Joint Legislative Budget Committee
Staff Memorandum

1716 West Adams *Telephone: (602) 926-5491*
Phoenix, Arizona 85007 *azleg.gov*

DATE: November 22, 2019

TO: Senator J.D. Mesnard, Senate Finance Committee Chairman
Representative Ben Toma, House Ways and Means Committee Chairman

FROM: Hans Olofsson, Chief Economist

SUBJECT: 2019 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. § 43-222. We are now transmitting our material (including a PowerPoint slideshow) for the credits on the 2019 review schedule.

A separate memo provides confidential data on these credits where applicable.

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 6 credits scheduled for review in 2019, which are listed below.

Credit Page #

(Continued)

JLBC

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.

Pursuant to Laws 2015, Chapter 199, the Department of Revenue (DOR) is authorized to disclose statistical information gathered from confidential tax credit information to this Committee, JLBC Staff and legislative staff. DOR considers tax credit information to be confidential if: (1) 3 or fewer taxpayers claimed the credit, or (2) 90% or more of the total credit used to offset tax liability was taken by 1 taxpayer. All the tax credits on the 2019 review list, except for the Agricultural Water Conservation System credit, include confidential statistical information.

We have provided a separate memo to the Committee that contains the confidential credit data furnished by DOR. According to DOR, each recipient of this confidential information pursuant to Laws 2015, Chapter 199 is bound by confidentiality laws and therefore should not release the information to others. Any discussions regarding this memo must be held in Executive Session.

Limitations

There are certain limitations affecting the evaluation of income tax credits. The lack of performance measures for tax credits is one such example. The Healthy Forest Enterprise Employment Credit is the only credit reviewed this year that 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.

2019 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 is allowed to exceed the taxpayer's tax liability and any excess amounts are refunded to the taxpayer.

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 for each tax year on the number of claimants, the amount of total available credit, credit used, and credit carried forward to a subsequent 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.

(Continued)

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 Commerce Authority.

HO:kp
Attachment
xc: Fletcher Montzingo, Senior Policy Advisor, Senate
Sean Laux, Policy Advisor, Senate
Molly Graver, Analyst, Senate Finance Committee
Ryan Sullivan, Senior Policy Advisor, House
Paulino Valerio, Policy Advisor, House
Vince Perez, Analyst, House Ways and Means Committee

Employment Tax Credit for Healthy Forest Enterprises

Employment Tax Credit for Healthy Forest Enterprises

Summary

- The cost of the corporate tax credit was $0 million in FY 2016, FY 2017, FY 2018, and FY 2019.
- The corporate credit was last claimed in Tax Year (TY) 2009.
- The cost of the individual tax credit was $36 in FY 2017, the last year for which public credit information is available.
- The employment credit is one of several tax incentives created to promote forest health in the state.

Statute

Employment Credit
A.R.S. § 41-1516
A.R.S. § 43-1162 (Corporate)
A.R.S. § 43-1076 (Individual)

Description

The credit was last reviewed in 2014. The description of the credit as well as other sections of the credit review have been updated from our 2014 report when relevant.

The healthy forest enterprise credit is offered to companies that are primarily engaged in the business of harvesting, processing, or transporting qualifying forest products for commercial use. Qualifying forest products include dead standing or fallen timber, and forest thinnings resulting from the harvest of small-diameter timber, wood chips, peelings, brush and other woody vegetation removed from federal, state, and private forest land. Possible commercial use associated with the credit would be the burning of biomass to generate electricity. Additionally, the business operation is required to enhance or sustain forest health, sustain or recover watershed, or improve public safety.

The credit, which is available from tax year 2005 through tax year 2024, is based on the net increase in the number of qualified employment positions that are created and filled by a qualified healthy forest enterprise. The amount of the credit per employee is based on the employee's wage and year of employment. For a qualified employment position, the credit is equal to:

- 1/4 of wages paid to the employee in the 1st year of employment up to a maximum of $500 per employee
- 1/3 of wages paid to the employee in the 2nd year of continuous employment up to a maximum of $1,000 per employee
- 1/2 of wages paid to the employee in the 3rd year of continuous employment up to a maximum of $1,500 per employee

This means that over a period of 3 years the total amount of credits claimed per qualified employment position cannot exceed $3,000. Additionally, a taxpayer cannot claim more than 200 qualified employment positions in any given tax year.

Requirements
A business seeking tax incentives under the Healthy Forest Enterprise program must obtain certification by the Arizona Commerce Authority (ACA) and enter into a *memorandum of understanding* with ACA. To be certified, the company must be primarily engaged in a qualifying project as evidenced by a letter of approval from the State Forester and employ at least one full-time employee. To qualify for the credit, an employee must be a resident of Arizona at the time of hiring and cannot have been employed by the business within 12 months preceding their hiring date. The employee must be hired as a permanent, full-time employee whose duties primarily involve the harvesting, transporting, or processing of qualifying forest products for commercial use. Furthermore, the employee must be compensated at a wage equal to or higher than the wage offer by county, as computed by the Arizona Department of Economic Security and have employer-provided health insurance in which the employer

pays for at least 25% of the premium cost of the insurance program in the third year, 40% in the fourth year, and 50% in the fifth year the employer claims the credit.

The Healthy Forest Enterprise Incentives Program was originally enacted in 2004. Besides the income tax credit, the program also offers the following tax incentives:

- use fuel tax reduction
- sales tax exemption on purchased, leased, or rented equipment, equipment repair parts, construction contracts, motor vehicle fuel and use fuel
- use tax exemption on equipment, equipment repair parts, vehicle fuel and use fuel purchased out of state
- property tax reduction

Table 1 below, which is based on information furnished by the Arizona Commerce Authority (ACA), shows the number of businesses applying for a particular type of incentive in each year between 2006 and 2018.

Table 1

Number of Businesses Applying for Incentives under the Healthy Forest Enterprise Program

Year	Certified Businesses	Tax Credit	Use Fuel Tax Reduction	Sales Tax Exemption on Purchased Equipment	Sales Tax Exemption on Leased/Rented Equipment	Sales Tax Exemption on Contracts	Use Tax Exemption	Property Tax Reduction
2006	6	6	5	6	6	4	6	4
2007	6	3	2	2	0	1	1	1
2008	7	0	0	5	0	1	2	1
2014 1/	7	0	4	0	0	0	3	0
2015	8	1	2	3	2	1	1	0
2016	9	5	1	2	3	1	1	0
2017	8	7	2	4	2	1	0	0
2018	8	7	2	3	1	1	1	0

1/ ACA did not provide data for years 2009 through 2013.

In recent years, the tax credit for new employment has been the most frequently used incentive by certified businesses.

As noted above, a business that wants to use the tax credits or any of the other tax incentives under the program must obtain certification as a qualified healthy forest enterprise by ACA. According to ACA, each certificate is valid for 5 years as long as the business maintains eligibility. A total of 8 businesses were certified for the incentives program in 2018. A business is also required to enter into a *memorandum of understanding* with ACA. The business must submit a copy of the certification to the Department of Revenue (DOR) for final approval before any tax incentives under the program can be used. The certified business is required to submit an annual report to ACA and apply for recertification every 5 years. If the certification is terminated or revoked, the incentives under the program are subject to recapture.

A business that claims any of the credits under the Healthy Forest program cannot claim the New Job credit with respect to the same employee.

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. No individual or corporate credits was carried forward in TY 2018.

History and Rationale

The federal Healthy Forests Initiative was launched in 2002 with the stated purpose of protecting United States' forests from wildfire by increasing hazardous fuel reduction efforts. In response to federal efforts, the Arizona Legislature appointed the Joint Legislative Healthy Forest Task Force and the Governor established the Forest Health Oversight Council. Both of these groups were responsible for making recommendations promoting forest health in Arizona.

Based on the recommendations provided by the Task Force and Council, the Legislature enacted Laws 2004, Chapter 326, which included sales, use and income tax incentives for businesses that promote forest health in the state. Laws 2005, Chapter 278 added 2 additional tax incentives: use fuel tax reduction and property tax reduction. Additionally, Chapter 278 modified some of the requirements to qualify for the income tax credit. For example, the act reduced the minimum number of full-time employees from 10 to 3, decreased the number of hours an employee must work to be considered full-time from 1,750 to 1,550 hours per year, and modified the health insurance requirements for employees.

Laws 2005, Chapter 278 expanded the potential use of the credit by including the burning of forest products to produce electricity under the definition of "processing" of qualifying forest products.

Laws 2010, Chapter 225 added the requirement that ACA submits an annual report to JLBC that includes information regarding the quantity of qualifying forest products harvested, processed, and transported each year. Additionally, ACA must also report on the number of employees that qualify for the credits.

Laws 2012, Chapter 331 added the workforce training income tax credit, increased the certification period from 1 year to 5 years, and continued the use fuel tax and property tax reduction incentives. Chapter 331 further reduced the minimum number of full-time employees from 3 to 1. Additionally, Chapter 331 extended the tax credit through December 31, 2024.

Laws 2017, Chapter 299 repealed both the individual and the corporate Workforce Training Credit for Healthy Forest Enterprises as of January 1, 2018. The last year the Workforce Training Credit could be established was for tax year 2017. Any unused portion of valid Workforce Training Credits may be carried forward for the remainder of the 5-year carryforward period. Chapter 299 did not affect the Employment Credit for Healthy Forest Enterprises.

