Joint Legislative Budget Committee
Staff Memorandum

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DATE: November 29, 2012

TO: Members, Joint Legislative Income Tax Credit Review Committee

FROM: Hans Olofsson, Chief Economist

SUBJECT: 2012 INCOME TAX CREDIT REVIEW - OPEN SESSION

This memo transmits background materials for the December 6**,** 2012 meeting of the Joint Legislative Income Tax Credit Review Committee. The information contained in this memo is limited to those credits scheduled for review in 2012 that do not include confidential taxpayer information, which are:

Credits that include confidential taxpayer information are reviewed in a separate memo.

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. While the 6 credits listed above will be reviewed in open session, the following 3 credits will be discussed in executive session due to the inclusion of confidential taxpayer information.

- Credit for Increased Employment in Military Reuse Zones
  A.R.S. § 43-1079 (Individual)
  A.R.S. § 43-1167 (Corporate)
- Credit for Construction Costs of Qualified Environmental Technology Facility
  A.R.S. § 43-1080 (Individual)
  A.R.S. § 43-1169 (Corporate)
- Credit for Donation of School Site
  A.R.S. § 43-1089.02 (Individual)
  A.R.S. § 43-1181 (Corporate)

(Continued)

As a result of Laws 2010, Chapter 225, the Department of Revenue (DOR) may disclose confidential statistical information to this Committee and JLBC Staff. DOR views tax credit information to be confidential if: (1) 3 or less taxpayers claimed the credit, or (2) 90% or more of the total credit used to offset tax liability was attributable to a single taxpayer.

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 statute (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.

The Credit for Solar Energy Devices and the Credit for Donation to the Military Family Relief Fund are the only credits on the 2012 review schedule that have not been reviewed by the committee in prior years.

Limitations

There are several limitations that affect the evaluation of income tax credits. For example, the timeliness of data is one such limitation. Because tax credit data must generally be compiled manually from actual hard-copy tax returns, corporate credit data is currently available only through tax year 2009. Both 2009 corporate tax credit data and 2010 individual tax credit data are preliminary and thus subject to revision.

A second limitation is the lack of performance measures for tax credits. Some credits have stated performance measures or goals, but most of the credits do not have objectives included in statute. Chapter 238, however, requires any new credit to include a clause that explains the rationale and objective of the credit (A.R.S. § 43-223).

Finally, 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. For example, while the amount spent on equipment or property by a facility is reported for purposes of claiming the environmental technology facility credit, there is no data on the number of new jobs associated with these investments.

2012 Review

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

Description - the definition of the tax credit, and 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 can either 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. None of the credits included in the current review is refundable.

Transferable - whether or not any unused portion of the credit can be sold or otherwise transferred to other taxpayers. None of the credits included in the current review is transferable.

Carry Forward - whether or not 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 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 DOR and the Arizona Commerce Authority.

HO:ac
Attachment

xc: Reed Spangler, Senior Policy Advisor, Senate
Jeff Winkler, Policy Advisor, Senate
Carolyn Speroni, Senate Finance Committee Analyst
Lorenzo Romero, Director of Fiscal Policy, House
Mark Bogart, Senior Economist/Policy Advisor, House
Stephanie Jaffa, House Ways and Means Committee Analyst

FAMILY INCOME TAX CREDIT

Family Income Tax Credit

Summary

- The cost of the Family Income Tax Credit was an estimated $5.8 million in tax year 2011.
- The credit was claimed by 516,785 tax-filers at an average of $11 per claim.
- 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 are also eligible for the credit.

Statute

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

Description

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 currently $40 for each member of a household for whom a personal or dependent exemption is allowed. 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 non-personal exemptions, must be less than or equal to $10,000 to qualify for the credit. For most taxpayers, this amount is the same as their federal adjusted gross income. The income thresholds for other taxpayers are shown in *Table 1* below.

Table 1
Income Limit By Filing Status and Number of Dependents

Filing Status	# of Dependents	Income Limit
MFJ[1/]	< 2	$20,000
MFJ	2	23,600
MFJ	3	27,300
MFJ	≥ 4	31,000
HOH[2/]	< 2	20,000
HOH	2	20,135
HOH	3	23,800
HOH	4	25,200
HOH	≥ 5	26,575

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 (SB 1009) and became effective retroactively from January 1, 1995. The credit was one of several tax provisions in SB 1009 that were designed to reduce both property and individual income taxes by $(200) million annually. According to

both House Ways and Means and Senate Finance Committee minutes from March 15, 1995, the credit was intended to help reduce low-income households' tax liability.

Laws 1998, 4th Special Session, Chapter 3 (SB 1007) 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. As noted earlier, the maximum credit per taxpayer was increased from $120 to $240 for married couples filing joint returns and for single persons filing as head of household, and from $60 to $120 for all other taxpayers. The expansion of the family income tax credit was one of several provisions contained in the "Tax Relief Act of 1998" that were designed to reduce individual income taxes by $(50) million annually. (Note that both Laws 1995, Chapter 256 and Laws 1998, 5th Special Session, Chapter 2 provided minor technical changes to the family income tax credit.)

Revenue Impact

Based on preliminary data provided by the Department of Revenue (DOR), the cost of the credit was $5.8 million in 2011. Over the life of the credit, the cost has varied from a low of $4.6 million in 1997 to a high of $7.9 million in 1999. There were a total of 516,800 credit claimants in 2011, or approximately 20% of all residential filers. Credit use has been trending down gradually since 2000.

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 next tax year. This means that a taxpayer may only be able to use a portion of the maximum credit available. The average credit available per taxpayer increased from $59 in 1997 to $88 in 1998 but has remained stable ever since. This increase was mainly attributable to a 1998 tax law change, which raised the per-person family income tax credit from $30 to $40. The average credit used (actual amount used to offset a taxpayer's liability) was $11 in 2011. The data in *Table 2* below, which was provided by DOR, shows the annual impact of the family income tax credit.

Table 2

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	516,785	44,268,240	86	5,817,731	11

1/ Laws 1998, 4th Special Session, Chapter 3 increased the per-person credit from $30 to $40.
# 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.

Table 2 suggests that while the average available per-person credit has remained fairly stable over time (approximately 2 persons claimed per taxpayer), the average credit used to offset actual tax payments has declined significantly. For example, in the period between 1998 and 2011, the average credit used decreased from $24 to $11 in comparison to a reduction from $88 to $86 for the average available credit.

The decline of the average credit used is largely attributable to other tax law changes enacted after 1998, such as a series of rate reductions and a new requirement that the standard deduction be adjusted for inflation each year. 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 his liability to $0 than previously.

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," the family income tax credit is intended to alleviate the tax burden on low-income individuals. Two other income tax credits provided by Arizona law – earned credit for property taxes (A.R.S. §43-1072) and the Proposition 301 0.6% sales tax credit (A.R.S. §43-1072.01) – have the same objective. The property tax credit is limited to senior citizens and recipients of Supplemental Security Income with a household income below $5,501. Proposition 301 provided a $25 per-person credit for households with a federal adjusted gross income of up to $25,000 and was intended to offset the cost to the taxpayer of a 0.6% sales tax enacted in 2001. Unlike the family income tax credit, both the property tax and sales tax credit are refundable.

The information above suggests that a taxpayer may be eligible for more than one of the 3 low-income tax credits provided in statutes. For example, a single mother with two dependent children and an annual income of $20,000 would qualify for a family income credit of $120 (of which about $45 would be used to fully offset her tax liability) and a refundable Proposition 301 sales tax credit of $75.

Although the family income tax credit was not directly intended to promote economic growth, it may still provide some economic benefits to society since it effectively increases the disposable income of low-income households. A higher disposable income, all else equal, should have the effect of increasing economic activity in the state somewhat. For the individual taxpayer, the credit may have the effect of marginally increasing his spending on goods and services, which in the aggregate could result in the creation of new jobs and increased investments in the state.

According to a recent study by the Center on Budget and Policy Priorities ("The Impact of State Income Taxes on Low-Income Families in 2011"), two-parent families of four with incomes below the federal poverty line ($23,018) are liable for state income taxes in 15 of the 42 states that levy such tax. The lowest income level at which such families begin incurring state income tax liability ("threshold") varies between $12,500 (Montana) and $49,400 (California). With a threshold of $23,600, the report ranks Arizona 17th in the nation. The average liability threshold for the nation as a whole is $27,545, or $4,527 above the federal poverty line. (Note: the higher the rank, the higher the income threshold.)

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 2006. The Committee recommended at that time that the credit be continued and placed on the 2011 review schedule and be further amended to be adjusted for inflation each year. (The date was later moved back to 2012 due to changes in the income tax credit review schedule enacted by Laws 2009, Chapter 32.)

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 Commercial and Industrial Solar Energy Device Tax Credit was $129,500 for corporate income tax filers in tax year 2010 and $51,400 for individual income tax filers in 2011.
- The credit was claimed by 12 corporate income tax taxpayers in 2010 at an average of $10,794 per claim.
- The credit was claimed by 17 individual income tax taxpayers in 2011 at an average of $3,023 per claim.
- While this credit is for the use of solar energy devices in commercial and industrial applications, the state also offers separate residential solar tax credits.

Statute

A.R.S. § 43-1085 (Individual)
A.R.S. § 43-1164 (Corporate)

Description

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.

A taxpayer can claim a credit equal to 10% of the installed cost of a solar energy device used in their trade or business. The credit cannot exceed $25,000 per building annually or $50,000 in total per business in any year. The credit is available between tax years 2006 and 2018 and is capped at $1,000,000 per year. Tax credits are authorized on a first come, first served basis as determined by the Arizona Commerce Authority. The credit also may be transferred to a third party that manufactures or installs 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.

History and Rationale

The federal government first introduced individual solar energy tax credits with the Energy Tax Act of 1978. Arizona created its first solar energy tax credit in 1979. The federal tax credit expired in 1985 and Arizona's tax credit expired in 1987. The Energy Policy Act of 2005 established federal tax credits of 30% of expenditures on qualified residential, commercial, and industrial solar energy devices. The Energy Improvement and Extension Act of 2008 extended these credits for solar devices purchased before December 31, 2016 and removed all federal credit caps.

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. Laws 2010, Chapter 294 extended the tax credits expiration date from December 31, 2012 to December 31, 2018. 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."

