Joint Legislative Budget Committee
Staff Memorandum

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DATE: December 8, 2005

TO: Members, Joint Legislative Income Tax Credit Review Committee

FROM: Tim Everill, Revenue Section Chief

SUBJECT: 2005 INCOME TAX CREDIT REVIEW

This memo transmits background materials for the December 14**,** 2005 meeting of the Joint Legislative Income Tax Credit Review Committee.

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. The credits scheduled for review in 2005 include:

- Employment of Temporary Assistance for Needy Family (TANF) Recipients
  A.R.S. § 43-1087 (Individual)
  A.R.S. § 43-1175 (Corporate)
- Contribution to Charitable Organizations that Provide Assistance to the Working Poor
  A.R.S. § 43-1088 (Individual)

The 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. Based on 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.

Limitations

There are several limitations that affect the evaluation of income tax credits. For example, based on Department of Revenue (DOR) interpretation of Arizona law (A.R.S. § 43-2001), the department is generally prohibited from releasing company-specific tax credit data. While DOR provides tax credit information in aggregate form, in some cases so few companies take a particular credit, there is no financial data available related to the credit.

A second limitation is the timeliness of data that is available. Because tax credit data must be compiled manually from actual hard-copy tax returns, corporate tax credit data is currently available only through tax year 2003 and individual tax credit data through tax year 2004.

And finally, there is generally a 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. It should be noted that Chapter 238 requires any new credit to include a clause that explains the rationale and objective of the credit (A. R. S. § 43-223).

2005 Review

Attached are summaries for each of the income tax credit categories that are included in the 2005 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 or not the credit is refundable. A nonrefundable credit is one in which, when the credit exceeds the taxpayer's tax liability, the amount of credit that is greater than the liability may be carried forward to future tax years (as provided in statute). If a credit is refundable, the amount of credit that exceeds the taxpayer's liability is refunded to the taxpayer in each tax year. All of the credits included in the current review are nonrefundable.

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 it was implemented, and relevant information regarding the intended purpose of the credit.

Revenue Impact – based on information from DOR, information for each tax year on the number of claimants, the amount of new credit identified, total credit identified, credit used, and credit carried forward to a subsequent tax year. In addition, we provide data specific to each tax credit (where applicable), and more detailed definitions of the above terms.

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

Complexity – information related to the complexity of administration and application of each tax credit, including the perspective of the state agency administering the credit (generally DOR), trade associations, and representatives of the businesses and/or individuals that claim the credits.

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

Information under the above headings from each income tax credit category was obtained from a variety of sources. 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. Staff also had discussions with current and former legislative staff.

Staff also reviewed summaries and minutes of committee and subcommittee hearings that were held prior to adoption of the credits. In addition, research conducted by the Governor's Citizens Finance Review Committee was reviewed. Various state agencies were contacted, including DOR and the Department of Economic Security.

In order to get a perspective on each credit from those who actually claim the credit, various business and non-profit organizations, as well as industry and government representatives were contacted.

And finally, the Arizona Tax Research Association, the Arizona Chamber of Commerce, the Roman Catholic Diocese of Phoenix, the United Way, and the Children's Action Alliance were contacted.

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Attachments - 3

Attachment 1

Employment of Temporary Assistance for Needy Families (TANF) Recipients Credit

Summary

- Very few corporate and individual taxpayers have used the credit. The corporate credit was claimed by a total of 7 taxpayers through 2003. Use of the individual credit was negligible.
- The net cost of the credit was $(430,000) in 2003, the latest tax year for which reasonably complete information is available.
- The number of former TANF recipients claimed as new hires increased dramatically – from 72 in 2001 to 402 in 2003 – as the economy improved.
- The credit supplements similar federal income tax credits. While the state provides up to $500, $1,000 and $1,500 in credits for the first 3 years after hiring a TANF recipient, an employer may also qualify for federal tax credits of up to $3,500 in the first year and $5,000 in the second year.
- Full-time employment would result in wages high enough to disqualify individuals from the TANF program. The average value of TANF benefits per recipient – approximately $3,325 – exceeds the average cost of the credit per employee claimed ($1,150 in 2003) by a significant margin.
- It is difficult to determine whether the credit directly results in savings from lower TANF participation. Former TANF recipients may have found employment regardless of the income tax credits as the economy emerged from the last recession.

