

# **2006 Income Tax Credit Review**

**Joint Legislative Income Tax  
Credit Review Committee**

**December 7, 2006**

**JLBC**

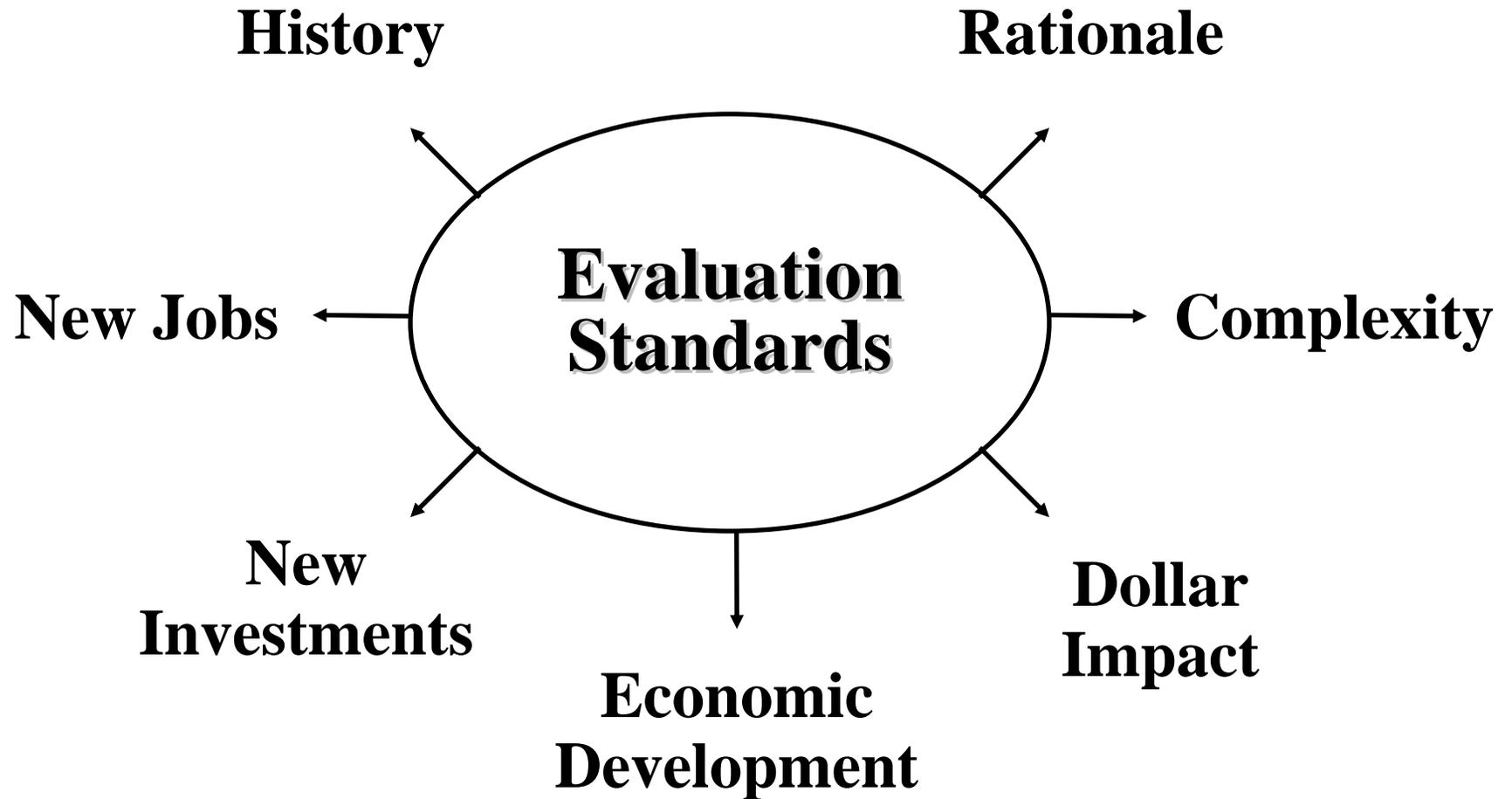
# **Joint Legislative Income Tax Credit Review Committee**

- Annually reviews credits as determined in statute.
- This year's review includes:
  - Family Income Tax Credit
  - Private School Tuition Organization Credit
  - Public School Extra Curricular Activity Fee Credit
  - School Site Donation Credit
  - Solar Hot Water Heater Plumbing Stub  
Outs/Electric Vehicle Recharge Outlets Credit

# **Role of the Committee**

- Determine original purpose of tax credit.
- Establish standards for evaluating and measuring success or failure.
- Recommend changes.

# Statute Provides Possible Standards



# Issues Affecting Evaluation

- Confidentiality.
- Timeliness of data.
- Lack of performance measures.

# **Family Income Tax Credit Summary**

Cost - \$7.5 million in tax year 2005.

Purpose – eliminate or at least reduce the tax burden on low-income households.

Complexity – easy to use. Worksheet for credit calculation is included in Arizona income tax return instruction pamphlet. No separate administration or approval process is required.

Performance Measures – none in statute.

# **Family Income Tax Credit**

## **Description of Credit**

- Credit is \$40 for each household member for whom a personal or dependent exemption is allowed.
- Total credit cannot exceed \$120 for singles and married couples filing separate returns.
- Total credit cannot exceed \$240 for married couples filing joint returns and single persons filing as head of household.
- Credit is nonrefundable and unused amounts cannot be carried forward to future years.

