

# 2016 Income Tax Credit Review

## Joint Legislative Income Tax Credit Review Committee

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# 2016 Credit Reviews

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- Annually reviews credits as determined in statute
- This year's review includes:
  - Angel Investment Credit
  - Corporate Contributions to School Tuition Organizations Credit
  - Residential Solar Energy Device Credit
  - Renewable Energy Production Credit
  - Solar Liquid Fuel Research and Development Credit
- First 3 credits listed above last reviewed in 2011

# Summary of Prior Credit Reviews

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- ❑ From 2002 to 2015, Committee reviewed 33 credits
- ❑ Committee recommended 16 credits to be repealed
- ❑ 1 of the 16 credits was repealed by Legislature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- ❑ After review process, recommend whether credit should be amended, repealed or retained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
- 1 of 5 credits has confidential information
- Since no material impact on evaluation, data is excluded from JLBC presentation

# Issues Affecting Evaluation

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

# Angel Investment Tax Credit

## – Summary

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- ❑ Cost – \$1.72 million in tax year 2014
  - 364 claims at an average of \$4,700 per claim
  - \$1.66 million reported cost in fiscal year 2016
- ❑ Cap – \$20 million program cap was reached in July 2015  
\$6.75 million has been used through tax year 2014
- ❑ Purpose – encourage investments in businesses that are in the early stages of development
- ❑ Complexity – simple to use and administer
- ❑ Performance Measures – none in statute

# Angel Investment Tax Credit

## – Description of Credit

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- ❑ Credit is only available to individual income tax filers
- ❑ Credit is limited to investments of between \$25,000 and \$500,000
- ❑ Credit is claimed over 3 years and equals:
  - 35% of investment in rural or bioscience companies
  - 30% of investment in all other qualified businesses

# Angel Investment Tax Credit

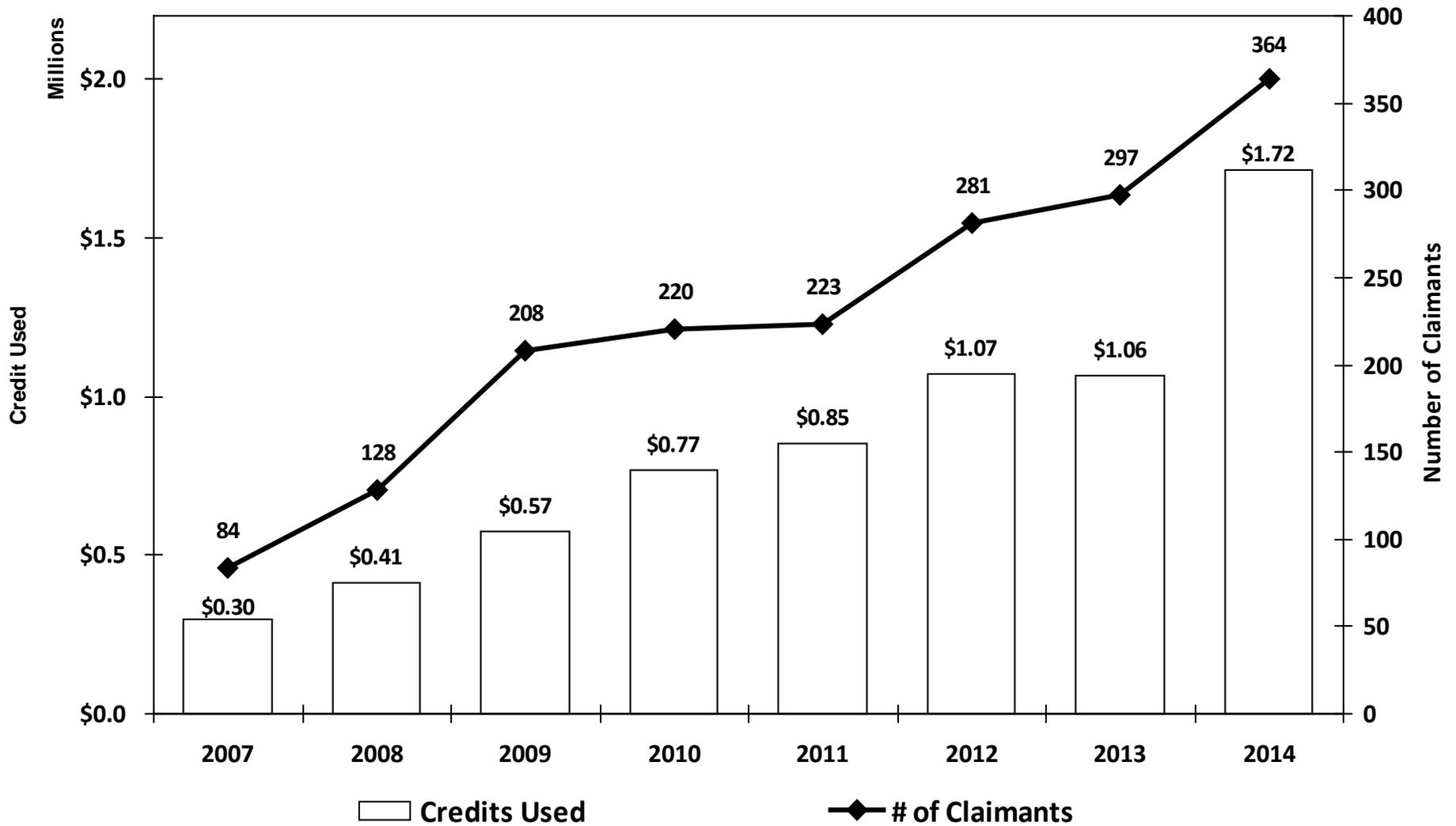
## – Description of Credit (cont.)