Revenue Impact

The Department of Revenue (DOR) began reporting individual and corporate income tax credits on a fiscal year basis in FY 2015 and FY 2016, respectively. As reported by the DOR, the cost of the corporate employee credit was $0 in FY 2016, FY 2017, FY 2018, and FY 2019. The cost of the individual employee credit was $0 in FY 2015 and FY 2016, and $36 in FY 2017. There was some cost for the individual employee credit in FY 2018, but that information is not available due to confidentiality laws. The cost of the individual employee credit was $0 in FY 2019.

DOR also reports credit use on tax year basis. This data is available from 2005, when the credit was first established. It should be noted that this data differs from credit use by fiscal year for several reasons, including filing extensions and varied corporate tax years. *Table 2* shows the impact of the credits on individual income taxes by tax year since the credit's inception in 2005. *Table 3* shows the same information for the corporate tax credit. The tax year 2018 credit data is preliminary.

Table 2

Use of Individual Healthy Forest Enterprise Employment Tax Credit

Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward
2005	1	x	x	x
2006	1	x	x	x
2007	1	x	x	x
2008	1	x	x	x
2009	1	x	x	x
2010	1	x	x	x
2011	0	$0	$0	$0
2012	0	$0	$0	$0
2013	0	$0	$0	$0
2014	0	$0	$0	$0
2015	4	$5,071	$36	$5,035
2016	3	x	x	x
2017	0	$0	$0	$0
2018	0	$0	$0	$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 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 $1 million in a particular credit identified in tax year 2007, use $400,000 of this amount in 2007 and leave $600,000 as a carry forward. If this taxpayer did not identify or claim the credit in 2008 the $600,000 carry forward would not be included in the credit carry forward total for 2008.
- x - No data publicly released by the Department of Revenue.

Table 3

Use of Corporate Healthy Forest Enterprise Employment Tax Credit

Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward
2005	0	$0	$0	$0
2006	0	$0	$0	$0
2007	x	x	x	x
2008	x	x	x	x
2009	x	x	x	x
2010	0	$0	$0	$0
2011	0	$0	$0	$0
2012	0	$0	$0	$0
2013	0	$0	$0	$0
2014	0	$0	$0	$0
2015	0	$0	$0	$0
2016	0	$0	$0	$0
2017	0	$0	$0	$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 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 $1 million in a particular credit identified in tax year 2007, use $400,000 of this amount in 2007 and leave $600,000 as a carry forward. If this taxpayer did not identify or claim the credit in 2008 the $600,000 carry forward would not be included in the credit carry forward total for 2008.
- x - No data publicly released by the Department of Revenue.

Economic Benefits

New Investments
Creation of New Jobs or Retention of Existing Jobs
Commercial Infrastructure Development

Pursuant to Laws 2004, Chapter 326, Section 19, the employment credit was enacted to help to establish "commercial enterprises that promote forest health and reduce the risk of catastrophic wildfire and destructive insect infestation in the forested areas in this state." However, due to the limited use of the credit, as reported by DOR, it is not clear to what extent the incentives program has achieved these objectives. For the same reason, it seems unlikely that the tax credit has had more than a negligible impact on new investments, job creation and retention, and the development of commercial infrastructure.

When the credit was last reviewed in 2014, ACA reported that most companies that answered the program evaluation section of the annual report indicated that the incentives program had been an important factor in the decision to locate, expand, or remain in the state. Subsequent annual reports have not included a program evaluation section. However, the ACA believes the credit remains an important factor for companies in determining where to locate based on conversations with those participating in the program.

Table 4, which is based on the annual reports to JLBC pursuant to Laws 2010, Chapter 225, shows the quantity of qualifying forest products harvested, processed, and transported by certified businesses each year between 2011 and 2018. Only 1 of the certified businesses participated in the tax credit program during this timeframe. In 2016, a company reported 9 full-time employees in qualified positions for tax credit purposes. ACA reported that the 9 full-time employees were hired in the years prior to 2016 and were eligible to receive a tax credit subject to DOR's approval. The maximum possible aggregate credit cost for these 9 full-time positions is $27,000 across all years.

Table 4

Total Weight of Harvested, Processed and/or Transported Forest Products

Year	Certified Businesses	Total weight of forest products (in tons)
2011	4	144,977
2012	5	355,818
2013	4	1,011,986
2014	7	800,901
2015	8	722,596
2016	9	718,201
2017	8	624,032
2018	8	619,007

The reasons that so few businesses have used the credit to date are not fully understood. Based on feedback received by ACA when advertising the program in certain areas of the state, one explanation is that the 3 full-time employee requirement under the program until 2012 may have been too restrictive. Since the reduction in the full-time employee requirements in 2012, there have been 3 companies with less than 3 full-time employees to apply for the credit.

Complexity

According to ACA, none of the comments contained in the annual reports filed in prior years by certified healthy forest enterprises directly addressed the issue of complexity in terms of the application, administration, and approval process of the program.

Based on recent feedback from ACA, the program requires a significant amount of paperwork for the agency to review and process. However, ACA does not consider the administration of the program to be "unnecessarily complex." Additionally, the 3 agencies involved in the processing of paperwork (ACA, Revenue, and Transportation) have all been able to successfully streamline this process.

Performance Measures

The following performance measures were adopted as a result of the recommendation made to the committee in 2009 and placed in statute pursuant to Laws 2010, Chapter 225:

1. A requirement to report on the quantity of qualifying forest products harvested, processed, or transported for commercial use.
2. The total statewide number of new jobs created as a result of the tax incentives offered under the program.

Prior Review

The healthy forest enterprise tax credit was last reviewed by JLITCRC in 2014. The Committee recommended that the individual and corporate income tax credit for healthy forest employment be eliminated.

Agricultural Pollution Control Equipment Tax Credit

Agricultural Pollution Control Equipment Tax Credit

Summary

- The cost of the corporate tax credit was $0 million in FY 2019.
- The cost of the individual tax credit was $16,225 in FY 2019. The credit was claimed by 4 taxpayers at an average of $4,056 per claim.
- The Agricultural Pollution Control Equipment credit was created to incentivize the purchase of pollution control and pollution prevention equipment associated with the commercial production of livestock and agricultural crops in Arizona.
- The corporate tax credit has not been used since 2006 and the peak annual usage of the individual credit was $32,000 in 2002.

Statute

A.R.S. § 43-1170.01 (Corporate)
A.R.S. § 43-1081.01 (Individual)

Description

The credit was last reviewed in 2014. The description of the credit as well as other sections of the credit review have been updated from our 2014 report when relevant.

The agricultural pollution control equipment credit is provided for the purchase of real or personal property that is used in the taxpayer's business to prevent or control pollution associated with the commercial production of livestock and agricultural crops, including the cultivation of flowers, ornamental plants, and grapes.

Only that portion of the property that is directly used to prevent or control pollution is eligible for the credit. The amount of the credit is 25% of the cost of the property, up to a maximum credit of $25,000. This credit can be claimed against both individual and corporate income taxes.

Refundable

The credit is not refundable.

Carry Forward

The unused portion of the credit may be carried forward for a maximum of 5 consecutive taxable years. No individual or corporate credit was carried forward in Tax Year (TY) 2018.

History and Rationale

This credit was created by Laws 1998, Chapter 286 and became effective as of January 1, 1999. According to a fact sheet prepared by the Senate Staff on June 18, 1998, the agricultural industry was under increasing pressure by the government to reduce the amount of pollution it emitted as a result of traditional farming practices. The agricultural pollution control credit was created to mitigate the costs incurred by farmers and ranchers to comply with environmental regulations.

This credit is similar to the general pollution control equipment credit that was reviewed by the committee in 2018. To qualify for the credit, the general pollution control equipment must meet or exceed the rules or regulations regarding air, water, or land pollution of the U.S. Environmental Protection Agency, Arizona Department of Environmental Quality, or a political subdivision. Such requirements are not necessary in order to qualify for the agricultural pollution control credit.

According to the Arizona Farm Bureau Federation, dust pollution is the main source of agricultural pollution in Arizona. However, to a lesser extent, agricultural pollution can also be caused by streambank erosion. Dust pollution can be controlled by such means as installing dust filters in cattle feedyards, replacing dirt roads with gravel roads, and building wind breaks. Streambank erosion can be controlled by fencing areas near streams to keep cattle away.

Revenue Impact

The Department of Revenue (DOR) began reporting individual and corporate income tax credits on a fiscal year basis in FY 2015 and FY 2016, respectively. As reported by DOR, the cost of the corporate credit was $0 in FY 2016, FY 2017, FY 2018, and FY 2019. The cost of the individual credit was $0 in FY 2015, $21,311 in FY 2016, $18,342 in FY 2017, $0 in FY 2018, and $16,255 in FY 2019.

DOR also reports credit use on tax year basis. This data is available from 1999, when the credit was first established. It should be noted that this data differs from credit use by fiscal year for several reasons, including filing extensions and varied corporate tax years. *Table 1* shows the impact of the credit on individual income taxes by tax year since the credit's inception in 1999. *Table 2* shows the same information for the corporate tax credit. The tax year 2018 credit data is preliminary.