The credit creates an incentive to purchase solar energy systems by reducing the cost. Since its creation in 2006, the credit has been used mostly to purchase photovoltaic (PV) solar energy devices. Electric utility companies in the state also offer customer rebate programs in order to meet either regulatory or self-imposed standards for renewable energy generation. In combination with the state tax credit, the cost of a

solar PV system can be reduced by approximately 20%. When also factoring in federal tax credits, the cost can be reduced by approximately 50%. However, investment in solar energy devices may become more costly in future years as some utilities phase out their rebate programs.

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. According to the Corporation Commission, this credit was historically used to purchase solar water heaters and daylighting systems, but in recent years has increasingly been used to purchase solar PV systems. Individuals and corporations can also receive a tax credit of up to $75 for installing residential 1) solar water heater plumbing stub outs, or 2) electric vehicle recharge outlets. An individual filer can combine the two credits for a maximum of $1,075 for the residential installation of stub outs and a solar water heater system. The credits may not be combined though, with the Commercial and Industrial Solar Energy Device Tax Credit.

Revenue Impact

Corporate

The cost of the credit used by corporate taxpayers was $129,528 in 2010, according to preliminary estimates. *Table 1* summarizes the corporate income tax impacts of this credit, as reported by the Arizona Department of Revenue.

Table 1

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

Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward
2006	x	x	x	x
2007	x	x	x	x
2008	7	85,550	74,899	10,651
2009	10	202,692	87,118	115,574
2010	12	194,824	129,528	65,296

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

Individual

The cost of the credit used by individual taxpayers was $51,384 in 2011, according to preliminary estimates. *Table 2* summarizes the individual income tax impacts of this credit, as reported by the Arizona Department of Revenue.

Table 2

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	46	471,117	257,980	213,137
2011	17	157,080	51,384	105,696

# 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.

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. The credit was applied against the purchase of approximately $7.5 million of solar devices in 2010 (this is the last year of data available for both individual and corporate tax credit use). This level of purchase likely had some positive impact on the industry, but it is difficult to know whether the same level of devices would have been purchased without a 10% discount provided by the credit. Investment in solar energy equipment has increased in recent years, though this occurred while use of the tax credit remained well below the $1,000,000 annual cap. While there is a lack of economic impact data on this credit, Arizona's total solar-related employment has increased from 3,800 in 2010 to 4,800 in 2011 (approximately 25%), according to a study by the Solar Foundation.

Complexity

The solar energy device credit does not appear to be unusually complex in terms of its application, administration, and approval process. The $1,000,000 cap could add complexity, but credit use is not close to that level yet.

Potential Performance Measures

Performance measures could include:

1. Total megawatt hours of electricity generated from solar energy devices.

2. Total megawatt hours of electricity conserved from non-renewable energy sources.

3. Number of persons employed in businesses that manufacture, install or service solar energy devices.

The statute does not impose any requirements related to these measures. Arizona Public Service Co. (APS) and UniSource (Tucson Electric Power and Citizens Utilities) measure and report the amount of solar electricity generated in their service territories to the Arizona Corporation Commission on a regular basis. Salt River Project publicly reports similar information. However, the amount of energy saved by other solar energy devices, including water heaters, can only be estimated, and requiring this information would create an additional reporting burden.

A previously mentioned study found that Arizona employs 4,800 people in a range of solar-related jobs, which is third most of any state. The Solar Foundation, a non-profit organization that promotes use of solar technologies, produces an annual report that estimates the sector's employment in each state. Jobs measured in the study though, also include residential solar sector employment. A limitation of using Solar Foundation job estimates as a performance measure therefore, is that they may also be impacted by the other state and federal solar tax credits.

Prior Review

The credit has not been reviewed by the committee before.

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 $996,700 in tax year 2011.
- The credit was claimed by 3,007 taxpayers in tax year 2011 at an average of $331 per claim.
- The credit is available only to individuals, not to business entities, filing an individual income tax form.

Statute

A.R.S. § 43-1086 (Individual)

Description

The statute provides individuals an income tax credit for cash donations to the MFRF. The fund helps 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 2018 and is capped at $1,000,000 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. Today, federal tax filers can deduct the entire donation amount, up to 30% of their adjusted gross income for cash donations and 20% for property.

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 2012, Chapter 281 extended the tax credit's expiration date from December 31, 2012 to December 31, 2018. Since the credit became available to taxpayers in 2008, it has been used nearly to its full $1,000,000 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 of up to $20,000 are evaluated by the Governor-appointed Military Family Relief Advisory Committee.

Revenue Impact

The preliminary cost of the credit in 2011 was $996,695. *Table 1* summarizes the individual income tax impacts of this credit, as reported by the Arizona Department of Revenue (DOR).

Table 1

Military Family Relief Fund Credit – Credit Claims by Tax Year

Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward
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

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# 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 – This tax credit may not be carried forward.

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 $1,000,000 each year. In FY 2012, $562,100 in grants were made to families from donations to the MFRF (*see Table 2*). Donation amounts that are not used for grant making remain in the MFRF until December 31, 2018. After this date, any remaining fund balance will be transferred to the Veterans' Donations Fund. The MFRF had a balance of $3,151,200 at the end of FY 2012.

Table 2

Grants from the MFRF

Fiscal Year	Total Grants
2009	$11,600
2010	126,600
2011	233,400
2012	562,100

Complexity

The credit is not entirely simple to administer since, once the $1,000,000 cap is reached, DVS physically mails back subsequent contributions. Donations in 2009 and 2010 exceeded $1,000,000 (*see Table 3*) as some donors contributed more than the $200 or $400 maximum eligible for a credit. Laws 2007, Chapter 258 permit the Military Family Relief Advisory Committee to use up to 5% of donations for the costs of administering the financial assistance program. While donations to the MFRF have historically exceeded grants (*see Tables 2 and 3*), the annual difference between the two has decreased since Laws 2010, Chapter 254 expanded eligibility criteria for grant applicants.

Table 3

Donations to the MFRF

Tax Year	# of Donations	Total Donations
2008	3,130	$993,132
2009	3,259	1,004,775
2010	3,128	1,000,384
2011	3,093	999,296

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.

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 and DVS provides grant data in their annual budget request.

Prior Review

The credit has not been reviewed by the committee before.

PRIVATE SCHOOL TUITION ORGANIZATION TAX CREDIT

Private School Tuition Organization ("Private School STO-1") Tax Credit

Summary

- Current law authorizes two tax credits for contributions that individuals make to school tuition organizations (STOs). This review pertains only to the "original" Private School STO tax credit ("private school STO-1") authorized by A.R.S § 43-1089. The second credit ("private school STO-2") was recently established by Laws 2012, Chapter 4 (A.R.S § 43-1089.03) and is not yet subject to review.
- Approximately 63,000 individuals claimed $43.2 million in credits for contributions to 53 different STOs under "private school STO-1" in calendar year (CY) 2010 (latest available data).
- The maximum tax credit allowed in CY 2010 was $500 for single filers and $1,000 for married couples filing jointly. Those maximums are now adjusted annually for inflation and for CY 2012 will be $503 and $1,006, respectively.
- 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 $43.2 million level of tax credits under private school STO-1, approximately 8,150 students would have to be diverted from public school due to STO scholarships (8,150 students X $5,300 statewide average savings per public school student = $43.2 million).

Statute

A.R.S. § 43-1089.

Description

This credit is provided to individuals 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 "private school STO-1" tax 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. 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. A STO cannot award, restrict or reserve scholarships solely on the basis of 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.

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.

Transferable

The credit is not transferable.

History and Rationale

The "private school STO-1" 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 STOs scholarship monies never enter into 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 "private school STO-1" was $500. Laws 2000, Chapter 1, 5th Special Session increased the cap to $625 for married taxpayers filing a joint return. Laws 2005, Chapter 334 increased the maximum credit for married couples filing jointly from $625 to $825 for taxable year 2005 and to $1,000 for taxable year 2006 and thereafter. Chapter 334 left the maximum credit for single individuals and heads of households unchanged at $500. Laws 2010, Chapter 293 requires annual inflation adjustments to the maximum credit amounts. For CY 2012, the inflation-adjusted maximums will be $503 and $1,006, respectively.

Laws 2012, Chapter 4 establishes a second private school STO tax credit ("private school STO-2") starting in tax year 2012 pursuant to A.R.S § 43-1089.03. The new credit is allowed only after the taxpayer has used the maximum credit available under "private school STO-1." "Private school STO-2" scholarships may only be awarded to public school transfers, kindergarteners, preschool disabled students, military dependents, or pupils who received a corporate STO or "private school STO-2" scholarship in the prior year, which are restrictions that do not apply to "private school STO-1".

"Private school STO-1" and "private school STO-2" 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. *Attachment 1* provides an overview of all current STO tax credit programs.

The statute creating the "private school STO-1" tax credit 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

Table 1 summarizes individual contributions to STOs under "private school STO-1" since the inception of the program in CY 1998, as reported by the Arizona Department of Revenue. In CY 2010 (the most recent calendar year data) 62,941 individuals donated a total of $43.2 million to STOs under the program.

Table 1

Individual Contributions to School Tuition Organizations for "Private STO-1"

Calendar Year [1/]	# of STOs	# of Donations	Amount	% Change
1998	16	4,248	$ 1,815,800	
1999	33	32,023	13,781,300	
2000	36	38,249	17,701,300	28.4
2001	43	46,696	24,897,400	40.7
2002	43	52,203	26,512,700	6.5
2003	51	58,122	29,445,600	11.1
2004	53	63,830	31,846,500	8.2
2005	53	69,239	42,196,200	32.5
2006	56	73,617	51,012,326	20.9
2007	55	76,065	54,305,000	6.5
2008	55	78,434	55,260,700	1.8
2009	54	73,430	50,879,200	(7.9)
2010	53	62,941	43,183,500	(15.1)

1/ STOs historically have reported data on a calendar year basis, but are required to report on a fiscal year basis starting in FY 2011. As a result, the most recent DOR report for "private school STO-1" includes a mix of current year (CY 2010) and fiscal year (FY 2011) data.

