. *Table 1* includes data on credit use by fiscal year from FY 2015 through FY 2022. The number of claims as well as the amount of credit use declined significantly in FY 2020 as a result of the COVID-19 pandemic. The number of claims and the amount of the credit claimed recovered in FY 2021 to pre-pandemic levels.

The credit may result in foregone General Fund spending to the extent that STO-funded scholarships result in reduced public school enrollment. We are unable, however, to determine whether or how many additional students would have attended public schools instead of private schools without a STO scholarship.

Table 1

Individual Income Tax Credits Claimed for "Original" Credit by Fiscal Year

Fiscal Year	# of Claims	Credits Used ($)	% Change
2015	82,550	57,129,400	(not available)
2016	93,312	65,098,200	13.9
2017	94,554	66,851,200	2.7
2018	96,102	69,126,600	3.4
2019	95,579	69,038,700	(0.2)
2020	81,482	59,727,600	(13.5)
2021	93,538	71,081,300	19.0
2022	91,921	73,750,232	3.8

Economic Benefits

This credit is not directly designed to promote economic development or spur new investments that would result in new jobs. Instead, according to DOR's August 2000 report "Income Tax Credits in Arizona," this credit is one of several tax credits in statutes primarily intended to encourage cash contributions to certain target groups in society, such as the working poor or students in private or public schools.

More Background

A DOR publication called "School Tuition Organization Income Tax Credits in Arizona Summary of Activity: FY 2020/2021" dated March 2022 provides information on contributions received and scholarships awarded by each STO under the original private STO individual income tax credit program for FY 2021. A total of 53 STOs received $75.1 million in donations that year. Twelve STOs received more than $1 million in contributions in FY 2021 and accounted for $64.7 million, or about 86%, of total revenues for the year.

STOs distributed $62.6 million in scholarships from the original private STO individual income tax credit program in FY 2021 *(see Table 2).* This amount was less than the $75.1 million of revenue received in FY 2021 (see *Table 3*) because of deductions for program administration and monies reserved for future year scholarships. Historical data on scholarships and grants on a calendar year basis are summarized in *Table 2.*

The total number of awards distributed under the program has increased from 128 in 1998, the first year the credit was offered, to 32,560 in 2021. The highest number of scholarships given in a year was 36,571 in 2019 *(see Table 2).* The highest average scholarship amount to date was $1,942 in FY 2020. DOR's March 2022 STO report notes that the number of scholarships paid does not equate to the number of students receiving scholarships because families often apply for scholarships from more than one STO. Thus, the number of scholarships reported in *Table 2* does not equal the number of students receiving STO scholarships from this program. Schools do not report the number of individual students receiving STO scholarships.

Students received a combined 90,991 scholarships from the 4 different STO scholarship programs combined in FY 2021 *(see Table 3).* This equals to 1.5 STO scholarships, on average, for each of Arizona's roughly 59,200 private school pupils (90,991 scholarships ÷ 59,200 pupils = 1.5 average scholarships per pupil). Some pupils, such as public school switchers and military dependents, can receive scholarships from more than one STO program (such as Switcher and Corporate Low Income) in addition to receiving scholarships from more than one STO within the same STO program (such as Switcher).

Table 2

Scholarship Data for School Tuition Organization "Original" Credit

Year [1/]	Total $ Awarded	# of Scholarships	Average Scholarship
1998	$ 103,800	128	$ 811
1999	2,196,700	3,207	684
2000	13,562,000	15,081	899
2001	16,485,000	18,049	913
2002	22,826,700	19,582	1,166
2003	24,428,200	20,134	1,213
2004	28,025,100	21,146	1,325
2005	30,863,200	22,529	1,370
2006	40,595,000	24,678	1,645
2007	48,561,700	27,153	1,788
2008	54,205,400	28,327	1,914
2009	52,127,300	27,592	1,889
2010	47,333,800	26,430	1,791
2011	46,091,500	25,105	1,836
2012	45,209,400	23,828	1,897
2013	48,873,400	25,462	1,919
2014	49,608,600	26,972	1,839
2015	54,656,000	29,792	1,835
2016	53,822,500	31,345	1,717
2017	58,037,600	32,590	1,781
2018	64,293,100	34,632	1,856
2019	63,517,200	36,571	1,737
2020	63,796,500	32,851	1,942
2021	62,590,000	32,560	1,922

1/ Calendar years through 2010 and fiscal years thereafter. There are 6 months that overlap between CY 2010 and FY 2011. Some of the scholarships shown for FY 2011 are already included in CY 2010 data.

Table 3

Scholarship Summary for All STO Program Combined for FY 2021

STO Program	Number of Scholarships	Scholarships ($)	Tax Donations ($) [1/]
Original Individual	32,560	$62,590,000	$75,058,600
Switcher Individual	27,080	$39,187,900	$48,324,700
Low-Income Corporate	30,423	$90,376,211	$122,419,800
Displaced/Disabled Corporate	928	$4,518,492	$5,000,000
Total	**90,991**	**$196,672,600**	**$250,803,200**

1/ Represents the total amount of donations made by taxpayers to STOs, which may differ from the total amount of credits claimed. In FY 2021, taxpayers' total cash contributions to STOs reached $250.8 million compared to credit claims of $215.7 million across the 4 STO credit programs. There may be several reasons for the different amounts, including individual contributions exceeding the maximum credit or taxpayers having insufficient tax liability to claim the entire credit donation.

A.R.S. §43-1603B5 requires STOs to report the percentage and total dollar amount of scholarships awarded during the previous year to: 1) students whose family income qualifies them for free or reduced price lunches (FRPL) under the federal school lunch program (up to 185% of the poverty level, or $48,470 for a family of four for FY

2021), and 2) students whose family income exceeds the FRPL eligibility threshold by less than 185% (so up to 342.25% of the poverty level, or $89,670 for a family of four for FY 2021).