Economic Benefits

New Investments
Creation of New Jobs or Retention of Existing Jobs
Commercial Infrastructure Development

This credit is not intended to promote economic development or spur new investments that would result in new jobs. Instead, DOR states that it is one of several tax credits in statute intended to encourage environmentally responsible behavior.

In a theoretical sense, however, the credit may provide some economic benefits to Arizona. Environmental regulations impose costs on farmers and ranchers. To the extent that this credit mitigates such costs, it may enhance Arizona's competitiveness relative to other agricultural states. However, since so few taxpayers have claimed the credit, it is likely to have had a negligible impact on the state's economy.

Other

Generally, the credit may have a positive impact on the environment insofar as it induces taxpayers to reduce pollution that otherwise would not be reduced. However, since so few taxpayers have claimed the credit since it was created, it is unlikely that the credit has had any significant impact on agricultural pollution in Arizona.

Complexity

The credit does not seem to be unnecessarily complex in the application, administration, and approval process.

Potential Performance Measures

Performance measures could include:

1. Type of equipment purchased and its related environmental impact.
2. Number of states where a farmer or rancher receives a comparable credit.

Prior Review

The agricultural pollution control equipment tax credit was last reviewed by the JLITCRC in 2014. The Committee recommended that the individual and corporate income tax credits for agricultural pollution control equipment should be eliminated.

Table 1

Use of Individual Agricultural Pollution Control Equipment Tax Credit

Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward
1999	1	x	x	x
2000	9	$77,096	$15,218	$61,878
2001	9	$54,870	$17,500	$37,370
2002	6	$47,706	$32,542	$15,164
2003	1	x	x	x
2004	1	x	x	x
2005	2	x	x	x
2006	1	x	x	x
2007	1	x	x	$0
2008	5	$14,331	$14,087	$244
2009	3	$16,569	$13,306	$3,263
2010	2	x	x	$0
2011	1	x	x	$0
2012	5	$27,350	$27,350	$0
2013	3	x	x	x
2014	5	$22,916	$22,916	$0
2015	4	$18,342	18,342	$0
2016	0	$0	$0	$0
2017	0	$0	$0	$0
2018	0	$0	$0	$0

Table 2

Use of Corporate Agricultural Pollution Control Equipment Tax Credit

Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward
1999	1	x	x	x
2000	1	x	x	x
2001	1	x	x	x
2002	1	x	x	x
2003	1	x	x	x
2004	1	x	x	x
2005	0	$0	$0	$0
2006	1	x	x	$0
2007	0	$0	$0	$0
2008	0	$0	$0	$0
2009	0	$0	$0	$0
2010	0	$0	$0	$0
2011	0	$0	$0	$0
2012	0	$0	$0	$0
2013	0	$0	$0	$0
2014	0	$0	$0	$0
2015	0	$0	$0	$0
2016	0	$0	$0	$0
2017	0	$0	$0	$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 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 $1 million in a particular credit identified in Tax Year 2007, use $400,000 of this amount in 2007 and leave $600,000 as a carry forward. If this taxpayer did not identify or claim the credit in 2008 the $600,000 carry forward would not be included in the credit carry forward total for 2008.
- x - No data publicly released by the Department of Revenue.

Agricultural Water Conservation System
Tax Credit

Agricultural Water Conservation System Tax Credit

Summary

- The cost of the individual income credit was $2.7 million in FY 2019.
- A total of 108 individuals claimed an average credit of $24,885 in FY 2019.
- The corporate credit was repealed as of January 1, 2000.

Statute

A.R.S. § 43-1084 (Individual)

Description

The credit was last reviewed in 2014. The description of the credit as well as other sections of the credit review have been updated from our 2014 report when relevant.

The agricultural water conservation system credit is provided for the purchase and installation of systems primarily designed to substantially conserve water on land used to produce (1) crops, fruit or other agricultural products, (2) raise, harvest or grow trees, or (3) sustain livestock. The credit is available only as an individual income tax credit, and not as a corporate income tax credit. However, an S corporation may pass the credit through to its individual shareholders. A partnership may not claim this credit but may pass the credit through to its individual partners.

The credit is equal to 75% of the qualifying expenses incurred during the taxable year for the purchase and installation of the system. There is no cap on the dollar value of the tax filer's credit. The expenses must be consistent with a conservation plan that the taxpayer has filed and is in effect with the U.S. Department of Agriculture (USDA).

According to USDA, the term "agricultural water conservation system" refers to a wide range of water management measures. For example, the term applies to irrigation equipment and machinery, including sprinklers, pipes, pumps, motors and engines, and computer systems for irrigation and water management.

Refundable

The credit is not refundable.

Carry Forward

The tax credit may be carried forward for 5 taxable years.

History and Rationale

This credit was created by Laws 1994, Chapter 90 and became effective retroactively from January 1, 1994. According to legislative staff and the Arizona Farm Bureau Federation, the credit was created in response to the enactment of the 1980 Arizona Groundwater Management Code. One of the provisions in the Code directs the Arizona Department of Water Resources (ADWR) to develop and implement water conservation requirements for agricultural, municipal, and industrial water users in 5 consecutive periods. Each management period covers 10 years with the first period starting in 1980. Under the Code, the management plans will contain more rigorous water conservation and management requirements with each successive period.

According to the Arizona Farm Bureau Federation, this credit was established in an effort to mitigate the costs incurred by farmers and ranchers to comply with the increasingly rigorous water conservation requirements under the Code.

Laws 1999, Chapter 318 repealed the corporate credit for agricultural water conservation systems as of January 1, 2000. However, the law provided for corporate taxpayers to carry forward unused credits from prior tax years for up to 5 years. Besides this credit, the act also repealed 4 other corporate income tax credits. (Note that Laws 1999, Chapter 318 did not repeal any individual income tax credits.)

According to legislative documents, the intention of this legislation was to eliminate corporate income tax credits that were not widely used and then use the resulting General Fund savings to "buy down" the corporate income tax rate from 8.00% to 7.968%.

Revenue Impact

The Department of Revenue (DOR) began reporting individual and corporate income tax credits on a fiscal year basis in FY 2015 and FY 2016, respectively. As reported by DOR, the cost of the individual credit was $1.9 million in FY 2017, $3.0 million in FY 2018, and $2.7 million in FY 2019.

DOR also reports credit use on tax year basis. This data is available from 1994, when the credit was first established. This data differs from credit use by state fiscal year for several reasons, including filing extensions and varied tax years depending on when a business' fiscal year begins.

Pursuant to Laws 1999, Chapter 318, this credit is available to individuals only. The table below, which was provided by DOR, summarizes the individual income tax impact of the credit. The tax year 2018 credit data is preliminary.

Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward
1994	35	$1,800,000	$382,000	$1,400,000
1995	54	$2,600,000	$923,000	$1,700,000
1996	75	$4,247,392	$721,093	$3,524,790
1997	63	$3,752,833	$430,131	$3,323,906
1998	94	$4,567,632	$625,676	$3,941,314
1999	129	$8,484,744	$970,210	$7,213,521
2000	130	$8,157,000	$1,578,411	$6,527,281
2001	136	$8,444,943	$1,484,014	$6,160,791
2002	133	$7,984,544	$1,256,346	$6,157,459
2003	154	$9,170,688	$1,611,457	$7,273,813
2004	141	$10,366,257	$2,784,783	$6,855,589
2005	137	$8,868,257	$1,905,338	$6,409,360
2006	138	$8,880,517	$1,873,866	$6,202,735
2007	137	$8,910,104	$1,853,588	$6,331,826
2008	139	$8,607,460	$1,509,358	$6,319,174
2009	141	$6,805,785	$1,046,140	$4,962,270
2010	114	$5,881,565	$731,746	$4,727,748
2011	97	$5,687,843	$1,015,966	$4,609,905
2012	93	$7,179,476	$1,454,021	$4,875,372
2013	100	$8,891,857	$1,303,244	$6,869,616
2014	125	$10,306,941	$1,163,539	$8,927,831
2015	126	$13,199,232	$2,150,572	$10,784,162
2016	119	$19,158,761	$2,892,280	$15,738,303
2017	105	$16,970,577	$2,614,803	$14,355,744
2018	76	$9,764,657	$1,076,775	$8,687,882

# 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, a taxpayer could have $1 million in a particular credit identified in tax year 2007, use $400,000 of this amount in 2007 and leave $600,000 as a carry forward. If this taxpayer did not identify or claim the credit in 2008, the $600,000 carry forward would not be included in the credit carry forward total for 2008.

Economic Impact

New Investments
Creation of New Jobs or Retention of Existing Jobs
Commercial Infrastructure Development

This credit is not intended 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 environmentally responsible behavior.

However, the credit may have a general economic benefit for Arizona. For example, lower water usage as a result of improved conservation measures (for which qualified taxpayers only bear 25% of the cost) is likely to reduce the cost of production, which in turn may enhance Arizona's competitiveness relative to other agricultural states. We are not able to measure such impact with available data.

Complexity

As a part of the review process, the JLBC Staff contacted both the Arizona Department of Agriculture and the Department of Water Resources and neither of the departments had any comments on the credit. Tax credit forms and instructions reviewed by JLBC Staff suggest that the credit is not unnecessarily complex in terms of the application, administration, and approval process.