The credit results in foregone General Fund costs to the extent that STO-funded scholarships result in students not attending public school. Currently each pupil added to the statewide K-12 Average Daily Membership (ADM) count costs the state General Fund about $5,300, on average. The state General Fund, therefore, saves an average of $5,300 for each "private school STO-1" scholarship recipient who otherwise would attend public school. This implies that the program has no net General Fund cost if at least 8,150 students would have otherwise attended public schools in the absence of "private school STO-1" scholarships ($43.2 million in credits used in TY 2010 ÷ $5,300 state savings per pupil ≈ 8,150 students). The actual number of students in this category is unknown.

Beyond its impact on K-12 operating costs, the credit could result in lower School Facilities Board (SFB) costs for new school construction and building renewal. New school construction costs would be reduced if the SFB approved fewer new schools because of lower public school enrollment growth from the credit. This would reduce SFB building renewal costs as well because fewer school buildings would require funding under that formula. The amount of SFB "foregone costs" due to the credit is unknown. In addition, there has been little SFB-funded new school construction in recent years due to slow population growth and the SFB building renewal formula has been replaced by a significantly smaller program.

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.

Attachment 2 (from the FY 2011 DOR School Tax Credit Report) provides information on contributions received and scholarships awarded by each STO under "private school STO-1" for FY 2011. In that year, a total of $51.4 million was received. (Note: *Attachment 2* is reported on a fiscal year basis, whereas *Table 1* above is reported on a calendar year basis, so covers a different 12-month period.) Ten STOs that received more than $1 million in contributions in FY 2011 accounted for $41.1 million, or about 80%, of total revenues for that year.

STOs distributed $47.1 million of the $51.4 million received in donations in CY 2011 *(see Attachment 2)*. Remaining donation revenues were either allocated for administrative costs or retained for future year awards. Historical data on scholarships and grants on a calendar year basis are summarized in *Table 2* below.

Table 2

Scholarship Data for "Private School STO-1"

Calendar Year	Total $ Awarded	# of Scholarships	Average Scholarship
1998	$ 103,800	128	$ 811
1999	2,193,700	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	24,420,100	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	28,326	1,914
2009	52,127,300	27,592	1,889
2010	47,344,400	26,433	1,791

The total number of awards distributed under the program has increased from 128 in 1998, the first year the credit was offered, to a peak of 28,326 in 2008 *(see Table 2)*. In the most recent year (2010), 26,433 scholarships were awarded, which was (1,893) fewer or (7)% less than the FY 2008 peak. The average scholarship likewise peaked in 2008 at $1,914 and has since declined to $1,791, or $(123) and (6.4)% below the 2008 level.

DOR notes in its annual report that a "many families seek scholarships from multiple STOs, resulting in one child being counted several times in the scholarship counts." As a result, the number of scholarships reported in *Table 2* does not equate to the number of students receiving scholarships. Past analysis on this topic suggests that the number of individual students receiving STO scholarships is roughly equal to 90% of the total number of scholarships awarded. For 2010 this would equate to approximately 23,800 individual students receiving "private school STO-1" scholarships (26,433 total scholarships X 90% unduplicated = 23,800 individual recipients).

Private schools enrolled an estimated 44,559 students in FY 2010 under most recent estimates from the National Center on Education Statistics (NCES), which is the federal clearinghouse for education data. This represented 4.1% of Arizona's total K-12 population in FY 2010. With an estimated 23,800 individual private school students receiving an award (*see above*), the JLBC Staff estimates that 53% of private school students receives a scholarship under "private school STO-1" in 2010 (23,800 estimated recipients ÷ 44,559 estimated private school students = 53%).

Historical data on private and public school enrollment is summarized in *Table 3.*

Table 3

Private and Public School Enrollment

	FY 2000	FY 2002	FY 2004	FY 2006	FY 2008	FY 2010	FY 00 - 10 Growth
Private School Enrollment 1/	44,060	44,360	46,366	50,013	51,590	44,559	1.1%
Public School Enrollment 2/	840,130	879,106	933,734	998,221	1,044,785	1,051,767	25.2%

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 3*, Arizona's private school enrollment grew from 44,060 students in FY 2000 to 44,559 students in FY 2010, which was an increase of 499 students, or 1.1%. *Table 3*, however, shows relatively strong private school growth through FY 2008 (up by 7,530 students, or 17%) followed by a steep decline (-7,031 students, or - 3.6%) between FY 2008 and FY 2010. The steep decline after FY 2008 may have been influenced by the Great Recession, declining contributions and average scholarships amounts under "private school STO-1" after FY 2008 (*see Tables 1 & 2*), and continuing growth in charter school options for school-age children.

The NCES reports an average K-12 private school tuition cost of $8,549 for all states and grade levels combined in its most recent (FY 2008) private school survey. With an average scholarship of $1,914 in 2008 under "private school STO-1" (*see Table 2*), the average scholarship would have covered 22.4% of private school tuition costs that year.

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 now significantly 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 new 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 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. In addition, DOR describes its oversight responsibilities over STOs as a "daunting task" that has not yet been fully accomplished and which has been affected by changing statutory 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.

Prior Review

The credit was last reviewed by the Joint Legislative Income Tax Credit Review Committee in 2006. The Committee recommended at that time that the credit be continued and placed on the 2011 review schedule. This date was later moved back to 2012 due to changes in the income tax credit review schedule enacted by Laws 2009, Chapter 32

School Tax Credit Summary
JLBC Staff
7/10/2012

Comparison of Public and Private School Tax Credits

Table 1: Statutes, Caps & Data 1/

Type	Category	Statute		Cap	# of STOs (that received donations)	Donations			Scholarships	
		STO	Tax Credit			$	#	Average	#	Average
Individual	Public School Extracurricular	NA	ARS § 43-1089.01	$200 single/ $400 married filing jointly	--	$48.4 M	250,210	$194	--	--
	Private School STO-1	ARS § 43-1601 through 43-1605	ARS § 43-1089	$500 single/ $1,000 married filing jointly 2/	53	$43.2 M	62,941	$686	26,433	$1,791
	Private School STO-2 3/	ARS § 43-1601 through 43-1605	ARS § 43-1089.03	$500 single/ $1,000 married filing jointly 2/	NA	NA	NA	NA	NA	NA
Corporate & Insurance Premium	"Low-Income" STO	ARS § 43-1501 through 1507 (except 1505)	ARS § 43-1183 & 20-224.06	$17.3 M 4/	11	$11.1 M	98	$121,658	4,215	$2,212
	"Displaced/Disabled" STO	ARS § 43-1501 through 1507 (except 1504)	ARS § 43-1184 & 20-224.07	$5.0 M	5	$1.7 M	15	$112,725	166	$4,389

1/ All data are for Tax Year 2010 (latest available), except Public School Extracurricular data, which are for TY 2011.

2/ Adjusted annually for inflation starting in TY 2012.

3/ The "Private School STO-2" was established by Laws 2012 Chapter 4. There are no prior data to report.

4/ Increases 20% annually pursuant to A.R.S. § 43-1183.C1.

Note: "Empowerment Scholarship Accounts" (ESA's) authorized by ARS § 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. Under Laws 2012, Chapter 360, a student may qualify for an ESA by meeting two criteria: 1) they have a disability, attend a "D" or "F" school, are the child of an active duty member of the armed forces, are/were a ward of the court, or previously received an ESA; and 2) in the prior year must have met one of the following: attended public school full time for at least the first 100 days, had an ESA, or received a "Displaced or Disabled" Scholarship pursuant to ARS 43-1505. ESA's are funded with 90% of the "Base Support Level" funding that each recipient othewise would have received pursuant to A.R.S. § 15-943 if they remained in public school. ADE may retain up to 5% of the "90% of BSL" funding for program administration, but is required to transfer one-fifth of that amount to the State Treasurer to cover related Treasurer costs. (The State Treasurer establishes and maintains a separate ESA for each program participant using monies transferred from ADE.) In FY 2012 (the program's first year), approximately 130 students received $1.5 M in total ESA funding.

Table 2: Program Restrictions

Type	Category	Donors	Recipients	Use of Funds 1/	Earmarking	Details
Individual	Public School Extracurricular	Individual income tax filers	Public schools	Extracurricular activities and character education	Can designate a specific student, school club, or use	Funds can only be used for activities that supplement the school's education program. 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. A character education program is a program defined in A.R.S. § 15-719.
	Private School STO-1	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 on the basis of 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.
	Private School STO-2	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 "Private STO-1." All restrictions for "Private STO-1" also apply to "Private STO-2." In addition, "Private STO-2" scholarships may only be awarded to public school transfers, kindergarteners, preschool disabled students, military dependents, or pupils who received a corporate STO or "Private STO-2" 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 & Insurance Premium	"Low-Income" STO	Corporations & Insurers	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 $75,467 for a family of four for 2010). 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 Calendar Year 2012, a STO can not issue a scholarship in an amount that exceeds: a. $4,800 for students in kindergarten through grade 8 b. $6,100 for students in grades 9 through 12.
	"Displaced/ Disabled" STO	Corporations & Insurers	Private school students with disablities 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 a GED, or have been indentified at any time as having a disability under federal or state law. 2. The student receiving the scholarship must meet one of the following: a. Received a grant or scholarship under the former Arizona Department of Education "displaced or disabled" scholarship program in the 2008/2009 academic year b. 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. c. Enroll in a private school kindergarten or preschool disabled program. d. Be a military dependent. e. Received a corporate STO "displaced or disabled" scholarship in the prior year and continues to attend a qualified private school. 3. 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 can spend a maximum of 10% of those revenues on program administration.

