

# 2017 Income Tax Credit Review

## Joint Legislative Income Tax Credit Review Committee

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<u>Credit</u>	<u>Page #</u>
- Family Income Credit	8
- Environmental Technology Facility Credit	16
- Commercial and Industrial Solar Energy Device Credit	22
- Donation to the Military Family Relief Fund Credit	29
- Private School Tuition Organization “Original” Credit	37
- Private School Tuition Organization “Switcher” Credit	46
- Public School Extracurricular Activity Fee Credit	55
- School Site Donation Credit	64

# 2017 Credit Reviews

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- ❑ Annually reviews credits as determined in statute
- ❑ This year's review includes:
  - Family Income Credit
  - Environmental Technology Facility Credit
  - Commercial and Industrial Solar Energy Device Credit
  - Donation to the Military Family Relief Fund Credit
  - Private School Tuition Organization "Original" Credit
  - Private School Tuition Organization "Switcher" Credit
  - Public School Extracurricular Activity Fee Credit
  - School Site Donation Credit
- ❑ The Private STO "Switcher" Credit is the only credit being reviewed for the first time

# Summary of Prior Credit Reviews

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- ❑ Between 2002 and 2015, Committee reviewed 33 credits
- ❑ Committee did not convene in 2016
- ❑ Between 2002 and 2015, Committee recommended 16 credits to be repealed
- ❑ 1 of the 16 credits was repealed by Legislature
- ❑ 8 of the 33 reviewed credits have since expired

# Role of the Committee

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- Determine original purpose of credit
- Establish standards for evaluating and measuring success or failure of credit
- After review process, recommend whether credit should be amended, repealed or retained

# Standards for Evaluating Credit

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- ❑ History, rationale and revenue impact of credit
- ❑ Benefits of credit in terms of measurable economic development, investments and jobs
- ❑ Complexity of credit in terms of application, administration and approval process

# Confidential Taxpayer Information

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- Statute authorizes DOR to disclose confidential “statistical information” to the Committee, JLBC Staff and Legislative Staff
- DOR considers credit information confidential if:
  - credits were claimed by 3 or fewer taxpayers, or
  - a single taxpayer used more than 90% of total credits
- 3 of 8 credits include confidential information

# Issues Affecting Evaluation

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- Lack of performance measures
- Certain costs and benefits can be difficult to quantify

# Family Income Tax Credit

## – Summary

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- ❑ Cost – \$4.3 million in FY 2017
  - 588,600 claims at an average of \$7 per claim
- ❑ Purpose – reduce the tax burden on low-income households
- ❑ Complexity – simple to use. Worksheet for credit calculation is included in tax return instruction pamphlet. No separate administration and approval process is required
- ❑ Performance Measures – none in statute



# Family Income Tax Credit

## – Description of Credit

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- 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 unmarried persons filing as head of household
- Credit is nonrefundable and unused amounts cannot be carried forward

# Family Income Tax Credit

– Credit Available to Taxpayers Below Prescribed Income Limits

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<b>Filing Status</b>	<b>Income Limit</b>
Single	\$10,000
Married Filing Separate Return	\$10,000
Married Filing Joint Return *	\$20,000 - \$31,000
Head of Household *	\$20,000 - \$26,575

\* Income Limit Depends on Number of Dependents

# Family Income Tax Credit

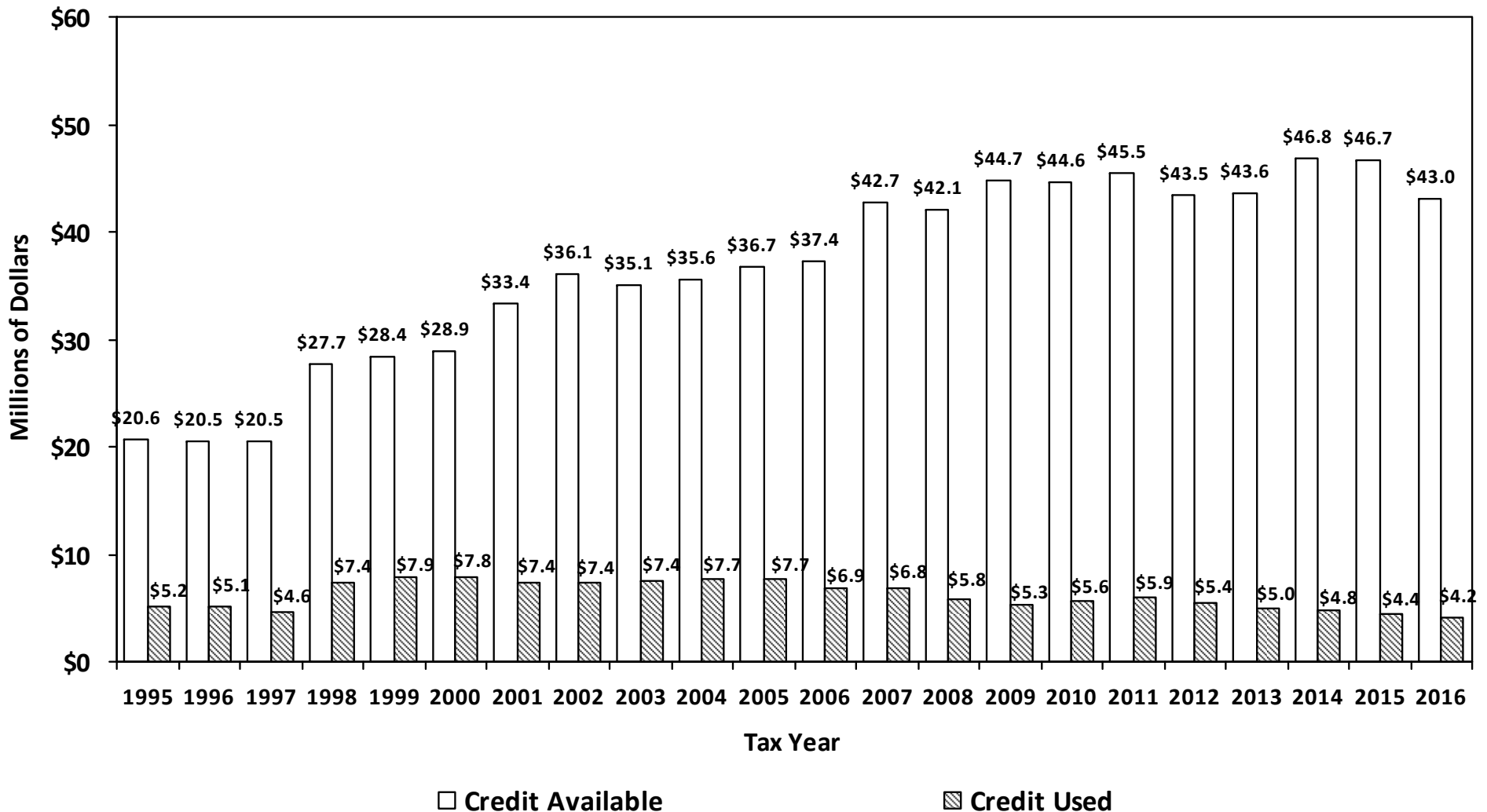
## – Amount of Credit Used Is Much Less Than Available Credit

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- ❑ Total credit available depends on filing status and number of dependents claimed
- ❑ Since credit is nonrefundable and carry forwards are disallowed, actual amount used is limited by taxpayer's liability
- ❑ Since low-income households generally incur low tax liabilities, they tend to use far less of the credit than their maximum allowable amount