Potential Performance Measures

Performance measures could include:
1. A requirement to report on the reduction in water usage as a result of the installation of a qualified water conservation system.
2. Number of states where taxpayers receive a comparable credit.

Prior Review

The agricultural water conservation system tax credit was last reviewed by the JLITCRC in 2014. In 2014, the Committee recommended that the credit should be eliminated.

Tax Credit for Qualified Facilities

Qualified Facility Tax Credit

Summary

- According to the enacting legislation, the credit was created to encourage business investment that will produce high quality jobs in the state.
- This credit is refundable, which means that the credit can exceed the taxpayer's liability.
- The credit is subject to an aggregate cap of $70 million annually.
- The cost of the individual income credit was $26,000 in FY 2019.
- The cost and number of corporate claims have not been released by the Department of Revenue due to confidentiality rules.
- However, a recent report from the Arizona Commerce Authority indicates that refunds could reach $13 million in the current year.

Statute

A.R.S. § 41-1512
A.R.S. § 43-1083.03 (Individual)
A.R.S. § 43-1164.04 (Corporate)

Description

A *refundable* credit is allowed for expanding or locating a qualified facility in Arizona. The capital investment must be at least $250,000 during the first 12 months following pre-approval by the Arizona Commerce Authority (ACA). A "qualified facility" is a facility that devotes at least 80% of the property and payroll at the facility to qualified manufacturing, qualified headquarters, or qualified research. It must also create full-time employment positions where a majority must be paid at least 125% of the state median wage if located in an urban area. Rural locations must pay at least 100% of the state median wage. From the second half of 2019 to the first half of 2020, that median wage is $34,091, and 125% of that median wage is $42,614. Companies must offer health insurance and cover 65% of each new employee's premium.

The credit must be approved by the ACA. There is a cap of $70 million per calendar year authorized on a first-come, first-serve basis. This cap was shared with the renewable energy investment tax credit through tax year 2017. The credit program is available through December 31, 2022.

The value of the tax credit is the least of the following 3 conditions: (1) 10% of the total qualified investment made at the facility, (2) $20,000 per qualified job created at the facility, or (3) $30 million per taxpayer per year. The credit must be taken in 5 equal annual installments.

Refundable

The credit is refundable.

Carry Forward

Since the credit is refundable, there are no unused amounts to be carried forward to future tax years.

History and Rationale

This credit was created by Laws 2012, Chapter 343 and became effective January 1, 2013.
According to the purpose statement included in legislation, the credit was created to encourage business investment that will produce high quality employment opportunities and enhance the position of the state as a center for corporate headquarters, commercial research, and manufacturing.

Laws 2016, Chapter 372 reduced the employer's required share of health insurance premium coverage from 80% to 65%. In addition, Chapter 372 lowered the wage requirement for employees in rural locations from 125% to 100% of the state median wage.

Laws 2017, Chapter 299 repealed the renewable energy investment tax credit beginning January 1, 2018. This removed the shared cap of $70 million.

Revenue Impact

The Department of Revenue (DOR) began reporting individual and corporate income tax credits on a fiscal year basis in FY 2015 and FY 2016, respectively. As reported by DOR, the cost of the individual credit was $0 in FY 2015 through FY 2017, $26,000 in FY 2018, and $26,000 in FY 2019. The cost of the corporate credit was $0 in FY 2016 and not reported in FY 2017, FY 2018, and FY 2019 due to confidentiality rules.

DOR also reports credit use on a tax year basis. This data is available from 2013, when the credit was first established. It should be noted that this data differs from credit use by fiscal year for several reasons, including filing extensions and varied corporate tax years. *Table 1* shows the cost of the individual tax credit by tax year since the credit's inception in 2013. The tax year 2018 individual credit data is preliminary.

Table 1

Tax Year	# of Claimants	Total Credit Used
Individual		
2013	0	$0
2014	0	$0
2015	0	$0
2016	3	$26,000
2017	3	$26,000
2018	0	$0

Source: Department of Revenue

Table 2

Tax Year	# of Claimants	Total Credit Used
Corporate		
2013	0	$0
2014	0	$0
2015	*	*
2016	*	*
2017	5	$2,744,000

* indicates that information cannot be released due to confidentiality rules.
Source: Department of Revenue

Table 2 displays the same information for the corporate tax credit. The tax year 2017 corporate credit data is preliminary. Businesses follow a pre-approval, post-approval, and claims process. Pre-approval does not guarantee receipt of tax credits; it is simply the application process where the eligibility requirements must be met (as outlined in the description section above). Post-approval indicates that the facility is operational and allows the taxpayer to claim a tax credit. Companies must then make claims against the granted tax credits to receive the benefit. They must take the credit in 5 equal annual installments.

Table 1 and *2* show actual tax credit use following post-approval. Much of this information is not released due to confidentiality rules. The number of claimants and total credit used would be equal to or less than the figures in the post-approval table below.
According to ACA, post-approvals from 2013 through 2018 have totaled $25.4 million with 11 unique claimants, as shown in *Table 3* below. The JLBC staff cannot determine whether these were from individual or corporate tax credits, or whether the approvals were the result of qualified investments, employment, or both.

Table 3

Calendar Year	# of Claimants	Post-Approved Tax Credit[1/]
2013	0	$0
2014	0	$0
2015	1	$17,540,000
2016	3	$1,860,000
2017	2	$740,000
2018	5	$5,220,000

[1/] Figures do not necessarily reflect actual tax credits used by claimants.
Source: Arizona Commerce Authority

Economic Impact

New Investments
Creation of New Jobs or Retention of Existing Jobs
Commercial Infrastructure Development

The following data indicate a potentially substantial impact on investment. According to ACA, the number of projects, projected qualifying investment, and pre-approval credits allocated are as follows:

Calendar Year	Number of Projects	Projected Qualifying Investment	Pre-Approved Credit
2013	4	$48,574,800	$3,819,000
2014	5	$743,523,600	$19,534,000
2015	4	$63,596,700	$2,968,700
2016	4	$161,400,000	$8,878,000
2017	17	$598,713,700	$48,912,100
2018	14	$744,760,600	$43,580,350

Source: Arizona Commerce Authority

Of these projects, a total of 11 unique businesses were listed as having post-approval status for 13 projects since the inception of the credit. With a minimum investment of $250,000 per project to reach that status, capital investment totaled at least $3.25 million between CY 2015-2018, the years for which the credit saw activity. We cannot determine whether these capital investments would have occurred without the tax credit.

A list of the recipients with post-approved project status and credit amounts is in the following table. As shown in the table, ACA post-approved a total of $25.3 million in credits from CY 2015 through CY 2018.

Calendar Year	Business Name	Post-Approved Credit
2015	Intel Corporation - Chandler	$10,860,000
	Intel Corporation - Ocotillo	$6,680,000
2016	CMC Steel Arizona	$760,000
	Essai, Inc.	$260,000
	Garmin International, Inc.	$840,000
2017	Carlisle Companies Incorporated	$400,000
	CornellCookson, Inc.	$340,000
2018	Aquafil Carpet Recycling #1, Inc.	$540,000
	Infineon Technology Americas Corporation	$500,000
	Iris USA, Inc.	$2,800,000
	Novembal USA, Inc.	$660,000
	Rogers Corporation	$500,000
	Rogers Corporation	$200,000
	Total CY 2015 – CY 2018	**$25,340,000**

Source: Arizona Commerce Authority

Complexity

The credit may result in some administrative complexity in order to prove that the company meets the stated eligibility requirements. This is handled by an accountant approved by ACA. This tax credit also involves a lengthy, multi-step procedure in order to receive the benefit.

Potential Performance Measures

Performance measures could include:

1. Number of new employees hired.

2. Total capital expenditures invested as a result of this tax credit.

Prior Review

The qualified facility tax credit has not been reviewed before by the JLITCRC.

Tax Credit for Renewable Energy Investment and Production for Self-Consumption by International Operations Centers

Credit for Renewable Energy Investment and Production for Self-Consumption by International Operations Centers

Summary

- According to the enacting legislation, the credit was created "to provide incentives to manufacturers that are committed to reducing their carbon footprint by investing in and producing renewable energy for self-consumption."
- To qualify for the credit, a taxpayer is required to make significant investments in both renewable energy facilities and an "International Operations Center."
- Only one company was approved to use the credit before the due date to qualify expired on December 31, 2018.
- The cost of the individual credit was $0 in FY 2015 through FY 2019.
- The cost of the corporate credit was $0 in FY 2015 through FY 2018. The FY 2019 cost is not releasable due to confidentiality laws.
- The credit amount is $5 million per year over 5 years, for a cumulative total of $25 million.

Statute

A.R.S. § 41-1520
A.R.S. § 43-1164.05 (Corporate)

Description

This is a corporate income tax credit for investment in new renewable energy facilities that produce energy for self-consumption using renewable energy sources if the power is primarily used by an International Operations Center.

The taxpayer must qualify for this credit as an International Operations Center (IOC), which requires the taxpayer to:

- Invest at least $100 million in one or more renewable energy facilities in Arizona by December 31, 2018.
- Invest at least $1.25 billion in new capital assets, including land, buildings, and IOC equipment, within 10 years after being certified as an IOC by the Arizona Commerce Authority (ACA).
- Use at least 51% of the energy produced for self-consumption by the 5th year the IOC is in operation.