DOR reports that for FY 2021, students with family income of up to 185% of the poverty level received 24.1% ($15.0 million) of program scholarships that year and that students with family income of 185% to 342% of the poverty level received 22.8% ($14.3 million) of scholarships. The remaining 53.1% of scholarships ($33.3 million went to students whose family income was greater than 342% of the poverty level ($89,670 for a family of four for FY 2021).

Complexity

DOR indicates that it is administratively simple for individuals to donate to STOs and claim the original individual income tax credit. DOR notes, however, that receiving donations is more complex for STOs, in that they must ask every donor if they have given to another STO in the fiscal year, and, if so, how much and, if so, which tax year they will be applying it against (because of the ability to give a donation until April 15 and count it against the prior tax year). This is necessary because of the Switcher individual income tax credit authorized by Laws 2012, Chapter 4, which establishes specific criteria for how money generated by the new credit can be used for scholarships.

DOR also indicates that the annual reporting process for original donations and scholarships is time-consuming for both STOs and DOR due to the required data and document reporting.

Potential Performance Measures

Performance measures could include:

1. Percentage of STO revenues retained for administrative costs.

   The STOs would have this information readily available.

2. Percentage of private school tuition paid with award funding.

   This information appears to be collected by STOs but would require additional reporting.

3. Number of unduplicated students receiving STO scholarships.

   Schools currently do not report this information to STOs. A state level database would have to be created in order to identify unduplicated students receiving scholarships from all STO programs combined.

Prior Review

The credit was last reviewed in 2017. However, since the Joint Legislative Income Tax Credit Review Committee did not meet that year, no recommendations were made by the Committee. When the credit was reviewed in 2012, the Committee recommended that the credit be continued.

Private School Tuition Organization
“Switcher” Tax Credit

Private School Tuition Organization Individual Income Tax Credit - Switcher

Summary

- The cost of the "switcher" individual tax credit was $46.9 million in FY 2022.
- In FY 2022, the switcher credit was claimed by 58,209 taxpayers at an average of $805 per claim.
- The maximum switcher tax credits allowed in Tax Year (TY) 2022 are $620 for single filers and $1,238 for married couples filing jointly. Those maximums are adjusted annually for inflation.
- Filers cannot claim the switcher tax credit unless they already have donated the maximum amount to the original private school STO individual income tax program.
- This review pertains only to the switcher private school STO individual income tax credit. A second credit, the original private school STO individual income tax credit, also is under review this year.
- In total, there are 4 private school tax credits claimed by individuals, corporations, and insurers with a total dollar value of $209.8 million for FY 2022.

Statute

A.R.S. § 43-1089.03 (Individual Income Tax)

Description

This credit was last reviewed in 2017. The description of the credit as well as other sections of the credit review have been updated from our 2017 report when relevant.

There are 4 different private School Tuition Organization (STO) tax credits. The original private STO individual income tax credit and "switcher" credit are tax credits for individuals. Corporations and insurers also may receive tax credits for contributions to STOs under separately authorized programs. The corporate STO tax credits are not subject to Committee review this year. An overview of all current STO tax credit programs is provided in *Appendix B* of the 2022 Tax Handbook.

This credit is provided for voluntary contributions to STOs. A STO is defined as a charitable organization that is exempt from federal taxation and that allocates at least 90% of its tax credit-eligible revenue for educational scholarships or tuition grants to children to attend non-governmental elementary or secondary schools. A STO may use up to 10% of tax credit-eligible contributions for administration expenses. The "90% for scholarships" restriction does not apply to STO revenues (if any) that are not linked to tax credits, such as interest earnings or employer matching contributions. The 90% requirement is assessed over a period of years, as STOs are allowed to reserve an unspecified portion of current year donations for future year scholarships.

All restrictions for the original STO individual income tax credit program also apply to the switcher program:

1) The credit is not allowed if the taxpayer designates the taxpayer's contribution to the STO for the direct benefit of any dependent of the taxpayer or if the taxpayer designates a student beneficiary as a condition of the taxpayer's contribution to the STO.
2) The credit is not allowed if the taxpayer, with the intent to benefit the taxpayer's dependent, agrees with one or more other taxpayers to designate each taxpayer's switcher contribution to the school tuition organization for the direct benefit of the other taxpayer's dependent.
3) A STO cannot award, restrict, or reserve switcher scholarships solely based on a donor's recommendation.
4) If a STO scholarship exceeds a school's total cost of educating the recipient, the school must return the excess portion to the STO.

The switcher tax credit is allowed only after the taxpayer has used the maximum tax credit available under the original STO individual income tax credit program. In addition, switcher scholarships may only be awarded to public school transfers, kindergartners, preschool disabled students, military dependents, homeschooled students, students that moved from out of state, held an Empowerment Scholarship Account, or pupils who received a corporate STO or "switcher" scholarship in a prior year. These additional restrictions do not apply to the original private school STO individual income tax credit program.

The amount of credit a taxpayer may claim is adjusted annually for inflation. The maximum tax credits for the original private school STO tax credit program for TY 2022 will be $623 for single filers and $1,245 for married couples filing jointly. Those amounts are slightly higher than the ones allowed for switcher tax credits for TY 2022 ($620 and $1,238, respectively) because the original program is older, so its maximum donation amounts have been adjusted more times for inflation.

Refundable

The credit is not refundable.

Carry Forward

The unused portion of the credit may be carried forward for a maximum of 5 consecutive years. The amount of credits carried forward to TY 2020 was $11.9 million.