Statutes

A.R.S. § 43-1175 (Corporate) and A.R.S. § 43-1087 (Individual)

Description

The statutes provide corporations and individuals an income tax credit for employing Arizona residents who are recipients of the low-income TANF assistance program. To qualify for the credit, several more conditions must be met:

- The employees claimed under the credit must be full-time.
- The employer must provide health insurance if coverage is provided to other employees.
- The wages must meet or exceed the legal minimum wage and be comparable to wages received by non-TANF employees.
- The TANF employees must be employed for at least 90 days during the first year the credit is claimed.
- The wages paid may not be subsidized by other means as provided by A.R.S. § 46-299.

The credit is equal to:

- One-fourth of the taxable wages paid to a qualified employee up to a maximum of $500 in the first year of employment.
- One-third of taxable wages up to a maximum of $1,000 in the second year of employment.
- One-half of taxable wages up to a maximum of $1,500 in the third year of continuous employment.

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

TANF is a federal block grant administered by the Department of Economic Security to provide a variety of assistance to low-income recipients, who are defined by A.R.S. § 46-101 as those who are granted assistance under Section 403 of Title IV of the 1996 Personal Responsibility and Work Opportunity Reconciliation (PRWORA) Act.

The state's TANF employer tax credit was created by Laws 1997, Chapter 300 and became effective January 1, 1998. Chapter 300 was an omnibus welfare bill that was amended in conference committee to include the TANF employer credits. An earlier bill, HB 2478, was heard by the House Committee on Block Grants. It included an amendment similar to the credits that were enacted by Chapter 300.

The statutes creating the tax credits do not include a specific statement of purpose or a rationale. The likely intent was to encourage employers to hire TANF recipients into permanent jobs and reduce their reliance on public assistance. In addition to reducing dependence on public assistance, the proposed amendment to HB 2478 was also an attempt to create jobs in rural Arizona. However, members acknowledged that the credits would probably provide more benefits in metropolitan areas because that is where most of the jobs are located.

The state's TANF tax credits were enacted during a time when the federal government was also creating tax incentives to promote the hiring of public assistance recipients. The U.S. Department of Labor, Employment and Training Administration (DOLETA), administers programs related to the Work Opportunity Tax Credit (WOTC), which is authorized by the Small Business Job Protection Act of 1996. The WOTC is a federal income tax credit that encourages employers to hire 8 targeted groups of job seekers by reducing employers' tax liability by as much as $2,400 per qualified worker in their first year of employment. One of the targeted groups is TANF recipients. Notwithstanding the title of the enacting legislation, the WOTC is not restricted to small businesses.

DOLETA also administers the Welfare-to-Work (WTW) Tax Credit, which is a federal income tax credit that encourages employers to hire long-term TANF recipients who begin work on or after December 31, 2003 and before January 1, 2006. Established by the Taxpayer Relief Act of 1997, the WTW credit applies to new hires employed for 400 or more hours or 180 days. The available credit is 35% of qualified wages for the first year of employment and 50% for the second year, with qualified wages capped at $10,000 per year. This credit can reduce employers' federal tax liability by as much as $3,500 per eligible worker in the first year of employment and by $5,000 in the second year. The WOTC and WTW credits, which were extended in 2004 through the end of 2005, have been continuously renewed since their inception. An employer may claim either the WOTC credit or the WTW credit for a qualifying new hire, but not both.

Revenue Impact

In 2003, the last year for which reasonably complete data is available, 5 employers hired 402 TANF recipients and claimed $462,000 in related corporate tax credits. Although the number of companies claiming the credit has remained stable, ranging between 5 and 7 per year, the number of employees for which the credit was claimed tripled in 2002 and increased by another 72% in 2003.