Approval by the Department of Revenue (DOR) is required to take the credit. The amount of the credit is $5 million per year for 5 years for each renewable facility. The credit per taxpayer cannot exceed $5 million per year, and $25 million in total over 5 years. The total amount of credits that DOR can approve for all taxpayers in a calendar year is $10 million. No new credits can be claimed for any taxable year beginning after December 31, 2025.

To meet the definition of a "renewable energy facility" for purposes of claiming the credit, the taxpayer must have invested at least $30 million in each facility. Furthermore, the facility must have a minimum generating capacity of 20 megawatts, or a minimum annual generation of 40,000 megawatt hours, be located in Arizona, and produce electricity using a renewable energy resource.

According to DOR's most recent "Arizona's Individual and Corporate Income Tax Report," one renewable energy facility has been approved for this credit. Since no other taxpayer met the minimum investment requirement by the statutory due date of December 31, 2018, no additional credits will be authorized under this program.

According to ACA's Annual Reports, one company, Apple Inc., was pre-approved in FY 2017 and subsequently post-approved as an IOC in FY 2018. Besides the tax credit for investments in new renewable energy facilities, the IOC certification also provides a transaction privilege tax (TPT) and use tax exemption on electricity and natural gas purchased by this company.

Refundable

The tax credit is not refundable.

Carry Forward

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

History and Rationale

History
Laws 2014, Chapter 8 created an individual and corporate income tax credit for investments in new renewable energy facilities that produce energy for self-consumption if the power is primarily used in manufacturing. Laws 2015, Chapter 6 expanded this credit program to include certified IOCs. In addition, Laws 2015, Chapter 6 provides a sales tax exemption on electricity and natural gas purchased by an IOC.

The requirements to qualify for the credit as a manufacturer are more stringent than as an IOC. Instead of a minimum investment requirement of $100 million in new renewable energy facilities, a manufacturer is required to invest at least $300 million to qualify for the credit. Moreover, a manufacturer is required to use at least 90% of the electricity produced by the renewable energy facilities for self-consumption compared to 51% for an IOC.

Laws 2017, Chapter 299 repealed the tax credit for manufacturers originally enacted under Laws 2014, Chapter 8. The credit for IOCs, however, was retained. Laws 2019, Chapter 203 repealed the individual income tax credit for IOCs but retained the corporate income tax credit.

Rationale
According to the intent clause of the enacting legislation (Laws 2014, Chapter 8), the purpose of the credit is to "provide incentives to manufacturers that are committed to reducing their carbon footprint by investing in and producing renewable energy for self-consumption."

Credit data reported by DOR suggests that no company qualified for the credit under the original program created by Laws 2014, Chapter 8, which specifically targeted manufacturers. However, as noted earlier, ACA's Annual Reports indicate that one company, Apple Inc., has been certified as an IOC. Since no other company reportedly met the credit's minimum investment requirement by December 31, 2018, Apple Inc. is the only company that qualified for this incentive program.

Revenue Impact

The Department of Revenue (DOR) began reporting individual and corporate income tax credits on a fiscal year basis in FY 2015 and FY 2016, respectively. As reported by the DOR, the cost of the individual credit was $0 in FY 2015 through FY 2019. The cost of the corporate credit was $0 in FY 2015 through FY 2018. The cost of the corporate credit in FY 2019 has not been released by DOR due to confidentiality laws.

DOR also reports credit use on tax year basis. This data is available from 2014, when the credit was first established. *Table 1* shows the cost of the individual tax credit by tax year since the credit's inception in 2014. *Table 2* displays the same information for the corporate tax credit.

Table 1

Renewable Energy Investment and Production for Self-Consumption Credit – Individual Credit

Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward
2014	0	$0	$0	$0
2015	0	$0	$0	$0
2016	0	$0	$0	$0
2017	0	$0	$0	$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 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 $500 in credit identified in tax year 2015, use $400 of it in 2015 (leaving $100 as a carry forward). If that taxpayer did not identify or claim that credit in 2016, that $100 carry forward could not be included in the carry forward total for 2016.

Table 2

Renewable Energy Investment and Production for Self-Consumption Credit – Corporate Credit

Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward
2014	0	$0	$0	$0
2015	0	$0	$0	$0
2016	1	x	x	x
2017	1	x	x	x

# 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, a taxpayer could have $500 in credit identified in tax year 2015, use $400 of it in 2015 (leaving $100 as a carry forward). If that taxpayer did not identify or claim that credit in 2016, that $100 carry forward could not be included in the carry forward total for 2016.
x – No data has been publicly released by the Department of Revenue.

As indicated in *Table 1* above, no individual credits had been claimed through TY 2018. Furthermore, since Laws 2019, Chapter 203 repealed the individual credit, no individual income tax credit claims will be filed in future years. *Table 2* indicates that one corporate income tax filer claimed the credit in TY 2016 and TY 2017. However, due to confidentiality laws, DOR did not report credit use for TY 2016 and TY 2017. Depending on when a corporation's fiscal year begins, and if that company requests a filing extension, TY 2017 credit claims could affect state tax collections as late as in state fiscal year 2020.

Although DOR does not report credit use due to taxpayer confidentiality laws, since only one renewable energy facility was approved before the December 31, 2018 deadline, we assume that absent a credit recapture, the cost of the credit will total $25 million over 5 years (= $5 million per year x 5 years), as this is the amount provided by statute.

Economic Benefits

While the IOC certification requires significant investments (a minimum of $100 million for renewable energy facilities and $1.25 billion in capital assets, including buildings, land and equipment, over a 10-year period), the JLBC Staff is not able to quantify the economic impact from available data. Such an analysis would require detailed spending and employment data, along with a detailed timeline of construction costs, equipment spending, and hiring of new personnel.

While the JLBC staff does not have access to the data required to prepare an impact analysis, various reports in local media indicate that the original credit program was primarily created to incentivize a manufacturing company that supplied glass for a large high-tech company (which later qualified as the sole IOC company) to locate in Arizona. This manufacturing company, however, reportedly filed for bankruptcy in 2014. Following the bankruptcy of the glass-manufacturer in 2014, the credit was amended in 2015 to include IOCs.

As noted earlier, ACA's Annual Reports indicate that only one company, Apple Inc., was approved as an IOC under this incentive program. According to an article published by the Arizona Republic on February 5, 2015, "Apple will establish a command center for its global data networks in Mesa, Arizona, promising to invest $2 billion over 10 years." According to the same article, this data center is "expected to create 150 full-time jobs and could generate up to 500 construction and trade jobs." In addition, the article also noted that "Apple is expected to build and finance solar projects that provide enough energy to power more than 14,000 homes in Arizona."

While the Arizona Republic reported on August 15, 2018, that Apple operates a "1.3 million-square-foot data center" in Mesa, Arizona, the article also noted that the company "would not share many specifics" about its operations at the data center. Without more specific information, we are not able to determine to what extent the company's stated investment, employment and construction objectives have been met.

Complexity

Based on our review of credit instructions and forms provided by DOR, the credit does not appear to be unusually complex in terms of its application, administration, and approval process.

Potential Performance Measures

Performance measures could include:

1. Number of net new jobs created by the International Operations Center (IOC).

2. Percentage of electricity generated by renewable energy facilities used for self-consumption by the IOC.

Prior Review

This credit has not been reviewed previously by the Joint Legislative Income Tax Credit Review Committee (JLITCRC).

Tax Credit for Contributions to School Tuition Organizations for Displaced or Disabled Students

Corporate Contributions to School Tuition Organizations for Displaced or Disabled Pupils

Summary

- The cost of the credit was $6,007,300 in FY 2019 ($2,295,100 for corporations, $3,448,100 for insurers, and $264,100 for individuals (S-corporations).
- In FY 2019, the credit was claimed by 8 corporations at an average of $286,900 per claim, by 26 individuals (S-corporations) at an average of $10,200 per claim, and by an unknown number of insurers (the total value of credits taken by insurers was reported, but not the number of insurers taking a credit).
- The credit had a carry forward of $407,100 for corporations for TY 2016 (latest data available) and $28,100 for individuals (S-corporations) for TY 2018 (latest data available). Data on credits carried forward by insurers are not reported.
- The credit is capped at $5 million annually.
- The credit results in foregone General Fund costs to the extent that STO-funded scholarships result in students not attending public school. To offset the current $5 million level of original tax credits an estimated 230 students would have to be diverted from public schools due to displaced or disabled STO scholarships.
- In total, there are 4 private school tax credits with a total dollar value of $177.2 million for FY 2019.

Statute

A.R.S. § 43-1184 and § 20-224.07

Description

The credit was last reviewed in 2014. The description of the credit as well as other sections of the credit review have been updated from our 2014 report when relevant.

Current law authorizes tax credits for 4 different types of corporate or insurer contributions to school tuition organizations (STOs):

1. Corporate and individual (S-corporation) contributions to STOs awarding "low-income scholarships" (A.R.S § 43-1183),
2. Insurer contributions to STOs awarding "low-income scholarships" (A.R.S. § 20-224.06),
3. Corporate and individual (S-corporation) contributions to STOs awarding "displaced or disabled pupil scholarships" (A.R.S § 43-1184), and
4. Insurer contributions to STOs awarding "displaced or disabled pupil scholarships" (A.R.S § 20-224.07).