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- Angel investor cannot possess more than 30% of the start-up company's voting power
- To receive credit-eligible investments, a firm's total assets cannot exceed \$10 million
- A firm may receive up to \$2 million in credit-eligible investments over the lifetime of the program
- Credit is nonrefundable
- Credit carry-forward is 3 years

# Angel Investment Tax Credit

## – Amount of Credits Used & Number of Claimants



# Angel Investment Tax Credit

## – Benefits to the Arizona Economy

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- ❑ To date, ACA has authorized 1,044 qualified angel investments totaling \$62 million
- ❑ 125 businesses received investments for an average of \$496,000 per business
- ❑ Recipients are estimated to employ 1,378 workers and directly contribute \$183.5 billion in economic output to the state (*Elliott D. Pollack and Co. estimates*)
- ❑ Net economic impact of the credit program is unknown

# Angel Investment Tax Credit

## – Potential Performance Measures

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- Number of jobs at companies that received qualified investments
- Allocation of angel investments by industry
- Number of companies that have received investments that are still in business

# Corporate STO “Low-Income Scholarship” Credit – Summary

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- ❑ Cost – \$50.9 million in FY 2016
  - also reduces state’s K-12 costs
- ❑ Purpose – fund “low-income scholarships” for pupils attending private schools
- ❑ Complexity – DOR must pre-approve contributions; each School Tuition Organization (STO) must report contribution and scholarship data to DOR annually; “low income” only
- ❑ Performance Measures – none in statute

# Corporate STO “Low-Income Scholarship” Credit

## – Description of Credit

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- ❑ Credit capped at \$61.9 M statewide (FY 17)
  - cap increases 20% annually
  - cap shared by corporations, S corporations & insurers
  - no cap for individual corporations (“first come, first served”)
- ❑ Credit is nonrefundable
- ❑ Carry forward is 5 years