According to DOR, use of the individual tax credit has been negligible. In 1998, 1999 and 2002, the number of claimants and the amount of credits claimed could not be released without violating confidentiality laws. In 2000 and 2001, DOR reported that were no individual tax credits claimed.

The following table summarizing the corporate income tax impact of this credit was provided by the Arizona Department of Revenue (DOR).

	1999	2000	2001	2002	2003
# of Claimants	5	6	6	7	5
# of New Employees	121	83	72	234	402
New Credit	$49,653	$39,532	$69,956	$173,450	$461,880
Total Credit	$49,653	$41,996	$84,354	$179,736	$468,086
Credit Used	$47,189	$27,598	$57,851	$173,550	$461,980
Carry Forward	$2,464	$14,398	$26,503	$6,186	$6,086

# of Claimants – the number of taxpayers who claimed the credit in each year.
# of New Employees – the net change in the number of employees claimed under the credit.
Total Credit – the total tax credits identified in each tax year, including any new credits and any credits carried over from a previous year and identified in that year.
Credit Used – the total value of credits claimed in each year.
Carry Forward – the total credit identified but not used in each year. The full carry forward may not be reflected in the following year's estimate. For example, a taxpayer could have $10,000 in a particular credit identified in tax year 2001 and use $9,000 of it in 2001 (leaving $1,000 as a carry forward). If that taxpayer did not identify or claim the credit in 2002, that $1,000 carry forward would not be included in the carry forward total for 2002.

Economic Benefits

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

The economic development or new investment related to this credit cannot be measured with the data available. While more than 400 jobs qualified for the credit in 2003, it is difficult to establish a direct link between the credit and subsequent economic development.

The administrators of the state's welfare-to-work programs believe that the federal and state tax credits are important tools in placing TANF recipients into jobs. The state tax credit does not provide an extraordinarily lucrative incentive for prospective employers. However, it may influence a favorable hiring decision on the margin and help to overcome employers' reluctance to provide employment to program participants. By using both the federal WTW tax credit and the state tax credit, a company could claim up to $4,000 in credit for a new hire in their first year of employment, $6,000 in the second year, and $1,500 in the third year.

The following illustrates the financial impact for a taxpayer claiming the TANF employer credit:

The gross wages paid to an employee meeting the law's minimum requirements would be approximately $2,678, which is equivalent to the minimum wage for full-time work over a 90-day (13-week) period. The corresponding minimum annual wage would be approximately $10,700 for the first and subsequent years. If a company retained an employee (who was a TANF recipient) for 3 full years and paid $32,100 in gross wages, it could claim the maximum of $3,000 in state income tax credits, which is 9.6% of the wages paid and a smaller percentage of total compensation including health insurance and other benefits. If the new hire was retained for 3 years and also qualified the employer for the federal WTW income tax credit, the employer's federal tax liability would be reduced by as much as $8,500, or 27.2% of gross wages.

The credit allowed is in lieu of any wage expense deduction taken for federal and state income tax purposes. The net cash value of the credits would be reduced by the company's marginal federal income tax rate (which ranges from 15% to 39%) plus the Arizona income tax rate (6.968% for corporations). Any wages paid that are claimed for a tax credit cannot also be claimed as a tax-deductible business expense. By assuming a marginal federal corporate income tax rate of 35% and applying Arizona's tax rate, the net value of the credits after taxes is reduced by approximately (42)%. For a company claiming the maximum federal and state credits, the net value of the credits per new employee would be approximately $2,500 ($2,300 federal, $200 state) in the first year of employment, $3,800 ($3,200 federal, $600 state) in the second year, and $1,400 in the third year (state only).

This effect also applies to the state revenue impact. In 2003, the state tax credit's net cost was approximately $(430,000), or (7)% less than the value of the credits claimed.

DOR has provided some job retention estimates related to the tax credit:

- 7 corporate taxpayers have claimed the credit since it was created.
- From 1998 through 2003, corporate taxpayers reported 993 positions were eligible for a total of $829,965 in credits, or $836 per job.
- In 2000, 83 employees were claimed for their first year of employment. In 2001, 26 were claimed for their second year of employment, implying a retention rate of 31.3%.
- In 2001, 72 employees were claimed for the first year of their employment, while in 2002, 43 were claimed for their second year of employment, yielding a 59.7% retention rate.
- In 2002, 234 employees were claimed for their first year of employment, while in 2003, 161 were claimed for their second year of employment, implying a retention rate of 68.8%.