This review pertains to corporate and individual (S-corporation) income tax credits for displaced or disabled pupil scholarship contributions pursuant to A.R.S § 43-1184. It also addresses insurance premium tax credits for displaced or disabled pupil scholarship contributions pursuant to A.R.S § 20-224.07 because insurers share the program's $5 million annual tax credit cap. The tax credit review statute (A.R.S. § 43-222), however, does not literally require review of insurance premium tax credits for "displaced or disabled" STO contributions.

This credit is provided to corporations and insurers for voluntary contributions to STOs. A STO is a charitable organization that is exempt from federal taxation and that allocates at least 90% of its 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 corporate contributions for administration expenses.

STO scholarships from this program may be awarded only to students who lived in foster care at any time prior to graduating from high school or obtaining a GED, or who have been identified at any time as having a disability under federal or state law. Prior to FY 2015, recipients typically also had to be prior public school pupils, but that restriction and other related qualifiers (such as being a military dependent) were eliminated by Laws 2014, Chapter 278.

A student's scholarship or grant under the program is capped at the actual cost of their tuition or at 90% of the amount of state aid that the student would receive if in public school, whichever is less (A.R.S. § 43-1505B).

A corporation, S-corporation, or insurer may not use a tax credit for any contribution for displaced or disabled pupil scholarships if it designates the contribution for a particular student.

The Arizona Department of Revenue (ADOR) typically reports tax credit data for this program separately from related data on STO contributions and scholarships, and typically reports more current data for the former. In addition, some of ADOR's tax credit data excludes insurers and the Arizona Department of Insurance (ADOI) reports less detailed data on insurer tax credits for the program than ADOR reports for corporations and S-corporations. This analysis uses whatever available data are most recent and complete for each metric. It therefore is not always able to compare data for different program metrics, such as STO contributions and tax credits claimed, for the same fiscal year.

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.

History and Rationale

The corporate and insurer displaced or disabled pupil scholarship tax credits were both created by Laws 2009, 2nd Special Session, Chapter 1 and became effective starting in FY 2010. They were established after the Arizona Supreme Court ruled in March 2009 that prior scholarship programs established for displaced or disabled pupils by Laws 2006, Chapters 340 and 358 violated a prohibition in the state Constitution on appropriating public monies to private schools. The displaced or disabled pupil scholarship tax credit program addressed that ruling by funding scholarships for displaced or disabled pupils indirectly through tax credit-eligible STO contributions from corporations and insurers, rather than directly from the state General Fund.

In September 2006 (3 years before the displaced or disabled pupil scholarship tax credits took effect), the Arizona School Boards Association and the Arizona Chapter of the American Civil Liberties Union filed suit against the state regarding the related corporate "low income student scholarship" STO tax credit (A.R.S § 43-1183). In *Green v. Garriott*, plaintiffs alleged that corporate contribution "set asides" in the associated laws violated the "general and uniform" provision of the state's public education system. The Maricopa County Superior Court ruled in favor of the state in a ruling that was later upheld by the Arizona Court of Appeals. The plaintiffs appealed to the Arizona Supreme Court, but in 2009 it declined to review the case, making the Superior Court ruling stand.

Corporations, individuals (S-corporations), and insurers also may receive tax credits for contributions to STOs under a separately-authorized program for "low income" students. The "low income pupil scholarship" STO tax credit is not subject to Committee review this year. *Attachment 1* provides an overview of all current STO tax credit programs.

The statute creating the displaced or disabled pupil scholarship income tax credit program does not include a specific statement of purpose or a rationale. As noted above, however, the program was created after a related state-funded program for providing scholarships to displaced or disabled students was ruled unconstitutional.

Revenue Impact

There is no separate cap on the amount of tax credits that an individual corporation, individual (S-corporation), or insurer can claim under the program. In the aggregate, however, corporate, individual (S-corporation), and insurer tax credits for contributions for displaced or disabled pupil scholarships are permanently capped at $5.0 million per year pursuant to A.R.S. § 43-1184C1. Because of this cap, STO contributions from corporations, individuals (S-corporations), and insurers must be pre-approved by the ADOR to be eligible for a tax credit. Since FY 2015, contributions from corporations, individuals (S-corporations) and insurers combined have met the $5 million cap annually (*see Table 1 below*).

Table 1

Contributions to School Tuition Organizations for Displaced or Disabled Pupil Scholarships by Fiscal Year 1/

Fiscal Year	Statutory Limitation	# of Donors	$ Approved by DOR	$ Received by STOs
2010	$5,000,000	6	$1,478,880	$1,478,880
2011	$5,000,000	8	$1,079,000	$1,029,000
2012	$5,000,000	6	$283,000	$283,000
2013	$5,000,000	14	$3,580,350	$3,505,350
2014	$5,000,000	27	$3,112,745	$2,957,765
2015	$5,000,000	28	$5,000,000	$5,000,000
2016	$5,000,000	38	$5,325,000	$5,000,000
2017	$5,000,000	34	$5,147,000	$5,000,000

1/ Data are for corporations, individuals (S-corporations) and insurers combined.

Source: "School Tuition Organization Income Tax Credits in Arizona Summary of Activity: FY 2016/2017" (page 37) from the Arizona Department of Revenue (April 2019)

Table 2

Tax Credit Claims by Tax Year (Corporations and S-corporations only) 1/ 2/

Tax Year	# of Claimants 3/	Total Credit Available 4/	Credits Used 5/	Carry-Forward
2009	x 6/	x	x	x
2010	x	x	x	x
2011	3	$170,000	$170,000	$0
2012	x	x	x	x
2013	14	$506,600	$368,600	$138,000
2014	17	$2,624,300	$2,334,000	$290,300
2015	24	$2,575,900	$1,974,200	$601,600
2016	21	$1,190,400	$769,100	$421,200
2017 6/	35	$380,700	$318,500	$62,200
2018 7/	16	$210,100	$181,900	$28,100

1/ As reported by the Arizona Department of Revenue (ADOR). Excludes credits claimed by insurers, which are not reported by ADOR. The Arizona Department of Insurance (ADOI) reports tax credit usage data for insurers for this program, but in a less detailed manner and on a fiscal year rather than tax year basis *(see Table 3)*.
2/ The table combines data reported for corporations and individuals (S-corporations).
3/ The number of taxpayers who claimed the credit in each year.
4/ 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.
5/ The total value of credits claimed in each year. Since the credit is refundable, the amount of used credits equals the amount of available credits.
6/ No data publicly released by ADOR for Corporate Credits in Tax Years 2009, 2010, 2012, and 2017.
7/ Preliminary data for individuals (S-corporations) only.

Source: "Arizona's Individual and Corporate Income Tax Credit Report" (pages 1 and 5) from the Arizona Department of Revenue (October 2019).

Table 1 summarizes contributions to STOs for displaced or disabled pupil scholarships since the beginning of the program in FY 2010. In FY 2017 (latest published data on donations received), 9 corporations, 10 individuals (S-corporations), and 15 insurers (34 donors total) donated a total of $5.0 million to STOs under the program.

The average contribution made by donors in the first year of the program (FY 2010) was $246,500 ($1,478,880 ÷ 6 corporations). The average contribution in the most recent data year (FY 2017) was $147,100 ($5,000,000 ÷ 34 donors).

ADOR also reports tax credits claimed for STO contributions, but on a tax year basis (January 1 - December 31 for most taxpayers) rather than a fiscal year basis (July 1 - June 30) and for corporations and individuals (S-corporations), but not insurers. A tax year may start in any month of the calendar year. Given the overlap of tax years and fiscal years, the liability for any one tax year could affect one of 4 fiscal years.

Table 2 summarizes tax credit claims for corporations and individuals (S-corporations) for the program by tax year since its inception, as reported by ADOR. TY 2018 data for individuals (S-corporations) are preliminary due to extension returns pending at the time of the report.

Contributions do not necessarily result in the taxpayer using the credit immediately. A corporation, individual (S-corporation), or insurer may lack enough liability to take the full credit in the year in which the donation is made. To address that issue, A.R.S. § 43-1184E and A.R.S. § 20-224.07D allow them to carry forward any claimed but unused credit for up to 5 years. *Table 2* shows the amount of credits claimed and carried forward by corporations and individuals (S-corporations) by tax year since the program's inception. Similar but less detailed data for insurers are summarized in *Table 3*.

Table 3
Tax Credit Claims by Fiscal Year (Insurers only) 1/

Fiscal Year	Credits Used
2014	$2,762,900
2015	$2,988,400
2016	$2,950,900
2017	$3,477,300
2018	$2,762,900
2019	$3,448,100

1/ As reported by the Arizona Department of Insurance (ADOI) in unpublished memos for the fiscal years shown. ADOI was not required to report this information prior to FY 2014.

Table 3 summarizes tax credit data for insurance companies by fiscal year, as reported by the ADOI. *Table 3* has less detail than *Table 2* because ADOI reports less information on tax credit usage by insurers than ADOR reports for corporations and individuals (S-corporations). In addition, ADOR reports the detailed tax credit data shown in *Table 2* on a tax year basis only, while ADOI reports its data only by fiscal year.

