

**Joint Legislative Budget Committee
Staff Memorandum**

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DATE: November 21, 2017
TO: Members of the Joint Legislative Income Tax Credit Review Committee
FROM: Hans Olofsson, Chief Economist
SUBJECT: 2017 INCOME TAX CREDIT REVIEW

Each year, the JLBC Staff prepares background materials for the Joint Legislative Income Tax Credit Review Committee as prescribed by A.R.S. § 43-222. It is our understanding, however, that the Committee will not meet this year. Given that our background information may still be of interest, we are now transmitting our material (including a PowerPoint slideshow) for the credits on the 2017 review schedule.

A separate memo provides confidential data on these credits where applicable.

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. Pursuant to A.R.S. § 43-222, there are 10 credits scheduled for review in 2017. However, since Laws 2017, Chapter 299 repeals 2 of these credits (Military Reuse Zone Credit and Solar Hot Water Plumbing Stub-Outs and Electric Vehicle Recharge Credit) on January 1, 2018, they were not included in this memo. The remaining 8 credits are listed below.

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 Prepared by: Rebecca Perrera

The Joint Legislative Income Tax Credit Review 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. Pursuant to 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.

The Committee has not previously reviewed the Private School Tuition Organization “Switcher” Tax Credit. All other credits have been reviewed by the Committee at least once in prior years.

Pursuant to Laws 2015, Chapter 199, the Department of Revenue (DOR) is authorized to disclose statistical information gathered from confidential tax credit information to this Committee, JLBC Staff and legislative staff. DOR considers tax credit information to be confidential if: (1) 3 or fewer taxpayers claimed the credit, or (2) 90% or more of the total credit used to offset tax liability was taken by 1 taxpayer.

Three of the tax credits on the 2017 review list – Environmental Technology Facility Credit, Commercial and Industrial Solar Energy Device Credit and School Site Donation Credit – include confidential statistical information.

We have provided a separate memo to the Committee that contains the confidential credit data furnished by DOR. According to DOR, each recipient of this confidential information pursuant to Laws 2015, Chapter 199 is bound by confidentiality laws and therefore should not release the information to others. Any discussions regarding this memo must be held in Executive Session.

Limitations

There are certain limitations affecting the evaluation of income tax credits. The lack of performance measures for tax credits is one such example. While a few credits have stated performance measures or goals, all other credits have no such objectives included in statute. Laws 2002, Chapter 238, requires any new credit to include a clause that explains the rationale and objective of the credit (A.R.S. § 43-223).

Moreover, the evaluation of tax credits in terms of their economic benefits to the state is often difficult to conduct since the data required to do so is rarely available.

2017 Review

The following information is provided (where applicable) for each of the credit categories:

Description - The definition of the tax credit, including how the credit is calculated.

Refundable - Whether the credit is refundable or nonrefundable. A nonrefundable credit can never exceed the taxpayer’s tax liability. Instead, any amounts not used to offset the taxpayer’s liability in a taxable year either can be carried forward to future tax years or must be forfeited in the same tax year.

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By contrast, a refundable credit is allowed to exceed the taxpayer's tax liability and any excess amounts are refunded to the taxpayer.

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 its enactment, and relevant information regarding the intended purpose of the credit.

Revenue Impact - Based on data reported by DOR, information for each tax year on the number of claimants, the amount of total available credit, credit used, and credit carried forward to a subsequent tax year.

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 agencies administering the credit, as well as the trade associations and representatives of the corporations and/or individuals claiming the credit.

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

The reported information was obtained from a variety of sources. The 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.

The JLBC Staff also reviewed summaries and minutes of committee and subcommittee hearings that were held prior to adoption of the credits. Various agencies were contacted, including the Department of Revenue and the Arizona Commerce Authority.

HO:kp

Attachment

xc: Reed Spangler, Senior Policy Advisor, Senate
Sean Laux, Policy Advisor, Senate
Fareed Bailey, Analyst, Senate Finance Committee
Ryan Sullivan, Policy Advisor, House
Alan Elder, Policy Advisor, House
Michael Madden, Analyst, House Ways and Means Committee

Family Income Tax Credit

Family Income Tax Credit

Summary

- The cost of the individual credit was an estimated \$4.3 million in FY 2017.
- In FY 2017, the individual credit was claimed by 588,600 taxpayers at an average of \$7 per claim.
- Average credit use is declining as other tax law changes have assisted low-income taxpayers.
- While labeled as a family tax credit, single households with no dependents may also claim the credit.

Statute

A.R.S. § 43-1073 (Individual Income Tax)

Description

This credit was last reviewed in 2012. The description of the credit as well as other sections of the credit review have been updated from our 2012 report when relevant.

This credit is provided to taxpayers below certain income levels. A taxpayer's income limit depends on both their filing status and the number of dependents claimed on their tax return.

The credit is \$40 for each member of a household for whom a personal or dependent exemption is allowed. However, the total amount of credit claimed cannot exceed \$240 for married taxpayers filing joint returns or for single persons filing as head of household. The credit is limited to \$120 for singles and married couples filing separate returns.

For taxpayers whose filing status is single or married filing separately, their Arizona adjusted gross income, plus any amounts subtracted for non-personal exemptions, must be less than or equal to \$10,000 to qualify for the credit. The income thresholds and maximum credits available for other taxpayers are shown in *Table 1* below.

Filing Status	# of Dependents	Income Limit	Maximum Credit
MFJ ^{1/}	< 2	\$20,000	\$120
MFJ	2	\$23,600	\$160
MFJ	3	\$27,300	\$200
MFJ	≥ 4	\$31,000	\$240
HOH ^{2/}	< 2	\$20,000	\$80
HOH	2	\$20,135	\$120
HOH	3	\$23,800	\$160
HOH	4	\$25,200	\$200
HOH	≥ 5	\$26,575	\$240

^{1/} Married couples filing joint returns.
^{2/} Single persons filing as head of household.

Refundable

The credit is not refundable.

Carry Forward

No carry-forward of unused credits is allowed.

History and Rationale

This credit was created by Laws 1995, 1st Special Session, Chapter 9 and became effective retroactively from January 1, 1995. According to both House Ways and Means and Senate Finance Committee minutes from March 15, 1995, the credit was intended to help reduce tax liability of low-income households.

Laws 1998, 4th Special Session, Chapter 3 increased the per-person credit from \$30 to \$40 and expanded the application of the credit from 4 to 6 household members, as reflected in the table on the previous page. The maximum credit per taxpayer was increased from \$120 to \$240 for married couples filing joint returns and for unmarried persons filing as head of household, and from \$60 to \$120 for all other taxpayers.

Revenue Impact

Beginning in FY 2015, the Department of Revenue (DOR) is required to report the use of individual income tax credits on a fiscal year basis. The same requirement applies to corporate income tax credits, beginning in FY 2016. Based on DOR's annual reports, the cost of the credit was \$4.6 million in FY 2015, \$4.5 million in FY 2016, and \$4.3 million in FY 2017. The number of taxpayers that claimed the individual tax credit was 578,200 in FY 2015, 603,200 in FY 2016, and 588,600 in FY 2017.

DOR additionally reports credit use by tax year. Such data is available from the tax year the credit was established, as displayed below in *Table 2*. Credit use by tax year differs from credit use by fiscal year for several reasons, including the filing of extended and amended tax returns and time periods that do not fully overlap.

Credit use by tax year has been trending down since 2000, steadily declining from a high of \$7.9 million in TY 1999 to \$4.2 million in TY 2016.

The family income credit will only reduce a taxpayer's liability and any amount in excess of their liability cannot be refunded or carried over to the next tax year. This means that a taxpayer may only be able to use a portion of the maximum credit available. The average credit available per taxpayer was \$78 in TY 2016. The average credit used (actual amount used to offset a taxpayer's liability) was \$7 in TY 2016.