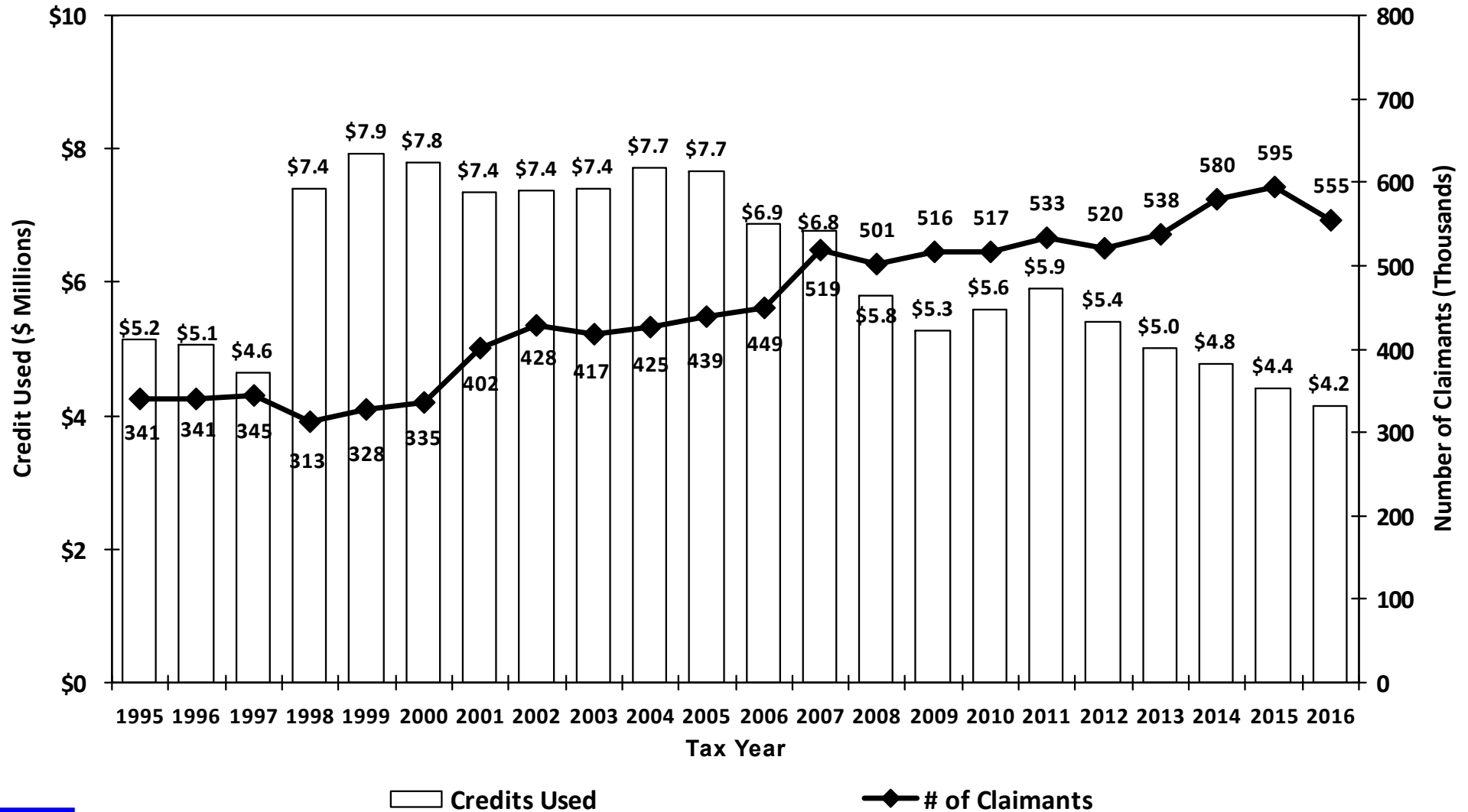
# Family Income Tax Credit

## – Total Available Credit versus Actual Credit Used



# Family Income Tax Credit

## – Amount of Credits Used & Number of Claimants



# Family Income Tax Credit

## – Benefits to the Arizona Economy

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- ❑ Credit has the effect of raising the disposable income of low-income households, which could increase consumer spending and spur economic activity
- ❑ Households in the bottom 20% of income earners spend close to 100% of their income (*Federal Reserve Bank of San Francisco estimates*)
- ❑ However, since the total amount of the credit claimed is less than \$5.0 million, the impact on the Arizona economy is likely minimal

# Family Income Tax Credit

## – Potential Performance Measures

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- There are no performance measures for this credit

# Environmental Technology Facility Tax Credit

## – Summary

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- ❑ Cost – \$0 in FY 2017 for the corporate credit
- ❑ Claimants to date – 12 companies
- ❑ Purpose – encourage construction of environmental technology manufacturing or processing facilities
- ❑ Complexity – certification process is not complex but tracking asset values can be difficult
- ❑ Performance Measures – none in statute



# Environmental Technology Facility Tax Credit

## – Description of Credit

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- ❑ The credit is equal to 10% of plant construction, not exceeding 75% of the taxpayer's liability
- ❑ Company must have been certified by the former Department of Commerce before July 1, 1996
- ❑ However, certification is transferable to companies that have acquired and continue to operate the facility
- ❑ Once certified, a company can begin construction at any time and then claim credits
- ❑ Credits must be claimed within 10 years after company begins construction

# Environmental Technology Facility Tax Credit

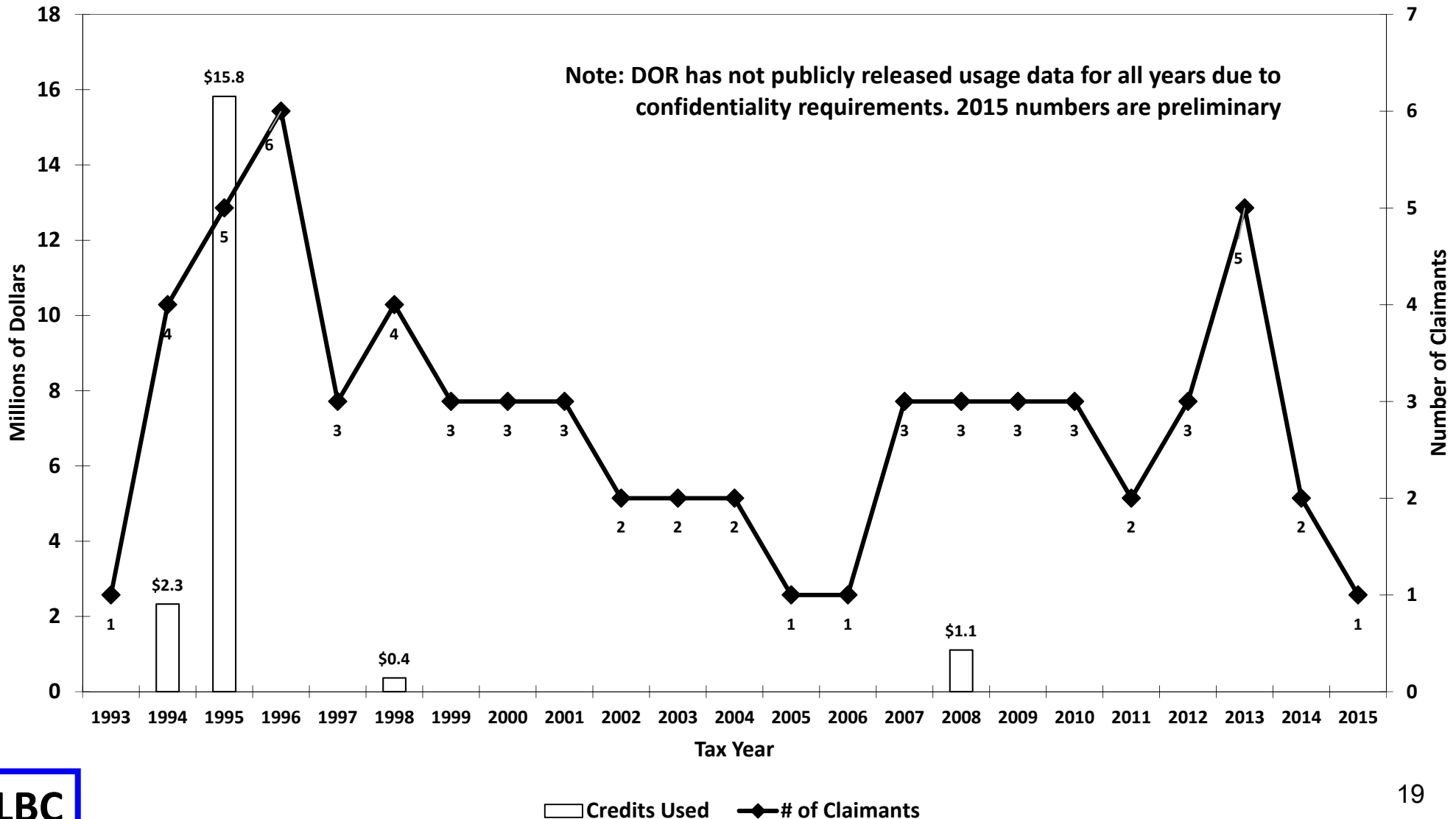
## – Description of Credit (cont.)

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- ❑ To qualify for the credit, a company must locate or make a capital investment of at least \$20 million in a facility in the state
- ❑ Facility must be used predominantly to manufacture:
  - Finished products consisting of  $\geq 90\%$  recycled materials
  - Finished products powered with solar/renewable energy
  - Raw materials produced through a process where  $\geq 85\%$  of solution used to make the finished product is recycled on-site.
  - Paper products consisting of  $\geq 80\%$  recycled material
- ❑ Credit is nonrefundable with a 15-year carry-forward

# Environmental Technology Facility Tax Credit

— Amount of Corporate Credits Used & Number of Claimants by Tax Year



# Environmental Technology Facility Tax Credit

## – Benefits to the Arizona Economy

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- ❑ 9 accredited companies made capital investments of 12.4 million in FY 2016
- ❑ According to the ACA, these companies created 2 additional jobs in FY 2016
- ❑ It is unclear how much of these impacts are the result of the tax credit vs. other programs
- ❑ Due to the small number of claimants, the economic impact of the credit is likely minimal

# Environmental Technology Facility Tax Credit

## – Potential Performance Measures

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- A comprehensive report on the number of jobs created and/or retained and total capital investments generated under the program.

# Commercial Solar Energy Device Tax Credit

## – Summary

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- ❑ Cost – \$195,500 in FY 2017 for the corporate credit and \$448,800 for the individual credit
- ❑ Purpose – to promote development of Arizona's solar energy industry
- ❑ Complexity – simple to use and administer
- ❑ Performance Measures – none in statute
- ❑ Repeal Date – January 2019