History and Rationale

The original private school STO individual income tax credit was created by Laws 1997, Chapter 48 and became effective January 1, 1998. Chapter 48 also established the public school extracurricular activity fee tax credit. *(See the Original Private School Tuition Organization Individual Income Tax Credit review for more information.)*

Laws 2012, Chapter 4 established the switcher tax credit starting in TY 2012 pursuant to A.R.S § 43-1089.03. The switcher tax credit allows an individual to make additional tax-credit-eligible contributions to a STO after they have made the maximum tax-credit-eligible contribution for the year to a STO under the original private school STO individual income tax credit program. Prior to TY 2021, "switcher" scholarships could only be awarded to public school transfers, kindergarteners, preschool disabled students, military dependents, or pupils who received a corporate STO or "switcher" scholarship in the prior year. Laws 2021, Chapter 412 expanded the eligibility for students receiving "switcher" or low-income corporate STO scholarships to include those who were homeschooled, moved from out of state, or held an Empowerment Scholarship Account (ESA).

The original and switcher individual income tax credits are for individuals only. Corporations and insurers also may receive tax credits for contributions to STOs under separately authorized programs. The corporate STO tax credits are not subject to Committee review this year.

The statute creating the original private STO individual income tax credit program does not include a specific statement of purpose or a rationale. Minutes from committee meetings indicate supporters were seeking to provide more educational opportunities for children from low-income families.

Revenue Impact

Beginning in FY 2015, the Department of Revenue (DOR) is required to report the use of individual income tax credits on a fiscal year basis. *Table 1* includes data on credit use by fiscal year from FY 2015 through FY 2022. The number of claims as well as the amount of credit use declined significantly in FY 2020 as a result of the COVID-19 pandemic. The number of claims and the amount of credit claimed recovered in FY 2021 to pre-pandemic levels.

The switcher tax credit may result in foregone General Fund spending to the extent that STO-funded scholarships reduce public school enrollment.

Table 1

Individual Income Tax Credits Claimed for "Switcher" Credit by Fiscal Year

Fiscal Year	# of Claims	Credits Used ($)	% Change
2015	35,811	25,789,900	(not available)
2016	45,408	32,684,200	26.7
2017	50,996	38,341,200	17.3
2018	54,308	39,419,700	2.8
2019	54,763	40,368,600	2.4
2020	48,172	35,677,700	(11.6)
2021	57,149	43,217,700	21.1
2022	58,209	46,876,500	8.5

Economic Benefits

This credit is not directly designed to promote economic development or spur new investments that would result in new jobs. Instead, according to DOR's August 2000 report "Income Tax Credits in Arizona," this credit is one of several tax credits in statutes primarily intended to encourage cash contributions to certain target groups in society, such as the working poor or students in private or public schools.

More Background

The DOR publication "School Tuition Organization Income Tax Credits in Arizona Summary of Activity: FY 2020/2021" (March 2022) provides information on contributions received and scholarships awarded by each STO under the switcher tax credit program for FY 2021. A total of 51 STOs received $48.3 million in donations that year. Eight STOs received more than $1 million in contributions in FY 2021 and accounted for $39.5 million, or 81.7%, of total revenues for the year.

Table 2

Scholarship Data for School Tuition Organization "Switcher" Credit

Fiscal Year	Total $ Awarded	# of Scholarships	Average Scholarship
2012	$ 0	0	$ 0
2013	4,681,200	4,473	1,047
2014	17,561,500	13,261	1,324
2015	24,260,500	16,286	1,490
2016	28,523,500	20,976	1,360
2017	33,012,800	22,349	1,477
2018	35,750,400	24,669	1,449
2019	37,508,815	26,860	1,396
2020	37,366,500	25,383	1,551
2021	39,187,900	27,080	1,447

STOs distributed $39.2 million in scholarships from the switcher tax credit program in FY 2021 *(see Table 2)* Historical data on scholarships and grants on a calendar year basis are summarized in *Table 2*.

The total number of awards distributed by the program has increased from zero in FY 2012, the first year the credit was offered, 27,080 in FY 2021, the highest level observed to date *(see Table 2)*. The highest average scholarship amount to date was $1,551 in FY 2020 versus $1,447 for FY 2021. The latter amount was $(104) or (6.7%) lower than the current peak amount from FY 2020.

DOR's March 2022 STO report notes that the number of STO scholarships paid does not equate to the number of students receiving scholarships because families can apply for scholarships from more than one STO. Thus, the number of scholarships reported in *Table 3* does not equate to the number of students receiving switcher scholarships. Schools do not report the number of individual students receiving STO scholarships.

Students received 90,991 scholarships from the 4 STO scholarship programs combined in FY 2021 *(see Table 3 and the original credit review for more information).* This equates to an average of 1.5 STO scholarships for each of Arizona's roughly 59,200 private school pupils (90,991 scholarships ÷ 59,200 pupils = 1.5 scholarships per pupil). Some pupils, such as public school switchers and military dependents, can receive scholarships from more than one STO program (such as Switcher and Corporate Low Income) in addition to receiving scholarships from more than one STO within the same STO program (such as Switcher).

Table 3

Scholarship Summary for All STO Program Combined for FY 2021

STO Program	Number of Scholarships	Scholarships ($)	Tax Donations ($) 1/
Original Individual	32,560	$62,590,000	$75,058,600
Switcher Individual	27,080	$39,187,900	$48,324,700
Low-Income Corporate	30,423	$90,376,211	$122,419,800
Displaced/Disabled Corporate	928	$4,518,492	$5,000,000
Total	**90,991**	**$196,672,600**	**$250,803,200**

1/ Represents the total amount of donations made by taxpayers to STOs, which may differ from the total amount of credits claimed. In FY 2021, taxpayers' total cash contributions to STOs reached $250.8 million compared to credit claims of $215.7 million across the 4 STO credit programs. There may be several reasons for the different amounts, including individual contributions exceeding the maximum credit or taxpayers having insufficient tax liability to claim the entire credit donation.