Table 2 suggests that while the average available per-person credit has remained fairly stable over time (approximately 2 persons claimed per taxpayer), the average credit used to offset actual tax payments has declined significantly. For example, in the period between TY 1998 and TY 2016, the average credit used decreased from \$24 to \$7 in comparison to a reduction from \$88 to \$78 for the average available credit. The decline of the average credit used is largely attributable to other tax law changes enacted after 1998, such as a series of rate reductions and a requirement that the standard deduction be adjusted for inflation each year. These tax law changes have reduced the tax liability for all taxpayers, including low-income earners. This means that a smaller fraction of a low-income earner's available credit is now required to reduce their liability to \$0 than previously. Beginning in TY 2017, increases to the personal exemption enacted under Laws 2017, Chapter 299 may further decrease tax liability of low-income earners and their use of the credit.

<u>Tax Year</u>	<u># of Claimants</u>	<u>Total Credit Available</u>	<u>Avg. Credit Available</u>	<u>Credit Used</u>	<u>Avg. Credit Used</u>
1995	340,844	\$20,600,000	\$60	\$5,150,000	\$15
1996	340,790	\$20,526,564	\$60	\$5,071,340	\$15
1997	345,223	\$20,483,252	\$59	\$4,637,593	\$13
1998 ^{1/}	312,768	\$27,669,951	\$88	\$7,390,406	\$24
1999	327,974	\$28,374,663	\$87	\$7,925,721	\$24
2000	335,253	\$28,924,670	\$86	\$7,799,840	\$23
2001	402,094	\$33,377,585	\$83	\$7,356,939	\$18
2002	427,798	\$36,064,781	\$84	\$7,382,178	\$17
2003	417,451	\$35,068,208	\$84	\$7,445,937	\$18
2004	425,484	\$35,617,953	\$84	\$7,709,270	\$18
2005	439,056	\$36,737,292	\$84	\$7,661,867	\$17
2006	448,960	\$37,349,413	\$83	\$6,867,294	\$15
2007	518,820	\$42,706,477	\$82	\$6,784,150	\$13
2008	501,013	\$42,060,538	\$84	\$5,811,534	\$12
2009	515,867	\$44,711,520	\$87	\$5,270,319	\$10
2010	516,513	\$44,548,440	\$86	\$5,594,106	\$11
2011	533,345	\$45,490,320	\$85	\$5,905,317	\$11
2012	520,448	\$43,457,960	\$84	\$5,399,635	\$10
2013	538,319	\$43,639,520	\$81	\$5,017,004	\$9
2014	580,028	\$46,798,120	\$81	\$4,770,007	\$8
2015	594,928	\$46,682,890	\$78	\$4,417,745	\$7
2016 ^{2/}	555,066	\$43,035,890	\$78	\$4,159,703	\$7

^{1/} Laws 1998, 4th Special Session, Chapter 3 increased the per-person credit from \$30 to \$40.
^{2/} Tax year 2016 data represents a portion of the tax year due to pending extension returns.
of Claimants – the number of taxpayers who claimed the credit in each year.
Total Credit Available – the total tax credits identified in each tax year.
Credit Used – the total value of credits claimed in each year.

Economic Benefits

Measurable Economic Development

New Investments

Creation of New Jobs or Retention of Existing Jobs

According to DOR’s August 2000 report “Income Tax Credits in Arizona,” the family income tax credit is intended to alleviate the tax burden on low-income individuals. Although the credit was not directly intended to promote economic growth, it may still provide some economic benefits to society since it effectively increases the disposable income of low-income households. A higher disposable income, all else equal, should have the effect of increasing economic activity in the state somewhat. An article authored by economists at the Federal Reserve Bank of San Francisco (The Stimulative Effect of Redistribution) found that households in the bottom 20% of income earners tend to consume close to 100% of their income. This suggests that a large portion of any increase to disposable income resulting from the credit is spent on goods and services. In the aggregate, increased spending could result in the creation of new jobs and increased investments in the state. Since the total amount of credit use is less than \$5.0 million, the impact on the Arizona economy is likely minimal.

More Background

Two other income tax credits provided by Arizona law – earned credit for property taxes (A.R.S. §43-1072) and the 0.6% Proposition 301 sales tax credit (A.R.S. §43-1072.01) – have the same objective of alleviating the tax burden on low-income individuals. The property tax credit is limited to senior citizens and recipients of Supplemental Security Income with a household income below \$5,501. Proposition 301

provides a \$25 per-person credit for households with a federal adjusted gross income of up to \$25,000 and is intended to offset the cost to the taxpayer of a 0.6% sales tax enacted in 2001. Unlike the family income tax credit, both the property tax and sales tax credit are refundable and are not subject to review by the Joint Legislative Income Tax Credit Review Committee.

A taxpayer may be eligible for more than one of the 3 low-income tax credits provided in statutes. For example, a single mother with two dependent children and an annual income of \$20,000 would qualify for a family income credit of \$120 (of which about \$20 would be used to fully offset her tax liability) and a refundable Proposition 301 sales tax credit of \$75. Additionally, taxpayers that qualify for the property tax credit are generally able to qualify for each of the 3 low income tax credits. However, they can reduce their tax liability to \$0 using deductions and exemptions, prior to applying the family income tax credit.

Complexity

Unlike most other credits, the family income tax credit does not require a separate form to be appended to the individual income tax return filed by the taxpayer. Instead, the income tax form instruction includes a worksheet for the taxpayer to determine eligibility and the amount of the credit. According to DOR, this worksheet is relatively easy to use since all the information that is necessary for the credit calculation is included on the individual's income tax form. For this reason, the credit requires no separate administration or approval process by DOR.

Potential Performance Measures

There are no suggested performance measures.

Prior Review

The credit was last reviewed by the Joint Legislative Income Tax Credit Review Committee in 2012. The Committee recommended at that time that the credit be continued and placed on the 2017 review schedule.

During a 2006 review, the Committee recommended the credit be adjusted for inflation each year. A bill was introduced during the 2007 regular session (HB 2080) that would have provided for an annual inflation-adjustment of the income thresholds to qualify for the credit. This bill, however, was never heard in any committee.

Environmental Technology Facility Credit

Environmental Technology Facility Tax Credit

Summary

- The corporate tax credit was not claimed in FY 2017.
- The individual tax credit had at least 1 claimant in FY 2017. Due to confidentiality requirements, the cost of the credit is not publicly reported by the Department of Revenue.
- The Environmental Technology Facility Tax Credit is limited to taxpayers that were certified by the former Arizona Department of Commerce on or before June 30, 1996.
- A total of 12 taxpayers have claimed the credit since its inception in 1993.
- A total of \$136 million in total credit has been created since this time. The actual amount used to offset tax liability has not been publicly released by the Department of Revenue. This information can be found in the confidential memo to the members of the Tax Credit Review Committee.

Statutes

A.R.S. § 43-1080 (Individual Income Tax)

A.R.S. § 43-1169 (Corporate Income Tax).

A.R.S. § 41-1514 (Definition of environmental technology production facility)

Description

This credit was last reviewed in 2012. The description of the credit as well as other sections of the credit review have been updated from our 2012 report when relevant.

This credit is provided to taxpayers for the expenses of constructing a qualified environmental technology manufacturing, producing, or processing facility. Statute defines environmental technology to mean solar and other renewable energy products or recycled materials.

The credit is equal to 10% of the amount spent to construct the facility, including land acquisition, building improvements, machinery and equipment. The credit cannot exceed 75% of the company's total tax liability for the taxable year.

To qualify for the credit, a company must have been certified as an environmental technology manufacturer, producer, or processor by the former Arizona Department of Commerce on or before June 30, 1996. Once certified, companies can continue to claim credits on qualified construction within 10 years after beginning construction unless the Arizona Commerce Authority revokes certification. Thus, to claim the tax credit against expenses incurred in 2017, initial construction of the facility would have had to occur no earlier than 2007. Companies that had not begun construction prior to the certification deadline may begin construction at any time and then claim credits. The certification may be transferred to successive taxpayers that have acquired and continue to operate a qualifying facility.