DOR did not provide data on third-year retention rates.

The data indicate that the number of new hires claimed for tax credit purposes was stagnant during the last recession but increased dramatically as the economy improved in 2002 and 2003. In the first few years of the credit's existence, less than one-third of the new hires were retained beyond their first year of employment, but by 2003 more than two-thirds of eligible employees were retained for a second year and claimed for credit. Even so, the number of participating companies remained very small.

To fully assess the net costs and benefits to the state associated with the tax credit, the value of TANF benefits paid to former recipients must be taken into account. In FY 2005, TANF recipients received an average of approximately $250 per month for an average duration of 13.3 months, or a total of $3,325.

A company can claim a tax credit per eligible new hire of $(500) in the first year of employment, $(1,000) in the second year, and $(1,500) in the third year. Since the wages that are claimed for tax credits may not also be deducted as a business expense, the net value of the state tax credits to the company would be $(465) in the first year, $(930) in the second year, and $(1,400) in the third year (the value of the credits minus 6.968% in state corporate income taxes).

There would appear to be a substantial savings to the state due to the reduction in TANF expenditures. However, it cannot be determined how many former TANF recipients would have found employment without the existence of the state tax credit. Moreover, as economic conditions change and affect the labor market, some former TANF recipients may return to apply for benefits.

Complexity

The TANF recipient employer credit does not appear to be unusually complex in its description, calculation or application. However, employers are required to keep additional records on qualifying employees and to complete another form to submit with their Arizona tax returns.

Potential Performance Measures

Performance measures could include:

1. 2- and 3-year retention rates for employees claimed under the credit.
   It appears that DOR has the data needed to make these calculations.

2. The value of wages and benefits paid to TANF recipients that are employed by companies claiming the credit.
   While the companies would have this information readily available, this measure would require them to compile and report additional data that is not currently required.

3. The growth in compensation for eligible employees that are retained for 2 or more years.
   This measure also could be obtained from the employers' payroll records but would be an additional reporting burden.

4. The length of unemployment of TANF recipients that are hired by companies claiming the credit.
   This measure could indicate whether the new hire may or may not have found employment without the benefit of the tax credit

The statute does not impose any requirements related to these measures.

Attachment 2

Contributions to Charities that Provide Assistance to the Working Poor Tax Credit

Summary

- The cost of the credit was $3.6 million in tax year 2004, the last year for which data is available.
- The credit was claimed by 19,401 taxpayers in tax year 2004 at an average of $185 per claim.
- There are more than 600 self-certified charities in the state that qualify for the credit. An unknown number may not meet the statutory requirements, according to the Department of Revenue.
- The requirement to establish a baseline year and amount to calculate the credit is difficult for taxpayers and does not necessarily guarantee increased contributions to charities that help the working poor.
- The impact of the credit on the Arizona economy is unknown, but is believed to be minimal.

Statute

A.R.S. § 43-1088 (Individual Income Tax)

Description

This credit is provided to taxpayers that make voluntary cash contributions to certain charities that provide help to the working poor.

The charity is required to: (1) be either be a tax-exempt 501(c)(3) charitable organization or a designated community action agency that receives community services block grant monies, and (2) spend at least 50% of its budget on services to Arizona residents who either receive temporary assistance for needy families (TANF) benefits or whose household income is less than 150% of the federal poverty level. (A service is defined as cash assistance, medical care, child care, food, clothing, shelter, job placement, job training, or any other assistance that meets immediate basic needs.)