A.R.S. §43-1603B5 requires STOs to report the percentage and total dollar amount of scholarships awarded during the previous year to: 1) students whose family income qualifies them for free or reduced price lunches (FRPL) under the federal school lunch program (up to 185% of the poverty level, or $48,470 for a family of four for FY 2021), and 2) students whose family income exceeds the FRPL eligibility threshold by less than 185% (so up to 342.25% of the poverty level, or $89,670 for a family of four for FY 2021).

DOR reports that for FY 2021, students with family income of up to 185% of the poverty level received 23.2% ($9.1 million) of program scholarships that year and that students with family income of 185% to 342% of the poverty level received 24.5% ($9.6 million) of scholarships. The remaining 52.3% ($20.5 million) of scholarships went to students whose family income was greater than 342% of the poverty level ($89,670 for a family of four for FY 2021).

Complexity

DOR indicates that it is administratively simple for individuals to donate to STOs and claim the credit. DOR notes, however, that receiving donations is more complex for STOs, in that they must ask every donor if they have given to another STO in the fiscal year, and, if so, how much and, if so, which tax year they will be applying it against because of the ability to give a donation until April 15 and count it against the prior tax year. This is necessary because the switcher tax credit can only be used once a taxpayer has contributed the maximum amount allowed for a tax credit under the original private school STO individual income tax credit program.

DOR also indicates that the annual reporting process for donations is time-consuming for both STOs and DOR because of the sheer number of STOs and the fact that most STOs are staffed by volunteers, which leads to reporting inconsistencies and makes it difficult for DOR to educate STO staff on reporting requirements.

Potential Performance Measures

Performance measures could include:

1. Percentage of STO revenues retained for administrative costs.

   The STOs would have this information readily available.

2. Percentage of private school tuition paid with award funding.

   This information appears to be collected by STOs, but would require additional reporting.

3. Number of unduplicated students receiving STO scholarships.

   Schools currently do not report this information to STOs. A state level database would have to be created in order to identify unduplicated students receiving scholarships from all STO programs combined.

Prior Review

The credit was last reviewed in 2017. However, since the Joint Legislative Income Tax Credit Review Committee did not meet that year, no recommendations were made by the Committee. Since this was the only prior review for the credit, the Committee has never made a recommendation regarding the credit.

Public School Extracurricular Activity Fee Tax Credit

Public School Extracurricular Activity Fee Tax Credit

Summary

- The cost of the Public School Extracurricular Activity Fee Tax Credit was $33.6 million in FY 2022.
- In FY 2022, the credit was claimed by 122,978 taxpayers at an average of $273 per claim.
- The average Calendar Year (CY) 2019 contribution was $198
  - School districts – $185
  - Charter schools – $291
- Eleven districts received more than $1 million each and accounted for $28.2 million or (51.2%) of total contributions.

Statutes

A.R.S. § 43-1089.01 (Individual Income Tax)

Description

This credit was last reviewed in 2017. The description of the credit as well as other sections of the credit review have been updated from our 2017 report when relevant.

This credit is provided to taxpayers for any fees or contributions made to a K-12 public school in support of:

- Extracurricular activities
- Character education programs
- Standardized testing fees for college credit or readiness
- Career and technical education industry certification
- Cardiopulmonary Resuscitation (CPR) training
- Capital items such as playground equipment, buildings, and improvement
- School meal programs
- Health care supplies

School districts are not allowed to use any portion of contribution revenues for program administration.

Extracurricular activities are defined in statute as "school sponsored activities that require enrolled students to pay a fee in order to participate." The definition includes, but is not limited to, the following list of items:

- Band uniforms
- Equipment or uniforms for varsity athletics
- Scientific laboratory materials
- In-state or out-of-state trips that are solely for competitive events.

Excluded from the definition of extracurricular activities are senior trips or events that are recreational, amusement or tourist activities.

Regarding character education, A.R.S. § 15-719 specifies that a character education program must include the following components:

- Instruction in the definition and application of at least 6 character traits
- Activities, discussions, and presentations on the application of the character traits

- Presentations by teachers or mentors who demonstrate the character traits

Pursuant to A.R.S. § 15-718.01, school districts and charter schools are required to provide CPR training to high school students. Fees associated with these trainings are eligible for the credit. Other fees eligible for the credit include testing fees for the ACT, SAT, PSAT, advanced placement, and other similar exams, as well as certification assessment fees required by career and technical education programs.

Pursuant to Laws 2003, Chapter 169, public schools are required to report on a calendar year basis to DOR by February 28 of each year the following information: total number of donors, total dollar amount of fees and contributions received, and the amount spent by the school.

Beginning in FY 2016, taxpayers have the option to claim credit contributions made after December 31 but on or before April 15 in either the previous tax year or in the tax year the contribution was made.

Refundable

The credit is not refundable.

Carry Forward

The unused portion of the credit may be carried forward for a maximum of 5 consecutive years. In TY 2020, $4.8 million was carried forward.

History and Rationale

The public school extracurricular activity fee tax credit was created by Laws 1997, Chapter 48 and became effective January 1, 1998. The first private school tuition organization tax credit was established at the same time.

As originally enacted, the maximum credit allowed was $200 for all households. The credit cap was eventually increased to $400 for a married couple filing jointly.