# Commercial Solar Energy Device Tax Credit

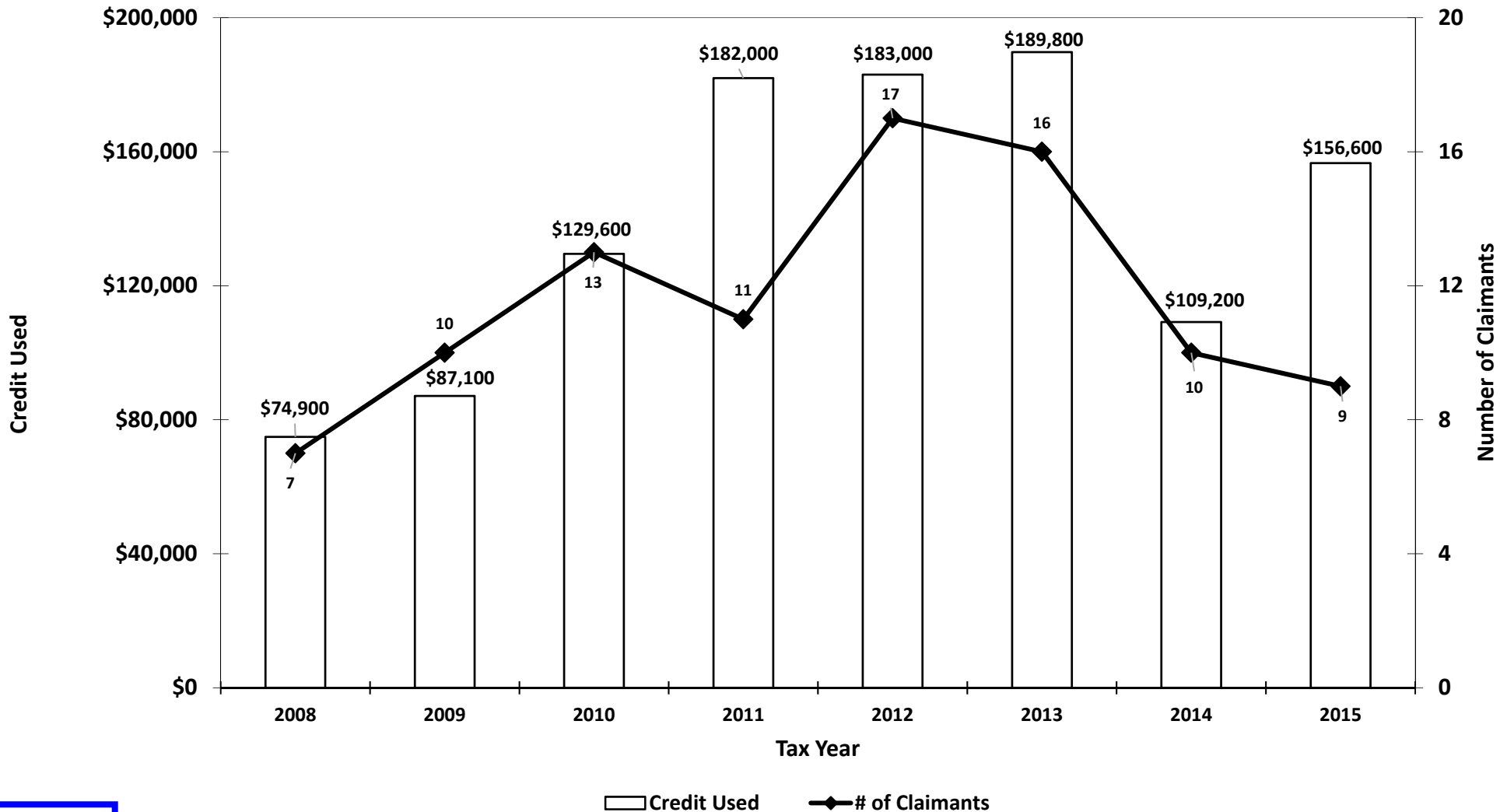
## – Description of the Credit

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- ❑ Individual and corporate tax credits for 10% of the cost of installing a solar energy device up to a maximum of \$25,000 per building or \$50,000 per business
- ❑ Solar devices include photovoltaic (PV) electricity generators, water heaters, and energy storage systems
- ❑ Credit is available through 2018 and is capped at \$1 million per year
- ❑ Credit is non-refundable, but unused amounts can be carried forward for up to 5 years

# Commercial Solar Energy Device Tax Credit

– Amount of Corporate Credits Used & Number of Claimants by Tax year

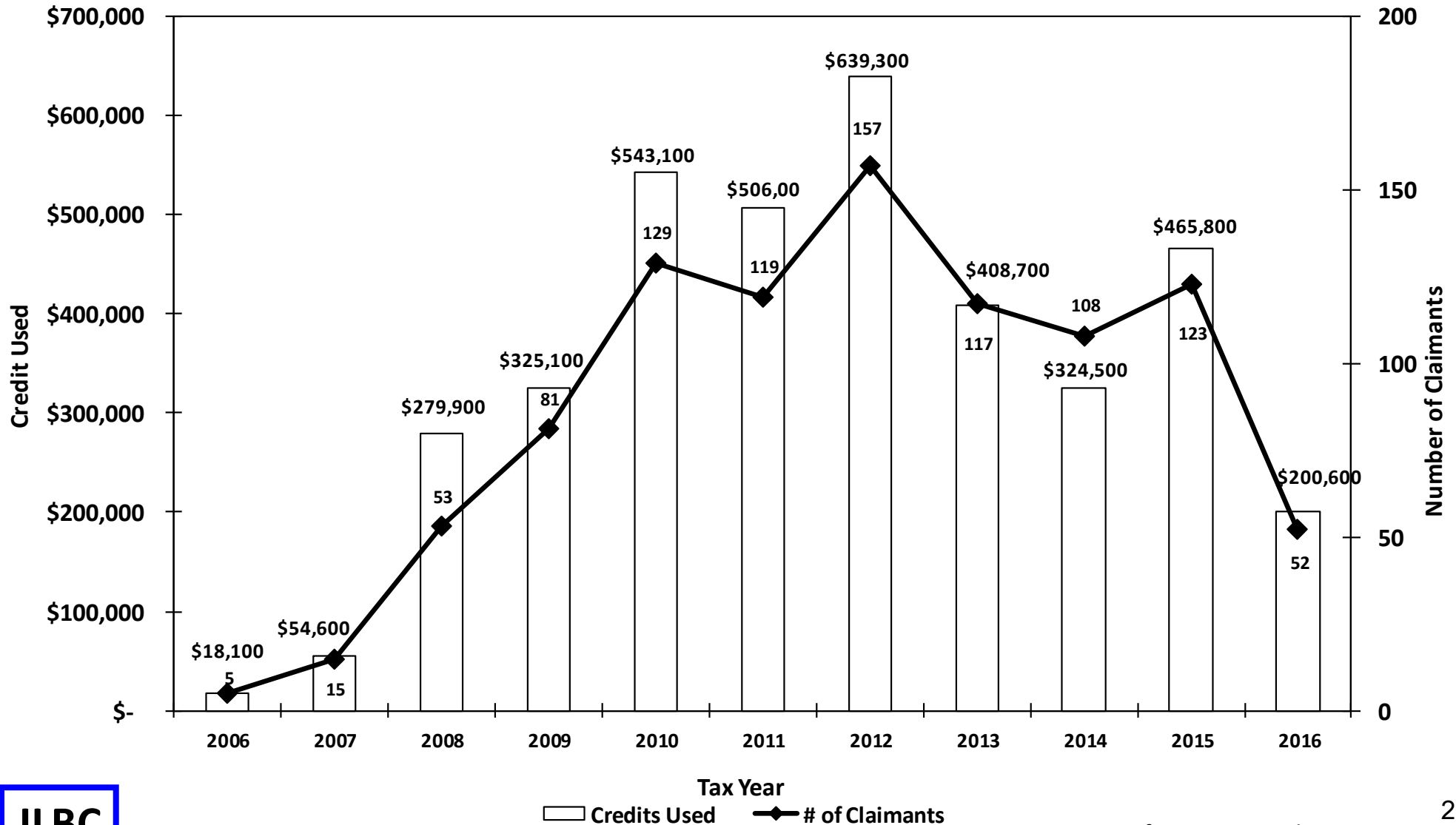


Note: Due to confidentiality requirements, data for 2006 and 2007 is not included. Data for 2015 is preliminary.



# Commercial Solar Energy Device Tax Credit

– Amount of Individual Credits Used & Number of Claimants By Tax year



Note: Data for 2016 is preliminary

# Commercial Solar Energy Device Tax Credit

## – Recent Trends

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- ❑ Arizona instituted a Renewable Energy Standard (15% by 2025)
- ❑ Federal residential and commercial solar energy credits of 30% are available through end of CY 2021
- ❑ Combined with the federal credit, the credit for commercial solar can decrease costs by 40%

# Commercial Solar Energy Device Tax Credit

## – Benefits to the Arizona Economy

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- ❑ In 2015, credits were applied against \$22.1 million of investments in solar energy devices
- ❑ There is no data on the number of new jobs created from purchases related to this credit
- ❑ Studies differ on impact of solar tax credits
- ❑ Arizona's solar related employment has decreased in recent years, but still remains high compared to other states

# Commercial Solar Energy Device Tax Credit

## – Potential Performance Measures

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- ❑ There are no performance measures in statute
- ❑ Potential Performance Measure: Solar infrastructure investment made by pre-approved credit applicants

# Military Family Relief Fund Tax Credit

## – Summary

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- ❑ Cost – \$990,780 in FY 2017
  - 3,114 claims averaging \$318 a claim
- ❑ Purpose – to encourage contributions used to relieve financial hardship of families of military service members
- ❑ Complexity – moderately complex to administer due to popularity of the credit
- ❑ Performance Measures – none in statute

# Military Family Relief Fund Tax Credit

## – Description of Credit

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- Individual tax credit for cash donations to the Military Family Relief Fund
- Maximum credit allowed:
  - \$200 for single individual or head of household
  - \$400 for married couple filing joint return
- Credit is available through 2018 and is capped at \$1 million per year
- Credit is non-refundable and unused amounts cannot be carried forward