To qualify, the charity sends a letter to the Department of Revenue (DOR) self-certifying that it meets the aforementioned eligibility criteria. The name of the charity along with its address and phone number is then posted on DOR's web site. There are currently more than 600 self-certified charitable organizations in the state. Since no documentation is required to prove eligibility, it is uncertain whether all the charities on DOR's list meet the statutory requirement to serve the working poor. A similar concern is raised in a DOR memo issued on November 17, 2005, in which the Department states that "there appear to be many charities that have self certified to the Department that do not provide 'immediate basic needs' to individuals. It is also unknown if the charities meet the required 50% budget expenditures on services to Arizona residents who receive TANF benefits or low income residents of this state and their households." A complete list of self-certified organizations can be found in Appendix B.

The credit is available to individuals but not to corporations. Partnerships cannot pass the credit through to their partners and S corporations cannot pass through the credit to their shareholders. The maximum tax credit is $200 for a single individual or a head of household. For a married couple filing a joint return, the maximum credit is $300 in taxable year 2005 and $400 in taxable year 2006 and thereafter.

To be eligible for the credit, a taxpayer must have itemized deductions and deducted charitable contributions on a prior year's state tax return at least once. This is necessary in order for the taxpayer to establish a "baseline" year and amount. The baseline year is the first year after 1995 in which the taxpayer itemized charitable contributions. (For many taxpayers, the baseline year is the 1996 taxable year.) This means that those tax filers that itemize their deductions for the first time must wait until the following year before they can claim the credit for the first time. The credit is figured on the amounts over and above the baseline amount. While total contributions must exceed the baseline amount, there is no requirement that individual donations made to particular charities in the baseline year must be exceeded.

Individuals may make contributions directly to a qualifying charity or through an umbrella organization, such as United Way. If the taxpayer chooses the latter, the taxpayer must designate that the donation be directed to a member charitable organization or a member group fund, such as *Helping the Working Poor* (HWP) fund established by the Valley of the Sun United Way.

Refundable

The credit is not refundable.

Carry Forward

The tax credit may be carried forward for up to five consecutive taxable years.

History and Rationale

This credit was created by Laws 1997, Chapter 300 and became effective on January 1, 1998. According to a Senate fact sheet prepared on May 13, 1997, the credit was added as an amendment in Conference Committee to the omnibus welfare bill (SB 1357) that redesigned Arizona's welfare system to comply with federal welfare reform laws enacted in 1996, referred to as the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA).

According to current House Majority Research Staff, the charity tax credit was first introduced in HB 2364, under which it provided a maximum credit of $400 and unaccompanied by any requirement of the taxpayer to first establish a baseline amount in a prior taxable year. The staff reported that the baseline year was included in the final version of the bill to encourage charitable contributions over and above the amounts given prior to the enactment of this legislation. In other words, the purpose of including a baseline year was to attract new charitable contributions to the nonprofit sector.

Laws 2005, Chapter 334 increased the maximum credit for married taxpayers who file joint returns from $200 to $300 for taxable year 2005 and $400 for taxable year 2006 and thereafter. The maximum credit for single individuals and heads of household was left unchanged at $200.

Revenue Impact

The cost of the credit has increased from $476,691 in 1998 to $3,596,800 in 2004. The number of taxpayers claiming the credit increased almost sevenfold over the same period, from 2,894 in 1998 to 19,401 in 2004. The average credit claimed increased from $165 in 1998 to $185 in 2004. The table below, which was provided by DOR, summarizes the individual income tax impact of the credit.

	1998	1999	2000	2001	2002	2003	2004
# of Claimants	2,894	6,725	10,654	12,523	14,226	17,467	19,401
Total Contributions	$523,501	$1,237,519	$1,897,876	$2,332,832	N/A	N/A	N/A
Total Credit	$481,037	$1,168,515	$1,829,205	$2,257,673	$2,687,900	$3,286,100	$3,627,600
Used	$476,691	$1,154,768	$1,792,123	$2,196,043	$2,676,900	$3,259,400	$3,596,800
Carry Forward	$4,346	$13,747	$35,581	$41,852	$11,000	$23,700	$30,700

# of Claimants – the number of taxpayers who claimed the credit in each year.
Total Contributions – the total amount of contributions to qualifying charities, up to the maximum allowable credit, as reported by taxpayers.
Total Credit – 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.
Used – the total value of credits claimed in each year.
Carry Forward – the total credit identified but not used in each year. The full carry forward may not be reflected in the following year's estimate. For example, a taxpayer could have $200 of the credit identified in tax year 2000, use $100 of it in 2000 (leaving $100 as a carry forward). If that taxpayer did not identify or claim the credit in 2001, that $100 carry forward would not be included in the carry forward total for 2001.