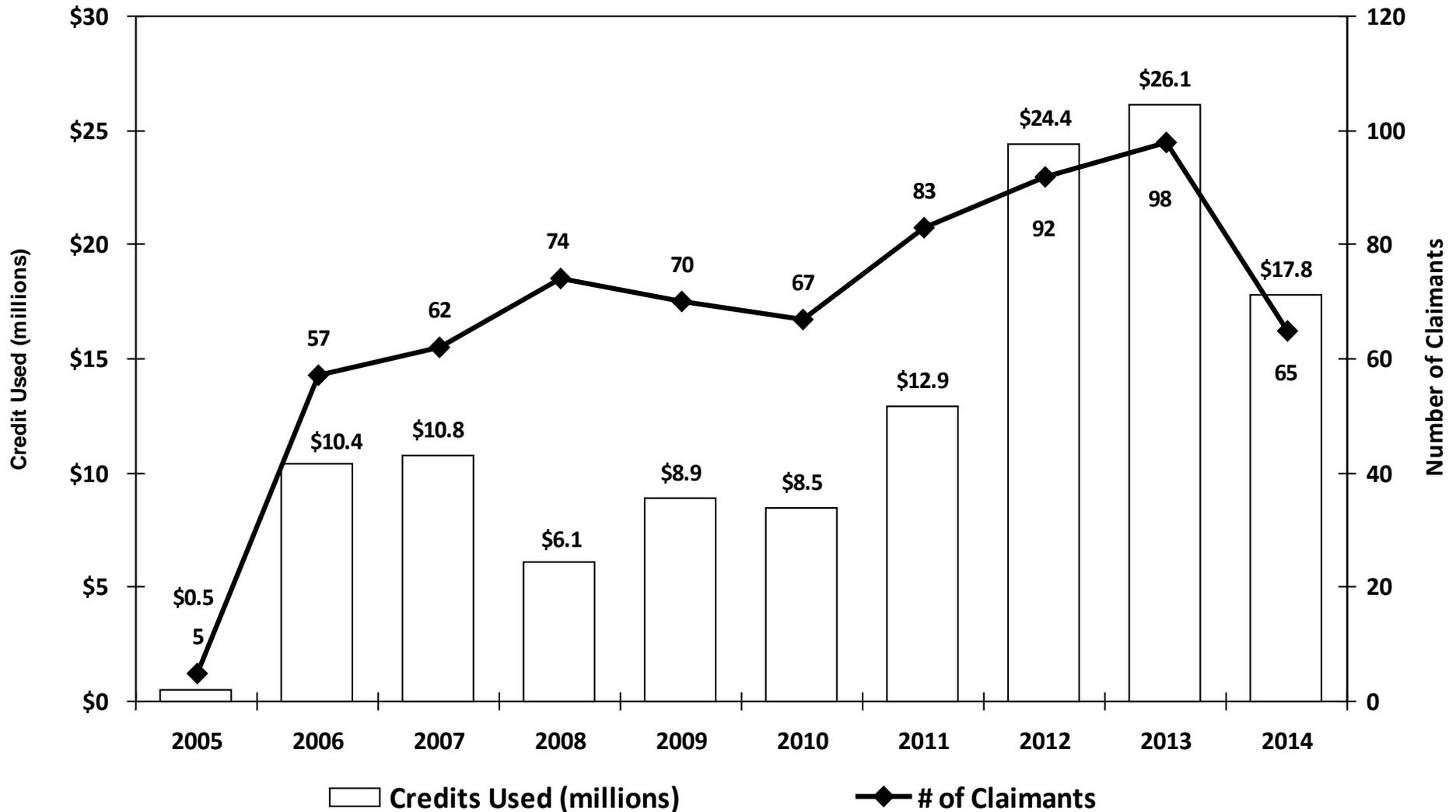
# Corporate STO “Low-Income Scholarship” Credit

## – Student Qualifications for Scholarships

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- ❑ Family income cannot exceed 185% of “reduced price lunch” limit (\$83 K for family of 4 for FY 17)
- ❑ Student must meet one of the following requirements:
  - attended public school in prior year
  - enroll in private school Kindergarten or preschool disabled program
  - military dependent
  - received “low-income scholarship” in prior year
- ❑ Maximum scholarship = \$5,200 (K-8) and \$6,500 (HS) for FY 17 (both increase \$100 annually)

# Corporate STO “Low-Income Scholarship” Credit – Credits Used & Number of Claimants by Tax Year



(DOR and DOI report \$50.9 M of credits claimed for FY 2016)

# STO Tax Credit Summary

## –\$155 M of Credits Claimed in ‘16

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<u>STO Tax Credit</u>	<u>‘16 Claims (\$ in M)</u>
Individual – Original	\$65.1
Individual – Switcher	32.7
Corporate – Low Income	51.9
Corporate – Displaced or Disabled	<u>5.0</u>
Total	\$154.7

# Corporate STO “Low-Income Scholarship” Credit

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- ❑ Not directly designed to promote economic development or spur new investments
- ❑ Enables more students to attend private schools
  - 13,118 scholarships awarded in FY 14 (unsure of actual number of students)
- ❑ Current \$61.9 M cost would be offset 10,900 students have left public schools because of the program (10,900 X \$5,700 = \$61.9 M)
- ❑ Net impact of the credit program is unknown

# Corporate STO “Low-Income Scholarship” Credit – Potential Performance Measures

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- Percentage of STO revenues retained for administrative costs (at least 90% must be used for scholarships)
- Percentage of private school tuition paid for with award funding