The credit did not initially contain provisions allowing a claim for contributions to character education programs, trips for competitive events, standardized exams for college credit and college readiness, or CPR training. These provisions were added over time. Additionally, Laws 2010, Chapter 332 clarified that a "public school" could be a school that is part of a school district, Career Technical Education District (CTED), or charter school. Laws 2022, Chapter 164 expands the credit to include contributions for capital items, meal programs, and student health care supplies. *Chart 1* below shows these changes in relation to contributions made from 1998 to 2016.

The statute creating the tax credit does not include a specific statement of purpose or a rationale. As noted above, the credit was created at the same time as the private school tuition organization credit.

Revenue Impact

Beginning in FY 2015, the Department of Revenue (DOR) is required to report the use of individual income tax credits on a fiscal year basis. The same requirement applies to corporate income tax credits, beginning in FY 2016. *Table 1* shows the number of claims and amount of credit used by fiscal year since FY 2015.

Table 1

Individual Income Tax Credits Claimed for Public School Credit by Fiscal Year

Fiscal Year	# of Claims	Credits Used
2015	147,457	$40,061,116
2016	169,879	$46,180,227
2017	168,921	$46,159,389
2018	168,833	$46,345,735
2019	165,817	$45,361,638
2020	142,420	$37,869,672
2021	142,911	$38,610,528
2022	122,978	$33,574,889

DOR additionally reports credit use by tax year. Such data is typically available from the tax year the credit was established. Credit use by tax year differs from credit use by fiscal year for several reasons, including the filing of extended and amended tax returns and time periods that do not fully overlap. *Table 2* includes data on the amount of credit used from TY 2014 through TY 2021, the most recent tax year for which DOR has reported tax credit data.

Table 2

Individual Income Tax Credits Claimed for Public School Credit by Tax Year

Tax Year	# of Claims 1/	Total Credit	Credits Used 1/	Carry Forward
2014	152,101	$45,833,570	$41,138,422	$4,695,148
2015	168,809	$50,911,324	$45,936,328	$4,503,123
2016	167,438	$50,960,447	$45,709,479	$4,882,874
2017	167,832	$50,781,742	$46,175,813	$4,435,093
2018	165,331	$50,618,717	$45,221,748	$5,159,072
2019	159,149	$48,473,543	$42,619,018	$5,620,263
2020	121,325	$37,457,428	$32,457,428	NIA
2021 2/	122,653	$38,064,890	$33,646,890	NIA

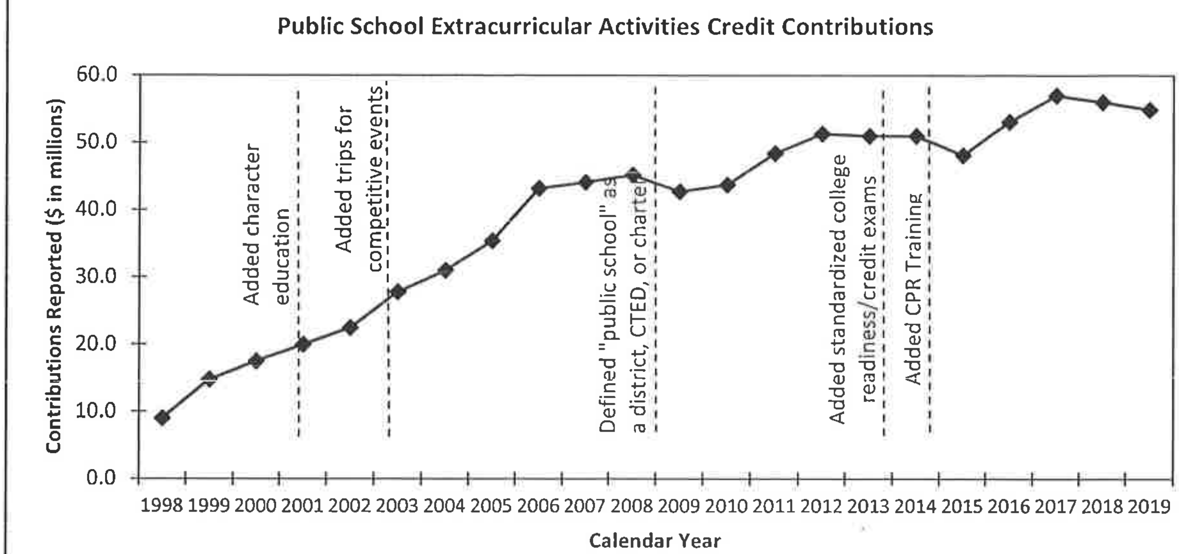
1/ For Tax Years 1998 through 2013, DOR reported that the number of tax credit claims equaled the number of donations made and that the total dollar value of credits used equaled the total dollar value of donations received.

2/ The TY 2021 data is preliminary.

For 2019, the most recent year with published data on public school extracurricular activity fee tax credit contributions (see *Table 3*), the Arizona Department of Revenue (DOR) reports that public schools received $54.9 million in extracurricular fees and contributions and 159,149 individuals claimed $42.6 million in related tax credit contributions (see *Table 2*). Historical data on credit contributions under the program are summarized in *Table 3* below.

Table 3 shows that total fees and contributions have increased from $9.0 million in 1998, the first year the credit was offered, to $54.9 million in 2019. The average contribution also has increased from $121 in 1998 to $198 in 2019.

Chart 1



Prior to 2014, DOR's annual reports on "Arizona Income Tax Credits" assumed that the amount of tax credits claimed by individuals under the program in any given year equaled total available credits. However, the revenue impact of the program could not be determined with such data, as an individual tax filer may not choose or be able to take to the full donation as a credit. The taxpayer may forget to take the credit or may not have sufficient liability to claim the credit. As a result, the DOR's donation data through 2013 appeared to overstate actual credit use. As shown in *Table* 2, DOR began reporting credit use by tax year in 2014.