APPENDIX VII

INDIVIDUAL DONATIONS AND SCHOLARSHIPS BY SCHOOL TUITION ORGANIZATION FOR FISCAL YEAR 2011

School Tuition Organization	#	Donation $	#	Scholarship $
Alternative Schools Scholarship Fund	23	$11,731	2	$1,600
Arizona Adventist Scholarships	597	$376,864	344	$368,805
Arizona Christian School Tuition Organization	15,142	$10,987,576	5,327	$11,257,854
Arizona Education Scholarship Foundation	10	$8,600	2	$1,200
Arizona Episcopal Schools Foundation	1,175	$706,276	146	$694,564
Arizona Independent Schools Scholarship Foundation	1,164	$832,713	144	$855,122
Arizona International Academy Scholarship Fund	125	$73,159	21	$64,458
Arizona Lutheran Scholarship Organization	213	$155,213	55	$136,100
Arizona Native Scholastic Enrichment Resource Foundation	0	$0	16	$11,800
Arizona Private Education Scholarship Fund	2,161	$1,661,905	557	$1,247,878
Arizona Scholarship Fund	5,354	$4,098,022	2,753	$3,782,696
Arizona School Choice Trust	810	$781,432	455	$1,156,643
Arizona Tuition Organization	1,675	$1,222,877	644	$1,074,685
Arizona Waldorf Scholarship Fund	282	$177,541	61	$169,429
BEST Student Fund	323	$233,340	66	$207,581
Brophy Community Foundation	1,556	$1,076,741	412	$893,885
Catholic Tuition Organization of the Diocese of Phoenix	14,205	$9,021,215	5,314	$8,821,131
Catholic Tuition Support Organization	7,190	$4,180,532	1,363	$2,430,729
Chabad Tuition Organization	225	$136,592	12	$20,000
Chaparral Mission Scholarship Fund	0	$0	244	$129,481
Christ Lutheran School Foundation	282	$186,178	70	$198,767
Christian Scholarship Foundation	394	$230,392	135	$192,486
Christian Scholarship Fund of Arizona	457	$256,561	194	$311,146
Cochise Christian School Tuition Organization	631	$441,726	318	$446,540
Dynamite Montessori Foundation	69	$54,724	46	$48,350
Flagstaff Scholarship Fund	270	$159,500	91	$162,150
Foundation of Lutherans interested in Funding Education	78	$51,261	44	$57,319

School Tuition Organization	#	Donation $	#	Scholarship $
Higher Education for Lutheran Program	1,406	$974,042	546	$792,081
HIGHEReducation School Tuition Organization	4	$2,176	3	$2,176
Institute for Better Education	7,983	$5,788,404	2,688	$4,545,097
Jewish Education Tax Credit Organization	818	$556,670	112	$634,584
Jewish Tuition Organization	2,352	$1,628,631	361	$1,553,215
Just Friends of Education	2	$1,200	2	$1,104
Life Development Institute Education Foundation	14	$11,150	1	$4,000
Lutheran Education Foundation	168	$100,755	59	$117,626
Montessori Scholarship Organization	462	$380,164	151	$309,401
New Valley Education Partners	533	$390,730	33	$342,364
Northern Arizona Christian School Scholarship Fund	485	$307,081	197	$304,744
Orme Primavera Schools Foundation	334	$203,848	118	$196,570
Pappas Kids Schoolhouse Foundation	331	$213,234	71	$199,050
Pinetop Tuition Support Organization	26	$18,450	10	$12,280
Scholarships for Education Excellence Foundation	65	$51,755	84	$54,375
School Choice Arizona	220	$138,021	9	$93,897
School Tuition Association of Yuma	339	$253,533	145	$206,237
Schools With Heart Foundation	443	$311,720	73	$279,034
Shepherd of the Desert Education Foundation	254	$157,338	132	$277,657
Southern Arizona Foundation for Education	471	$312,594	160	$327,608
Tempe Montessori Parent's Organization	175	$125,301	21	$41,913
Tuition Organization for Private Schools	2,049	$1,399,222	800	$1,146,809
Valley Lutheran Scholarship Organization	163	$91,448	100	$87,000
White Mountain Tuition Support Foundation	263	$162,953	137	$262,280
Yuma's Education Scholarship Fund for Kids	916	$705,509	463	$564,586
TOTAL	**74,687**	**$51,408,600**	**25,312**	**$47,099,084**

PUBLIC SCHOOL EXTRACURRICULAR ACTIVITY FEE TAX CREDIT

Public School Extracurricular Activity Fee Tax Credit

Summary

- In Calendar Year (CY) 2011, the Public School Extracurricular Activity Fee Tax Credit was claimed by 250,210 taxpayers. The total dollar value of the credit was $48.4 million, distributed as follows:
  - School districts – $42.0 million
  - Charter schools – $6.4 million
- The average CY 2011 contribution was $194
  - School districts – $186
  - Charter schools – $262
  - Total number of contributions – 250,210
- The average CY 2011 contribution per pupil was $46 (factored over all public school pupils statewide)
  - School districts – $45
  - Charter schools – $54
- Eleven districts received more than $1 million each and accounted for $25.4 million (52%) of the total.
- School districts with higher family income levels tended to receive higher average contributions per pupil. Other factors affecting contribution levels could include:
  - District administration
  - Community involvement

Statutes

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

Description

This credit is provided to taxpayers for any fees or contributions made to a K-12 public school in support of extracurricular activities or character education programs. School districts are not allowed to use any portion of contribution revenues for program administration. Laws 2011, Chapter 195, however, permits schools to use up to 50% of unencumbered contributions from 2010 and prior years on "short-term capital".

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; and
- 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; and
- Presentations by teachers or mentors who demonstrate the character traits.

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 public school extracurricular activity fee tax credit was created by Laws 1997, Chapter 48 and became effective January 1, 1998. The credit was added as an amendment in the Senate Education Committee to a bill (HB 2074), which already contained provisions to establish a private school tuition organization tax credit. In its final form, therefore, Chapter 48 created both the public school extracurricular activity fee tax credit and the private school tuition organization tax credit.

As originally enacted, the maximum credit allowed was $200. Laws 2000, Chapter 1, 5th Special Session increased the cap to $250 for married taxpayers filing a joint return. Laws 2005, Chapter 334 increased the maximum credit for married couples filing jointly from $250 to $300 for taxable year 2005 and to $400 for taxable year 2006 and thereafter. The maximum credit for single individuals and heads of households was left unchanged at $200.

The credit did not initially contain a provision allowing a claim for contributions to character education programs. These programs were added with the passage of Laws 2000, Chapter 313.

The statute creating the tax credit does not include a specific statement of purpose or a rationale. According to a March 2002 Arizona State University Education Policy Studies Laboratory Report, the credit was added to HB 2074 as a compromise to opponents of the original legislation. The likely intent is to assist parents with the cost of extracurricular activities.

Revenue Impact

For Tax Year 2011, the Arizona Department of Revenue (DOR) reports that public schools received $48.4 million in extracurricular fees and contributions and that 250,210 individuals claimed $48.4 million in related tax credits. Historical data on contributions and credits under the program are summarized in the table below.

Table 1

Public School Extracurricular Activity Fee Tax Credit Contributions

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

Table 1 shows that total fees and contributions have increased from $9.0 million in 1998, the first year the credit was offered, to $48.4 million in 2011. The average contribution also has increased, from $121 in 1998 to $194 in 2011. The largest one-year growth occurred in 2006, which is when the maximum credit increased to its current level of $400 for married couples filing jointly. Thereafter total fees and contributions remained at roughly $44 million per year until 2011 (the most recently reported year), when they increased to $48.4 million (10.8% growth). Laws pertaining to the program (including the maximum allowed credit) were essentially unchanged for 2011, so the 10.8% growth observed for the year may have been due to an improving economy.

DOR's annual reports on "Arizona Income Tax Credits" assume that the amount of tax credits claimed by individuals under the program in any given year equals total available credits. The revenue impact of the program can not be determined with certainty; however, as an individual tax filer could claim a tax credit of more or less than the amount of their current year public school fees and contributions under certain circumstances. A filer would have to claim less than their total fees and contributions, for example, if it exceeded the maximum allowable tax credit for the year. They would claim more than their current year fees and contributions if their claim also included carry-forward credits from any of the past 5 years.

Laws 2011, Chapter 195 allows public schools to use up to 50% of unencumbered extracurricular program fees and contributions received prior to FY 2011 to purchase "short term capital items," such as textbooks and equipment. Chapter 195 requires public schools to report such expenditures to the JLBC at the end of each fiscal year. For FY 2012, 45 school districts and charter schools reported $1.6 million in short-term capital expenditures under Chapter 195. The total includes $752,600 for technology (47%), $462,400 for furniture and equipment (29%), $211,800 for instructional aids (13%), $143,700 for textbooks (9%) and $42,700 for library resources (3%). Reporting districts and charters also indicate that they collectively had approximately $7.1 million in total unencumbered pre-FY 2011 "tax credit" contributions available as of July 1, 2011, which was the first day of the reporting period for FY 2012.

School districts are not allowed to use revenues generated from contributions for program administration. The Arizona Association of School Business Officials (AASBO) has indicated that authorizing districts to use 5-10% of revenues for administration might benefit some districts with the costs of running these programs.

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 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 $48.4 million in extracurricular fees and contributions reported for 2011 includes $42.0 million to school districts and $6.4 million to charter schools. Eleven districts generated over $1 million each and accounted for $25.4 million (52%) of total revenues *(see Attachment 1)*. Twelve charter schools collected over $100,000 each. Twenty districts and 74 charters did not report or reported receiving no contributions.

Contributions to school districts ranged from $0 to $284 per pupil in 2011, with an average per pupil contribution of $45 ($42 million district total ÷ 929,700 grand total district Average Daily Membership [ADM] pupils = $45). Charter contributions ranged from $0 to $390 per pupil in 2011 (for charters with at least $100,000 in program revenues), with an average contribution of $54 per student ($6.4 million charter total ÷ 119,700 grand total charter ADM = $54).

Attachments 1 & 2 rank school districts by total dollars received and dollars received per pupil. *Attachment 1* shows that the largest school districts in the state tend to receive the most extracurricular fees and contributions. The 2 largest school districts in the state, Mesa Unified and Tucson Unified, for example, ranked 1 & 2, respectively, in total contributions and fees. *Attachment 2*, however, shows that small to medium size districts tend to report higher average fees and contributions per pupil. Prescott Unified, for example, (a medium size district) reported an average of $261 per ADM versus $97 and $59 for Mesa Unified and Tucson Unified, respectively.

Attachments 1 & 2 also show each school district's participation rate in the Federal School Lunch Program in FY 2011. School district free or reduced price lunch data is often used as an indicator of average family income levels in a community. For FY 2011, a child from a family of 4 qualified for a free school lunch if their family had an annual income of $28,665 or less. They qualified for a reduced price lunch if their household income was $40,793 or less. For FY 2011, 56.9% of public school students statewide qualified for free or reduced price school lunches.