To become certified, and to maintain certification, a company cannot import hazardous waste from another state or country into Arizona. In addition, the company must either locate or make an additional capital investment in a facility in the state that is either owned, or leased for a term of at least 5 years, by a qualified environmental technology manufacturer, producer, or processor. The expected costs of the project must be at least \$20 million within 5 years after construction begins or commencement of installation of improvements. The facility must be used predominantly to prepare, manufacture, or process any one of the following:

- Finished products consisting of at least 90% recycled materials;
- Finished products that are powered with solar or other renewable energy;

- Raw materials or intermediate product that are produced through a hydrometallurgical process where at least 85% of the solution used to make the finished product is recycled on-site for additional production; and
- Paper products that consist of at least 80% recycled material.

According to the Arizona Commerce Authority, there are currently 9 companies that are approved for various environmental technology manufacturers assistance incentives, which includes the income tax credit. The environmental technology assistance program also includes transaction privilege and use tax exemptions as well as property tax reductions. It is unclear how many of these companies would be able to claim the income tax credit itself. Based on public information provided by the Department of Revenue (DOR), only 1 company claimed the corporate income tax credit in tax year 2015, while 2 taxpayers claimed the individual income tax credit.

Refundable

The credit is not refundable.

Carry Forward

Any unused portion of the credit may be carried forward for a maximum of 15 consecutive years. Due to confidentiality requirements, DOR has not reported the carry-forward amounts.

History and Rationale

The credit was created in 1993 to induce out-of-state businesses to locate in Arizona. Specific companies targeted at the time include Fort Howard Inc., Fletcher Challenge recycling, and North Star Steel manufacturing. As previously mentioned in this review, this credit was part of a package of property, sales, and income tax incentives targeting this industry. Fort Howard, the largest of the companies targeted for the credit, did not build a plant in the state. The former Department of Commerce certification process ended in 1996, after which time no new projects could qualify for the credit. However, because credits can be claimed on expenses for 10 years following the start of construction, and because there was no time by which construction was required to begin, the tax credit is still being claimed by taxpayers.

Revenue Impact

Beginning in FY 2015, the Department of Revenue is required to report the use of the individual income tax credits on a fiscal year basis. The same requirement applies to corporate income tax credits, beginning in FY 2016. However, because of confidentiality requirements, some of this data has not been reported.

Based on the information that was reported by DOR, the individual tax credit was not claimed in FY 2015. No information was reported for FY 2016 or FY 2017. Data for the corporate tax credit was not reported for FY 2016. In FY 2017, the corporate credit had no claimants.

DOR additionally reports credit use by tax year. This data is available from when the credit was first established. The data reported by tax year differs from credit use by fiscal year for several reasons, including the filing of extended and amended tax returns.

Individual:

No individual credit claims were recorded from tax years 1993 through 2005. Since tax year 2006, the credit has had at least one claimant each year. Due to the limited number of taxpayers claiming the individual credit, the majority of this data is subject to confidentiality requirements and is therefore not displayed.

Table 1
Environmental Technology Facility Tax Credit – Individual Credit Claims by Tax Year

<u>Tax Year</u>	<u># of Claimants</u>	<u>Total Credit Available</u>	<u>Credit Used</u>	<u>Carry Forward</u>
2006	1	x	x	x
2007	1	x	x	x
2008	1	x	x	x
2009	3	\$12,352	\$1,921	\$10,431
2010	2	x	x	x
2011	2	x	x	x
2012	1	x	x	x
2013	1	x	x	x
2014	1	x	x	x
2015	2	x	x	x
2016	1	x	x	x

of Claimants - the number of taxpayers that claimed the credit in each year.
Total Credit Available - 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 \$200,000 of the credit identified in tax year 2008, use \$100,000 of this amount in 2008 (leaving \$100,000 as a carry forward). If this taxpayer did not identify or claim the credit in 2009, that \$100,000 carry forward would not be included in the credit carry forward total for 2009.
x - No data has been publicly released by the Department of Revenue.

Corporate:

Since the creation of the program in 1993, a total of 12 taxpayers have claimed the corporate credit. *Table 2* below, which was provided by DOR, shows actual credit claims by tax year since the inception of the program. In most years, this data has been subject to confidentiality requirements.

Economic Benefits

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

According to the Arizona Commerce Authority's 2016 Annual Report, the total amount of capital investments by the 9 accredited environmental technology companies was \$12,373,600 in FY 2016. They report that these companies created two new jobs with an average wage of \$66,000. However, it is unclear how much of this investment is actually due to the Environmental Technology Facility tax credit. As previously discussed in this review, the environmental technology assistance program comprises a variety of incentives, and not all of the 9 approved companies are necessarily eligible to claim the income tax credit.

Table 2

Environmental Technology Facility Tax Credit – Corporate Credit Claims by Tax Year

<u>Tax Year</u>	<u># of Claimants</u>	<u>Total Credit Available</u>	<u>Credit Used</u>	<u>Carry Forward</u>
1993	1	x	x	x
1994	4	\$16,245,878	\$2,329,800	\$13,916,091
1995	5	41,754,468	15,821,500	29,533,009
1996	6	x	x	x
1997	3	x	x	x
1998	4	36,520,479	365,267	36,155,212
1999	3	x	x	x
2000	3	x	x	x
2001	3	x	x	x
2002	2	x	x	x
2003	2	x	x	x
2004	2	x	x	x
2005	1	x	x	x
2006	1	x	x	x
2007	3	x	x	x
2008	3	22,373,917	1,108,346	21,265,571
2009	3	x	x	x
2010	3	x	x	x
2011	2	x	x	x
2012	3	x	x	x
2013	5	x	x	x
2014	2	x	x	x
2015	1	x	x	x

of Claimants - the number of taxpayers that claimed the credit in each year.
Total Credit Available - 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 \$200,000 of the credit identified in tax year 2008, use \$100,000 of this amount in 2008 (leaving \$100,000 as a carry forward). If this taxpayer did not identify or claim the credit in 2009, that \$100,000 carry forward would not be included in the credit carry forward total for 2009.
 x — No data has been publicly released by the Department of Revenue

The certification process for qualified producers of environmental technologies ended in 1996, and any new credits being claimed are the result of construction that was postponed for a long period of time. Additionally, the corporate credit has had 3 or fewer claimants in each tax year since 1999 except for 2013, and the individual tax credit has never had more than 2 claimants in a single tax year. Based on these observations, the economic impact of the tax credit on the state is likely minimal or non-existent.

Complexity

Based on information from the business community in previous reviews of the Environmental Technology Facility Tax Credit, the certification process is not considered to be complex. The Department of Revenue reports that tracking asset values after applying the credit creates some complexity.

Potential Performance Measures

Performance measures could include a comprehensive report of the number of jobs created and/or retained under the credit program, as well as the level of new investment in qualified facilities. However, because the credit is part of a larger package of incentives targeting this industry, it is difficult to separate out the credit impacts.

Prior Review

The credit was last reviewed by the Joint Legislative Income Tax Credit Review Committee in 2012. The committee recommended at that time that the credit should be repealed. However, the credit was not ultimately repealed.

Commercial and Industrial Solar Energy Device Tax Credit

Commercial and Industrial Solar Energy Device Tax Credit

Summary

- The cost of the individual tax credit was \$448,800 in FY 2017. The credit was claimed by 122 taxpayers at an average of \$3,700 per claim.
- The cost of the corporate tax credit was \$195,500 in FY 2017. The credit was claimed by 14 taxpayers at an average of \$14,000 per claim.
- While this credit is for the use of solar energy devices in commercial and industrial applications, the state also offers separate residential solar tax credits.
- The credit has a repeal date of January 1, 2019.