# Residential Solar Energy Device Tax Credit

## - Summary

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- ❑ Cost – \$4.2 million in tax year 2015
  - \$7,691 claims at an average of \$523 per claim
  - \$4.4 million reported cost in fiscal year 2016
- ❑ Purpose – promote growth of solar energy industry
- ❑ Complexity – simple to use and administer
- ❑ Performance Measures – none in statute

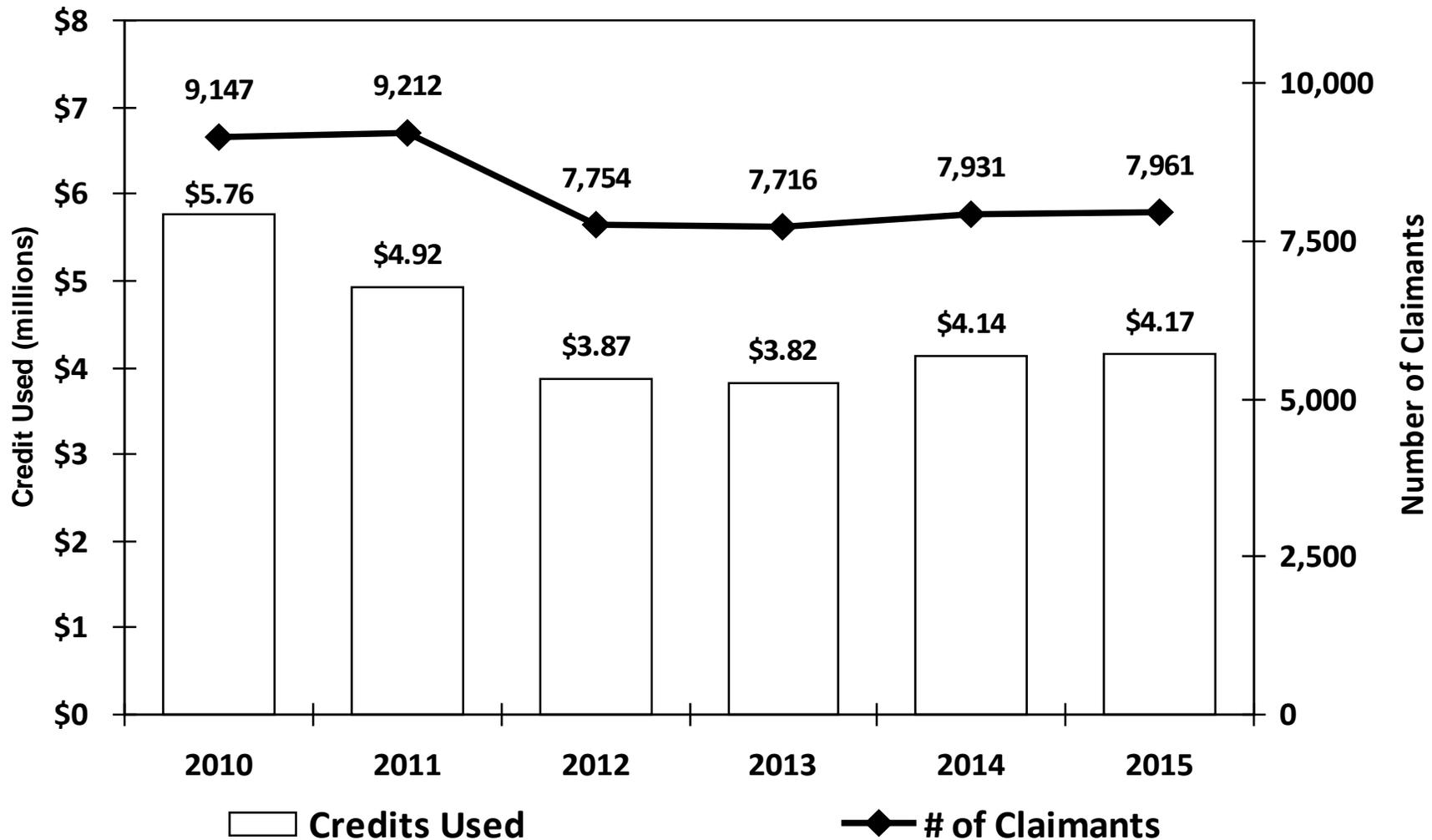
# Residential Solar Energy Device Tax Credit