Comparing contributions per student with data on the percent of students eligible for a free or reduced price lunch, a statistical analysis of the data revealed that school districts with a lower percentage of free or reduced price lunch students generated a higher level of contributions per student and vice versa. Districts with lower than average (56.9%) participation in the free or reduced price lunch program received an average contribution of $65 per pupil in 2011, while districts with above average participation received an average of $23 per student. (Charter schools were not analyzed in a similar manner as free or reduced price lunch eligibility information was available for only a limited number of charters.)

While the above analysis demonstrated that a relationship between family income and contribution levels exists, a further examination of the data established that the size of the district impacted the strength of this relationship. In larger school districts with over 1,000 students, the relationship was much more pronounced, meaning that income levels played a greater role in determining contributions in those districts. The relationship was weaker in smaller school districts with 1,000 students or less, indicating that income levels only had a slight impact on contribution rates in those districts.

Since family income levels only minimally affected contribution rates in smaller districts, and accounted for some, but not all, of the difference in contributions in larger districts, there must be other factors that impact contribution levels. Although there is no data available to evaluate the impact of other factors, one such factor could include the ability of the school district administration to advertise the credit and make it accessible to potential contributors. For example, a quick survey of certain school districts showed that while most districts appear to advertise the credit on their web site and include a printable contribution form, some districts do not. Another factor that might impact contribution levels is the community's involvement in its school system. Community involvement could include volunteer organizations, such as the Parent Teacher Association.

Complexity

DOR indicates that the public school extracurricular activity tax credit has become more difficult to administer since 2006 due to recent statutory changes. A.R.S. § 43-1089.01 now requires a public school to report how the tax credit money was spent categorized by specific extracurricular activity or character education program *(see Table 2 below).* It also now permits school districts to temporarily use up to 50% of the unencumbered contributions received on or before December 31, 2010 for short term capital items and requires participating districts to report such expenditures to the JLBC *(see Table 3 below).* These changes have substantially increased data collection and reporting responsibilities for public schools and DOR in administering the tax credit program. DOR notes that the new requirement that schools report how they spent tax credit monies "(has) provided valuable feedback and an opportunity to contact schools that might need additional assistance in determining if an activity is eligible for the tax credit."

Table 2

Extracurricular Fee Funding by Category of Activity (CY 2011)

Description	$ Spent	% of Total
Athletics or Sports	$12,183,076	26.7%
Field Trips	9,523,140	20.9%
Other Clubs	5,808,870	12.7%
After School Enrichment	3,587,883	7.9%
Fine Arts	2,360,882	5.2%
Band	2,122,509	4.7%
Extended Day or After School Program	2,051,457	4.5%
Extended Kindergarten Enrichment	1,470,306	3.2%
Character Education	1,064,697	2.3%
Music	1,042,972	2.3%
Short-Term Capital Items (Laws 2011, Ch 195) 1/	848,764	1.9%
Non-Credit Summer Program	662,115	1.5%
Performing Arts, Drama Club, or Dance Club	625,007	1.4%
Choir	603,308	1.3%
Tutoring	525,519	1.2%
Academic Competitions, Chess Club, Speech & Debate	358,042	0.8%
Pending Requests for Extracurricular Activity	347,855	0.8%
Orchestra	294,615	0.6%
Driver Education or Behind the Wheel Program	155,367	0.3%
Total	**$45,636,385**	**100.0%**

1/ Total reported separately to JLBC for FY 2011 rather than CY 2011 was approximately $1.6 million *(see Table 3).*

Table 3

Short-Term Capital Purchases (FY 2011)

Description	$ Spent	% of Total
Technology	$752,575	46.7%
Furniture and Equipment	462,357	28.7%
Instruction Aids	211,849	13.1%
Textbooks	143,696	8.9%
Library Resources	42,700	2.6%
Total	**$1,613,177**	**100.0%**

Potential Performance Measures

Performance measures could include:

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

2. Funding by type of activity.

Prior Review

The credit was last reviewed by the Joint Legislative Income Tax Credit Review Committee in 2006. The Committee recommended at that time that the credit be continued and placed on the 2011 review schedule. This date was later moved to 2012 due to changes in the income tax credit review schedule enacted by Laws 2009, Chapter 32.

ATTACHMENT 1

Analysis of Public School Extracurricular Tax Credit Data for 2011
JLBC Staff
9/25/2012

Notes:
1. "Average Daily Membership" (ADM) and "Free or Reduced Lunch %" data are from ADE for FY 2011.
2. "$ Received" data on public school extracurricular fees and contributions are from DOR for calendar year 2011.
3. The "$ Received" column is blank if a district did not report program data to DOR.
4. The "Free/Reduced Lunch %" is blank if a district does not participate in the federal school lunch program (mostly includes only very small school districts).
5. The analysis excludes charter schools. Charters received $6.4 million in extracurricular fees and contributions for 2011.

Table 1: Sorted by "$ Received"

Rank	District	Total ADM	$ Received	$ per ADM	Free/Reduced Lunch %
1	Mesa Unified District	61,334	5,948,157	97	55.9%
2	Tucson Unified District	50,261	2,972,097	59	68.6%
3	Scottsdale Unified District	24,926	2,540,349	102	26.4%
4	Gilbert Unified District	36,485	2,327,802	64	26.9%
5	Paradise Valley Unified District	31,504	2,220,227	70	34.3%
6	Chandler Unified District	37,083	2,186,408	59	28.5%
7	Kyrene Elementary District	16,763	1,957,514	117	26.9%
8	Peoria Unified School District	35,241	1,520,276	43	39.4%
9	Deer Valley Unified District	33,594	1,405,152	42	28.8%
10	Prescott Unified District	5,007	1,305,235	261	38.8%
11	Catalina Foothills Unified District	4,725	1,019,066	216	8.8%
12	Amphitheater Unified District	13,770	979,620	71	45.9%
13	Tempe Union High School District	13,664	972,131	71	61.9%
14	Flagstaff Unified District	9,493	811,672	85	43.3%
15	Vail Unified District	9,682	800,378	83	23.2%
16	Dysart Unified District	23,031	796,712	35	50.1%
17	Glendale Union High School District	14,626	784,200	54	58.9%
18	Madison Elementary District	5,461	769,438	141	44.2%
19	Cave Creek Unified District	5,569	549,639	99	12.5%
20	Marana Unified District	12,306	532,723	43	38.5%
21	Higley Unified School District	9,540	525,130	55	24.4%
22	Lake Havasu Unified District	5,660	516,775	91	53.4%
23	Payson Unified District	2,307	363,632	158	50.7%
24	Fountain Hills Unified District	1,969	360,209	183	38.9%
25	Washington Elementary District	20,823	339,626	16	73.7%
26	Phoenix Union High School District	24,654	325,596	13	79.3%
27	Tempe School District	11,256	315,676	28	72.9%
28	Agua Fria Union High School District	6,573	282,308	43	39.7%
29	Flowing Wells Unified District	5,076	251,212	49	72.2%
30	Tanque Verde Unified District	1,584	246,190	155	31.0%
31	Sedona-Oak Creek JUSD #9	1,220	220,573	181	45.7%
32	Humboldt Unified District	5,717	212,630	37	60.0%
33	Sunnyside Unified District	16,104	175,411	11	85.0%
34	Nadaburg Unified School District	1,113	169,021	152	65.8%
35	Phoenix Elementary District	6,613	166,387	25	84.5%
36	Sierra Vista Unified District	5,352	166,309	31	34.5%
37	Buckeye Union High School District	3,631	156,426	43	52.2%
38	Sahuarita Unified District	4,738	152,684	32	34.6%
39	Litchfield Elementary District	9,725	145,499	15	40.5%
40	Continental Elementary District	664	142,643	215	36.1%
41	Creighton Elementary District	6,236	136,596	22	93.1%
42	Yuma Union High School District	10,968	136,059	12	58.8%
43	Florence Unified School District	7,904	133,595	17	55.4%
44	Apache Junction Unified District	4,720	130,195	28	56.8%
45	Cottonwood-Oak Creek Elementary	2,005	120,765	60	68.2%
46	Chino Valley Unified District	2,257	118,053	52	72.3%
47	Oracle Elementary District	711	117,364	165	58.2%