Contributions to Qualifying Charities

Appendix A includes a table that shows the organizations that received the largest contributions from donors in each year between 1998 and 2001, as reported by DOR. (Data from subsequent years is not yet available.) As the table in Appendix A indicates, United Way is by far the largest recipient of donations for the working poor tax credit. In the period between 1998 and 2001, on average 21.2% of reported statewide contributions were received by the United Way. The Salvation Army, St. Vincent de Paul, and Habitat for Humanity together received 16.3% of total donations during the same period. Other organizations, not included as one of the top 12 recipients of charitable contributions each year, received on average 55% of total donations for tax credit purposes.

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 statutes that is primarily intended to encourage cash contributions to certain target groups in society, such as the working poor or students in private or public schools.

Although this credit was not directly intended to promote economic growth, it may still provide some economic benefits to society insofar as it succeeds to move individuals and families from underemployment to economic self-sufficiency.

A report provided by the Valley of the Sun United Way documents "success stories" of such cases and includes selected statistics of certain "performance measures," such as wage increases, job retention rates, and earned college credits. For example, Arizona Women's Education and Employment, Inc., a non-profit entity, reported recently that of 24 adults served by the organization, 21 earned college credits though completion of career preparation workshops. Of these 21 adults, 10 were placed in new or better jobs at an average wage of $9.07 per hour, which represented an average increase of more than 36%.

The same report indicates that in 2004, the Helping the Working Poor Fund served 8,500 individuals at a per capita cost of $129. More than 1,500 adults were trained and placed in jobs. Monies from the fund were used to provide supplemental food, shelter, child care, and transportation considered necessary to eliminate barriers to employment.

Data from DOR shows that besides the United Way, many of the larger charitable organizations, such as the Salvation Army, St. Vincent de Paul, and Habitat for Humanity, have experienced significant increases in the contribution amounts applicable to this credit. However, the JLBC Staff is not aware of whether these organizations have made any attempts to evaluate the impact of these donations on the "working poor" that they serve.

DOR's report does not indicate how much of the increased donations truly represent new or additional giving as opposed to a reallocation of existing levels within the nonprofit sector. It is conceivable that larger organizations may draw at least some of the increased funding away from smaller charities, which have typically less resources available for fundraising and public relations. As noted earlier, it is not necessary for individual contributions to particular charities to exceed donations made in prior years as long as total contributions exceed the baseline amount.

To evaluate the potential economic benefits associated with this credit, it would thus be necessary to consider the whole nonprofit sector, as opposed to only the largest charities. However, due to aforementioned data constraints, the JLBC Staff is not able to provide such an analysis.

Complexity

The credit does not seem to be unnecessarily complex in terms of its administration and approval process, as evidenced by the simple self-certification process described earlier. This process could be improved by either requiring organizations to submit proof of tax-exempt status and/or to by establishing a methodology that would allow DOR to determine that charities meet the low-income requirements. Neither of these approaches would make the credit prohibitively complex.

Several charitable organizations that were contacted by the JLBC Staff reported that their donors were often uncertain and even confused with respect to the application of the credit. Some of the charities speculated that the complexity of the credit has deterred many individuals from taking advantage of it. One option to make the credit more “user-friendly” would be to eliminate the requirement to establish a baseline year. However, this approach may discourage increased giving to the non-profit sector. Another option would be to establish a “rolling” base year, under which taxpayers would only be able to claim a credit for amounts in excess of what they donated in the prior year. This approach may, however, result in reduced availability of the credit.

Potential Performance Measures

Performance measures could include:

1. For all qualifying charities to report on the percentage of the people served that are either TANF recipients or whose household income is less than 150% of the federal poverty level.