## - Description of Credit

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- Solar energy devices must provide heating, cooling, electrical or mechanical power, daylighting or energy storage
- Credit is restricted to individual income tax filers
- Credit equals 25% of device; maximum amount of \$1,000
- No residence can claim more than \$1,000 total
- Credit is nonrefundable
- Credit carry-forward is a maximum of 5 years

# Residential Solar Energy Device Tax Credit - Amount of Credits Used & Number of Claimants



# Residential Solar Energy Device Tax Credit

## - Benefits to the Arizona Economy

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- ❑ Solar energy device purchases directly attributable to state tax credit is difficult to determine
- ❑ Besides state tax credit, a person's decision may also depend on availability of federal tax credits and public utility incentives
- ❑ Arizona annual photovoltaic capacity additions peaked in 2012; leveled off in 2013; and decreased significantly in 2014

# Residential Solar Energy Device Tax Credit

## - Potential Performance Measures

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- Total megawatt hours of electricity generated from solar energy devices
- Total megawatt hours of electricity conserved from non-renewable energy sources
- Number of persons employed in businesses that manufacture, install or service residential solar energy devices

# Renewable Energy Production Tax Credit

## - Summary

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- ❑ Cost – In tax year 2014, \$9.4 million for corporate credit and \$309,200 for individual credit
  - 8 corporate claims at average of \$1.2 million per claim
  - 5 individual claims at an average of \$61,800 per claim
- ❑ Cap – \$20 million annual cap; \$2 million annual limit per facility
- ❑ Purpose – promote investment in renewable energy
- ❑ Complexity – complex in certification and administration
- ❑ Performance Measures – none in statute

# Renewable Energy Production Tax Credit

## - Description of Credit

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- Available to both corporate and individual income tax filers
- Credit is for electricity production by a qualified energy generator
  - At least 5 megawatts generating capacity
  - Must use solar light, solar heat, wind or biomass
- Credit is nonrefundable
- Credit carry-forward is a maximum of 5 years

# Renewable Energy Production Tax Credit

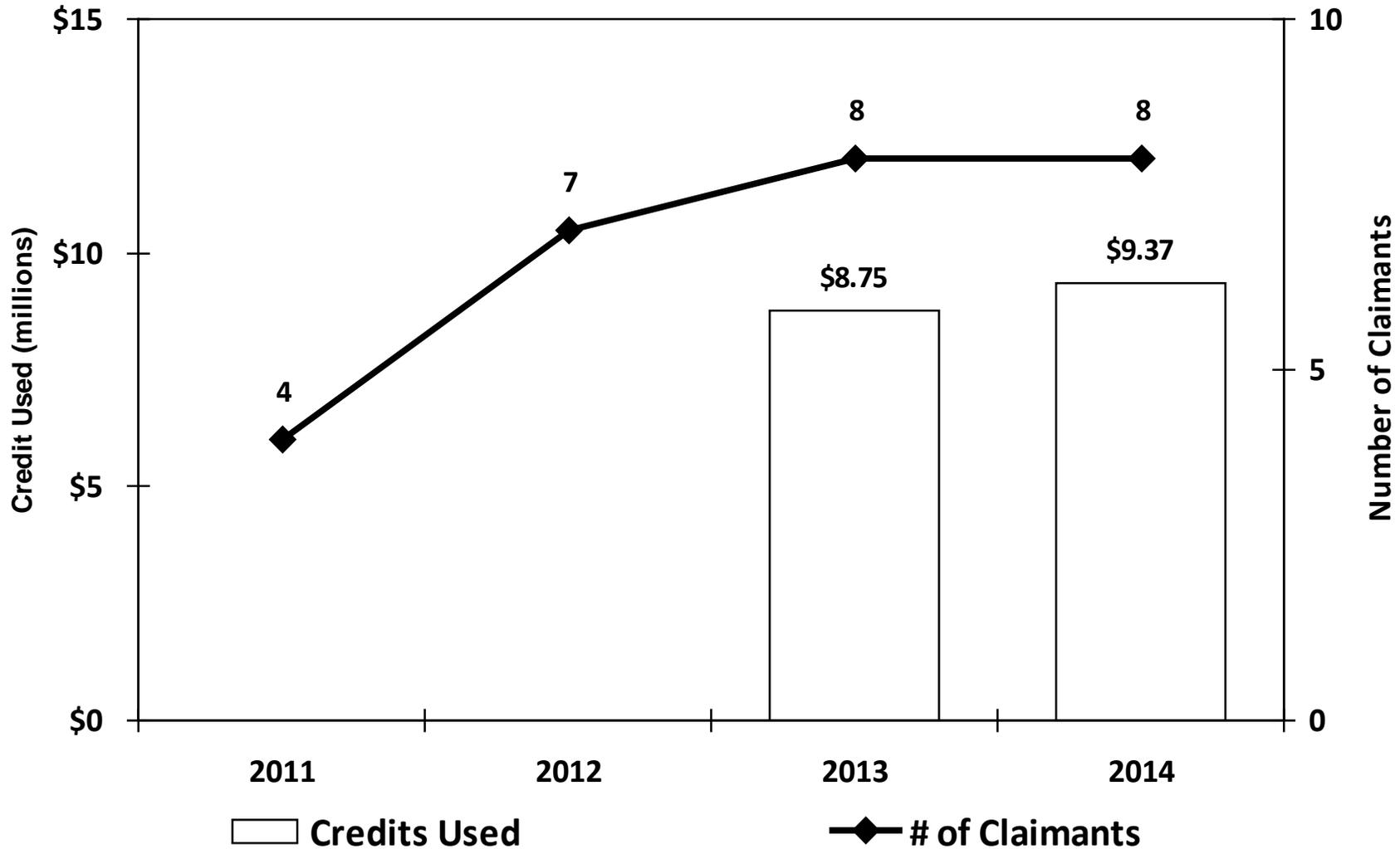
## - Description of Credit (cont.)