Economic Benefits

Measurable Economic Development
New Investments
Creation of New Jobs or Retention of Existing Jobs

This credit is not directly designed to promote economic development or spur new investments that would result in new jobs. Instead, this credit is one of several tax credits in statute that are primarily intended to encourage cash contributions to certain target groups in society, such as the working poor or students in private or public schools.

The $54.9 million in extracurricular fees and contributions reported for 2019 includes $45.2 million to school districts and $9.7 million to charter schools. Eleven districts generated over $1 million each and accounted for $28.2 million (51.2%) of total revenues *(see DOR's 2019 Public School Tax Credit Report)*. Eleven charter schools collected over $125,000 each. There were a combined total of 99 school districts and charter schools that did not submit a report or reported receiving no contributions.

DOR's 2019 Public School Credit Report ranks school districts by total dollars received and dollars received per donor. The report shows that the largest school districts in the state tend to receive the most extracurricular fees and contributions. Two of the largest school districts in the state, Chandler Unified and Tucson Unified, for example, ranked 1 and 2, respectively, in total contributions and fees. The report also shows that small to medium size districts tend to report higher average fees and contributions per donor. Prescott Unified, for example, (a medium size district) reported an average of $284 per donor versus $161 and $156 for Chandler Unified and Tucson Unified, respectively.

Table 3

Public School Extracurricular Activity Fee Tax Credit Contributions [1/]

Calendar Year	# of Fees/Contributions	$ Received	Average Fee/Contribution
1998	74,242	$ 8,983,300	$121
1999	109,748	14,816,000	135
2000	149,215	17,458,200	117
2001	166,468	19,976,200	120
2002	143,697	22,416,700	156
2003	201,407	27,753,800	138
2004	213,987	30,958,900	145
2005	215,369	35,416,300	164
2006	218,664	43,230,433	198
2007	214,356	44,069,900	206
2008	233,450	45,164,400	193
2009	239,031	42,657,100	178
2010	250,004	43,718,700	175
2011	250,210	48,443,500	194
2012	253,134	51,287,400	203
2013	253,842	50,972,900	201
2014	266,087	50,992,000	192
2015	262,879	48,062,300	183
2016	314,683	53,018,000	168
2017	336,676	56,969,500	169
2018	292,429	56,048,400	192
2019	277,589	54,934,700	198

1/ Reflects reported contributions, which may not match actual tax credits.

More Background

Table 4 below compares school spending in 2016 and 2019 by type of activity. In 2017, the last time this credit was reviewed, 2016 was the most recent year for which data on school spending was available. As of publication of this review, 2019 is the most recent year of school spending data reported by DOR. DOR did not report identical spending categories for activity and education programs in both years, in part due to changes in statute. As a result, *Table 4* does not provide a direct comparison for all categories.

In CY 2019, total school spending was $56.4 million, a (0.5)% decline from CY 2016. This includes $1.7 million in spending for standardized testing fees and $40,567 for career and technical preparation, which was added in 2010. CPR training, which was added in 2016, accounted for only $3,834 of total spending in CY 2019. The greatest share of total spending in both years was for athletics or sports, field trips, academic competitions, music, and other fine and performing arts.

Complexity

The Department of Revenue (DOR) administers the public school tax credit. Schools must report how much they receive and spend by specific categories, which is due February 28th of each calendar year. DOR contacts schools each year to remind them of this requirement. According to DOR, many schools will only voluntarily send in the report following DOR's yearly outreach reminder. To send reminders, DOR has to maintain a record of schools' addresses and recent contacts, which can be difficult to update due to the opening and closing of schools and frequent changes in staffing. DOR does not have any mechanism to impose compliance with the reporting requirement or to verify that the reported numbers are correct. For reporting in calendar year 2020, 55 charters and 45 district schools did not send reports. DOR provides additional assistance to schools that need help to complete their reports and have general questions. In addition to the reporting requirement, DOR also assists schools in determining if an activity program or item is eligible for the tax credit throughout the year.

Table 4

Extracurricular Fee Funding by Category of Activity 1/

	CY 2016		CY 2019	
Description	$ Spent	% of Total	$ Spent	% of Total
Athletics or Sports	$16,981,996	30.0%	$13,791,624	24.4%
Field Trips	12,998,864	22.9%	16,195,264	28.7%
Clubs & Academic Competitions	9,090,842	16.0%	8,725,423	15.5%
Music, Band, Choir, Fine Arts, & Performing Arts	8,217,694	14.5%	8,245,574	14.6%
After School Enrichment or Tutoring	4,915,689	8.7%	2,194,897	3.9%
Character Education Programs	1,558,673	2.8%	1,182,749	2.1%
Extended Kindergarten Programs	1,368,488	2.4%	2,944,411	5.2%
Standardized Testing for College Credit or Readiness	1,088,641	1.9%	1,714,179	3.0%
Non-Credit Summer Programs	94,016	0.2%	263,032	0.5%
Driver Education Programs	93,398	0.2%	11,996	0.0%
Career and Technical Preparation	39,065	0.1%	40,567	0.1%
CPR Training	80	0.0%	3,834	0.0%
Playground Equipment and Shade Structures	-	-	71,084	0.1%
Capital Items as Defined by A.R.S. § 15-903	-	-	883,966	1.6%
Student Consumable Health Care Supplies	-	-	5,491	0.0%
Community School Meal Programs	-	-	10,215	0.0%
Other	211,818	0.4%	158,137	0.3%
Total	**$56,659,264**	**100.0%**	**$56,441,543**	**100.0%**

1/ Reflects usage of tax credit contributions, which may not match contributions or tax credits for the same year.