# Family Income Tax Credit

## Description of Credit (cont.)

- Credit Is Provided to Taxpayers Below Prescribed Income Limits

<u>Filing Status</u>	<u># of Dependents</u>	<u>Income Limit</u>
Single	$\geq 0$	\$10,000
Married Filing Separate Return	$\geq 0$	\$10,000
Married Filing Joint Return	$< 2$	\$20,000
Married Filing Joint Return	2	\$23,600
Married Filing Joint Return	3	\$27,300
Married Filing Joint Return	$\geq 4$	\$31,000
Head of Household	$< 2$	\$20,000
Head of Household	2	\$20,135
Head of Household	3	\$23,800
Head of Household	4	\$25,200
Head of Household	$\geq 5$	\$26,575

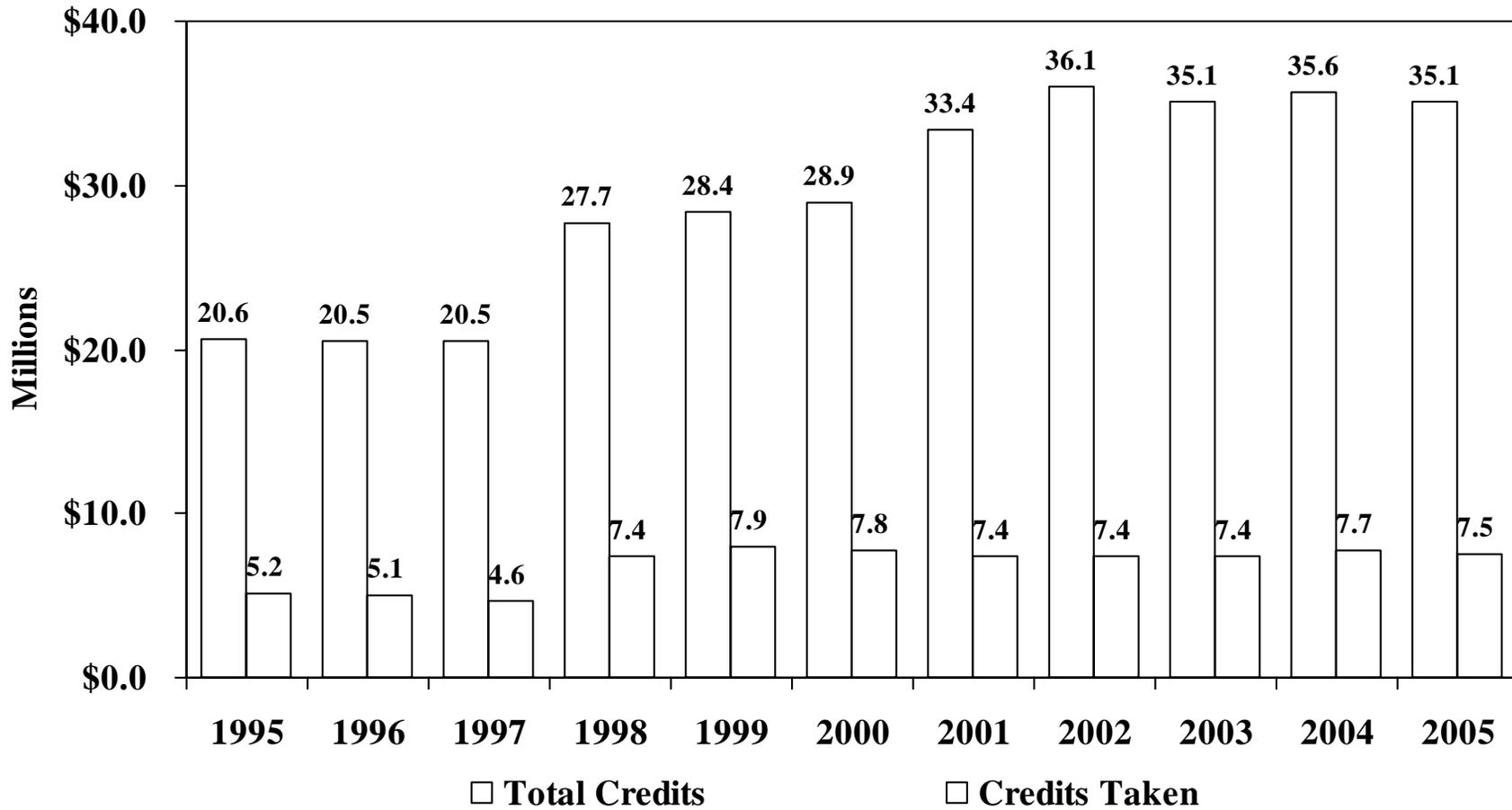
# **Family Income Tax Credit**

## **Actual Claim Is Typically Less Than Total Credit**

- Total credit depends on filing status and number of dependents claimed.
- However, actual credit claimed may also be affected by provisions that disallow refunds and carry-forwards.
- Since low-income households incur low tax liabilities, their actual credit claimed tends to be less than their full credit.

