Fiscal Note

BILL # SB 1047

TITLE: tax credit; school tuition organizations (S/E subject: tax credit; school tuition organizations)

SPONSOR: Murphy

STATUS: As Amended by House WM

PREPARED BY: Steve Schimpp

Description

The bill establishes a new individual income tax credit of up to $500 per single filer and $1,000 for married couples filing jointly for contributions to a School Tuition Organization (STO). The new credit is allowed only if the filer already has claimed the maximum credit allowed under the existing STO tax credit program for individuals authorized by A.R.S. § 43-1089 (which also is $500 per single filer and $1,000 per married couple filing jointly). Scholarship monies generated by the new credit would be available only to students who either: 1) attended public school full-time for at least 90 days in the prior year and transferred to private school, 2) are the dependent of a member of the armed forces, 3) are entering Kindergarten, or 4) received a STO scholarship (individual or corporate) in the prior year under the first 3 criteria.

The bill also makes the following changes to existing STO programs: 1) gives corporations and insurers 20 days (versus 10 days currently) to make a STO contribution after it receives notice from a STO that the Arizona Department of Revenue (DOR) has preapproved the contribution; 2) reduces to 90 days (from 100 days currently) the number of days that a student must have attended public school in the prior year in order to be eligible for a scholarship funded with corporate STO contributions; 3) expands eligibility for a scholarship funded with corporate or insurer STO contributions to a student who attended a preschool program for disabled pupils at a governmental school in the prior year (currently eligible only for "disabled" scholarships), a dependent of a member of the United States armed forces, and a student who received a scholarship funded with STO contributions from individuals in the prior year; and 4) makes miscellaneous changes to STO administrative requirements.

Estimated Impact

The bill is estimated to decrease state General Fund revenues by approximately $(4) million in FY 2013. This estimate is speculative, as the taxpayer response to changing incentives under the bill is difficult to predict with certainty.

If the bill results in the diversion of students from public to private schools, there would be an offsetting state savings from lower state K-12 costs. Under the $(4) million estimate, approximately 800 students would have to be diverted from public schools in FY 2012 in order for the bill to have no net state fiscal impact for that year.

The Department of Revenue (DOR) estimates that the fiscal impact of the bill "will not be significant."

Analysis

State Revenues

DOR reports that individuals received $43.2 million in tax credits for STO contributions made during 2010. This level of STO-related tax credits for individuals under current law could increase under the bill because it would double the maximum allowable tax credit that individuals could receive for STO contributions.

When contribution limits for STOs for married couples filing jointly were increased by 32% for FY 2005 (from $500 to $825) and by another 21% for FY 2006 (to $1,000), the average credit claimed increased by 22% and 14%, respectively (about two-thirds of the potential new increase) (see *Table 1*). If taxpayers once again increased their contributions by two-thirds of the potential 100% increase, STO contributions would increase by 66%. This would result in a FY 2013 revenue decrease of $28.5 million ($43.2 million "current law" estimate for STO tax credits for individuals for FY 2013 X 66% = $28.5 million).

(Continued)

Table 1

STO Data for Years of Last Contribution Limit Increase (FY 2005 & FY 2006)

	Contribution Limit *		STO Contributions		Number of Claims		Average Claim	
Fiscal Year	$	% Increase	$	% Increase	#	% Increase	$	% Increase
FY 2004	625	NA	31,871,500	NA	63,830	NA	499	NA
FY 2005	825	32%	42,194,900	32%	69,239	9%	609	22%
FY 2006	1,000	21%	51,011,800	21%	73,617	6%	693	14%

*married filing jointly

A statewide contribution increase of substantially less than $28.5 million is anticipated under the bill, however, because: 1) the existence of 2 separate STO tax credits for individuals could be confusing for potential donors; 2) the prior contribution limit increases occurred before restrictions on donation earmarking and swapping were established, 3) a relatively small subset of students would qualify for the new scholarship monies, 4) the pool of persons capable of doubling their STO contributions under the bill could be limited, and 5) total statewide STO contributions have been trending downward in recent years from a peak of $55.3 million in 2008 down to $43.2 million in 2010. As a result, it is estimated that STO contributions from individuals would increase by only about 10%, or roughly $4 million, under the bill.

State Expenditures

State costs for Basic State Aid currently change by approximately $5,000 for every student added or subtracted from statewide public school enrollments. This implies that roughly 800 students would have to transfer from public to private schools under the bill in order for it to be cost neutral ($4 million assumed revenue decrease / $5,000 savings per public school transfer = 800 transfers required for cost neutrality).

DOR data indicate that the average scholarship awarded by STOs in FY 2010 from individual income tax contributions was approximately $1,800. If donations increase by $4 million, approximately 2,000 additional scholarships could be awarded under the bill if all additional monies were used for new scholarships, rather than increasing scholarship amounts for current recipients [$4 million X 90% spent on scholarships (minimum statutory requirement) = $3.6 million in new scholarship monies; $3.6 million / $1,800 average scholarship per pupil = 2,000 new scholarships]. To achieve the 800 student cost neutrality level, 40% of new scholarship dollars awarded under the bill would have to go to existing public school students or private school students who otherwise would have returned to public schools. Under the bill, the new scholarships could only go to pupils who either 1) attended public school full-time for at least 90 days in the prior year and transferred to private school, 2) are the dependent of a member of the armed forces, 3) are entering Kindergarten, or 4) received a STO scholarship (individual or corporate) in the prior year under the first 3 criteria.

Some provisions in the bill slightly lessen the likelihood that students receiving existing corporate or insurer funded STO scholarships will generate offsetting state K-12 savings. This includes language that: 1) reduces to 90 days (from 100 days currently) the number of days that a student must have attended public school in the prior year in order to be eligible for a scholarship funded with corporate STO contributions, and 2) makes a dependent of a member of the United States armed forces eligible for a scholarship funded with corporate STO contributions. The first change would reduce by only 10%, however, the state savings associated with a student who attended public school in the prior year for 90 versus 100 days. The second would have a substantial impact on Basic State Aid costs only if a large number of dependents of military families who are already in private schools took scholarships away from current STO scholarship recipients under the bill and caused the latter to transfer back into public schools, which appears unlikely.

Local Government Impact

K-12 equalization funding to school districts and charter schools potentially could be affected by changes in the number of students receiving STO scholarships and transferring into or out of public schools as a result.

2/13/12