Rank	District	Total ADM	$ Received	$ per ADM	Free/Reduced Lunch %
48	Alhambra Elementary District	13,112	111,463	9	92.7%
49	Queen Creek Unified District	5,021	104,479	21	27.3%
50	Blue Ridge Unified District	2,222	98,355	44	50.6%
51	Mingus Union High School District	1,180	94,472	80	43.6%
52	Tolleson Union High School District	9,252	91,898	10	61.1%
53	Yuma Elementary District	8,999	90,019	10	69.1%
54	Kingman Unified School District	6,777	88,723	13	62.0%
55	Wickenburg Unified District	1,134	83,768	74	52.0%
56	Balsz Elementary District	2,534	82,864	33	88.4%
57	Snowflake Unified District	2,485	79,936	32	49.6%
58	Osborn Elementary District	2,903	79,700	27	86.4%
59	Winslow Unified District	2,162	76,099	35	64.0%
60	Roosevelt Elementary District	9,841	74,917	8	91.6%
61	Show Low Unified District	2,199	74,878	34	59.0%
62	Pendergast Elementary District	9,229	66,830	7	67.7%
63	Wilson Elementary District	1,083	65,800	61	94.5%
64	Liberty Elementary District	3,354	65,211	19	48.8%
65	J O Combs Unified School District	4,027	64,791	16	48.8%
66	Cartwright Elementary District	16,541	63,628	4	91.7%
67	Mammoth-San Manuel Unified District	881	57,900	66	72.7%
68	Glendale Elementary District	11,957	57,058	5	87.0%
69	Laveen Elementary District	4,805	54,607	11	72.8%
70	Safford Unified District	2,934	53,464	18	66.2%
71	Colorado River Union HS District	2,310	53,418	23	59.0%
72	East Valley Institute of Technology	8,119	51,863	6	
73	Santa Cruz Valley Unified District	3,330	48,235	14	77.0%
74	Avondale Elementary District	5,680	47,748	8	68.7%
75	Page Unified District	2,733	46,098	17	70.5%
76	Casa Grande Elementary District	7,060	44,929	6	68.4%
77	Clarkdale-Jerome Elementary District	407	40,578	100	51.0%
78	Casa Grande Union HSI District	3,379	40,198	12	58.7%
79	Maricopa Unified School District	5,612	39,632	7	53.2%
80	Holbrook Unified District	1,904	38,751	20	75.6%
81	Nogales Unified District	5,570	38,305	7	80.8%
82	Pine Strawberry Elementary District	150	37,560	251	67.6%
83	Benson Unified School District	1,053	35,901	34	52.4%
84	Williams Unified District	626	34,095	54	62.7%
85	Camp Verde Unified District	1,321	33,274	25	67.9%
86	Crane Elementary District	5,789	33,213	6	70.7%
87	Tombstone Unified District	806	32,588	40	61.9%
88	Isaac Elementary District	6,922	31,701	5	90.6%
89	Willcox Unified District	1,212	31,386	26	67.7%
90	Round Valley Unified District	1,359	30,709	23	52.4%
91	Littleton Elementary District	4,790	30,071	6	79.6%
92	St Johns Unified District	818	28,157	34	54.1%
93	Buckeye Elementary District	4,128	27,820	7	71.0%
94	Murphy Elementary District	1,936	25,610	13	95.2%
95	Thatcher Unified District	1,351	22,908	17	38.6%
96	Bagdad Unified District	397	22,291	56	48.0%
97	Beaver Creek Elementary District	416	21,751	52	78.6%
98	Globe Unified District	1,670	21,705	13	57.8%
99	Palominas Elementary District	1,345	21,680	16	48.2%
100	Douglas Unified District	3,927	21,645	6	84.8%
101	Bisbee Unified District	720	21,350	30	66.3%
102	St David Unified District	429	21,255	50	53.9%
103	Parker Unified School District	1,710	20,759	12	75.7%
104	Sonoita Elementary District	95	20,300	213	28.9%
105	Coolidge Unified District	3,836	19,886	5	75.6%
106	Heber-Overgaard Unified District	455	17,935	39	63.4%
107	Altar Valley Elementary District	888	17,172	19	85.9%
108	Fowler Elementary District	4,297	16,459	4	86.9%
109	Ajo Unified District	410	16,335	40	66.2%
110	Patagonia Union High School District	65	15,197	233	81.1%
111	Tonto Basin Elementary District	90	12,749	142	84.0%
112	Mayer Unified School District	387	12,360	32	84.8%

Rank	District	Total ADM	$ Received	$ per ADM	Free/Reduced Lunch %
113	Palo Verde Elementary District	469	12,182	26	72.8%
114	Pima Unified District	744	11,980	16	63.4%
115	Duncan Unified District	338	11,465	34	52.6%
116	Topock Elementary District	132	11,250	85	80.9%
117	Morristown Elementary District	202	11,128	55	63.7%
118	Saddle Mountain Unified District	1,229	11,088	9	65.8%
119	Bullhead City School District	3,125	11,054	4	80.7%
120	Antelope Union High School District	301	10,300	34	72.2%
121	Miami Unified District	1,117	10,200	9	63.4%
122	Sacaton Elementary District	432	9,700	22	78.3%
123	Somerton Elementary District	2,560	9,190	4	84.2%
124	Eloy Elementary District	994	9,120	9	93.2%
125	Young Elementary District	54	8,860	163	80.4%
126	Arlington Elementary District	255	8,820	35	82.7%
127	Hyder Elementary District	114	8,800	77	93.1%
128	Grand Canyon Unified District	275	8,725	32	47.8%
129	Valley Union High School District	119	8,648	72	58.9%
130	Ray Unified District	509	8,550	17	54.5%
131	San Simon Unified District	91	8,400	92	60.2%
132	Littlefield Unified District	487	8,309	17	83.5%
133	Tolleson Elementary District	2,549	7,935	3	79.2%
134	Alpine Elementary District	63	7,225	115	
135	Seligman Unified District	127	6,830	54	60.0%
136	Patagonia Elementary District	70	6,492	93	
137	Gadsden Elementary District	4,843	6,370	1	97.1%
138	Congress Elementary District	159	6,110	38	73.3%
139	Coconino County Regional SD	118	5,775	49	
140	Mohave Valley Elementary District	1,613	5,771	4	68.8%
141	Pearce Elementary District	82	5,685	69	63.2%
142	Ash Fork Joint Unified District	267	5,302	20	55.7%
143	San Fernando Elementary District	18	5,200	284	
144	Concho Elementary District	221	4,900	22	88.0%
145	Gila Bend Unified District	408	4,900	12	74.2%
146	Maine Consolidated School District	134	4,650	35	46.2%
147	Fort Huachuca Accommodation	950	4,549	5	33.7%
148	Maricopa County Regional District	435	4,500	10	
149	Mary C O'Brien Accommodation	206	4,450	22	67.1%
150	Red Rock Elementary District	284	4,235	15	50.4%
151	Joseph City Unified District	468	4,205	9	46.8%
152	Riverside Elementary District	703	4,200	6	89.5%
153	Gila County Regional School District	114	4,000	35	
154	Mohawk Valley Elementary District	149	4,000	27	72.5%
155	Vernon Elementary District	165	3,750	23	
156	Bonita Elementary District	97	3,700	38	49.1%
157	Morenci Unified District	1,120	3,700	3	37.3%
158	Santa Cruz Valley Union HS District	404	3,684	9	81.5%
159	Tuba City Unified District	1,598	3,625	2	80.3%
160	Toltec Elementary District	1,217	3,600	3	80.5%
161	Union Elementary District	1,553	3,600	2	87.6%
162	Solomon Elementary District	234	3,500	15	58.5%
163	Yarnell Elementary District	66	3,500	53	87.3%
164	Whiteriver Unified District	1,915	3,400	2	86.8%
165	Quartzsite Elementary District	230	3,236	14	89.8%
166	Fredonia-Moccasin Unified District	289	3,234	11	78.3%
167	Aguila Elementary District	206	3,200	16	91.9%
168	Mcnary Elementary District	153	3,150	21	91.5%
169	Skull Valley Elementary District	44	3,150	71	36.0%
170	Pomerene Elementary District	173	3,000	17	45.7%
171	Elfrida Elementary District	119	2,950	25	85.4%
172	McNeal Elementary District	76	2,750	36	62.3%
173	Bowie Unified District	76	2,650	35	
174	Superior Unified School District	426	2,550	6	88.4%
175	Mobile Elementary District	20	2,500	122	56.0%
176	Hayden-Winkelman Unified District	344	2,300	7	72.1%
177	Naco Elementary District	390	2,200	6	94.4%

Rank	District	Total ADM	$ Received	$ per ADM	Free/Reduced Lunch %
178	Picacho Elementary District	210	2,200	10	83.0%
179	Bicentennial Union HS District	130	2,153	17	87.4%
180	Ft Thomas Unified District	492	2,034	4	81.9%
181	Cochise Elementary District	82	2,000	24	44.6%
182	Canon Elementary District	237	1,800	8	76.0%
183	Clifton Unified District	59	1,800	31	
184	Double Adobe Elementary District	66	1,800	27	
185	Sentinel Elementary District	29	1,800	62	78.1%
186	Wellton Elementary District	327	1,800	6	71.6%
187	Bouse Elementary District	38	1,600	43	77.1%
188	Stanfield Elementary District	636	1,400	2	87.2%
189	Hillside Elementary District	32	1,365	42	
190	Wenden Elementary District	80	1,250	16	54.2%
191	Ash Creek Elementary District	38	1,050	28	79.1%
192	San Carlos Unified District	1,302	1,000	1	87.6%
193	Chinle Unified District	3,562	907	0	81.6%
194	Colorado City Unified District	325	825	3	82.7%
195	Salome Consolidated Elementary	96	800	8	85.2%
196	Kirkland Elementary District	100	740	7	52.5%
197	Blue Elementary District	10	650	68	
198	Crown King Elementary District	6	400	70	
199	Pinon Unified District	1,177	400	0	92.1%
200	Window Rock Unified District	2,307	400	0	76.8%
201	Kayenta Unified District	1,923	250	0	85.7%
202	Apache Elementary District	9	200	22	
203	Chevelon Butte School District	25	0	0	
204	Empire Elementary District	12	0	0	
205	Ganado Unified School District	1,488	0	0	78.3%
206	Owens-Whitney Elementary District	34	0	0	64.3%
207	Peach Springs Unified District	207	0	0	100.0%
208	Pima Accommodation District	100	0	0	
209	Red Mesa Unified District	945	0	0	81.9%
210	Redington Elementary District	12	0	0	
211	Sanders Unified District	907	0	0	90.6%
212	Santa Cruz County Regional District	44	0	0	
213	Santa Cruz Elementary District	273	0	0	72.9%
214	Valentine Elementary District	70	0	0	
215	Cedar Unified District	275		0	24.3%
216	Central AZ Valley Institute of Tech	970		0	
217	Cobre Valley Inst of Technology	233		0	
218	Cochise Technology District	571		0	
219	Coconino Assn for Voc Ind and Tech	651		0	
220	Gila Institute for Technology	381		0	
221	Hackberry School District	37		0	100.0%
222	Indian Oasis-Baboquivari Unified	940		0	70.1%
223	Klondyke Elementary District	1		0	
224	Mountain Institute JTED	557		0	
225	Northeast AZ Tech Inst of Voc Ed	794		0	
226	Northern AZ Voc Institute of Tech	1,125		0	
227	Paloma School District	89		0	66.3%
228	Pima County JTED	4,893		0	
229	Rainbow Accommodation School	1		0	
230	Valley Academy for Career and Tech	362		0	
231	Walnut Grove Elementary District	10		0	
232	Western Arizona Voc District #50	849		0	
233	West-MEC	6,647		0	
234	Williamson Valley Elementary District	35		0	
235	Yavapai Accommodation District	73		0	
236	Yucca Elementary District	28		0	76.9%
	STATE TOTALS (districts only)	923,133	41,970,403	45	56.9%

ATTACHMENT 2

Table 2: Sorted by "$ per ADM"