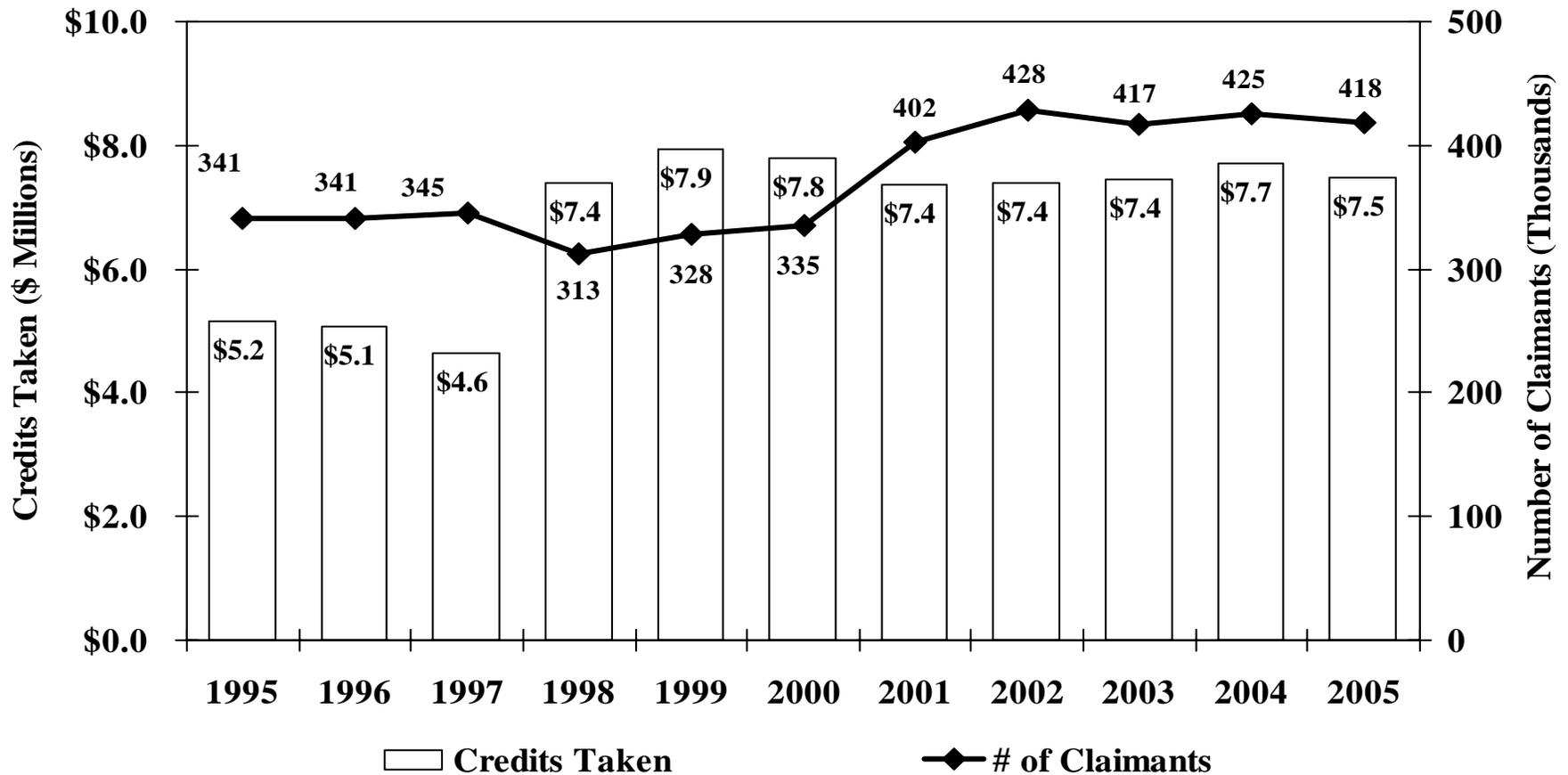
# Family Income Tax Credit

## Total Credits vs. Credits Taken



# Family Income Tax Credit

## Amount of Credits Taken & Number of Claimants



# Family Income Tax Credit

## While Statute Labels As Family Credit, 44% of Recipients Are Single With No Dependents

<b>Filing Status</b>	<b># of Returns</b>	<b>% of Total</b>	<b># of Dependents</b>	<b>% of Total</b>	<b>Avg. # of Dependents</b>
Married Filing Jointly	119,127	28.5%	141,492	41.7%	1.19
Head of Household	109,931	26.3%	189,980	56.0%	1.73
Married Filing Separately	2,926	0.7%	543	0.2%	0.19
Single	186,006	44.5%	7,295	2.2%	0.04
<b>Total</b>	<b>417,990</b>	<b>100.0%</b>	<b>339,310</b>	<b>100.0%</b>	<b>0.81</b>

# **Family Income Tax Credit**

## **Benefits to the Arizona Economy**

- Credit has the effect of raising the disposable income of low-income households.
- Economic theory predicts that a higher disposable income will increase consumer spending, which in turn will spur economic activity.
- However, since the total amount of the credit claimed is small (less than \$8 mil.), the impact on the Arizona economy is believed to be minimal

# **Family Income Tax Credit**

## **Potential Performance Measures**

- Income threshold for the credit is not currently adjusted for inflation.
- Federal poverty income threshold is adjusted for inflation annually.
- A potential performance measure could be to express the income threshold for the credit as a percent of the federal poverty threshold.

# Private School Tuition Organization Credit Summary

## Cost

- \$42.2 million in contributions independently reported by STO's in tax year 2005.
- DOR has not yet compiled actual credit taken. Actual impact may be less.
- Credit may also reduce state K-12 costs.

Purpose – provide more educational options for children from low-income families.

Complexity – easy to use and administer.

Performance Measures – none in statute.