Given the multi-year period over which corporations and insurers can claim credits under this program, the *Table 1* data on contributions are probably more reflective of the credit's current use than the *Table 2 & 3* data on credit usage.

The tax credit may impact state K-12 education costs, since some students receiving displaced or disabled pupil scholarships under the program otherwise might have attended public schools. Currently each pupil added to the statewide K-12 Average Daily Membership (ADM) count costs the state General Fund on average about $6,800, or roughly $23,500 if they are disabled (depending on their disability). Data on the mix of "displaced" versus "disabled" pupils receiving STO scholarships under this program are not available.

For the Empowerment Scholarship Account (ESA) program authorized by A.R.S. § 15-2402, however, (which also serves displaced or disabled pupils) ADE currently reports that there are approximately 9 "disabled" students for every 1 "displaced" student in the program. Assuming this same ratio for the corporate and insurer displaced or disabled pupil scholarship tax credit program would result in an assumed average savings for that program of roughly $21,800 per student for students who otherwise would attend public schools ($23,500 X 9 disabled students + $6,800 X 1 displaced student = $218,300 savings for every 10 displaced or disabled STO scholarship recipients; $218,300 ÷ 10 students ≈ 21,800 average savings per student).

This implies that roughly 230 students would have to no longer attend Arizona public schools because of the program in order for it to have no net state cost ($5.0 million in assumed annual credits ÷ $21,800 estimated average state savings per student ≈ 230 students). The number of students receiving a STO displaced or disabled pupil scholarship who otherwise would be attending state-funded public schools is unknown. In addition, the break-even number of public school "leavers" under the program would vary from year to year depending on the total value of tax credits used and the mix of displaced versus disabled pupils in the program.

The program funded 1,103 scholarships in FY 2017, as shown in *Table 4*. The 1,103 number, however, is not directly comparable to the 230 "break even" number cited above because students can receive a displaced or disabled pupil scholarship from more than one STO, so it reflects a duplicated count of participating students.

Beyond its impact on K-12 operating costs, the credit theoretically could result in lower School Facilities Board (SFB) costs for new school construction. New school construction costs would be reduced if the SFB approved fewer new schools because of lower public school enrollment growth from the credit.

Economic Benefits

This credit is not directly designed to promote economic development or spur 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

In FY 2017 (latest published data), STOs distributed $5,750,839 in displaced or disabled pupil scholarships (1,103 scholarships to 164 schools) from corporate, individual (S-corporation), and insurer contributions (*see Table 4*). The $5,750,800 scholarship total for FY 2017 is more than the $5,000,000 contribution total shown for the year in *Table 1* because of the availability of carry-forward funding. In addition, STOs sometimes dedicate a portion of current year donations for multi-year scholarships for specific students, rather than earmarking all prior year contributions for current year scholarships. The data cited in *Table 4* are from STO annual reports, rather than corporate or insurer income tax filings, so are not confidential.

Historically, the average displaced or disabled pupil scholarship has varied from a low of $3,360 in FY 2013 to a high of $5,485 in CY 2009 (the program's first year) *(see Table 5)*. Between CY 2010 and FY 2017, there was an increase of 989 scholarships distributed, or 867%. At the same time, the total amount of dollars distributed increased by $5,125,500, or 820%.

ADOR's April 2019 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 *Tables 4 and 5* do not equal the number of students receiving STO scholarships from this program. Schools do not report the number of individual students receiving STO scholarships.

There are 4 different private school STO tax credit programs *(see Attachment 1)*. Students received 76,987 scholarships from the 4 STO scholarship programs combined in FY 2017 *(see Table 6)*. This equals 1.6 STO scholarships, on average, for each of Arizona's roughly 48,000 private school pupils (76,987 scholarships ÷ 48,000 pupils = 1.6 average scholarships per pupil). Some pupils, such as public school switchers and military dependents,

Table 4

Displaced or Disabled Pupil Scholarships for Fiscal Year 2017 by School Tuition Organization

School Tuition Organization	# of Scholarships	# of Schools	Scholarship Amount	Average
AAA Scholarship Foundation	80	44	$800,723	$10,009
Academic Opportunity of Arizona	24	7	$152,841	$6,368
America's Scholarship Konnection Inc.	12	2	$38,863	$3,239
Arizona Community Foundation STO	105	53	$381,201	$3,630
Arizona Leadership Foundation	361	67	$3,097,435	$8,580
Arizona Private Education Scholarship Fund	134	38	$410,241	$3,061
Arizona Scholarship Fund	2	1	$2,002	$1,001
Arizona School Choice Trust	20	5	$77,263	$3,863
Arizona Tuition Connection	25	15	$54,000	$2,160
Arizona's Catholic Tuition Support Organization (CTSO)	54	25	$182,993	$3,389
Dynamite Montessori Foundation	1	1	$1,500	$1,500
Financial Assistance for Independent Schools	25	2	$93,283	$3,731
Institute for Better Education	154	65	$224,120	$1,455
Lexington Education Foundation	4	1	$25,585	$6,396
Life Development Institute Education Fund	2	1	$4,406	$2,203
School Choice Arizona	24	8	$46,059	$1,919
Tuition Organization for Private Schools	62	22	$138,431	$2,233
Yuma's Education Scholarship Fund for Kids	14	2	$19,893	$1,421
TOTAL	**1,103**	**164** 1/	**$5,750,839**	**$5,214**

1/ Unduplicated total, as some schools received scholarships from more than one STO.

Source: "School Tuition Organization Income Tax Credits in Arizona Summary of Activity: FY 2016/2017" (page 43) from the Arizona Department of Revenue (April 2019)

Table 5

Displaced or Disabled Scholarships by Fiscal Year

Fiscal Year	# STOs	# Scholarships	$ Distributed	Avg. Scholarship
2009 1/	5	114	$625,335	$5,485
2010 1/	6	166	$715,424	$4,310
2011	5	114	$559,333	$4,906
2012	5	119	$583,865	$4,906
2013	6	217	$731,231	$3,360
2014	8	346	$1,611,469	$4,657
2015	12	806	$3,581,873	$4,444
2016	14	934	$4,370,439	$4,679
2017	18	1,103	$5,750,839	$5,214

1/ Reported data are for calendar year rather than fiscal year (reporting period changed after FY 2010).

Source: "School Tuition Organization Income Tax Credits in Arizona Summary of Activity: FY 2016/2017" (page 38) from the Arizona Department of Revenue (April 2019)

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 6

Scholarship Summary for All STO Program Combined for FY 2017

STO Program	Number of Scholarships	Scholarships ($)	Tax Donations ($)
Original Individual	32,585	$58,005,669	$68,649,049
Switcher Individual	22,348	$32,990,297	$39,384,320
Low-Income Corporate	20,951	$51,751,384	$61,907,365
Displaced/Disabled Corporate	1,103	$5,750,839	$5,000,000
Total	**76,987**	**$148,498,189**	**$174,940,734**

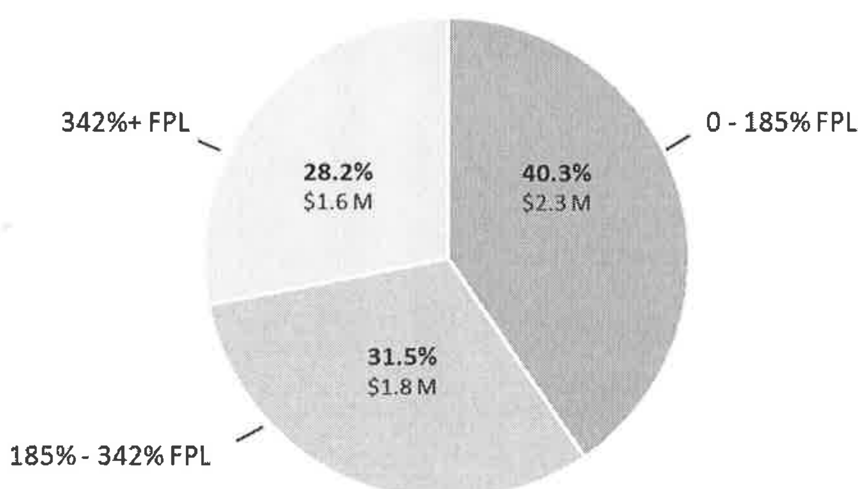
Source: "School Tuition Organization Income Tax Credits in Arizona Summary of Activity: FY 2016/2017" (pages 12, 21, 31, and 39) from the Arizona Department of Revenue (April 2019)

A.R.S. § 43-1603B5 requires STOs to report the percentage and total dollar amount of scholarships awarded during the previous year to the following: 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 $44,863 for a family of four for FY 2016), and 2) students whose family income exceeds the FRPL eligibility threshold by less than 185% (up to 342.25% of the poverty level, or $83,167 for a family of 4 for FY 2017).

DOR reports that for FY 2017, students with family income of up to 185% of the federal poverty level (FPL) received 40.3% ($2.3 million) of program scholarships that year and that students with family income of 185% to 342% of the FPL received 31.5% ($1.8 million) of scholarships. The remaining 28.2% of scholarships ($1.6 million) went to students whose family income was greater than 342% of the FPL ($83,167 for a family of 4 for FY 2017) (see *Chart 1*).