Potential Performance Measures

Performance measures could include:

1. Student participation rates in extracurricular activities, character education programs, standardized testing, and career and technical education. While the school districts would have this information available, this measure would require them to compile and report additional data.

Prior Review

The credit was last reviewed in 2017. However, since the Joint Legislative Income Tax Credit Review Committee did not meet that year, no recommendations were made by the Committee. When the credit was reviewed in 2012, the Committee recommended that the credit be continued.

School Site Donation Tax Credit

School Site Donation Tax Credit

Summary

- The cost of the individual tax credit was $154,383 in FY 2022.
- In FY 2022, the individual credit was claimed by 12 taxpayers at an average of $12,865 per claim.
- The cost of the corporate tax credit was $0 in FY 2022 as no taxpayers claimed the corporate tax credit.
- More individual taxpayers have used the credit than corporate taxpayers. In the last 7 fiscal years, there have been no corporate credits claimed.
- Combined individual and corporate use peaked in Tax Year (TY) 2006 at $10.6 million.

Statutes

A.R.S. § 43-1089.02 (Individual Income Tax) and A.R.S. § 43-1181 (Corporate Income Tax)

Description

This credit was last reviewed in 2017. The description of the credit as well as other section of the credit review have been updated from our 2017 report when relevant.

The statutes provide individuals and corporations an income tax credit for donating real property and improvements to a school district or a charter school for use as a school or as a site for the construction of a school. To qualify for the credit, a few conditions must be met, including the following:

- The real property and improvements must be located in Arizona.
- The donor must convey the real property and improvements unencumbered and in fee simple.
- The value of the donated property must be determined by an appraisal (as defined in A.R.S § 32-3601) that is conducted by an independent party and paid for by the donee.
- The donor must record the appropriate lien on the property donated to an Arizona charter school.
- An Arizona school district is not allowed to accept the donation unless the Arizona Department of Administration School Facilities Division (SFD) has determined that the real property and improvements are suitable as a school site or as a school.

The credit is equal to 30% of the value of real property and improvements donated by the taxpayer to a school district or charter school.

Refundable

The credit is not refundable.

Carry Forward

The unused portion of the credit may be carried forward for a maximum of 5 taxable years.

History and Rationale

This tax credit was created by Laws 2000, Chapter 334 and became effective on January 1, 2001. The purpose of the credit is to encourage developers and/or landowners to make a real property donation for a school. There has not been any substantive changes to the tax credit since its creation.

Laws 2020, Chapter 43 repealed the corporate School Site Donation credit, as this credit went unused for 4 consecutive years. Laws 2021, Chapter 383 restored the corporate credit repealed by Laws 2020, Chapter 43. In addition, Chapter 383 provides that shareholders of an S corporation can claim their pro rata share of the individual School Site Donation Credit (A.R.S. § 43-1089.02D).

SFD is responsible for providing Arizona school districts with funding for new school construction, building renewal grants, and the correction of emergency deficiencies. SFD purchases land and approves new construction projects for districts to build new public schools throughout the state. When land or improvements are donated to districts, it results in cost savings for SFD and in turn the state since new school construction is funded through General Fund monies.

A district may build a school on its own, through its own secondary property tax. A land donation qualifies for a credit if the school is funded by SFD or by a local property tax.

Revenue Impact

Beginning in FY 2015, the Department of Revenue (DOR) is required to report the use of individual income tax credits on a fiscal year basis. *Table 1* below shows the cost of the individual credit by fiscal year going back to FY 2015. The same requirement applies to corporate income tax credits, beginning in FY 2016. However, there were no corporate credit claims from FY 2016 through FY 2022.

Table 1

School Site Donation Individual Income Tax Credit by Fiscal Year

Fiscal Year	# of Claimants	Credit Used
2015	69	$50,317
2016	53	$292,958
2017	19	$40,698
2018	16	$22,651
2019	18	$602,322
2020	11	$508,576
2021	9	$60,879
2022	12	$154,383

# of Claimants - the number of taxpayers who claimed the credit each year
Credit Used - the total amount of credits used to reduce tax revenue each fiscal year

DOR additionally reports credit use by tax year. Such data is available from the tax year the credit was established, as displayed below in *Table 2.* Credit use by tax year differs from credit use by fiscal year for several reasons, including the filing of extended and amended tax returns and time periods that do not fully overlap.

Table 2

School Site Donation Individual Income Tax Credit by Tax Year

Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward	Value of Donated Property
2001	59	$4,572,656	$2,869,356	$1,704,381	$23,376,250
2002	66	3,711,546	2,380,444	1,331,022	11,176,500
2003	45	2,924,583	2,048,930	716,187	8,580,160
2004	100	5,671,414	3,513,793	2,157,621	30,130,700
2005	80	8,889,390	6,029,585	2,859,896	25,445,500
2006	89	10,553,076	7,812,958	2,534,946	35,051,850
2007	72	6,255,914	2,819,579	3,217,277	15,723,362
2008	55	2,010,294	321,623	1,639,328	1,966,838
2009	30	1,003,782	76,427	357,500	0
2010	30	1,109,133	223,949	759,483	1,128,000
2011	20	617,874	89,461	521,716	2,089,991
2012	11	608,953	38,578	156,776	0
2013	21	293,887	111,752	182,135	452,416
2014	20	508,350	303,735	204,615	842,461
2015	10	204,818	35,960	168,858	0
2016	18	214,307	18,679	195,628	0
2017	20	250,293	56,735	197,375	0
2018	21	1,136,373	772,093	336,226	0
2019	8	269,099	64,733	275,436	0
2020	15	499,541	158,399	NIA	NIA
2021 1/	11	267,537	121,874	NIA	NIA

1/ Tax Year 2021 data is preliminary.
# of Claimants - the number of taxpayers that claimed the credit in each year.
Total Credit Available - the total tax credits identified in each tax year, including any new credits and any credits carried over from a previous year and identified in that year.
Credit Used - the total value of credits claimed in each year.
Carry Forward - the total credit identified but not used in each year. The full carry forward may not be reflected in the following year's estimate. For example, a taxpayer could have $200,000 of the credit identified in tax year 2008, use $100,000 of this amount in 2008 (leaving $100,000 as a carry forward). If this taxpayer did not identify or claim the credit in 2009, that $100,000 carry forward would not be included in the credit carry forward total for 2009.
Value of Donated Property – the total value of the donated property for which the credit was originally claimed in the respective tax year.
NIA – No information available.