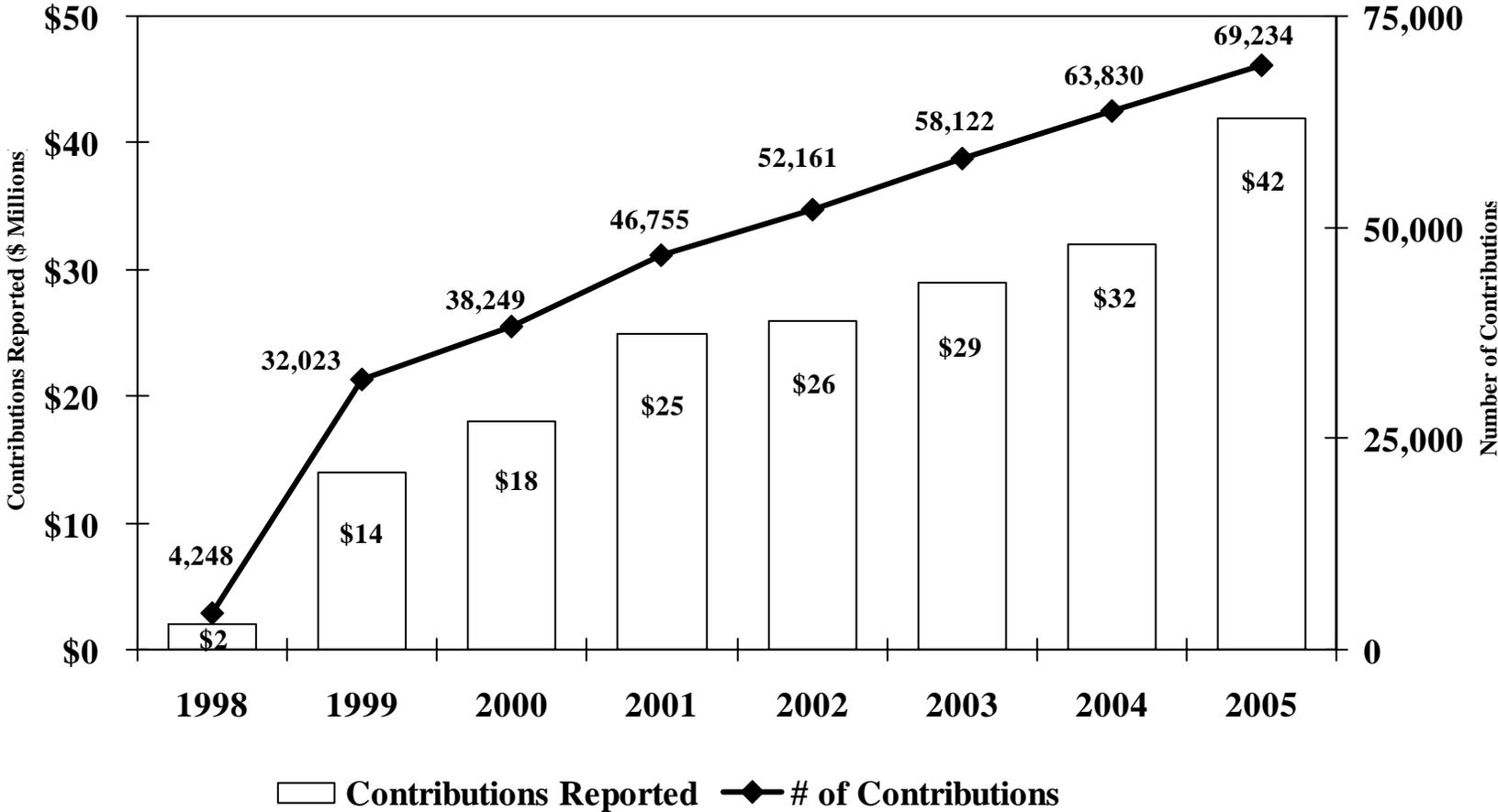
# Private School Tuition Organization Credit

## Description of Credit

- Individual income tax credit for contributions to a school tuition organization (STO).
  - Charitable organization exempt from federal taxes
  - Awards 90% of revenue for scholarships & grants
- Maximum credit allowed:
  - \$500 for single individuals and heads of household
  - \$825 for married couples in tax year 2005 - increases to \$1,000 in 2006
- 5-year carry-forward
- \$10 M corporate credit enacted last session

# Private School Tuition Organization Credit

## In 2005, Average Contribution Was \$609



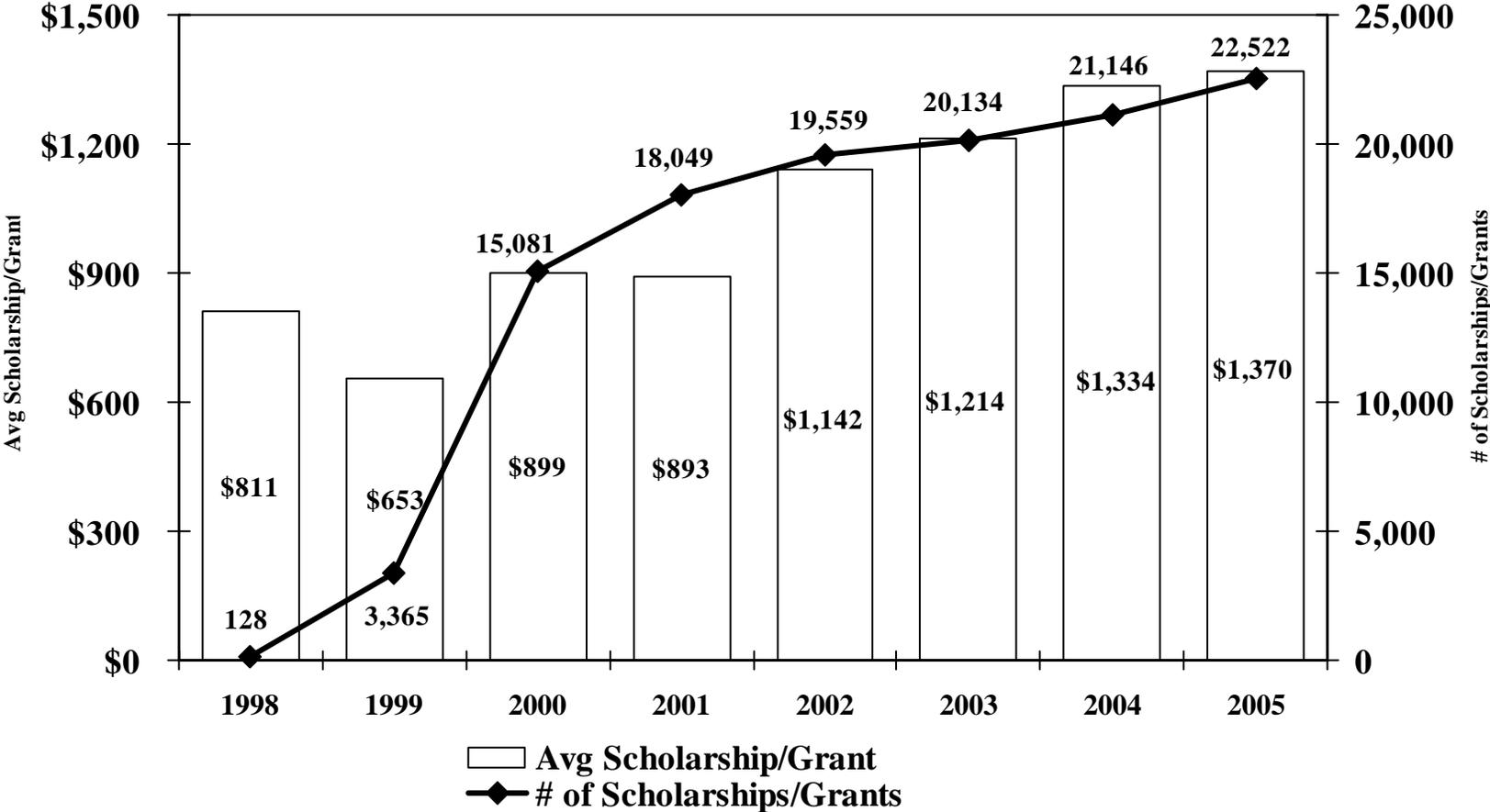
# Private School Tuition Organization Credit