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- ❑ For wind and biomass systems, credit equals \$0.01 per kWh for first 200,000 MWh of electricity produced in calendar year for period of 10 years
- ❑ For photovoltaic and solar thermal electric systems, credit equals \$0.04 per kWh in 1<sup>st</sup> calendar year, gradually decreasing to \$0.01 per kWh in 10<sup>th</sup> calendar year

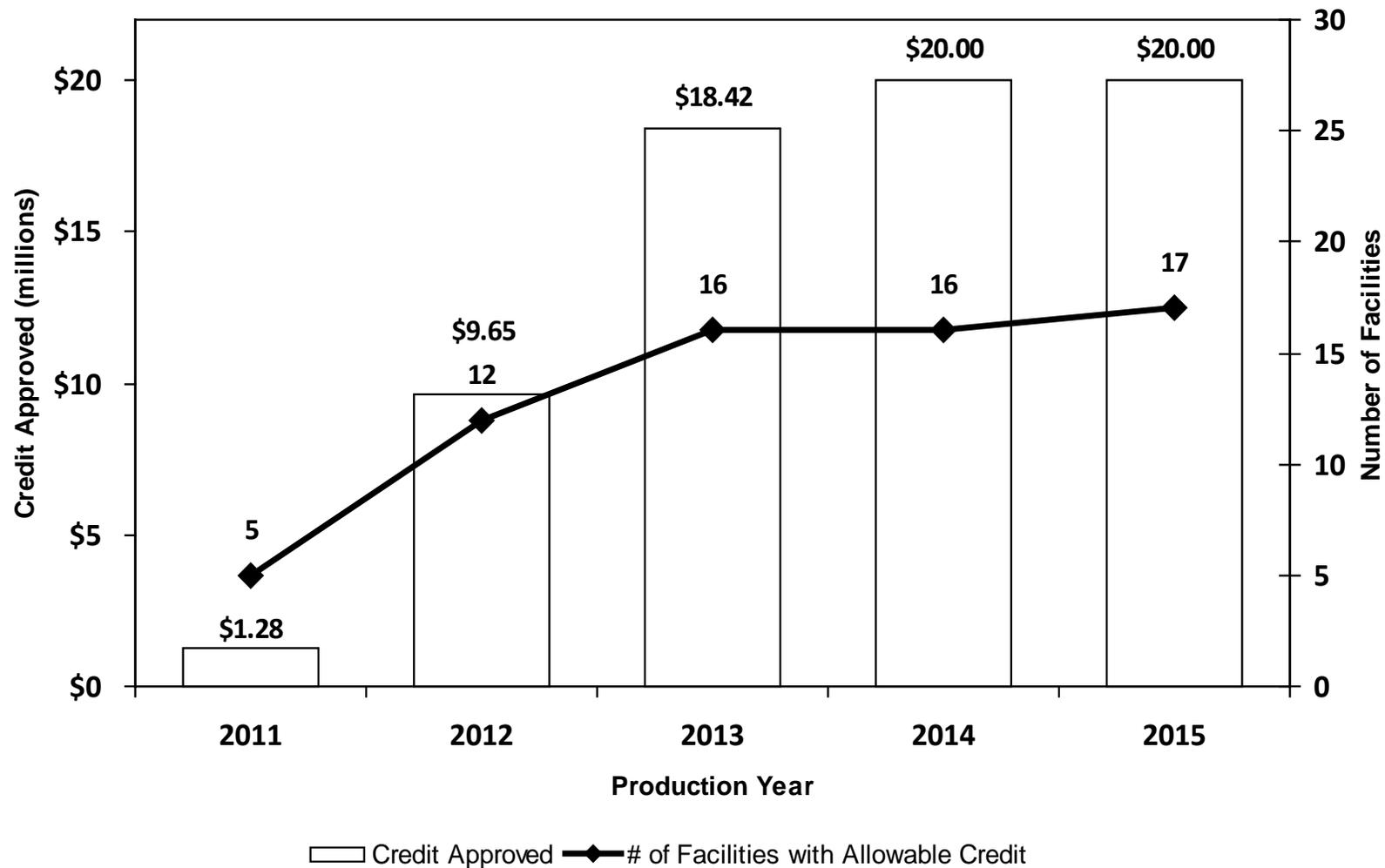
# Renewable Energy Production Credit

## - Amount of Corporate Credits\* Taken & Number of Claimants



\*No data publicly released by DOR with respect to credit use for tax years 2011-2012

# Renewable Energy Production Credit - Credit Approval for Qualified Facilities



# Renewable Energy Production Tax Credit

## - Benefits to the Arizona Economy

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- ❑ Net impact is unknown
- ❑ Enhances Arizona's competitiveness for renewable energy industry
  - 3 other states (IA, FL, NM) offer corporate credit
  - 2 other states (IA, NM) offer individual credit
- ❑ A 2015 study of New Mexico's renewable energy production tax credit summarized impacts from 2003-2012 as follows:
  - \$434 M in labor income, \$597 M in value added, \$1,090 M in output and 9,209 FTE jobs created

# Renewable Energy Production Tax Credit

## - Potential Performance Measures

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- Total megawatt hours of electricity generated from qualified energy generators
- Total megawatt hours of electricity conserved from non-renewable energy resources
- Number of persons employed in businesses that manufacture, install or service qualified energy generators

# Solar Liquid Fuel R&D Tax Credit

## - Summary

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- ❑ Cost – No credit has been claimed to date
- ❑ Purpose – promote production, marketing and use of solar liquid fuel