# Military Family Relief Fund Tax Credit

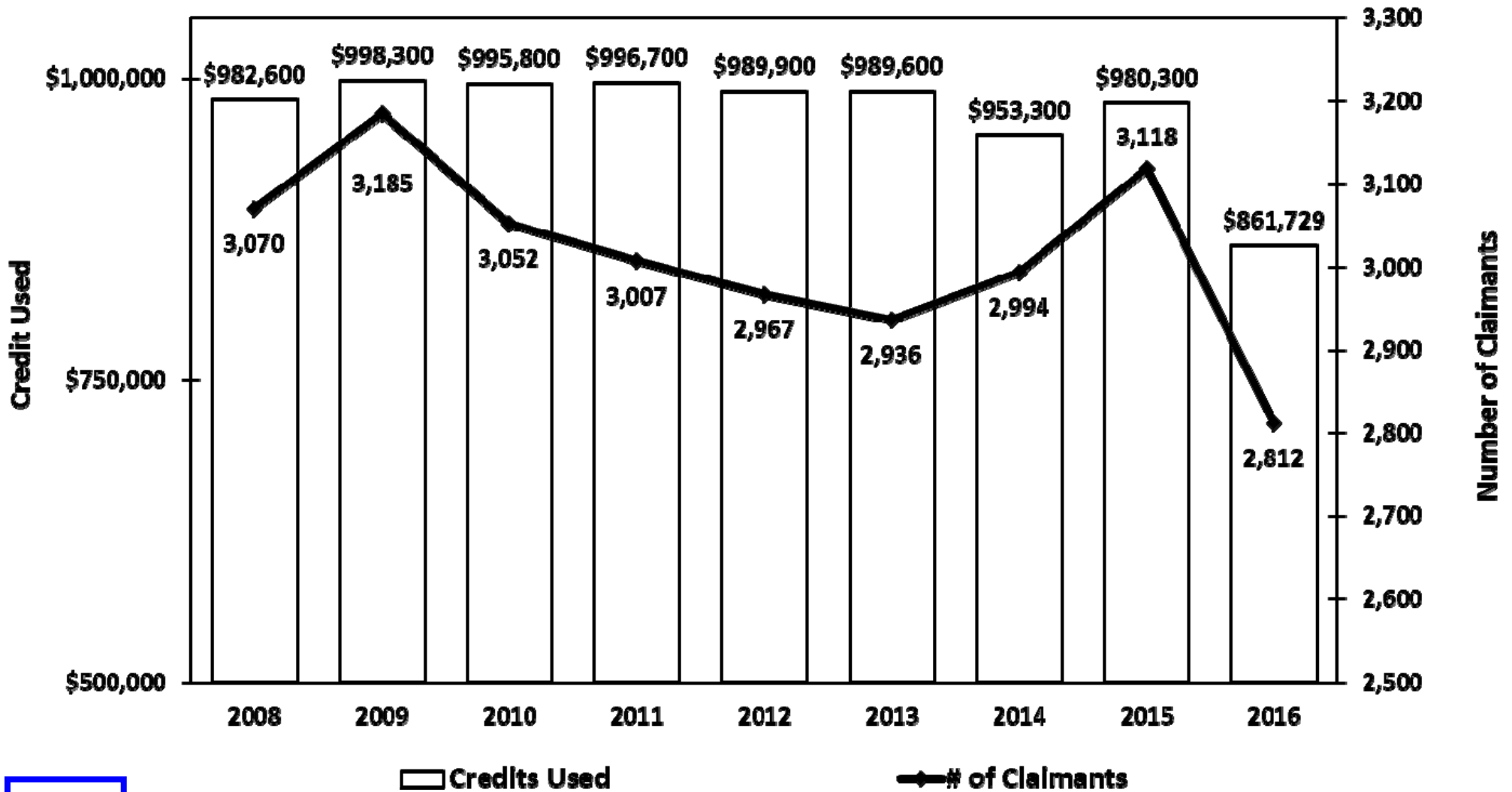
## – Balance Transfer to Veterans' Donation Fund

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- ❑ The Military Family Relief Fund balance will transfer to the Veterans' Donation Fund in January 2019
- ❑ The Veterans' Donation Fund is used to benefit veterans more broadly, including:
  - Homeless veteran women
  - Higher education scholarships
  - Enduring Freedom Memorial maintenance
- ❑ Balance of \$6.0 million at the end of FY 2017

# Military Family Relief Fund Tax Credit

## – Amount of Credits Used & Number of Claimants





# Military Family Relief Fund Tax Credit

## – Grant Making

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- ❑ \$20,000 grant cap
- ❑ Each of the following requirements must be met to be eligible for a grant:
  - Resident families of deployed military personnel or veterans
  - Military service in a combat zone since September 11, 2001
  - Experiencing financial hardship

# Military Family Relief Fund Tax Credit

## – Benefits to the Arizona Economy

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- ❑ With a \$1 million annual cap, the credit's economic impact is small
- ❑ Temporarily raises income of families of service members
  - In FY 2017, the committee made \$877,075 in grants
  - 2010 legislation eased program eligibility requirements

# Military Family Relief Fund Tax Credit

## – Level of Grants Below Donation Level

Year	Donations (Tax Year; in \$1,000)	Grants (Fiscal Year; in \$1,000)
TY '08/FY '09	\$993	\$12
TY '09/FY '10	\$1,005	\$127
TY '10/FY '11	\$1,000	\$233
TY '11/FY '12	\$999	\$562
TY '12/FY '13	\$993	\$384
TY '13/FY '14	\$994	\$312
TY '14/FY '15	\$998	\$477
TY '15/FY '16	\$1,027	\$492
TY '16/FY '17	\$999	\$877

# Military Family Relief Fund Tax Credit

## – Potential Performance Measures

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- Number and dollar amount of donations
- Number and dollar amount of grants
  - By type assistance
  - By family characteristics

# Original School Tuition Organization Credit

## – Summary

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- ❑ Cost – \$66.9 million in FY 17
  - 94,554 claims (average = \$707)
- ❑ Purpose – assist parents with the cost of private school tuition
- ❑ Complexity – Credit is simple for donors to use. Scholarship recipients must report household income, which STOs must compile and report to DOR. DOR must register STOs, monitor their compliance with statutory requirements and report statewide STO & donor data.
- ❑ Performance Measures – none in statute

# Original School Tuition Organization Credit

## – Description of Credit

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- ❑ Individual income tax credit for contributions to a school tuition organization (STO):
  - charitable organization exempt from federal taxes
  - awards 90% of tax credit revenue for scholarships & grants
- ❑ Maximum credit allowed (FY 2017):
  - \$546 for single individual or head of household
  - \$1,092 for married couple filing joint return
  - adjusted annually for inflation
- ❑ 5-year carry-forward (\$10.4 M carried forward TY 16)
- ❑ 55 STOs received contributions in FY 2016

# Original School Tuition Organization Credit

## – Related STO Credits

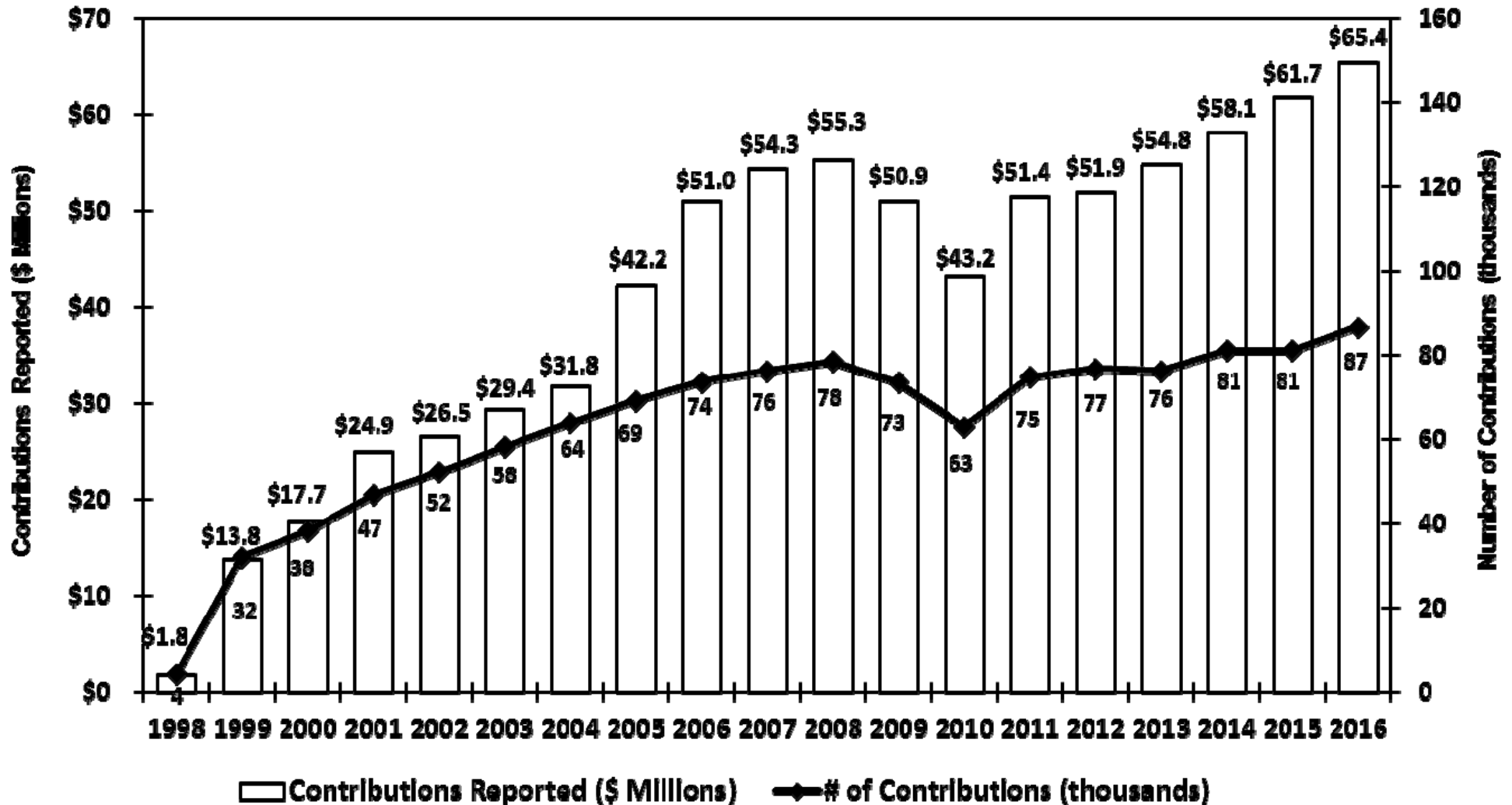
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Three other STO tax credits exist:

- Corporate “low income” STO credit
  - scholarships for “low income” students
- Corporate “displaced/disabled” STO credit
  - scholarships for students with disabilities or from foster care system
- Individual “switcher” STO credit
  - scholarships for students who switch to private schools
  - donor must first take maximum “original” STO credit
  - also under review this year