## Impact on State K-12 Costs

- Revenue loss is offset to the extent that credit allows students to attend private school who otherwise would have attended public school.
- State K-12 Costs:
  - Operating - \$5,300 per ADM
  - Capital - New construction and building renewal savings

# Private School Tuition Organization Credit

Over 22,000 awards distributed in 2005



# Private School Tuition Organization Credit

## Average Scholarship Funding & Tuition

- Approximately 40% of private school population receives state-supported award.
- Goldwater Institute survey found, on average, scholarship students received \$1,500 in 2004.
  - Some students received more than one award
- Scholarship funding generally covers 30-40% of the cost of private school.
  - K-8 Tuition - \$3,700
  - High School Tuition - \$5,500

# **Private School Tuition Organization Credit**

## **Potential Performance Measures**

- Percent of awards distributed to children from families whose income is less than 185% of the level to qualify for a free or reduced price lunch.
- Percent of private school tuition paid for with award funding.
- Percent of STO revenues retained for administrative costs.

# Public School Extracurricular Activity Fee Credit Summary

## Cost

- \$35.3 million in contributions independently reported by public schools in tax year 2005.
- DOR has not yet compiled actual credit taken. Actual impact may be less.

Purpose – assist parents with the cost of extracurricular activities.

Complexity – easy to use and administer.

Performance Measures – none in statute.

# Public School Extracurricular Activity Fee Credit

## Description of Credit

- Individual income tax credit for contributions to a K-12 public school for extracurricular activities or character education programs.
- Maximum credit allowed:
  - \$200 for single individuals and heads of household
  - \$300 for married couples in tax year 2005 - increases to \$400 in 2006
- 5-year carry-forward

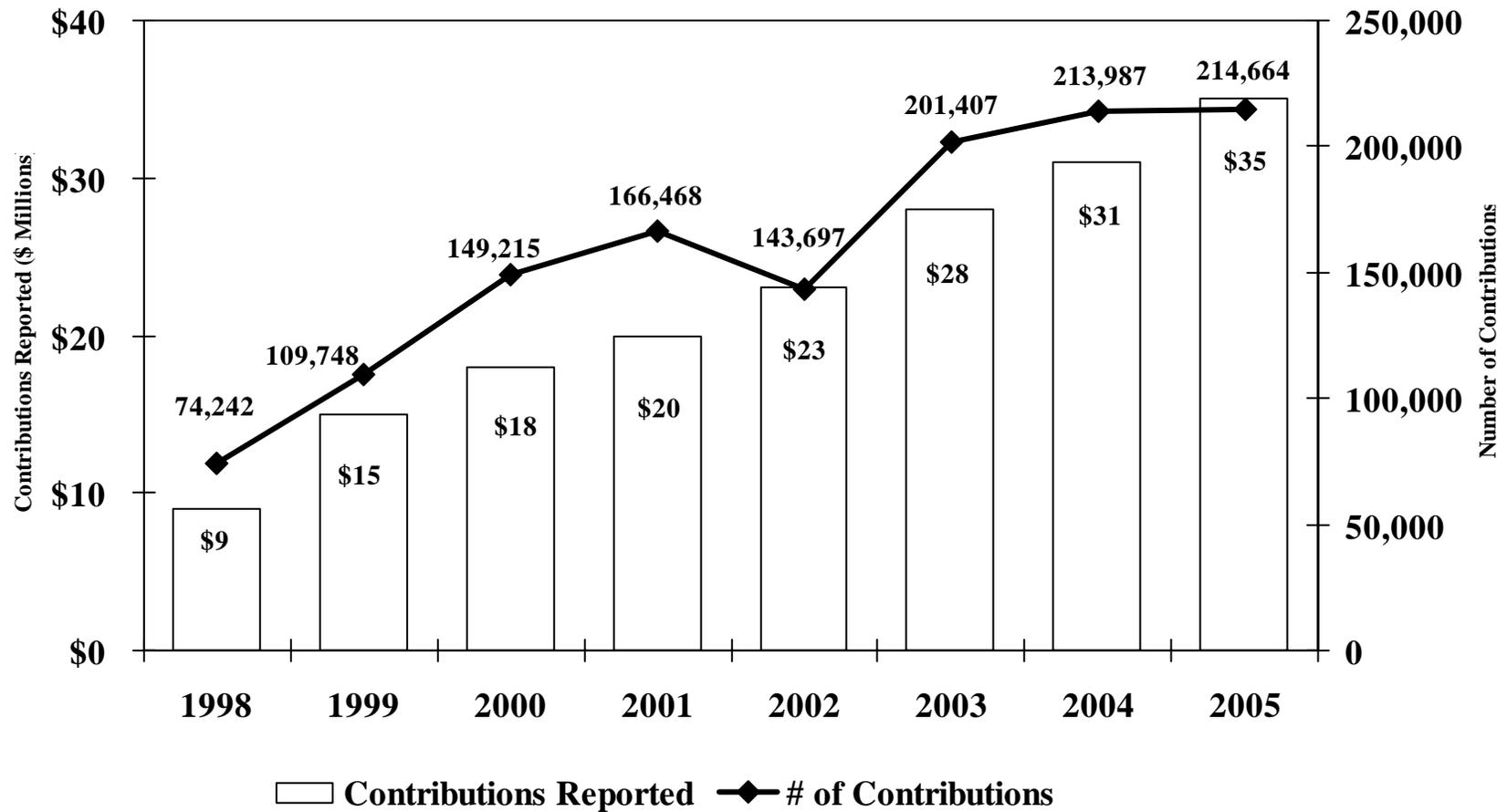
# **Public School Extracurricular Activity Fee Credit**