Rank	District	Total ADM	$ Received	$ per ADM	Free/Reduced Lunch %
1	San Fernando Elementary District	18	5,200	284	
2	Prescott Unified District	5,007	1,305,235	261	38.8%
3	Pine Strawberry Elementary District	150	37,560	251	67.6%
4	Patagonia Union High School District	65	15,197	233	81.1%
5	Catalina Foothills Unified District	4,725	1,019,066	216	8.8%
6	Continental Elementary District	664	142,643	215	36.1%
7	Sonoita Elementary District	95	20,300	213	28.9%
8	Fountain Hills Unified District	1,969	360,209	183	38.9%
9	Sedona-Oak Creek JUSD #9	1,220	220,573	181	45.7%
10	Oracle Elementary District	711	117,364	165	58.2%
11	Young Elementary District	54	8,860	163	80.4%
12	Payson Unified District	2,307	363,632	158	50.7%
13	Tanque Verde Unified District	1,584	246,190	155	31.0%
14	Nadaburg Unified School District	1,113	169,021	152	65.8%
15	Tonto Basin Elementary District	90	12,749	142	84.0%
16	Madison Elementary District	5,461	769,438	141	44.2%
17	Mobile Elementary District	20	2,500	122	56.0%
18	Kyrene Elementary District	16,763	1,957,514	117	26.9%
19	Alpine Elementary District	63	7,225	115	
20	Scottsdale Unified District	24,926	2,540,349	102	26.4%
21	Clarkdale-Jerome Elementary District	407	40,578	100	51.0%
22	Cave Creek Unified District	5,569	549,639	99	12.5%
23	Mesa Unified District	61,334	5,948,157	97	55.9%
24	Patagonia Elementary District	70	6,492	93	
25	San Simon Unified District	91	8,400	92	60.2%
26	Lake Havasu Unified District	5,660	516,775	91	53.4%
27	Flagstaff Unified District	9,493	811,672	85	43.3%
28	Topock Elementary District	132	11,250	85	80.9%
29	Vail Unified District	9,682	800,378	83	23.2%
30	Mingus Union High School District	1,180	94,472	80	43.6%
31	Hyder Elementary District	114	8,800	77	93.1%
32	Wickenburg Unified District	1,134	83,768	74	52.0%
33	Valley Union High School District	119	8,648	72	58.9%
34	Skull Valley Elementary District	44	3,150	71	36.0%
35	Tempe Union High School District	13,664	972,131	71	61.9%
36	Amphitheater Unified District	13,770	979,620	71	45.9%
37	Paradise Valley Unified District	31,504	2,220,227	70	34.3%
38	Crown King Elementary District	6	400	70	
39	Pearce Elementary District	82	5,685	69	63.2%
40	Blue Elementary District	10	650	68	
41	Mammoth-San Manuel Unified District	881	57,900	66	72.7%
42	Gilbert Unified District	36,485	2,327,802	64	26.9%
43	Sentinel Elementary District	29	1,800	62	78.1%
44	Wilson Elementary District	1,083	65,800	61	94.5%
45	Cottonwood-Oak Creek Elementary	2,005	120,765	60	68.2%
46	Tucson Unified District	50,261	2,972,097	59	68.6%
47	Chandler Unified District	37,083	2,186,408	59	28.5%
48	Bagdad Unified District	397	22,291	56	48.0%
49	Morristown Elementary District	202	11,128	55	63.7%
50	Higley Unified School District	9,540	525,130	55	24.4%
51	Williams Unified District	626	34,095	54	62.7%
52	Glendale Union High School District	14,626	784,200	54	58.9%
53	Seligman Unified District	127	6,830	54	60.0%
54	Yarnell Elementary District	66	3,500	53	87.3%
55	Chino Valley Unified District	2,257	118,053	52	72.3%
56	Beaver Creek Elementary District	416	21,751	52	78.6%
57	St David Unified District	429	21,255	50	53.9%
58	Flowing Wells Unified District	5,076	251,212	49	72.2%
59	Coconino County Accommodation SD	118	5,775	49	
60	Blue Ridge Unified District	2,222	98,355	44	50.6%

Rank	District	Total ADM	$ Received	$ per ADM	Free/Reduced Lunch %
61	Marana Unified District	12,306	532,723	43	38.5%
62	Peoria Unified School District	35,241	1,520,276	43	39.4%
63	Buckeye Union High School District	3,631	156,426	43	52.2%
64	Agua Fria Union High School District	6,573	282,308	43	39.7%
65	Bouse Elementary District	38	1,600	43	77.1%
66	Hillside Elementary District	32	1,365	42	
67	Deer Valley Unified District	33,594	1,405,152	42	28.8%
68	Tombstone Unified District	806	32,588	40	61.9%
69	Ajo Unified District	410	16,335	40	66.2%
70	Heber-Overgaard Unified District	455	17,935	39	63.4%
71	Congress Elementary District	159	6,110	38	73.3%
72	Bonita Elementary District	97	3,700	38	49.1%
73	Humboldt Unified District	5,717	212,630	37	60.0%
74	McNeal Elementary District	76	2,750	36	62.3%
75	Gila County Regional School District	114	4,000	35	
76	Winslow Unified District	2,162	76,099	35	64.0%
77	Bowie Unified District	76	2,650	35	
78	Maine Consolidated School District	134	4,650	35	46.2%
79	Arlington Elementary District	255	8,820	35	82.7%
80	Dysart Unified District	23,031	796,712	35	50.1%
81	St Johns Unified District	818	28,157	34	54.1%
82	Antelope Union High School District	301	10,300	34	72.2%
83	Benson Unified School District	1,053	35,901	34	52.4%
84	Show Low Unified District	2,199	74,878	34	59.0%
85	Duncan Unified District	338	11,465	34	52.6%
86	Balsz Elementary District	2,534	82,864	33	88.4%
87	Sahuarita Unified District	4,738	152,684	32	34.6%
88	Snowflake Unified District	2,485	79,936	32	49.6%
89	Mayer Unified School District	387	12,360	32	84.8%
90	Grand Canyon Unified District	275	8,725	32	47.8%
91	Sierra Vista Unified District	5,352	166,309	31	34.5%
92	Clifton Unified District	59	1,800	31	
93	Bisbee Unified District	720	21,350	30	66.3%
94	Tempe School District	11,256	315,676	28	72.9%
95	Ash Creek Elementary District	38	1,050	28	79.1%
96	Apache Junction Unified District	4,720	130,195	28	56.8%
97	Osborn Elementary District	2,903	79,700	27	86.4%
98	Double Adobe Elementary District	66	1,800	27	
99	Mohawk Valley Elementary District	149	4,000	27	72.5%
100	Palo Verde Elementary District	469	12,182	26	72.8%
101	Willcox Unified District	1,212	31,386	26	67.7%
102	Camp Verde Unified District	1,321	33,274	25	67.9%
103	Phoenix Elementary District	6,613	166,387	25	84.5%
104	Elfrida Elementary District	119	2,950	25	85.4%
105	Cochise Elementary District	82	2,000	24	44.6%
106	Colorado River Union HS District	2,310	53,418	23	59.0%
107	Vernon Elementary District	165	3,750	23	
108	Round Valley Unified District	1,359	30,709	23	52.4%
109	Sacaton Elementary District	432	9,700	22	78.3%
110	Concho Elementary District	221	4,900	22	88.0%
111	Creighton Elementary District	6,236	136,596	22	93.1%
112	Apache Elementary District	9	200	22	
113	Mary C O'Brien Accommodation District	206	4,450	22	67.1%
114	Queen Creek Unified District	5,021	104,479	21	27.3%
115	Mcnary Elementary District	153	3,150	21	91.5%
116	Holbrook Unified District	1,904	38,751	20	75.6%
117	Ash Fork Joint Unified District	267	5,302	20	55.7%
118	Liberty Elementary District	3,354	65,211	19	48.8%
119	Altar Valley Elementary District	888	17,172	19	85.9%
120	Safford Unified District	2,934	53,464	18	66.2%
121	Pomerene Elementary District	173	3,000	17	45.7%
122	Littlefield Unified District	487	8,309	17	83.5%

Rank	District	Total ADM	$ Received	$ per ADM	Free/Reduced Lunch %
123	Thatcher Unified District	1,351	22,908	17	38.6%
124	Florence Unified School District	7,904	133,595	17	55.4%
125	Page Unified District	2,733	46,098	17	70.5%
126	Ray Unified District	509	8,550	17	54.5%
127	Bicentennial Union High School District	130	2,153	17	87.4%
128	Washington Elementary School District	20,823	339,626	16	73.7%
129	Palominas Elementary District	1,345	21,680	16	48.2%
130	Pima Unified District	744	11,980	16	63.4%
131	J O Combs Unified School District	4,027	64,791	16	48.8%
132	Wenden Elementary District	80	1,250	16	54.2%
133	Aguila Elementary District	206	3,200	16	91.9%
134	Solomon Elementary District	234	3,500	15	58.5%
135	Litchfield Elementary District	9,725	145,499	15	40.5%
136	Red Rock Elementary District	284	4,235	15	50.4%
137	Santa Cruz Valley Unified District	3,330	48,235	14	77.0%
138	Quartzsite Elementary District	230	3,236	14	89.8%
139	Murphy Elementary District	1,936	25,610	13	95.2%
140	Phoenix Union High School District	24,654	325,596	13	79.3%
141	Kingman Unified School District	6,777	88,723	13	62.0%
142	Globe Unified District	1,670	21,705	13	57.8%
143	Yuma Union High School District	10,968	136,059	12	58.8%
144	Parker Unified School District	1,710	20,759	12	75.7%
145	Gila Bend Unified District	408	4,900	12	74.2%
146	Casa Grande Union High School District	3,379	40,198	12	58.7%
147	Laveen Elementary District	4,805	54,607	11	72.8%
148	Fredonia-Moccasin Unified District	289	3,234	11	78.3%
149	Sunnyside Unified District	16,104	175,411	11	85.0%
150	Picacho Elementary District	210	2,200	10	83.0%
151	Maricopa County Regional District	435	4,500	10	
152	Yuma Elementary District	8,999	90,019	10	69.1%
153	Tolleson Union High School District	9,252	91,898	10	61.1%
154	Eloy Elementary District	994	9,120	9	93.2%
155	Miami Unified District	1,117	10,200	9	63.4%
156	Santa Cruz Valley Union HS District	404	3,684	9	81.5%
157	Saddle Mountain Unified School District	1,229	11,088	9	65.8%
158	Joseph City Unified District	468	4,205	9	46.8%
159	Alhambra Elementary District	13,112	111,463	9	92.7%
160	Avondale Elementary District	5,680	47,748	8	68.7%
161	Salome Consolidated Elementary	96	800	8	85.2%
162	Roosevelt Elementary District	9,841	74,917	8	91.6%
163	Canon Elementary District	237	1,800	8	76.0%
164	Kirkland Elementary District	100	740	7	52.5%
165	Pendergast Elementary District	9,229	66,830	7	67.7%
166	Maricopa Unified School District	5,612	39,632	7	53.2%
167	Nogales Unified District	5,570	38,305	7	80.8%
168	Buckeye Elementary District	4,128	27,820	7	71.0%
169	Hayden-Winkelman Unified District	344	2,300	7	72.1%
170	East Valley Institute of Technology	8,119	51,863	6	
171	Casa Grande Elementary District	7,060	44,929	6	68.4%
172	Littleton Elementary District	4,790	30,071	6	79.6%
173	Superior Unified School District	426	2,550	6	88.4%
174	Riverside Elementary District	703	4,200	6	89.5%
175	Crane Elementary District	5,789	33,213	6	70.7%
176	Naco Elementary District	390	2,200	6	94.4%
177	Wellton Elementary District	327	1,800	6	71.6%
178	Douglas Unified District	3,927	21,645	6	84.8%
179	Coolidge Unified District	3,836	19,886	5	75.6%
180	Fort Huachuca Accommodation District	950	4,549	5	33.7%
181	Glendale Elementary District	11,957	57,058	5	87.0%
182	Isaac Elementary District	6,922	31,701	5	90.6%
183	Ft Thomas Unified District	492	2,034	4	81.9%
184	Cartwright Elementary District	16,541	63,628	4	91.7%