Statute

A.R.S. § 43-1085 (Individual Income Tax)

A.R.S. § 43-1164 (Corporate Income Tax)

Description

This credit was last reviewed in 2012. The description of the credit as well as other sections of the credit review have been updated from our 2012 report when relevant.

The statutes provide individuals or corporations with an income tax credit for the installed cost of a solar energy device used in their trade or business. Solar energy devices are defined in A.R.S. § 42-5001 as systems or mechanisms that provide heating, cooling, electrical and mechanical power, daylighting, and energy storage.

A taxpayer can claim a credit equal to 10% of the installed cost of a solar energy device used in their trade or business. The credit cannot exceed \$25,000 per building annually or \$50,000 in total per business in any year. The credit is available between tax years 2006 and 2018 and is capped at \$1.0 million per year. Tax credits are authorized on a first come, first served basis as determined by the Arizona Commerce Authority. The credit also may be transferred to a third party that manufactures or installs a qualifying device.

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. A total amount of \$487,443 in individual and corporate credits was carried forward in tax year 2015.

History and Rationale

The federal government first introduced individual solar energy tax credits with the Energy Tax Act of 1978. Arizona created its first solar energy tax credit in 1979. The federal tax credit expired in 1985 and Arizona's tax credit expired in 1987. The Energy Policy Act of 2005 established federal tax credits of 30% of expenditures on qualified residential, commercial, and industrial solar energy devices. The Energy Improvement and Extension Act of 2008 extended these credits for solar devices purchased before December 31, 2016 and removed all federal credit caps. In 2015, the federal credit was once again extended through 2021, although the value of the credit will be phased down after 2019.

Arizona’s commercial and industrial solar energy device tax credit was signed into law in June 2006 (Laws 2006, Chapter 333) and became effective for the 2006 tax year. Chapter 333 included language stating the purpose of the credit is “to stimulate the production and use of solar energy in commercial and industrial applications in this state.” Laws 2010, Chapter 294 extended the tax credits expiration date from December 31, 2012 to December 31, 2018.

The credit creates an incentive to purchase solar energy systems by reducing the cost. When combined with the federal solar investment tax credit, the cost of solar system installation can be reduced by up to 40%.

The state also provides tax credits to reduce installation costs of residential solar energy devices. Individual filers can receive a credit equal to 25% of the cost of installing a solar energy device at their residence, up to maximum of \$1,000. However, Laws 2017, Chapter 299 repeals this credit after December 31, 2017. The residential solar energy device credit is reviewed separately, and was last reviewed in 2016.

Revenue Impact

Beginning in FY 2015, the Department of Revenue (DOR) is required to report individual income tax credit use on a fiscal year basis. The same requirement applies to corporate income tax credits, beginning in FY 2016. As reported by DOR, the cost of the individual credit was \$194,800 in FY 2015, \$432,300 in FY 2016, and \$448,800 in FY 2017. The cost of the corporate credit was \$79,300 in FY 2016 and \$195,500 in FY 2017.

DOR also reports credit use on a tax year basis. This data is available from when the credit was first established. It should be noted that this data differs from credit use by fiscal year for several reasons, including the filling of extended and amended tax returns. *Table 1* shows the cost of the corporate tax credit by tax year since the credit’s inception, while *table 2* displays the same information for the individual tax credit.

<u>Tax Year</u>	<u># of Claimants</u>	<u>Total Credit Available</u>	<u>Credit Used</u>	<u>Carry Forward</u>
2006	x	x	x	x
2007	x	x	x	x
2008	7	\$85,550	\$74,899	\$10,651
2009	10	206,102	87,118	118,939
2010	13	244,779	129,528	115,251
2011	11	274,620	181,978	92,642
2012	17	265,650	183,016	82,634
2013	16	262,893	189,752	73,141
2014	10	156,727	109,159	67,081
2015	9	253,317	156,621	96,696

of Claimants – the number of taxpayers who claimed the credit in each year.
Total Credit Available – 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, an individual could have \$500 in credit identified in tax year 2008, use \$400 of it in 2008 (leaving \$100 as a carry forward). If that individual did not identify or claim that credit in 2009, that \$100 carry forward could not be included in the carry forward total for 2009.
 x – No data has been publicly released by the Department of Revenue.

Table 2

Commercial Solar Energy Device Credit – Individual Credit Claims by Tax Year

<u>Tax Year</u>	<u># of Claimants</u>	<u>Total Credit Available</u>	<u>Credit Used</u>	<u>Carry Forward</u>
2006	5	\$27,507	\$18,086	\$9,421
2007	15	75,549	54,558	20,991
2008	53	428,724	279,874	148,850
2009	81	549,543	325,054	224,489
2010	129	910,731	543,109	367,622
2011	119	963,770	506,006	457,764
2012	157	966,809	639,332	327,477
2013	117	729,977	408,692	346,285
2014	108	737,819	324,529	399,031
2015	123	1,100,042	465,781	390,747
2016 ^{1/}	52	899,169	200,621	273,649

^{1/} Tax year 2016 data represents a portion of the tax year due to pending extension returns.

of Claimants – the number of taxpayers who claimed the credit in each year.

Total Credit Available – 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, an individual could have \$500 in credit identified in tax year 2008, use \$400 of it in 2008 (leaving \$100 as a carry forward). If that individual did not identify or claim that credit in 2009, that \$100 carry forward could not be included in the carry forward total for 2009.

Given the annual program cap of \$1.0 million for new credits, there is not much room for the annual revenue impact to grow.

Economic Benefits

Measurable Economic Development

New Investments

Creation of New Jobs or Retention of Existing Jobs

There are no studies of the magnitude of economic development, new investment, or the creation or retention of jobs related to this specific credit. The credit was applied against the installation costs of approximately \$22 million of solar devices in tax year 2015. This level of purchase likely had some positive impact on the industry, but it is difficult to know the extent to which the 10% discount provided by the credit has impacted total commercial solar installations. A further difficulty is that while increased solar spending increases the need for workers in production and installation of solar energy systems, it may also mean reduced spending on other types of power generation. The degree to which these impacts offset one another is unknown. Multiple sources have estimated the impact of solar device tax credits on solar installations, but these results are not perfectly applicable to Arizona’s tax credit.

More Background

As previously mentioned in this report, the federal Solar Investment Tax Credit (ITC), which provides consumers with a credit equal to 30% of the cost of installation, was extended from 2016 to 2021. According to the Solar Energy Industries Association (SEIA), this extension will cause nationwide installations to increase by 54% over a baseline scenario without the extension. Additionally, SEIA projects the extension will spur an additional \$40 billion in investment and lead to the creation of 180,000 jobs over the no-extension baseline scenario.^{1/} It should be noted that the federal credit applies to

residential solar installations in addition to commercial and industrial installations, and is also much larger than Arizona's credit. Nevertheless, SEIA deems the federal ITC to be very important to the national solar industry.

A recent academic study conducted by faculty members at Yale and the University of Kansas found that the price elasticity of demand for solar photovoltaic (PV) systems was -0.65, which indicates that this market is not very price sensitive (Gillingham and Tsvetanov, 2017).^{2/} This result can be roughly translated to mean that in the absence of Arizona's commercial solar tax credit, purchases of solar PV systems would decrease by 6.5% (as a result of the 10% price increase). It should be noted that this study was focused on residential solar installations in Connecticut, which has different market characteristics than Arizona.

Investment in solar energy equipment has fluctuated in recent years, and the \$1 million annual credit cap has never been reached. While there is a lack of economic impact data on this credit, Arizona's total solar-related employment has decreased from 8,558 in 2013 to 6,922 in 2015, according to a report done by the Solar Foundation.^{3/} A large part of this decline is likely due to changes in the way utility companies bill entities that own or lease solar devices.

Complexity

The solar energy device credit does not appear to be unusually complex in terms of its application, administration, and approval process.