## **Activities Eligible for Credit**

- Extracurricular activities are school sponsored activities that require a fee to participate.
  - Excludes senior trips and recreational, amusement and tourist activities
- Character education instruction must include:
  - At least 6 character traits
  - Application of the traits
  - Presentations by those who demonstrate the traits

# Public School Extracurricular Activity Fee Credit

## In 2005, Average Contribution Was \$164



# Public School Extracurricular Activity Fee Credit

## 10 Districts Received 50% of Contributions in '05

- Represent 35% of Statewide Enrollment

District	Contributions (\$ in millions)	District	Contributions (\$ in millions)
Mesa Unified	\$5.0	Prescott Unified	\$1.4
Tucson Unified	\$2.2	Chandler Unified	\$1.3
Scottsdale Unified	\$1.7	Kyrene Elementary	\$1.2
Gilbert Unified	\$1.7	Deer Valley Unified	\$1.1
Paradise Valley Unified	\$1.5	Peoria Unified	\$1.0

# Public School Extracurricular Activity Fee Credit

## Charters Receive More Contributions Per Pupil

- Average contribution per student:
  - School Districts - \$36
  - Charter Schools - \$60
- Highest average contribution per student:
  - Mobile Elementary District - \$398
  - Tempe Preparatory Academy (Charter) - \$1,135
- Some districts and charters reported receiving no contributions.

# **Public School Extracurricular Activity Fee Credit**

## **Family Income Levels Impact Contributions**

- Higher income districts received more contributions per student.
  - Particularly true for larger districts
  - Only a minimal impact in smaller districts
- Other factors in determining contribution levels could include:
  - School administration (advertising, accessibility)
  - Community involvement

# **Public School Extracurricular Activity Fee Credit**

## **Potential Performance Measures**

- Unclear what impact the credit is having on student participation in extracurricular activities and character education programs.
- A potential performance measure could be to assess the level of student participation in these activities.

# **School Site Donation Credit**

## **Summary**

Cost - \$561,900 in 2003.

Purpose – to encourage developers and/or landowners to make a real property donation for a school.

Complexity – relatively simple in terms of its administration and approval process, as evidenced by the SFB approval process.

Performance Measures – none in statute.

# **School Site Donation Credit**

## **Description of Credit**

- Available to individuals or corporations that donate sites to school districts or charter schools.
- Value of credit:
  - 30% of the value of the donation.