Rank	District	Total ADM	$ Received	$ per ADM	Free/Reduced Lunch %
185	Fowler Elementary District	4,297	16,459	4	86.9%
186	Somerton Elementary District	2,560	9,190	4	84.2%
187	Mohave Valley Elementary District	1,613	5,771	4	68.8%
188	Bullhead City School District	3,125	11,054	4	80.7%
189	Morenci Unified District	1,120	3,700	3	37.3%
190	Tolleson Elementary District	2,549	7,935	3	79.2%
191	Toltec Elementary District	1,217	3,600	3	80.5%
192	Colorado City Unified District	325	825	3	82.7%
193	Union Elementary District	1,553	3,600	2	87.6%
194	Tuba City Unified District	1,598	3,625	2	80.3%
195	Stanfield Elementary District	636	1,400	2	87.2%
196	Whiteriver Unified District	1,915	3,400	2	86.8%
197	Gadsden Elementary District	4,843	6,370	1	97.1%
198	San Carlos Unified District	1,302	1,000	1	87.6%
199	Pinon Unified District	1,177	400	0	92.1%
200	Chinle Unified District	3,562	907	0	81.6%
201	Window Rock Unified District	2,307	400	0	76.8%
202	Kayenta Unified District	1,923	250	0	85.7%
203	Chevelon Butte School District	25	0	0	
204	Empire Elementary District	12	0	0	
205	Ganado Unified School District	1,488	0	0	78.3%
206	Owens-Whitney Elementary District	34	0	0	64.3%
207	Peach Springs Unified District	207	0	0	100.0%
208	Pima Accommodation District	100	0	0	
209	Red Mesa Unified District	945	0	0	81.9%
210	Redington Elementary District	12	0	0	
211	Sanders Unified District	907	0	0	90.6%
212	Santa Cruz County School District	44	0	0	
213	Santa Cruz Elementary District	273	0	0	72.9%
214	Valentine Elementary District	70	0	0	
215	Cedar Unified District	275		0	24.3%
216	Central Arizona Valley Institute of Tech	970		0	
217	Cobre Valley Institute of Technology	233		0	
218	Cochise Technology District	571		0	
219	Coconino Assn for Voc Indstry and Tech	651		0	
220	Gila Institute for Technology	381		0	
221	Hackberry School District	37		0	100.0%
222	Indian Oasis-Baboquivari Unified District	940		0	70.1%
223	Klondyke Elementary District	1		0	
224	Mountain Institute JTED	557		0	
225	Northeast AZ Tech Institute of Voc Ed	794		0	
226	Northern AZ Voc Institute of Technology	1,125		0	
227	Paloma School District	89		0	66.3%
228	Pima County JTED	4,893		0	
229	Rainbow Accommodation School	1		0	
230	Valley Academy for Career and Tech	362		0	
231	Walnut Grove Elementary District	10		0	
232	Western Arizona Vocational District #50	849		0	
233	West-MEC	6,647		0	
234	Williamson Valley Elementary District	35		0	
235	Yavapai Accommodation School District	73		0	
236	Yucca Elementary District	28		0	76.9%
	STATE TOTALS (districts only)	923,133	41,970,403		56.9%

SOLAR HOT WATER HEATER PLUMBING STUB OUTS AND ELECTRIC VEHICLE RECHARGE OUTLETS TAX CREDIT

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

Summary

- The cost of the Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets Tax Credit was $1,568 in tax year 2009, and $0 in tax years 2010 and 2011. Credit use has never exceeded $12,000 in a single year.
- The Individual Income Tax credit was claimed by 16 taxpayers in tax year 2009 with an average claim of $98. There have been no Corporate Income Tax credit claims since 2000.
- Trends have favored other technologies more than those promoted by this tax credit.

Statutes

A.R.S. § 43-1090 (Individual)
A.R.S. § 43-1176 (Corporate)

Description

The statutes provide individuals or corporations with an income tax credit for installing residential 1) solar water heater plumbing stub outs, or 2) electric vehicle recharge outlets. A "stub out" is a fixture that is designed to accommodate additions to the original plumbing. The statute defines the specific types of pipes and wires that are required for the stub out to qualify for the tax credit. The recharge outlets must be connected to the utility system by a dedicated line that meets various codes and industry standards.

The credit cannot exceed $75 for each installation for each separate dwelling unit. The credit may be transferred from the builder to the purchaser of the dwelling.

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

Arizona's current solar energy device tax credit was signed into law in June 1994 (Laws 1994, Chapter 117) and became effective for the 1995 tax year. (*See separate discussion on Commercial and Industrial Solar Energy Device Tax Credit.*) Laws 1997, Chapter 218 amended the list of qualifying solar energy devices to exclude "a solar hot water heater plumbing stub-out that was installed by the builder of a house or dwelling unit before title was conveyed to the taxpayer." This law also created a separate tax credit for these devices (A.R.S. § 43-1090).

The statutes creating the tax credits for solar stub outs and electric vehicle recharge outlets do not include a specific statement of purpose or a rationale. The credits were included in a floor amendment to SB 1523 that was passed by the House Committee of the Whole. An earlier bill, HB 2440, which included provisions for the solar energy device tax credit, was heard by the House Ways and Means Committee. At that time, the bill's sponsor stated the purpose of the solar energy tax incentives was to restore Arizona to a position of leadership in the solar energy field and to promote energy efficiency**.**

Revenue Impact

The preliminary cost of the individual tax credit was $1,568 in 2009, the last year in which individual credits were used. The corporate income tax credit has not been claimed since 2000. The data in *Table 1* below, which was provided by the Arizona Department of Revenue, shows the individual income tax impact of this credit.

Table 1

Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets Tax Credit – Individual Credit Claims by Tax Year

Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward
1998	23	$12,352	$8,874	$3,478
1999	35	16,859	7,944	8,915
2000	35	21,308	11,566	9,742
2001	18	16,951	7,804	9,147
2002	15	4,920	3,312	1,608
2003	2	x	x	x
2004	17	15,220	5,677	9,543
2005	22	18,538	9,687	8,851
2006	6	525	525	0
2007	0	0	0	0
2008	11	1,053	930	123
2009	16	2,850	1,568	1,282
2010	0	0	0	0
2011	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, 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.
x – No data released by the Department of Revenue.

Solar Energy Industry Trends

When the solar stub out credit was created in the late 1990s, water heaters were the primary focus of solar energy technology and public policy. In spite of federal and state tax incentives and public utility rebate programs, solar water heaters did not prove to be widely popular among consumers and businesses. In spite of the credit, there was little interest from home builders and buyers in plumbing modifications for solar water heater installations.

In recent years, solar energy technology has evolved, and tax incentives and regulatory policies have emerged to encourage investment in photovoltaic systems that generate electricity rather than merely heat water. At the same time, growing interest in other forms of renewable energy, such as wind, biomass, and biodiesel fuels, has diverted some energy investments away from solar energy technologies.

Electric Vehicle Industry Trends

The federal government established a tax credit for the purchase of qualified electric vehicles with the Energy Policy Act of 1992. The credit, which was for 10% of the cost of the vehicle up to a maximum of $4,000, expired in 2007. A similar credit of $2,500 to $7,500 for purchase of a plug-in electric vehicle

(PEV) bought after December 31, 2009 was created by the American Recovery and Reinvestment Act of 2009. The size of the credit depends on the vehicle's battery capacity and weight. This incentive remains available to buyers until manufacturers' sales of these vehicles grow to 200,000 in a calendar year quarter. The federal government also provided subsidies to manufacturers to promote the development of PEVs.

Sales of PEVs have begun to grow moderately as new models become less expensive and can be driven for longer distances without being recharged; however, non plug-in hybrid vehicles that combine internal combustion engines with electric motors remain substantially more popular.

Economic Benefits

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

There is no economic development at this level of credit usage. Investment in solar energy equipment has increased in recent years, whereas the market for plug-in electric vehicles remains small compared to the market for hybrid electric vehicles.

Complexity

The credit does not appear to be unusually complex in its description, calculation and application. The low usage of this tax credit, however, does not appear to warrant the related administrative costs.

Potential Performance Measures

At this usage level, administering performance measures would outweigh the tax expenditure from the credit.

Prior Review

The credit was last reviewed by the Joint Legislative Income Tax Credit Review Committee in 2006. The Committee recommended at that time that the credit be eliminated. No bill was introduced during the 2007 regular session to repeal the credit.