Potential Performance Measures

Measuring the performance of this incentive is inherently challenging, as separating out the residential and commercial solar markets is difficult. One potential performance measurement for the commercial solar tax credit is the projected capital investment made by pre-approved credit applicants. For FY 2016, the Commerce Authority projects that these companies made \$27.7 million in capital investments. According to ACA, the commercial solar tax credit has experienced consistent utilization since being introduced.

A previously mentioned study found that Arizona employed 6,922 people in a range of solar-related jobs as of 2015, which places Arizona in the top 10 states in terms of solar industry employment. The Solar Foundation, a non-profit organization that promotes use of solar technologies, produces an annual report that estimates the sector's employment in each state. Jobs measured in the study though, also include residential solar sector employment. A limitation of using Solar Foundation job estimates as performance measure therefore, is that they are also impacted by the other state and federal solar tax credits, as well as by other regulatory and economic conditions.

Prior Review

The credit was previously reviewed during the 2012 review cycle. The committee recommended at that time that the credit should be amended to enhance performance measures and placed on the review schedule for 2017. However, no legislation was introduced that would have enhanced performance measures.

^{1/} Impacts of Solar Investment Tax Credit Extension, Solar Energy Industries Association, <http://www.seia.org/research-resources/impacts-solar-investment-tax-credit-extension>

^{2/} Hurdles and Steps: Estimating Demand for Solar Photovoltaics, Gillingham and Tsvetanov. July 28, 2017. http://environment.yale.edu/gillingham/GillinghamTsvetanov_SolarDemandCT.pdf

^{3/} Arizona Solar Jobs Census 2015, The Solar Foundation. <http://www.thesolarfoundation.org/solar-jobs-census/az-2015/>

**Donation to the Military Family Relief Fund
Tax Credit**

Donation to the Military Family Relief Fund Tax Credit

Summary

- The cost of the Donation to the Military Family Relief Fund (MFRF) Individual Income Tax Credit was \$990,780 in FY 2017.
- In FY 2017, the credit was claimed by 3,114 taxpayers at an average of \$318 per claim.
- The credit is available only to individuals, not to business entities, filing an individual income tax form.
- The MFRF balance will transfer to the Veterans' Donation Fund in January 2019.

Statute

A.R.S. § 43-1086 (Individual Income Tax)

Description

This credit was last reviewed in 2012. The description of the credit as well as other sections of the credit review have been updated from our 2012 report when relevant.

The statute provides individuals an income tax credit for cash donations to the MFRF. The fund provides financial assistance for deployed or veteran service members and their families faced with financial hardship. The Arizona Department of Veterans Services (DVS) receives donations and administers the fund established by Laws 2007, Chapter 258.

Taxpayers can claim a credit up to \$200 if filing as single or head of household and \$400 for those filing as a married couple. The credit is available between tax years 2008 and 2018 and is capped at \$1.0 million per year. The credit may not be transferred to a third party.

Refundable

The credit is not refundable.

Carry Forward

No carry-forward of unused credits is allowed.

History and Rationale

Though no specific federal tax credit exists for military-focused donations, taxpayers can deduct charitable contributions to military non-profit organizations from their federal adjusted gross income. The War Revenue Act of 1917 first allowed these deductions of charitable donations. Today, federal tax filers can deduct the entire donation amount, up to 30% of their adjusted gross income for cash donations and 20% for property.

Arizona's Donations to the MFRF tax credit was signed into law in June 2007 (Laws 2007, Chapter 258) and became effective for the 2008 tax year. Laws 2012, Chapter 281 extended the tax credit's expiration date from December 31, 2012 to December 31, 2018. Since the credit became available to taxpayers in 2008, donations have been near the \$1.0 million annual cap each year.

Laws 2007, Chapter 258 states that the purpose of the credit is to "encourage contributions for the compassionate relief of military widows, widowers, spouses and minor children of military personnel in this state who were killed or wounded in the line of duty" after September 11, 2001. Laws 2010, Chapter 254 extended eligibility for grants made from cash donations to families of all military personnel deployed

to a combat zone since September 11, 2001 who are experiencing financial hardship. Financial assistance applications are evaluated by the Governor-appointed Military Family Relief Advisory Committee. Prior to 2015, a two-thirds vote from the committee was required for awards above \$10,000 per family, and a cap was set at \$20,000. Laws 2015, Chapter 200 permanently increased the financial assistance cap to \$20,000, removing the requirement for a two-thirds vote.

Revenue Impact

Beginning in FY 2015, the Department of Revenue (DOR) is required to report the use of individual income tax credits on a fiscal year basis. The same requirement applies to corporate income tax credits, beginning in FY 2016. The first report, which was for FY 2015, indicated that there was a total of 2,692 credit claims at a cost of \$857,100. Subsequent reports showed that 3,185 claimants used \$1.0 million in FY 2016, and 3,114 claimants used \$990,780 in credits in FY 2017.

DOR additionally reports credit use by tax year. Such data is available from the tax year the credit was established, as displayed below in *Table 1*. Credit use by tax year differs from credit use by fiscal year for several reasons, including the filing of extended and amended tax returns and time periods that do not fully overlap.

Table 1				
Military Family Relief Fund Credit – Credit Claims by Tax Year				
Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward ^{1/}
2008	3,070	\$ 982,575	\$ 982,575	\$ 0
2009	3,185	998,331	998,331	0
2010	3,052	995,849	995,849	0
2011	3,007	996,695	996,695	0
2012	2,967	989,868	989,868	0
2013	2,936	989,606	989,606	0
2014	2,994	971,838	953,251	0
2015	3,118	1,006,248	980,331	0
2016 ^{2/}	2,812	897,217	861,729	0

of Claimants – the number of taxpayers who claimed the credit in each year.
Total Credit Available – the total tax credits identified in each tax year, including and 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 – This tax credit may not be carried forward.

^{1/} Unused credits are not allowed to be carried forward.
^{2/} Tax Year 2016 data represents only a portion of the tax year due to pending extension returns.

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. The credit may still provide some economic benefits, since the additional donations raise the disposable income of grantee families under financial hardship. The economic impact would be small however, since the credit can only be claimed up to \$1.0 million each year.

More Background

In FY 2017, \$877,075 in grants were made to families from donations to the MFRF (see Table 2). Prior to FY 2017, less than half of annual donations to the fund were distributed. While donations to the MFRF have historically exceeded grants, the annual difference between the two has decreased since Laws 2010, Chapter 254 expanded eligibility criteria for grant applicants. In Calendar Year (CY) 2010, funds were distributed to 92 families at an average award of \$2,800 per family. In CY 2016, 205 families received an average award of \$4,300, a 54% increase from CY 2010.

Donation amounts that are not used for grant making remain in the MFRF until December 31, 2018. After this date, any remaining fund balance will be transferred to the Veterans’ Donations Fund (VDF). The VDF is more broadly used to benefit veterans, and includes grant making to provide help to homeless veteran women and need-based scholarships for children of U.S. military members. The MFRF had a balance of \$6.0 million at the end of FY 2017.

Grants from the MFRF	
Fiscal Year	Total Grants
2009	\$ 11,600
2010	126,600
2011	233,400
2012	562,100
2013	383,800
2014	311,500
2015	476,800
2016	492,300
2017	877,075

The federal government also has many programs in place to aid veterans financially. For example, the U.S. Department of Veterans Affairs (VA) has programs that provide financial assistance to specific subpopulations of veterans, such as specially adapted housing for disabled veterans. Another program allows the VA to guarantee a portion of a home loan, which allows vendors to provide more favorable loan terms to veterans and families. There is no federal program that provides a direct grant to relieve financial hardship as the MFRF program does.

Complexity

The credit is not entirely simple to administer since, once the \$1.0 million cap is reached, DVS physically mails back subsequent contributions. Donations may exceed \$1.0 million as some donors contributed more than the \$200 or \$400 maximum eligible for a credit. Laws 2007, Chapter 258 permit the Military Family Relief Advisory Committee to use up to 5% of donations for the costs of administering the financial assistance program.