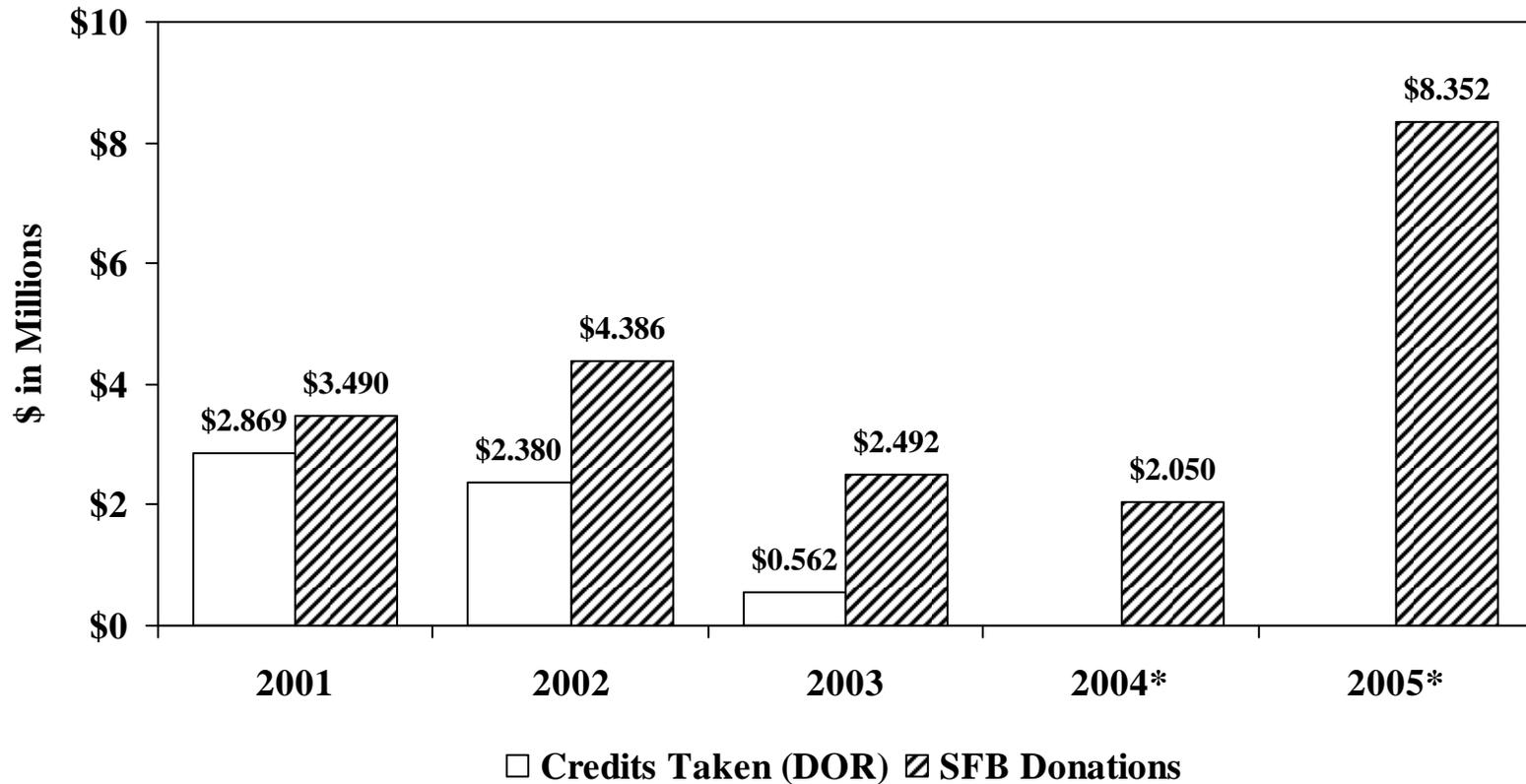
# **School Site Donation Credit**

## **School Facilities Board's Role**

- School Facilities Board (SFB):
  - School district donations must be approved by SFB.
  - Doesn't approve charter school donations.
  - Purchases land and approves new construction projects.
  - Gives 20% of the value of the donation to the school district as a reward for getting the donation.
  - Donated sites result in cost savings for SFB and the state.

# School Site Donation Credit

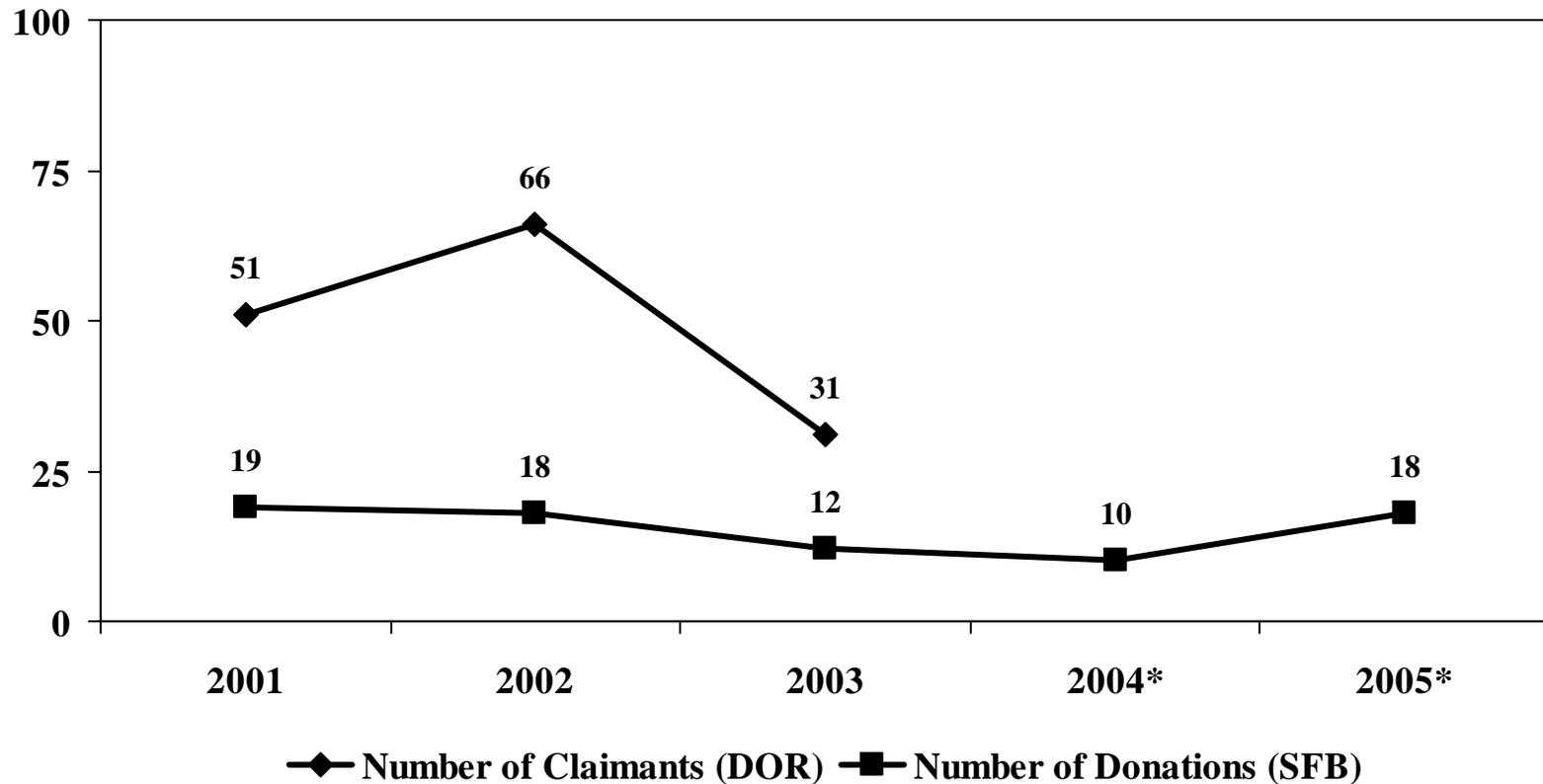
**Amount of Credits Taken Compared to SFB Land Donations**  
**- SFB Land Donations Are Greater Than Credits Taken**



\* DOR data not available for 2004 and 2005.

# School Site Donation Credit

**Number of Claimants Compared to Number of Land Donations**  
**- Credit for Donations May Be Divided Between Several Claimants**



\* DOR data not available for 2004 and 2005.

# School Site Donation Credit

## Recent Trends

- DOR and SFB data do not match for 2001-2003 because SFB donation values are higher.
  - More than 1 individual might be claiming a credit for each site donated to SFB.
  - DOR data might include donations to charter schools.
  - Individuals might not be claiming the credit the same year as they donate land to SFB.
- According to DOR and SFB, donations decreased in 2003.
- SFB land donations also decreased again in 2004 but rebounded significantly in 2005.