# Original School Tuition Organization Credit

– In FY 2016, Average Contribution Was \$756





# Original School Tuition Organization Credit

## – Cost of the Credit

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- ❑ The credit reduced state revenues by \$66.9 million in FY 17
- ❑ It also reduced state K-12 formula costs by unknown amount due to students leaving public schools
- ❑ Net impact unknown because number of students leaving public schools due to original STO scholarships is unknown
- ❑ State K-12 costs:
  - \$5,700 per ADM formula cost (average)
  - SFB new construction

# Original School Tuition Organization Credit

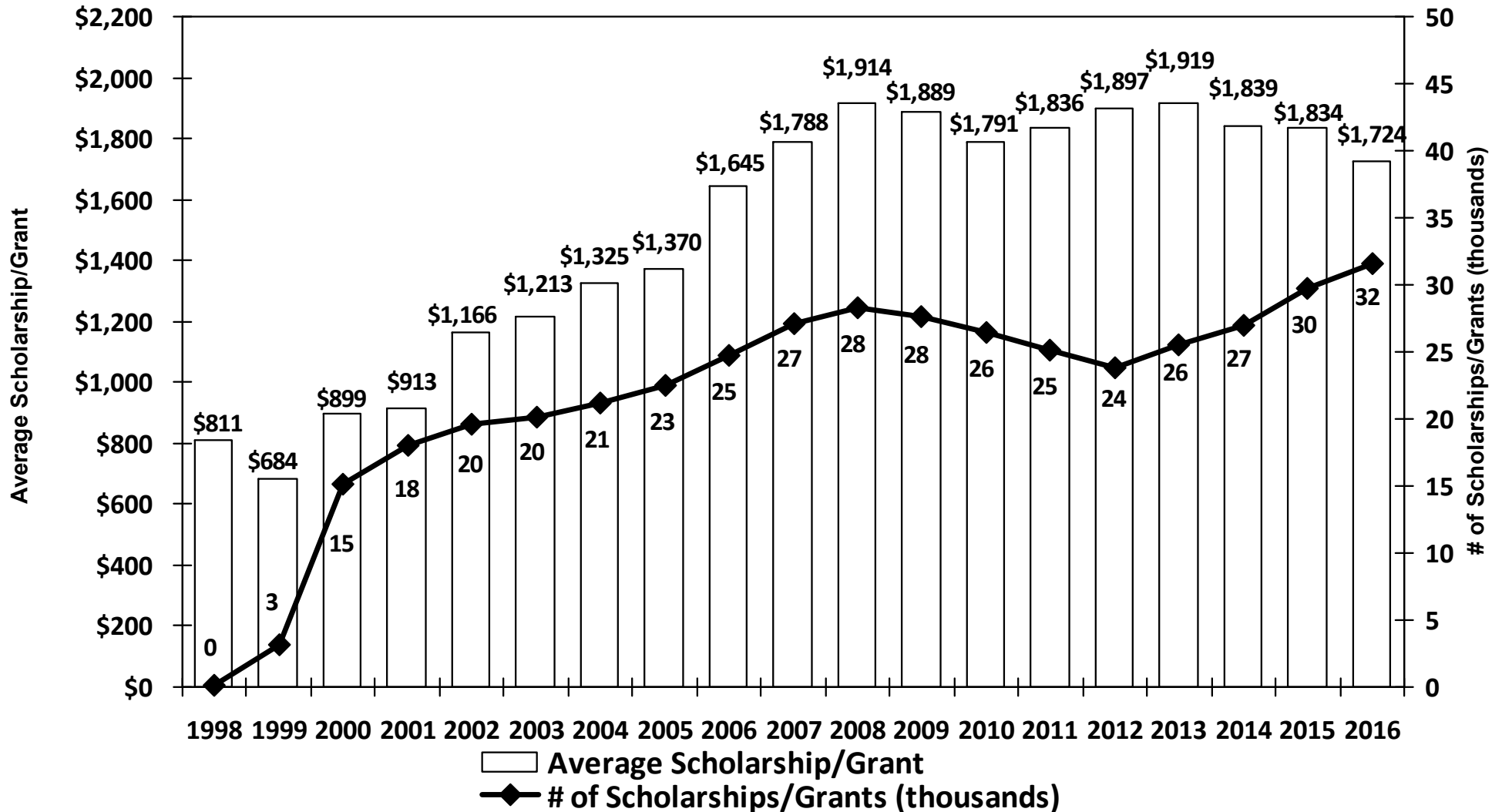
## – Impact on State K-12 Costs

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- ❑ No net GF cost if at least 11,700 students otherwise would attend public schools (11,700 students X \$5,700 = \$66.9 million)
- ❑ 31,600 original scholarships awarded in FY 16, but number of students leaving public schools is not known
  - a student may receive more than one “original” scholarship
  - do not have to be prior public school students
- ❑ Private school enrollment is essentially unchanged since STO programs began in CY 1998 (NCES survey)
  - 44,991 in 1998
  - 45,019 in 2014 (latest data)

# Original School Tuition Organization Credit

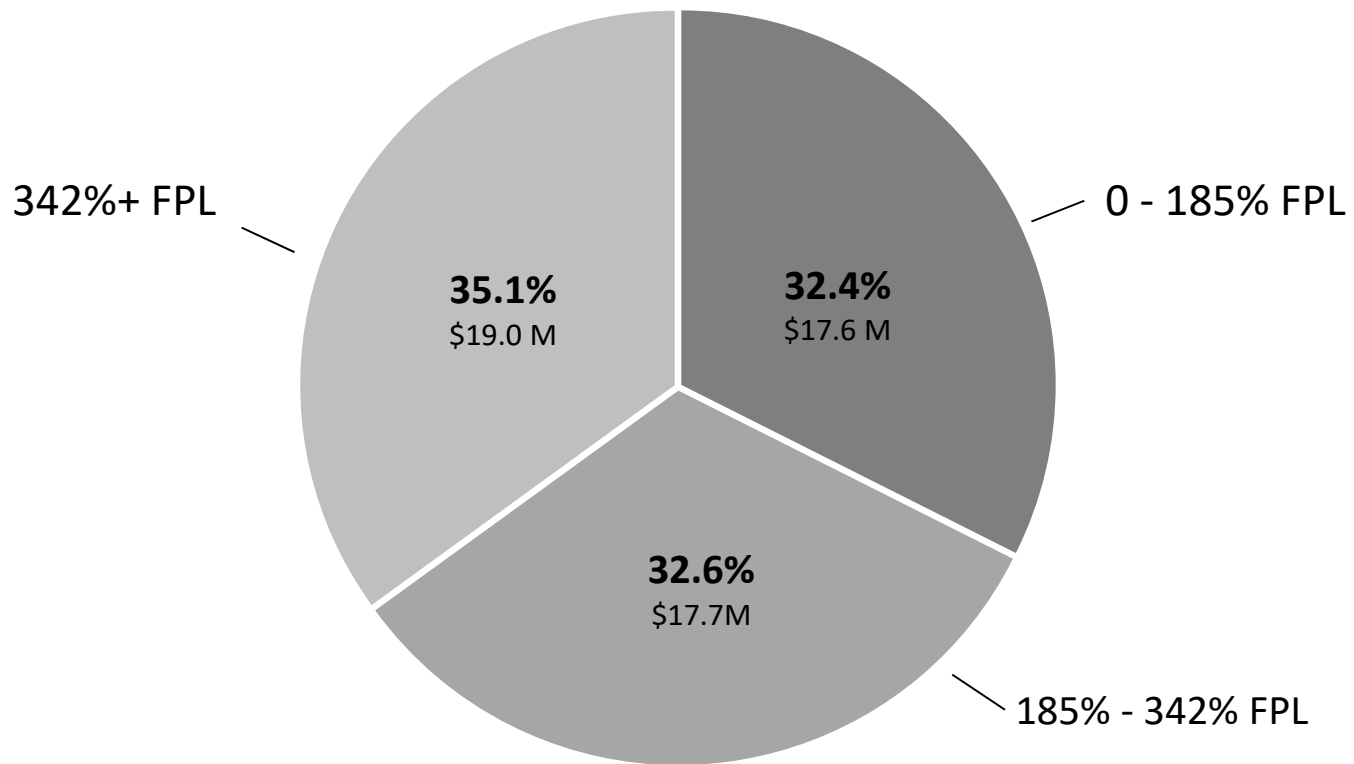
– Over 31,500 awards distributed in 2016 (Average = \$1,724)



Contributions are on a Calendar Year Basis for 1999 – 2010 and Fiscal Year Basis Thereafter

# Share of Scholarships by Family Income (FY 16)

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# Original School Tuition Organization Credit

## – Potential Performance Measures

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- Percent of STO revenues retained for administrative costs
- Percent of private school tuition paid for with award funding
- Number of unduplicated students receiving STO scholarships

# “Switcher” School Tuition Organization Credit

## – Summary

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- ❑ Cost – \$38.3 million in FY 17
  - 50,996 claims (average = \$752)
- ❑ Purpose – assist parents with the cost of private school tuition
- ❑ Complexity – Credit is simple for donors to use. Scholarship recipients must report household income, which STOs must compile and report to DOR. DOR must register STOs, monitor their compliance with statutory requirements and report statewide STO & donor data.
- ❑ Performance Measures – none in statute

# “Switcher” School Tuition Organization Credit

## – Description of Credit

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- Individual income tax credit for contributions to a school tuition organization (STO):
  - only allowed if individual has contributed the maximum amount allowed under the original STO tax credit program
- Maximum credit allowed (TY 2017):
  - \$543 for single individual or head of household
  - \$1,085 for married couple filing joint return
  - adjusted annually for inflation
- 5-year carry-forward (\$7.6 M carried forward TY 16)
- 55 STOs received contributions in FY 2016