Potential Performance Measures

Performance measures could include:

1. Number and dollar amount of donations made to the Military Family Relief Fund.
2. Number and dollar amount of grants made from the Military Family Relief Fund to military families by type of assistance and/or characteristics of families receiving assistance.

The statute does not impose any requirements related to these measures. DOR provides data on donations to the fund in their annual Credit History report, therefore, this information is already available to evaluate the program. DVS provides grant data in their annual budget request, but this information does not provide detail on the type of assistance provided or characteristics of families. Type of assistance could include mortgage, utilities, or auto insurance. Family characteristics could include families with a currently deployed service member or families of deceased or wounded veterans.

Prior Review

The credit was last reviewed by the Joint Legislative Income Tax Credit Review Committee in 2012. The Committee recommended at that time that the credit be amended to enhance performance measures to require the number and dollar amounts of donations and grants be reported, and that the Military Family Relief Fund balance not revert to any other fund. Since 2012, no legislative action has been taken to adopt these recommendations.

**Private School Tuition Organization
“Original” Tax Credit**

Private School Tuition Organization Individual Income Tax Credit - Original

Summary

- The cost of the original individual tax credit was \$66.9 million in FY 2017.
- In FY 2017, the original credit was claimed by 94,554 taxpayers at an average of \$707 per claim.
- The maximum original tax credits allowed in TY 2017 are \$546 for single filers and \$1,092 for married couples filing jointly. Those maximums are adjusted annually for inflation.
- The credit results in foregone General Fund costs to the extent that STO-funded scholarships result in students not attending public school. To offset the current \$66.9 million level of original tax credits approximately 11,700 students would have to be diverted from public schools due to original STO scholarships.
- This review pertains only to the original private school STO individual income tax credit. A second credit, commonly referred to as the "switcher" credit, also is under review this year.
- In total, there are 4 private school tax credits with a total dollar value of \$160.7 million for FY 2017.

Statute

A.R.S. § 43-1089 (Individual Income Tax).

Description

This credit was last reviewed in 2012. The description of the credit as well as other sections of the credit review have been updated from our 2012 report when relevant.

This credit is provided to individuals for voluntary contributions to STOs. A STO is defined as a charitable organization that is exempt from federal taxation and that allocates at least 90% of its tax credit-eligible revenue for educational scholarships or tuition grants to children to attend non-governmental elementary or secondary schools. A STO may use up to 10% of tax credit-eligible contributions for administration expenses. The "90% for scholarships" restriction does not apply to STO revenues (if any) that are not linked to tax credits, such as interest earnings or employer matching contributions. The 90% requirement is assessed over a period of years, as STOs are allowed to reserve an unspecified portion current year donations for future year scholarships.

The original private school STO individual income tax credit is not allowed if the taxpayer designates the taxpayer's contribution to the STO for the direct benefit of any dependent of the taxpayer or if the taxpayer designates a student beneficiary as a condition of the taxpayer's contribution to the STO. The tax credit is not allowed if the taxpayer, with the intent to benefit the taxpayer's dependent, agrees with one or more other taxpayers to designate each taxpayer's contribution to the school tuition organization for the direct benefit of the other taxpayer's dependent. A STO cannot award, restrict or reserve scholarships solely on the basis of a donor's recommendation. If a STO scholarship exceeds a school's total cost of educating the recipient, the school must return the excess portion to the STO.

Unlike with the switcher credit, students do not have to switch from a public school to a private school to be eligible for scholarships funded through this credit. Current private school students therefore can qualify.

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. The amount of credits carried forward at the end of TY 2016 was \$10.4 million.

History and Rationale

The original private school STO individual income tax credit was created by Laws 1997, Chapter 48 and became effective January 1, 1998. Chapter 48 also established the public school extracurricular activity fee tax credit.

The program has been subject to litigation. In *Kotterman v. Killian* (September 1997), opponents of the tax credit challenged its constitutionality in state court, claiming that it violated both federal and state prohibitions against using public monies to support a religious establishment, and a state prohibition against using public monies for private or sectarian schools. The Arizona Supreme Court upheld the tax credit in January 1999, ruling that STO scholarship monies never enter the state’s control or reach the State Treasury. In *Winn v. Hibbs* (February 2000) opponents filed a challenge to the program in federal court. In April 2011, the U.S. Supreme Court upheld the program, ruling that the plaintiffs did not have legal standing to challenge it.

As originally enacted, the maximum credit allowed under the original private school STO individual income tax credit was \$500. Laws 2000, Chapter 1, 5th Special Session increased the cap to \$625 for married taxpayers filing a joint return. The credit caps were further increased over time. Laws 2010, Chapter 293 then required annual inflation adjustments to the maximum credit amounts. For TY 2017, the inflation-adjusted maximums will be \$546 and \$1,092, respectively.

Laws 2012, Chapter 4 established a second private school STO individual tax credit (commonly referred to as the “switcher” credit) starting in tax year 2012 pursuant to A.R.S § 43-1089.03. The “switcher” credit is allowed only after the taxpayer has used the maximum credit available under original private school STO individual income tax credit program. “Switcher” scholarships may only be awarded to public school transfers, kindergarteners, preschool disabled students, military dependents, or pupils who received a corporate STO or “switcher” scholarship in the prior year, which are restrictions that do not apply to the original private school STO individual income tax credit program.

The original private school STO individual income tax credit and switcher credit are tax credits for individuals. Corporations and insurers also may receive tax credits for contributions to STOs under separately-authorized programs. The corporate STO tax credits are not subject to Committee review this year. *Attachment 1* provides an overview of all current STO tax credit programs.

The statute creating the original private school STO individual income tax credit program does not include a specific statement of purpose or a rationale. Minutes from committee meetings indicate supporters were seeking to provide more educational opportunities for children from low-income families.

Revenue Impact

Beginning in FY 2015, the Department of Revenue (DOR) is required to report the use of individual income tax credits on a fiscal year basis. The same requirement applies to corporate income tax credits, beginning in FY 2016. Based on DOR’s annual reports, the cost of the credit was \$57.1 million in FY 2015, \$65.1 million in FY 2016, and \$66.9 million in FY 2017. The number of taxpayers that claimed the individual tax credit was 82,600 in FY 2015, 93,300 in FY 2016, and 94,554 in FY 2017 (see *Table 1*).

Individual Income Tax Credits Claimed for "Original" Credit by Fiscal Year			
<u>Fiscal Year</u>	<u># of Claims</u>	<u>Credits Used (\$)</u>	<u>% Change</u>
2015	82,550	57,129,400	(not available)
2016	93,312	65,098,200	13.9
2017	94,554	66,851,200	2.7

DOR additionally reports credit use by tax year. Such data is available from the tax year the credit was established, as displayed below in *Table 2*. Credit use by tax year differs from credit use by fiscal year for several reasons, including the filing of extended and amended tax returns and time periods that do not fully overlap.

Table 2

Individual Income Tax Credits Claimed for "Original" Credit by Tax Year

<u>Tax Year</u>	<u># of Claims</u> ^{1/}	<u>Credits Used (\$)</u> ^{1/}	<u>% Change</u>
1998	4,248	1,815,800	NA
1999	32,023	13,781,300	759.0
2000	38,249	17,701,300	28.4
2001	46,696	24,897,400	40.7
2002	52,203	26,512,700	6.5
2003	58,122	29,445,000	11.1
2004	63,830	31,846,500	8.2
2005	69,239	42,196,200	32.5
2006	73,617	51,012,300	20.9
2007	76,065	54,305,000	6.5
2008	78,434	55,260,700	1.8
2009	73,430	50,879,200	(8.0)
2010	62,940	43,183,500	(15.1)
2011	71,801	49,104,700	13.7
2012	73,159	51,307,500	4.5
2013	75,813	54,426,000	6.1
2014	86,901	60,123,600	10.5
2015	92,554	64,819,300	7.8
2016 ^{2/}	83,673	58,323,400	(10.0)

1/ For Tax Years 1998 through 2013 DOR reported that the number of tax credit claims equaled the number of donations made and that the total dollar value of credits used equaled the total dollar value of donations received.