As shown in *Table 2*, individual credit use declined sharply after TY 2007. It is likely that the sharp economic downturn at the end of the decade decreased both interest in land donation and the assessed value of the donated property. In addition, school construction declined rapidly during the downturn and resulted in a state-funded new school facilities moratorium between FY 2009 and FY 2013. Since FY 2013, new school facility construction has resumed but the total level of school construction activity is lower than prior to the Great Recession.

It is unclear from available data what size the donated sites and/or improvements are and how many individuals are co-owners of a site and therefore eligible to claim the credit.

Corporate credit use by tax year is shown in *Table 3* below. Due to confidentiality concerns, DOR did not report for all tax years. However, based on the available information, the cost of the corporate credit decreased from a high of $2.8 million in TY 2006 to $0 in TY 2014. Based on the same annual credit reports, there were no corporate income tax credits claimed from TY 2015 through TY 2020.

Table 3

School Site Donation Corporate Tax Credit

Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward	Value of Donated Property
2001	2	x	x	x	x
2002	4	x	x	x	x
2003	2	x	x	x	x
2004	3	$616,473	$616,473	$0	$2,054,910
2005	5	1,273,681	1,272,504	1,177	4,245,603
2006	6	2,756,579	2,755,447	1,132	9,184,675
2007	0	0	0	0	0
2008	2	x	x	x	x
2009	3	x	x	x	x
2010	3	x	x	x	x
2011	2	x	x	x	x
2012	x	x	x	x	x
2013 1/	x	x	x	x	x
2014 - 2020	0	0	0	0	0

1/ There has been no recorded activity after Tax Year 2013

# of Claimants - the number of taxpayers that claimed the credit in each year.

Total Credit Available - the total tax credits identified in each tax year, including any new credits and any credits carried over from a previous year and identified in that year.

Credit Used - the total value of credits claimed in each year.

Carry Forward - the total credit identified but not used in each year. The full carry forward may not be reflected in the following year's estimate. For example, a taxpayer could have $200,000 of the credit identified in tax year 2008, use $100,000 of this amount in 2008 (leaving $100,000 as a carry forward). If this taxpayer did not identify or claim the credit in 2009, that $100,000 carry forward would not be included in the credit carry forward total for 2009.

Value of Donated Property – the total value of the donated property for which the credit was originally claimed in the respective tax year.

x — No data publicly released by the Department of Revenue.

Economic Benefits

Measurable Economic Development
New Investments
Creation of New Jobs or Retention of Existing Jobs

This credit is not directly designed to promote economic development or spur new investments that would result in new jobs. Instead, according to DOR's August 2000 report "Income Tax Credits in Arizona," this credit is behavioral in nature. It was designed to encourage the donation of real property to school districts and charter schools. Although this credit was not directly intended to promote economic growth, it may still provide some economic benefits to Arizona districts and charter schools insofar as it provides less of a financial burden to the School Facilities Division and charter schools in terms of financing new capital projects.

More Background

Since SFD must approve school site donations for Arizona school districts, they track all land donations that their districts receive. The data in *Table 4*, below, was provided by SFD, while the data in *Table 1* and *Table 2* were provided by DOR. Thus, there are discrepancies between the figures as the values in *Table 4* do not match the tax credits, which are 30% of the value of the land donated. There could be many reasons for the difference, such as a lack of sufficient taxpayer liability, which may stretch out claims for the credits for up to 5 years of the allowable carry-forward period. The data from SFD only includes school district land donations and is for the period from

2001 to 2022. As shown in Table 4, there were no land donations from 2008 through 2018. Since SFD does not approve charter school land donations, we believe that the credits in recent years are related to charter schools.

Table 4

School District Land Donations from SFD

Tax Year	# of Donations	Total Acres Donated	Donation Value	Average Donation
2001	19	247	$3,489,852	$183,676
2002	18	274	4,386,411	243,690
2003	12	155	2,492,356	207,696
2004	10	149	2,050,223	205,022
2005	18	313	8,352,108	464,006
2006	18	331	51,720,590	2,873,366
2007	18	281	34,529,000	1,918,278
2008 - 2018	0	0	0	0
2019	1	21	3,100,000	3,100,000
2020	3	28	4,730,000	1,576,667
2021	0	0	0	0
2022	1	6	2,300,000	2,300,000

Complexity

The credit does not seem to be unnecessarily complex in terms of its administration and approval process, as evidenced by the SFD approval process before a district can accept a land donation.

Potential Performance Measures

One performance measure could include for all qualifying school districts and charter schools to report on the number of acres (for a school site) and square feet (for an improvement) donated each year. SFD already tracks their land donations in terms of acres, but charter schools do not track their donations.

Prior Review

The credit was last reviewed by the Joint Legislative Income Tax Credit Review Committee in 2017. However, since the Joint Legislative Income Tax Credit Review Committee did not meet that year, no recommendations were made by the Committee. When the credit was reviewed in 2012, the Committee recommended that the School Site Donation credit be continued and placed on the review schedule in 2017.