# **School Site Donation Credit**

## **Potential Performance Measure**

- All qualifying school districts and charter schools to report on the number of acres (for a school site) and square feet (for an improvement) donated each year.
  - SFB already tracks in terms of land donations to school districts.
  - Charter schools do not track their donations.

# **Solar Stub Out/Electric Recharge Credit Summary**

Cost - \$5,348 in 2004.

Purpose – to promote the installation of solar water heaters, increasing the use of renewable energy, and to reduce emissions through the use of rechargeable electric vehicles.

Complexity – relatively simple to use and administer.

Performance Measures – none in statute.

# **Solar Stub Out/Electric Recharge Credit**

## **Description of Credit**

- Corporate and individual income tax credits for:
  - Stub outs, or plumbing fixtures, designed to accommodate solar water heater installations.
  - Electric vehicle recharge outlets.
- Credit of up to \$75 for the installation of qualifying devices.
- Credit may be transferred from builder to purchaser of dwelling unit.
- 5-year carry-forward.

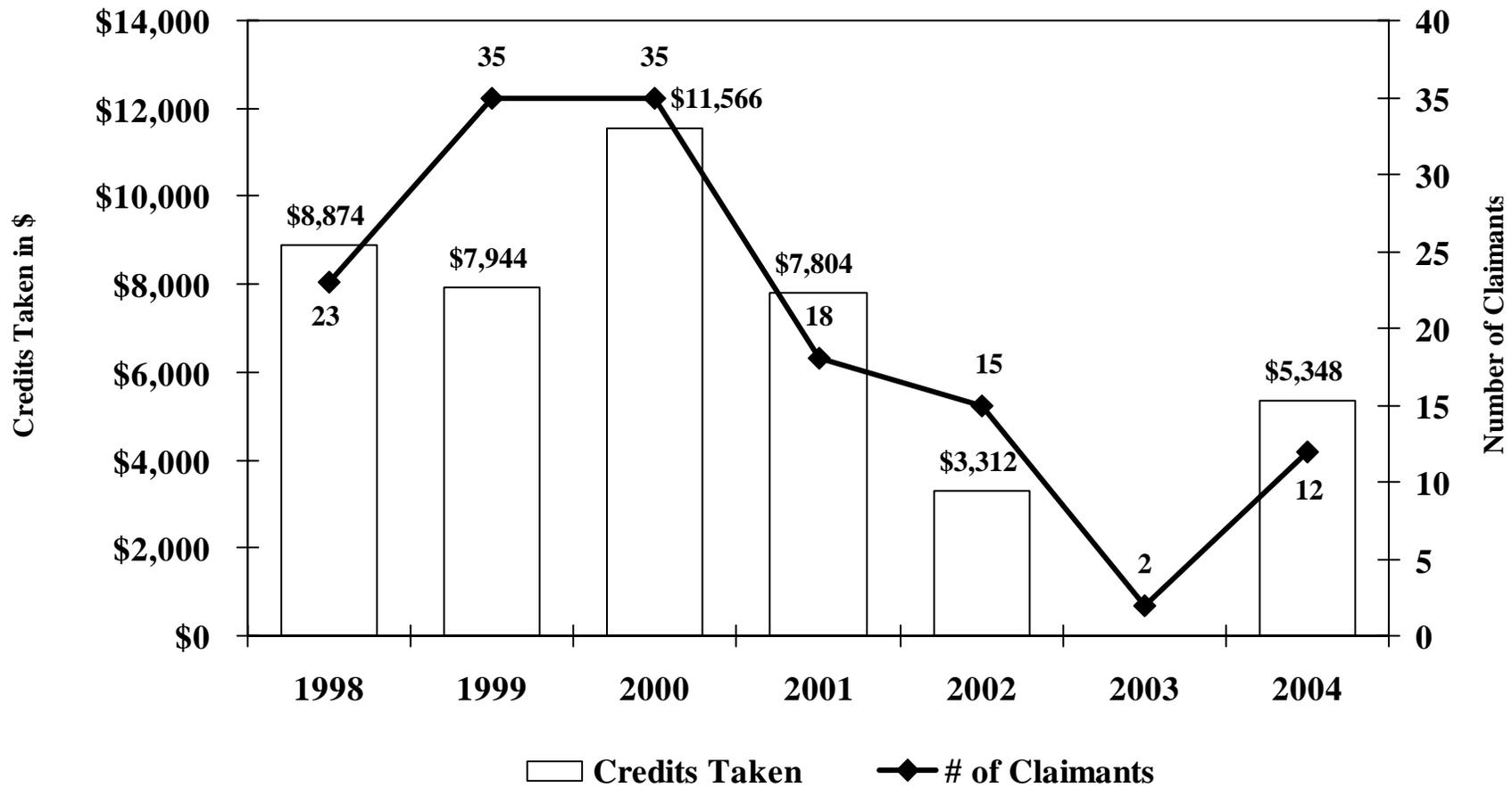
# **Solar Stub Out/Electric Recharge Credit**

## **Other Solar Energy Income Tax Credits are Available**

- A state income tax credit is available for solar energy devices up to a maximum of \$5,000 for residences and \$25,000 for business establishments. Taxpayers may claim this credit in addition to the solar stub out credit.
- A federal income tax credit, due to expire in 2007, is available for up to 30% of the cost of a solar energy device.
- A federal income tax credit, to be phased out by 2007, provided up to 10% or \$4,000 in credit for the purchase of an electric vehicle.

# Solar Stub Out/Electric Recharge Credit

## Amount of Credits Taken & Number of Claimants



# **Solar Stub Out/Electric Recharge Credit**

## **Recent Trends**

- A very small number of taxpayers have claimed the credit.
- It does not appear that the credit has fostered growth in solar water heater purchases or the installation of electric vehicle recharge outlets.
- Hybrid electric vehicle technology has reduced interest in rechargeable electric vehicles.
- Solar energy technology has shifted in favor of photovoltaic electricity generating devices.