2/ Tax Year 2016 data represents only a portion of the tax year due to pending extension returns.

The number of credits claimed by fiscal year can differ from the amount of contributions made for that fiscal year (\$65.4 million of contributions in FY 2016, for example, versus \$65.1 million of credits claimed). This is because donors may not have enough tax liability to claim the credit for a fiscal year, forget to claim the credit, or decide to carry the credit forward to a future fiscal year.

The credit results in foregone General Fund costs to the extent that STO-funded scholarships result in students not attending public school. Currently each pupil added to the statewide K-12 Average Daily Membership (ADM) count costs the state General Fund about \$5,700, on average. The state General Fund, therefore, saves an average of \$5,700 for each private school STO scholarship recipient who otherwise would attend public school. This implies that the program has no net General Fund cost if at least 11,700 students would have otherwise attended public schools in the absence of original private school STO individual income tax scholarships (\$66.9 million in credits used in FY 2017 ÷ \$5,700 state savings per pupil ≈ 11,700 students). The actual number of students in this category is unknown.

Beyond its impact on K-12 operating costs, the credit could result in lower School Facilities Board (SFB) costs for new school construction and building renewal grants. New school construction costs would be reduced if the SFB approved fewer new schools because of lower public school enrollment growth from the credit. This could reduce the cost of SFB building renewal grants as well because fewer school buildings would require funding from that program. The amount of SFB “foregone costs” due to the credit is unknown. In addition, there has been relatively little SFB-funded new school construction in recent years due to slow enrollment growth in district schools.

Economic Benefits

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

More Background

Attachment 2 from a DOR publication called "School Tuition Organization Income Tax Credits in Arizona Summary of Activity: FY 2015/2016" dated June 2017 provides information on contributions received and scholarships awarded by each STO under the original private school STO individual income tax credit program for FY 2016. A total of 55 STOs received \$65.4 million in donations that year. Eleven STOs received more than \$1 million in contributions in FY 2016 and accounted for \$53.5 million, or about 82%, of total revenues for the year.

STOs distributed \$54.4 million in scholarships from the original private school STO individual income tax credit program in FY 2016 (*see Table 3 and Attachment 2*). This amount was less than the \$65.4 million of revenue received in FY 2016 because of deductions for program administration and monies reserved for future year scholarships. Historical data on scholarships and grants on a calendar year basis are summarized in *Table 3*.

Table 3

Scholarship Data for School Tuition Organization "Original" Credit

<u>Year</u> ^{1/}	<u>Total \$ Awarded</u>	<u># of Scholarships</u>	<u>Average Scholarship</u>
1998	\$ 103,800	128	\$ 811
1999	2,193,700	3,207	684
2000	13,562,000	15,081	899
2001	16,485,000	18,049	913
2002	22,826,700	19,582	1,166
2003	24,428,200	20,134	1,213
2004	28,025,100	21,146	1,325
2005	30,863,200	22,529	1,370
2006	40,595,000	24,678	1,645
2007	48,561,700	27,153	1,788
2008	54,205,400	28,327	1,914
2009	52,127,300	27,592	1,889
2010	47,333,800	26,430	1,791
2011	46,091,500	25,105	1,836
2012	45,209,400	23,828	1,897
2013	48,873,400	25,462	1,919
2014	49,610,400	26,972	1,839
2015	54,656,600	29,802	1,834
2016	54,433,900	31,578	1,724

^{1/} Calendar years through 2010 and fiscal years thereafter. There are 6 months that overlap between CY 2010 and FY 2011. Some of the scholarships shown for FY 2011 are already included in CY 2010 data.

The total number of awards distributed under the program has increased from 128 in 1998, the first year the credit was offered, to 31,578 in 2016, so is currently at its highest level to date (*see Table 3*). The highest average scholarship amount to date, however, was \$1,919 in FY 2013 versus \$1,724 for FY 2016. The latter amount was (\$195) or (10.2%) lower than the current peak amount from FY 2013.

DOR’s June 2017 STO report notes that the number of scholarships paid does not equate to the number of students receiving scholarships because families often apply for scholarships from more than one STO. Thus, the number of scholarships reported in *Table 3* does not equal the number of students receiving STO scholarships from this program. Schools do not report the number of individual students receiving STO scholarships.

There are 4 different private school STO programs (*see Attachment 1*). Students received 73,555 scholarships from the 4 STO scholarship programs combined in FY 2016 (*see Table 4*). This equals 1.6 STO scholarships, on average, for each of Arizona’s roughly 45,000 private school pupils (73,555 scholarships ÷ 45,000 pupils = 1.6 average scholarships per pupil). Some pupils, such as public school switchers and military dependents, can receive scholarships from more than one STO program (such as Switcher and Corporate Low Income) in addition to receiving scholarships from more than one STO within the same STO program (such as Switcher).

Scholarship Summary for All STO Program Combined for FY 2016			
STO Program	Number of Scholarships	Scholarships (\$)	Tax Donations (\$)
Original Individual	31,578	\$54,433,900	\$65,436,300
Switcher Individual	20,964	\$28,523,500	\$35,522,700
Low-Income Corporate	20,077	\$43,465,800	\$51,597,900
Displaced/Disabled Corporate	<u>936</u>	<u>\$4,395,400</u>	<u>\$5,000,000</u>
Total	73,555	\$130,818,600	\$157,556,900

A.R.S. §43-1603B5 requires STOs to report the percentage and total dollar amount of scholarships awarded during the previous year to: 1) students whose family income qualifies them for free or reduced price lunches (FRPL) under the federal school lunch program (up to 185% of the poverty level, or \$44,863 for a family of four for FY 2016), and 2) students whose family income exceeds the FRPL eligibility threshold by less than 185% (up to 342.25% of the poverty level, or \$82,997 for a family of four for FY 2016).

DOR reports that for FY 2016, students with family income of up to 185% of the poverty level received 32.4% (\$17.6 million) of program scholarships that year and that students with family income of 185% to 342% of the poverty level received 32.6% (\$17.7 million) of scholarships. The remaining 35.1% of scholarships (\$19.0 million) went to students whose family income was greater than 342% of the poverty level (\$82,997 for a family of four for FY 2016) (*see Chart 1* below).

Private schools enrolled an estimated 45,019 students in FY 2014 under most recent estimates from the National Center on Education Statistics (NCES), which is the federal clearinghouse for education data. This represented 4.1% of Arizona’s total K-12 population in FY 2014.

Historical data on private and public school enrollment is summarized in *Table 5*.

As indicated in *Table 5*, Arizona’s private school enrollment grew from 44,991 students in FY 1998 to 45,019 students in FY 2014, which was an increase of 28 students, or 0.0%. *Table 5*, however, shows relatively strong private school growth through FY 2008 (up by 6,599 students, or 15%) followed by a steep decline (-7,031 students, or - 13.6%) between FY 2008 and FY 2010. The steep decline after FY 2008 may have been influenced by the Great Recession and continuing growth in charter school options for school-age children.

Complexity

DOR indicates that it is administratively simple for individuals to donate to STOs and claim the credit. DOR notes, however, that receiving donations is more complex for STOs, in that they must ask every donor if they have given to another STO in the fiscal year, and, if so, how much and, if so, which tax year they will be applying it against (because of the ability to give a donation until April 15 and count it against the prior tax year). This is necessary

because of the "switcher" income tax credit authorized by Laws 2012, Chapter 4, which establishes specific criteria for how money generated by the new credit can be used for scholarships.