Chart 1

Overall Share of FY 2017 Displaced/Disabled Scholarships by Family Income



Private schools enrolled an estimated 48,039 students in FY 2018 under most recent estimates from the National Center on Education Statistics (NCES), which is the federal clearinghouse for education data. This represented approximately 4.2% of Arizona's total K-12 population in FY 2018.

Historical data on private and public school enrollment is summarized in *Table 7.*

Table 7

Private and Public School Enrollment

	FY 1998	FY 2002	FY 2008	FY 2010	FY 2018	FY 98 – 18 Growth
Private School Enrollment 1/	44,991	44,360	51,590	44,559	48,039	6.8%
Public School Enrollment 2/	777,722	877,928	1,041,062	1,049,732	1,112,393	43.1%

1/ Data from the National Center for Education Statistics: Private School Universe Survey
2/ Data from the Arizona Department of Education: Annual Report

As indicated in *Table 7,* Arizona's private school enrollment grew from 44,991 students in FY 1998 (the first year of STO tax credits) to an estimated 48,039 students in FY 2018, which was an increase of 3,048 students, or 6.8%. *Table 7* shows relatively strong private school growth through FY 2008 (up by 6,599 students, or 15%) followed by a steep decline (-7,031 students, or - 13.6%) between FY 2008 and FY 2010. The latter decline then was followed by relatively strong private school growth between FY 2010 and FY 2018 (up by 3,480 students, or 7.8%). The steep decline after FY 2008 may have been influenced by the Great Recession and continuing growth in charter school options for school-age children.

Complexity

ADOR indicates that it is administratively simple for corporations, insurers, and individuals (S-corporations) to donate to STOs and claim the credit. However, due to the significant increase in volume of corporate donation pre-approval requests and the statutory requirement to process them on a first-come/first-served basis, ADOR indicates that the process by which STOs receive pre-approval from ADOR has become very complex for both the STOs and ADOR.

ADOR indicates that the annual reporting process for the program has been streamlined so that it is less time consuming for both STOs and ADOR. It reports, however, that many STOs still utilize volunteer staff, which leads to reporting inconsistencies and makes it difficult for ADOR to educate STO staff on reporting requirements.

ADOR indicates that its oversight responsibilities of STOs currently rely on the review of annual reports and audits/reviews submitted by the STOs. It notes that any additional oversight by ADOR is not fully achievable at this time due to the number of ADOR staff, the increase in the number of STOs as well as the growth in the donation/scholarship programs.

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 for with award funding.

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

Prior Review

The Credit for Contributions to School Tuition Organizations for Displaced or Disabled Students was previously reviewed during the 2014 review cycle. The Committee recommended that the credit be retained and placed on the income tax credit review schedule for 2019.

Attachment 1

COMPARISON OF PUBLIC AND PRIVATE SCHOOL TAX CREDITS

Table A: Statutes, Caps & Data

Type	Category	Statute		Cap	# of STOs 1/ (that received donations)	Donations 1/			Scholarships 1/	
		STO	Tax Credit			$ 2/	#	Average	#	Average
Individual	Public School Extracurricular	NA	A.R.S. § 43-1089.01	$200 single/ $400 married filing jointly	--	$57.0 M	336,791	$169	--	--
	Private School Original	A.R.S. § 43-1601 through 43-1605	A.R.S. § 43-1089	$555 single/ $1,110 married filing jointly 3/	54	$68.6 M	88,316	$777	32,585	$1,780
	Private School "Switcher" 4/	A.R.S. § 43-1601 through 43-1605	A.R.S. § 43-1089.03	$552 single/ $1,103 married filing jointly 3/	54	$39.4 M	46,583	$845	22,348	$1,476
Corporate & Insurance Premium	Private School Low-Income Student	A.R.S. § 43-1501 through 1507 (except 1505)	A.R.S. § 43-1183 & 20-224.06	$107.0 M 5/	43	$107.0 M	897	$119,300	Not yet available	Not yet available
	Private School Displaced/Disabled Student	A.R.S. § 43-1501 through 1507 (except 1504)	A.R.S. § 43-1184 & 20-224.07	$5.0 M	10	$5.0 M	53	$94,300	Not yet available	Not yet available

1/ Public school tax credit data are for *calendar* year 2017 (latest reported data); private school data are for *fiscal* year 2017 (individual income tax; latest reported data) and *fiscal* year 2020 (corporate income tax; preliminary data).

2/ Total donations in the table are $277.0 million for the mix of years represented (see footnote 1). Donations for a given year may not equal tax credits for that year depending on donors' tax liabilities and because corporations and insurers may carry forward tax credits for up to 5 years before using them. Similarly, donations for a given year may not equal total scholarship disbursements for that year because STOs may reserve a portion of current year donations for future year scholarships and may use up to 10% of donations for administration.

3/ Adjusted annually for inflation. Figures shown are for Tax Year 2018 (latest published data).

4/ Referred to as the "Switcher" credit in Department of Revenue publications, since it is limited mostly to students switching from public to private schools (A.R.S. § 43-1603E)

5/ Increases annually by the amounts stipulated in A.R.S. § 43-1183.C1, as amended by Laws 2019, Chapter 281.

Note: "Empowerment Scholarship Accounts" (ESA's) authorized by A.R.S. § 15-2402 are not included in this analysis, as they are funded with appropriated state monies rather than contributions that qualify an individual or corporation for a state tax credit. Student must meet criteria specified in A.R.S. §15-2401 to qualify for an ESA. ESAs are funded under formulas prescribed in A.R.S. §15-2402C&D. ADE may retain up to 5% of program funding for administration but is required to transfer one-fifth of that amount to the State Treasurer to fund the Treasurer's ESA administrative costs. (The State Treasurer establishes and maintains a separate ESA for each program participant using monies transferred from ADE.) In FY 2019, 6,450 students received $82.6 million in total ESA funding.

Table B: Program Restrictions

Type	Category	Donors	Recipients	Use of Funds [1/]	Earmarking	Other
Individual	Public School Extracurricular	Individual income tax filers	Public schools	Extracurricular activities, character education, and college or industry testing fees	Can designate a specific student, school club, or use	Funds can only be used for activities or programs of public schools specified in statute, such as standardized testing for college credit, standardized testing preparation, industry certification exams, CPR training, character education programs and extracurricular activities. Extracurricular activities include band uniforms, equipment or uniforms for varsity athletics, scientific laboratory equipment or materials, or in-state or out-of-state trips that are solely for competitive events. Extracurricular activities do not include any senior trips or events that are recreational, amusement or tourist activities.
	Original	Individual income tax filers	Private school students	Private school scholarships	Taxpayer may recommend recipient; may not recommend funds for own dependent or another's dependent in a donation swap	The tax credit is not allowed if the taxpayer designates the taxpayer's contribution to the school tuition organization 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 school tuition organization. A taxpayer may not claim a tax credit if the taxpayer agrees to swap donations with another taxpayer to benefit either taxpayer's own dependent. A STO cannot award, restrict or reserve scholarships solely based on a donor's recommendation. If a STO scholarship exceeds a school's total cost of educating the recipient, the school must return the excess portion to the STO.
	"Switcher"	Individual income tax filers	Private school students	Private school scholarships	Taxpayer may recommend recipient; may not recommend funds for own dependent or another's dependent in a donation swap	The tax credit is allowed only after the taxpayer has used the maximum tax credit available under the "Original" program. All restrictions for "Original" also apply to "Switcher." In addition, "Switcher" scholarships may only be awarded to public school transfers, kindergartners, preschool disabled students, military dependents, or pupils who received a corporate STO or "Switcher" scholarship in the prior year. A STO shall give priority to students and siblings of students on a waiting list for scholarships if the STO maintains a waiting list. If a STO scholarship exceeds a school's total cost of educating the recipient, the school must return the excess to the STO.
Corporate and Insurance Premium	Low-Income Student	Corporations, Insurers & S Corporations	Private school students from "low income" households	Private school scholarships	Not allowed	1. Family income cannot exceed 185% of the income limit required to qualify a child for reduced price lunches under the national school lunch and child nutrition acts (maximum annual income of $88,130 for a family of four for FY 2020). 2. The student receiving the scholarship must meet one of the following: a. Attended a public primary or secondary school as a full-time student or attended a public program for preschool disabled pupils for at least ninety days or one full semester of the prior fiscal year. b. Enroll in a private school kindergarten or preschool disabled program. c. Be a military dependent. d. Received an individual or corporate STO scholarship in the prior year and continues to attend a qualified private school. 3. The total scholarship amount per pupil from each STO increases each year by $100. In FY 2020, a STO cannot issue a scholarship in an amount that exceeds: a. $5,500 for students in kindergarten through grade 8 b. $6,800 for students in grades 9 through 12.
	Displaced/ Disabled Student	Corporations, Insurers & S Corporations	Private school students with disabilities or foster care history	Private school scholarships	Not allowed	1. The student must have been either placed in foster care at any time before graduating from high school or obtaining GED or have been identified at any time as having a disability under federal or state law. 2. The amount of the scholarship shall not exceed the lesser of the cost of tuition or 90% of the amount of state aid that would have been computed for the student to attend public school.

1/ All STOs must allocate at least 90% of their tax credit-related revenues for scholarships or grants, so STOs can spend a maximum of 10% of those revenues on program administration.