# “Switcher” School Tuition Organization Credit

## – Related STO Credits

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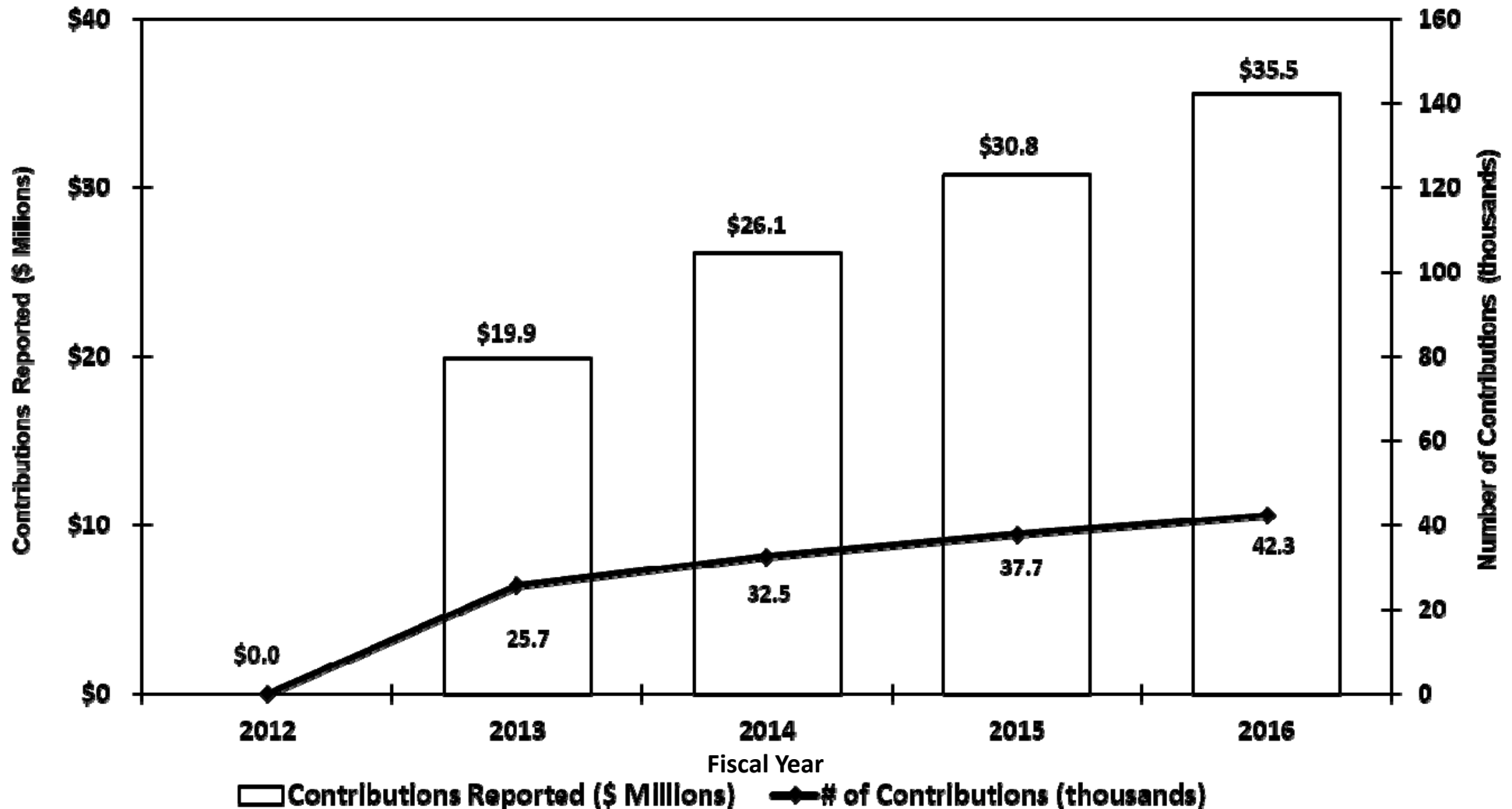
Three other STO tax credits exist:

- Corporate “low income” STO credit
  - scholarships for “low income” students
- Corporate “displaced/disabled” STO credit
  - scholarships for students with disabilities or from foster care system
- Individual “original” STO credit
  - started in 1998 (“switcher” started in 2012)
  - does not require students to switch from public schools
  - also under review this year



# “Switcher” School Tuition Organization Credit

– In FY 2016, Average Contribution Was \$839



# “Switcher” School Tuition Organization Credit

## – Cost of the Credit

---

- ❑ The credit reduced state revenues by \$38.3 million in FY 17
- ❑ It also reduced state K-12 formula costs by unknown amount due to students leaving public schools
- ❑ Net impact unknown because number of students leaving public schools due to switcher scholarships is unknown
- ❑ State K-12 costs:
  - \$5,700 per ADM formula cost (average)
  - SFB new construction

# “Switcher” School Tuition Organization Credit

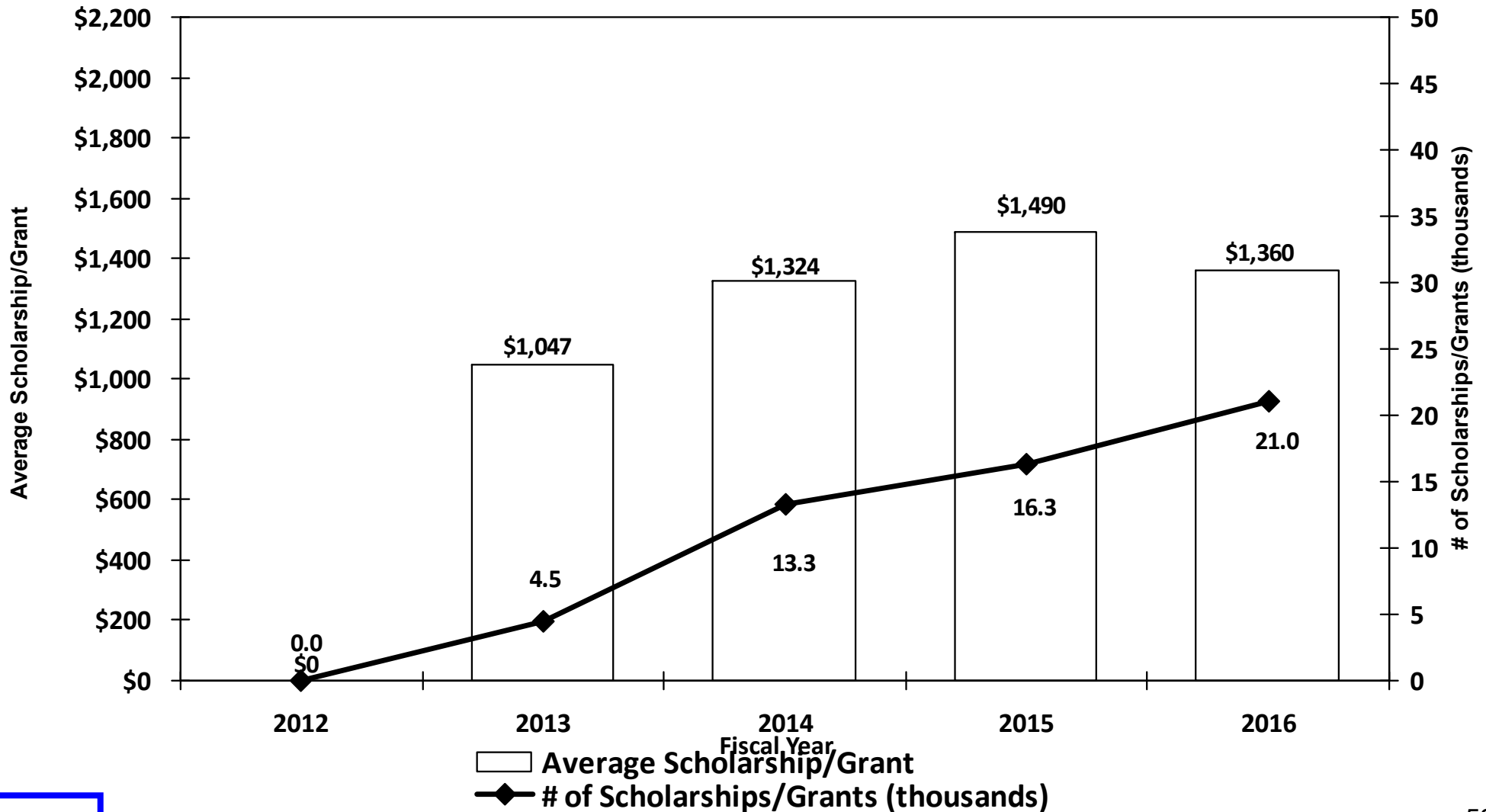
## – Impact on State K-12 Costs

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- ❑ No net GF cost if at least 6,700 students otherwise would attend public schools ( $6,700 \times \$5,700 = \$38.3$  million)
- ❑ 21,000 switcher scholarships awarded in FY 16, but number of students leaving public schools is not known
  - a student may receive more than one switcher scholarship
  - kindergarten and military recipients do not have to be prior public school students
- ❑ Private school enrollment is essentially unchanged since STO programs began in CY 1998 (NCES survey)
  - 44,991 in 1998
  - 45,019 in 2014 (latest data)