- ❑ Complexity – complex in calculation and application
  - Qualified expenses determined by federal law, rather than Arizona law
- ❑ Performance Measures – none in statute

# Solar Liquid Fuel R&D Tax Credit

## -Description of Credit

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- Solar liquid fuel is generated through processes that use sunlight, carbon dioxide and water to produce liquid hydrocarbon fuels
- Credit is calculated based on R&D, production and delivery costs associated with solar liquid fuel
- Credit is available to both corporate and individual income tax filers
- Credit is nonrefundable
- No credit carry-forward

# Solar Liquid Fuel R&D Tax Credit

## - Description of Credit (cont.)

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- ❑ In tax year 2011-2021, credit is 40% of research expenses over base amount for solar liquid fuel research conducted in Arizona
- ❑ In tax year 2016-2026, credit is 11 cents per 100,000 British thermal units of fuel produced in Arizona
- ❑ In tax year 2016-2026, the credit is 30% the cost of converting of existing fuel stations for retail sale of solar liquid fuel
  - Capped at \$20,000 per station per taxable year

# Solar Liquid Fuel R&D Tax Credit

## - Benefits to the Arizona Economy

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- ❑ Currently, solar liquid fuel is not economically viable
- ❑ R&D investments can have slow and unpredictable returns
- ❑ Because credit has not been used to date, there are currently no measureable economic benefits

# Solar Liquid Fuel R&D Tax Credit

## - Potential Performance Measures

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- Total amount of funding in Arizona devoted to solar liquid fuel research
- Total number of researchers in Arizona devoted specifically to solar liquid fuel research
- Total number of jobs added by increased solar liquid fuel research