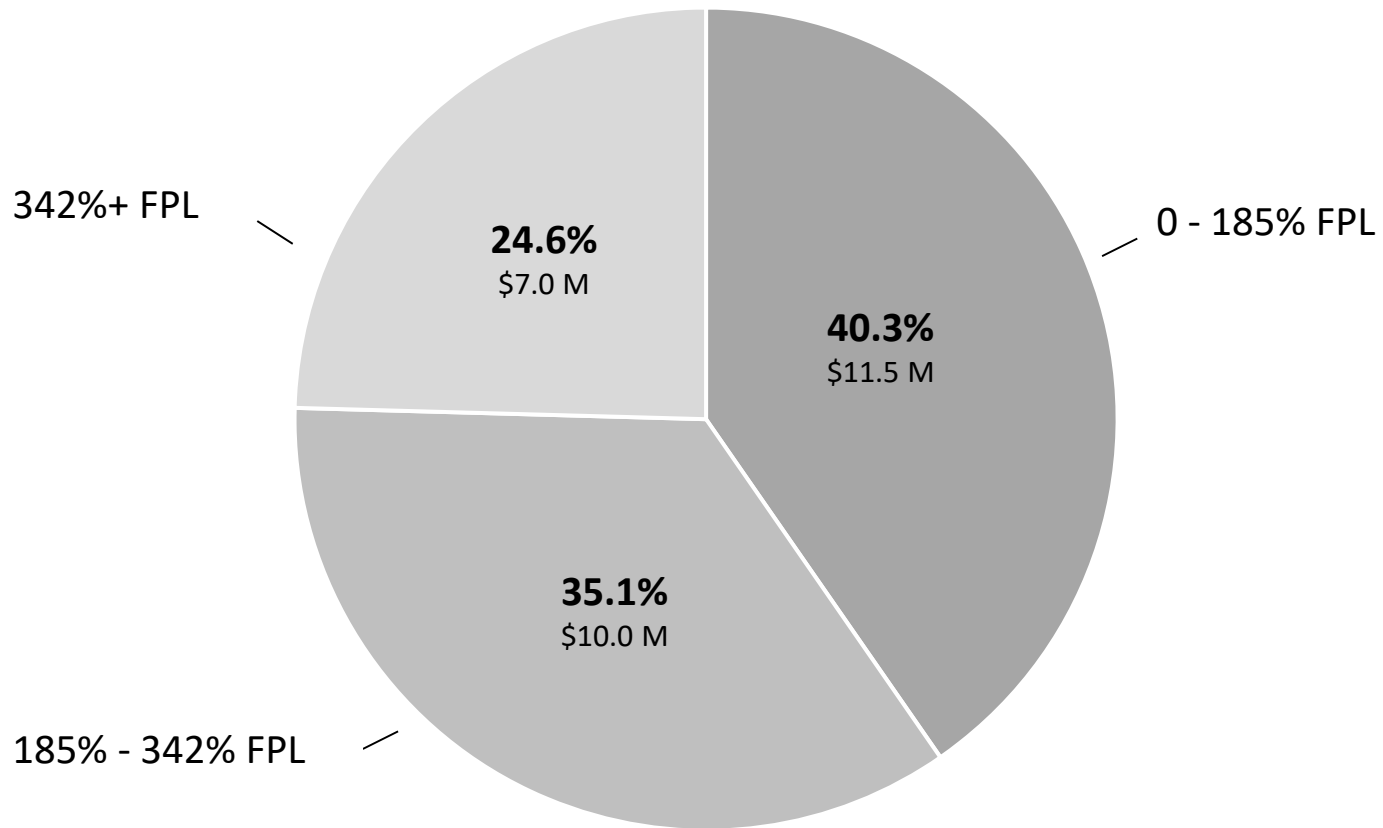
# “Switcher” School Tuition Organization Credit

– 21,000 awards distributed in 2016 (Average = \$1,360)



# Share of Scholarships by Family Income (FY 16)

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# “Switcher” School Tuition Organization Credit

## – Potential Performance Measures

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- Percent of STO revenues retained for administrative costs
- Percent of private school tuition paid for with award funding
- Number of unduplicated students receiving STO scholarships

# Public School Extracurricular Activity Fee Credit

## – Summary

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- ❑ Cost – \$46.2 million in FY 2017.
  - 168,921 claims averaging \$273 per claim
- ❑ Purpose – assist parents with the cost of extracurricular activities
- ❑ Complexity – simple to use
  - law changes have increased school district reporting requirements, adding data collection duties to DOR
- ❑ Performance Measures – none in statute

# Public School Extracurricular Activity Fee Credit

## – Description of Credit

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- 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 individual or head of household
  - \$400 for married couple filing joint return
- 5-year carry-forward



# Public School Extracurricular Activity Fee Credit

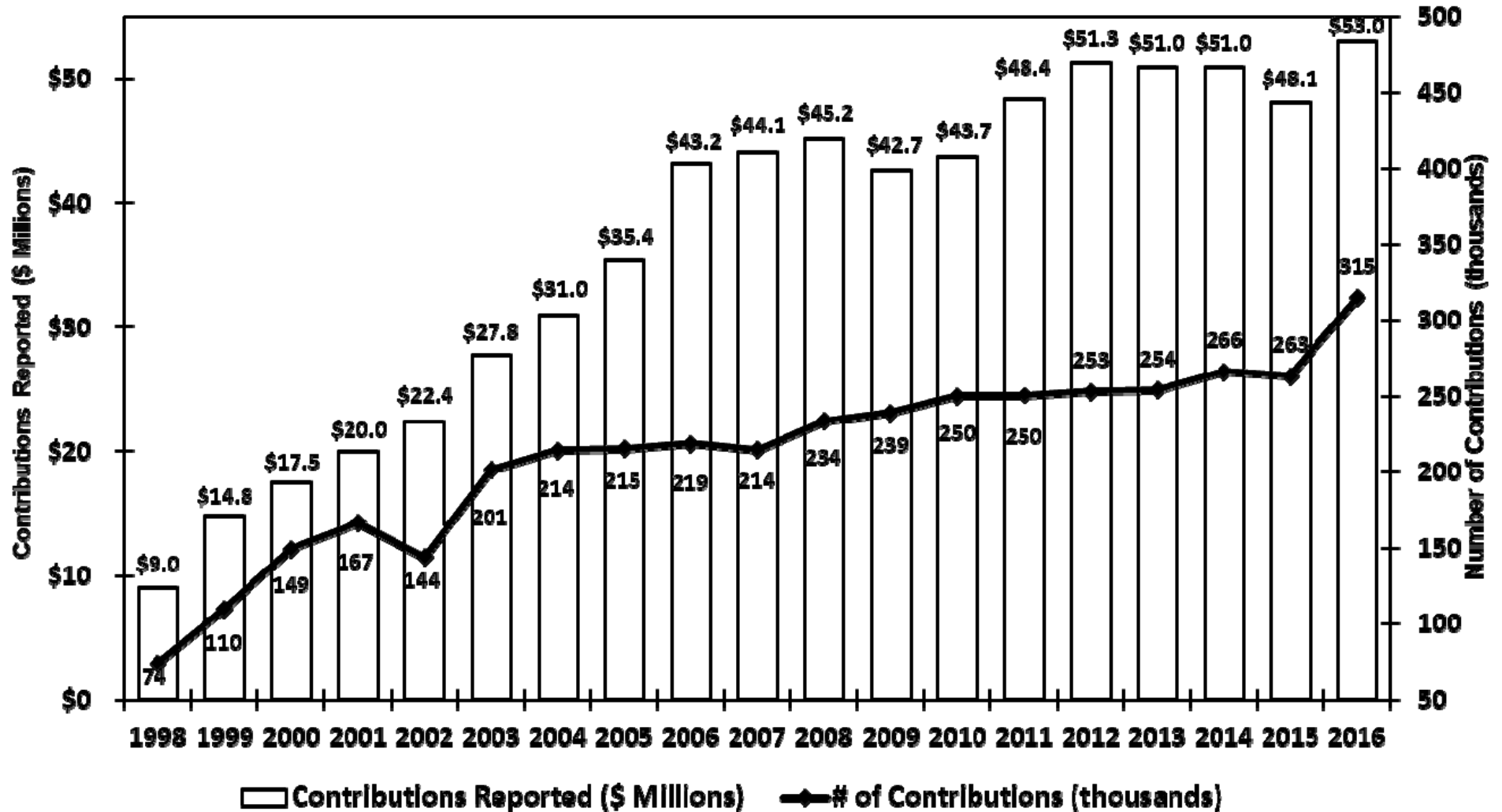
## – Activities Eligible for Credit

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- 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
- Standardized exams for college credit/readiness
- Career and technical education industry certification
- CPR training

# Public School Extracurricular Activity Fee Credit

– In 2016, Average Contribution Was \$168



# Public School Extracurricular Activity Fee Credit

## – 12 Districts Received 62% of Contributions in '16 (represents 39% of Statewide Enrollment)

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District	Contributions (\$ in millions)	District	Contributions (\$ in millions)
Chandler Unified	\$4.1	Kyrene Elementary	\$2.3
Mesa Unified	\$4.0	Deer Valley Unified	\$1.8
Tucson Unified	\$2.7	Peoria Unified	\$1.6
Scottsdale Unified	\$2.7	Amphitheater Unified	\$1.1
Paradise Valley Unified	\$2.5	Flagstaff Unified	\$1.0
Gilbert Unified	\$2.5	Tempe Union	\$1.0

# Public School Extracurricular Activity Fee Credit

## – Charters Receive Higher Average Contribution Per Pupil

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- ❑ Average contribution per pupil:
  - School Districts - \$156
  - Charter Schools - \$271
  
- ❑ Highest average contribution per pupil:
  - Pima Accommodation District - \$494
  - Hermosa Montessori (charter) - \$870
  
- ❑ Some districts and charters reported receiving no contributions

# Public School Extracurricular Activity Fee Credit

## – Family Income Levels Impact Contributions

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- ❑ Higher income districts received more contributions per student, particularly for larger districts.
  
- ❑ Other factors in determining contribution levels could include:
  - School administration (advertising, accessibility)
  - Community involvement

# Public School Extracurricular Activity Fee Credit

## – Laws 2011, Chapter 195 Increased Reporting Requirements

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- ❑ Schools must now report spending “categorized by specific extracurricular activity”
- ❑ Most reported CY16 spending was for Athletics and Field Trips:
  - Athletics or Sports (\$17.0 M / 30%)
  - Field Trips (\$13.0 M / 23%)
  - Other Clubs (\$9.1 M / 16%)
  - All Other (10 subcategories)(\$17.6 M / 31%)
- ❑ Increases school and DOR administrative duties

# Public School Extracurricular Activity Fee Credit

## – Potential Performance Measures

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- Student participation in extracurricular activities, character education programs, and testing.

# School Site Donation Tax Credit

## – Summary

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- ❑ Cost – \$40,698 in FY 2017
  - To date, there have been 36 corporate and 723 individual tax credit claims
- ❑ Purpose – encourage developers and/or landowners to make a real property donation as a school site
- ❑ Complexity – relatively simple to use and administer  
Record keeping is not difficult
- ❑ Performance Measures – none in statute



# School Site Donation Tax Credit

## – Description of Credit

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- ❑ Individuals or corporations may donate real property
- ❑ Credit is equal to 30% of the value of donated real property and improvements
- ❑ To be eligible for the credit, the property must:
  - have its value determined by an official appraisal conducted by an independent party and paid for by the donee
  - be determined as suitable as a school site or as a school by the School Facilities Board (SFB)
- ❑ The credit is nonrefundable with a 5-year carry forward

# School Site Donation Tax Credit

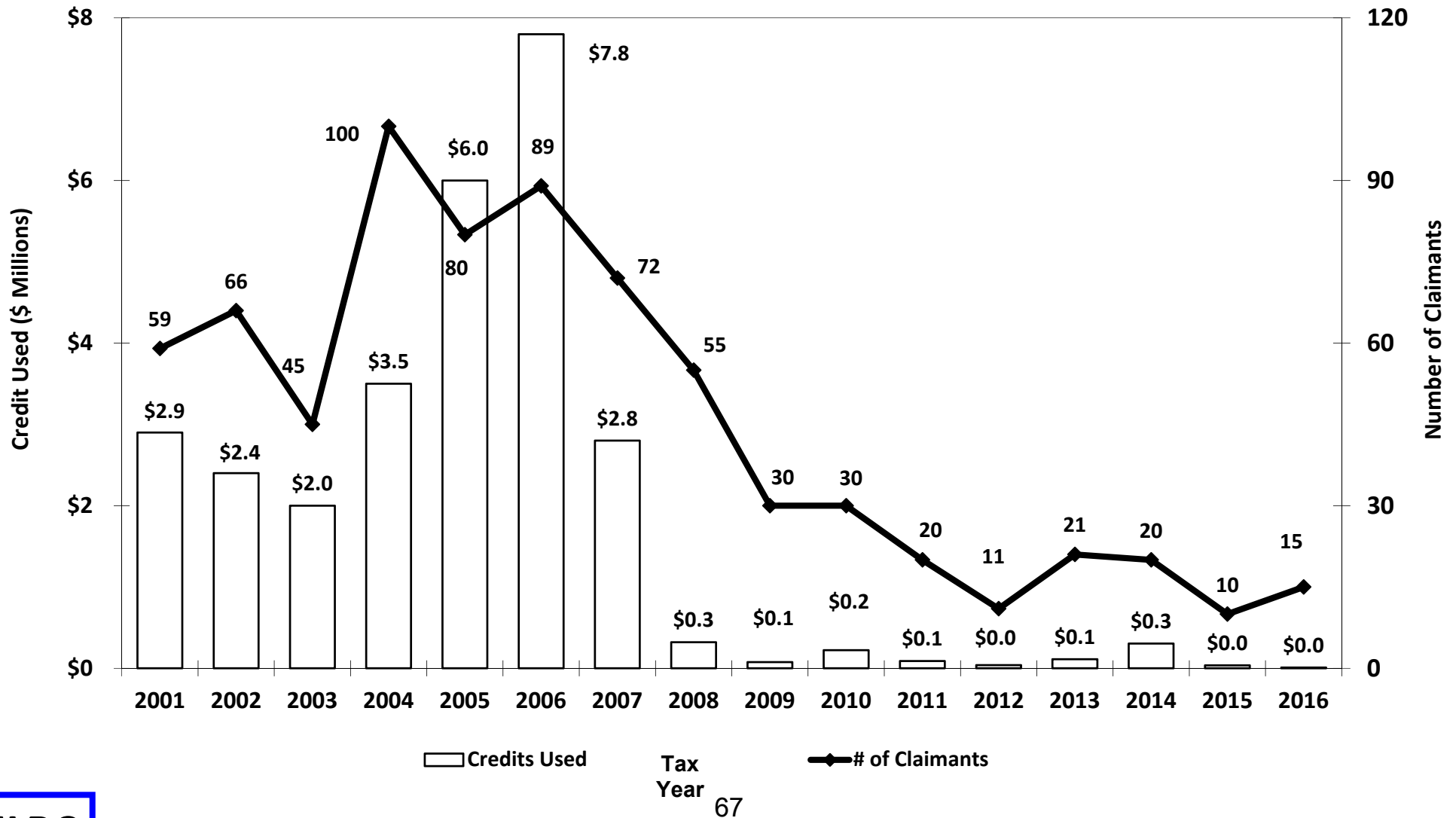
## – Role of the School Facilities Board

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- School district donations must be approved by SFB
- A credit can be taken for charter school land donations, but SFB does not approve them
- Can not approve charter school donations
- SFB gives 20% of the value of the donation to the school district for academic purposes
- SFB has not received real property donations other than land pursuant to this credit

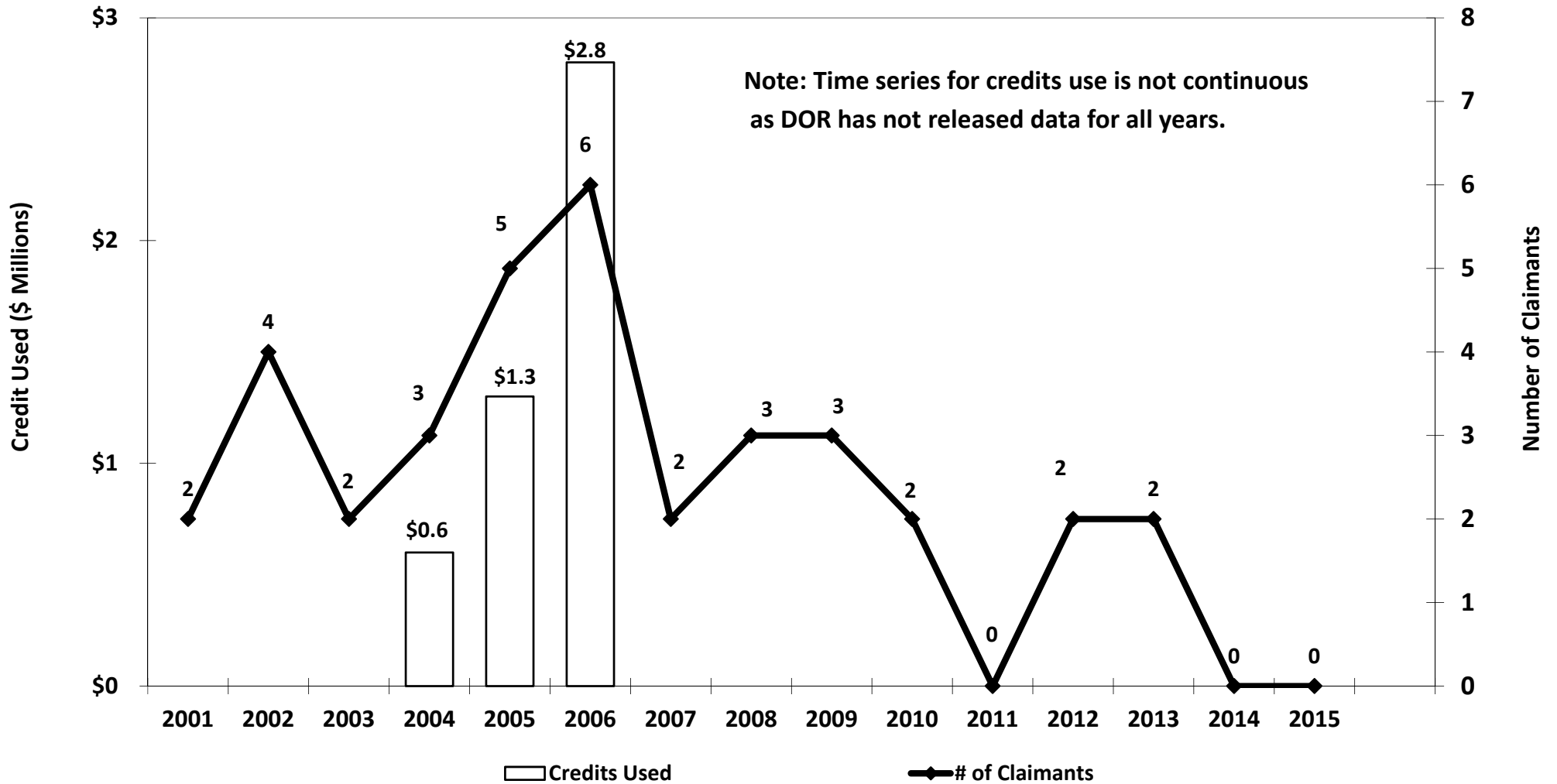
# School Site Donation Individual Tax Credit

## – Amount of Credits Used & Number of Claimants



# School Site Donation Corporate Tax Credit

## – Amount of Credits Used & Number of Claimants



Tax Year  
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# School Site Donation Tax Credit

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<b>Tax Year</b>	<b># of Donations</b>	<b>Total Acres Donated</b>	<b>Donation Value</b>
2001	19	247	\$3,489,852
2002	18	274	4,386,411
2003	12	155	2,492,356
2004	10	149	2,050,223
2005	18	313	8,352,108
2006	18	331	51,720,590
2007	18	281	34,529,000

# School Site Donation Tax Credit

## – Economic Benefits

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- ❑ A total of 1,750 acres of real property have been donated to the state under the credit
- ❑ Land donations reduce the financial burden of SFB and charter schools in terms of financing new capital projects

# School Site Donation Tax Credit

## – Potential Performance Measures

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- All qualifying school districts and charter schools to report on the number of acres of land and square feet of improvements donated each year