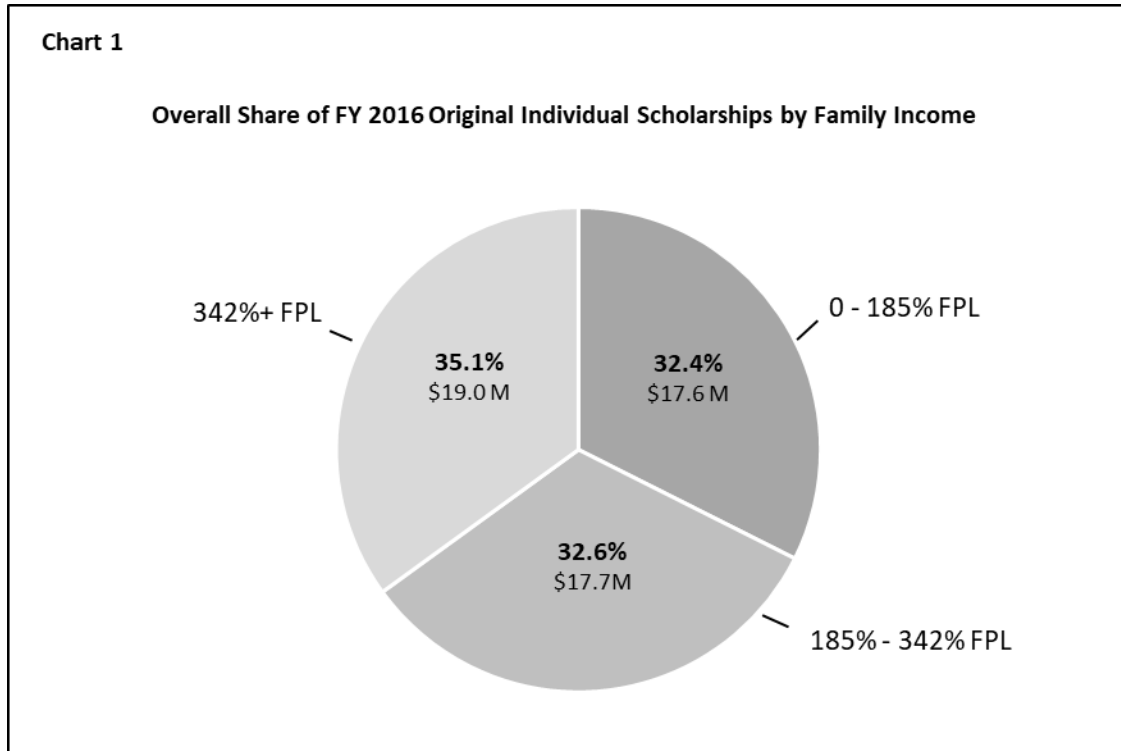


Table 5

Private and Public School Enrollment

	<u>FY 1998</u>	<u>FY 2002</u>	<u>FY 2008</u>	<u>FY 2010</u>	<u>FY 2014</u>	<u>FY 98 – 14 Growth</u>
Private School Enrollment ^{1/}	44,991	44,360	51,590	44,559	45,019	0.0%
Public School Enrollment ^{2/}	777,722	877,928	1,041,062	1,049,732	1,072,451	37.9%

^{1/} Data from the National Center for Education Statistics: Private School Universe Survey
^{2/} Data from the Arizona Department of Education: Annual Report

DOR also indicates that the annual reporting process for donations is time-consuming for both STOs and DOR because of the sheer number of STOs and the fact that most STOs are staffed by volunteers, which leads to reporting inconsistencies and makes it difficult for DOR to educate STO staff on reporting requirements. In addition, DOR describes its oversight responsibilities over STOs as a "daunting task" that has not yet been fully accomplished and which has been affected by changing statutory requirements.

Potential Performance Measures

Performance measures could include:

1. Percentage of STO revenues retained for administrative costs.

The STOs would have this information readily available.

2. Percentage of private school tuition paid with award funding.

This information appears to be collected by STOs, but would require additional reporting.

3. Number of unduplicated students receiving STO scholarships.

Schools currently do not report this information to STOs. A state level database would have to be created in order to identify unduplicated students receiving scholarships from all STO programs combined.

Prior Review

The credit was last reviewed by the Joint Legislative Income Tax Credit Review Committee in 2012. The Committee recommended at that time that the credit be continued and placed on the 2017 review schedule.

**Private School Tuition Organization
“Switcher” Tax Credit**

Private School Tuition Organization Individual Income Tax Credit - Switcher

Summary

- The cost of the “switcher” individual tax credit was \$38.3 million in FY 2017.
- In FY 2017, the switcher credit was claimed by 50,996 taxpayers at an average of \$752 per claim.
- The maximum switcher tax credits allowed in TY 2017 are \$543 for single filers and \$1,085 for married couples filing jointly. Those maximums are adjusted annually for inflation.
- Filers cannot claim the switcher tax credit unless they already have donated the maximum amount to the original private school STO individual income tax program.
- The credit results in foregone General Fund costs to the extent that STO-funded scholarships result in students not attending public school. To offset the current \$38.3 million level of switcher tax credits approximately 6,700 students would have to be diverted from public school due to switcher scholarships.
- This review pertains only to the switcher private school STO individual income tax credit. A second credit, the original private school STO individual income tax credit, also is under review this year.
- In total, there are 4 private school tax credits with a total dollar value of \$160.7 million for FY 2017.

Statute

A.R.S. § 43-1089.03 (Individual Income Tax)

Description

This credit is provided to individuals for voluntary contributions to STOs. A STO is defined as a charitable organization that is exempt from federal taxation and that allocates at least 90% of its tax credit-eligible revenue for educational scholarships or tuition grants to children to attend non-governmental elementary or secondary schools. A STO may use up to 10% of tax credit-eligible contributions for administration expenses. The “90% for scholarships” restriction does not apply to STO revenues (if any) that are not linked to tax credits, such as interest earnings or employer matching contributions. The 90% requirement is assessed over a period of years, as STOs are allowed to reserve an unspecified portion current year donations for future year scholarships.

The switcher tax credit is allowed only after the taxpayer has used the maximum tax credit available under the original STO individual income tax credit program. The maximum tax credits for the original private school STO tax credit program for TY 2017 will be \$546 for single filers and \$1,092 for married couples filing jointly. Those amounts are slightly higher than ones allowed for switcher tax credits for TY 2017 (\$543 and \$1,085, respectively) because the original program is older, so its maximum donation amounts have been adjusted more times for inflation.

All restrictions for the original STO individual income tax credit program also apply to the switcher program:

- 1) The credit is not allowed if the taxpayer designates the taxpayer's contribution to the STO for the direct benefit of any dependent of the taxpayer or if the taxpayer designates a student beneficiary as a condition of the taxpayer's contribution to the STO.
- 2) The credit is not allowed if the taxpayer, with the intent to benefit the taxpayer's dependent, agrees with one or more other taxpayers to designate each taxpayer's switcher contribution to the school tuition organization for the direct benefit of the other taxpayer's dependent.
- 3) A STO cannot award, restrict or reserve switcher scholarships solely based on a donor's recommendation.
- 4) If a STO scholarship exceeds a school's total cost of educating the recipient, the school must return the excess portion to the STO.

In addition, switcher scholarships may only be awarded to public school transfers, kindergartners, preschool disabled students, military dependents, or pupils who received a corporate STO or "switcher" scholarship in a prior

year. These additional restrictions do not apply to the original private school STO individual income tax credit program.

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. The amount of credits carried forward at the end of TY 2016 was \$7.6 million.

History and Rationale

The original private school STO individual income tax credit was created by Laws 1997, Chapter 48 and became effective January 1, 1998. Chapter 48 also established the public school extracurricular activity fee tax credit. (See *the Original Private School Tuition Organization Individual Income Tax Credit review for more information.*)

Laws 2012, Chapter 4 established the switcher tax credit starting in tax year 2012 pursuant to A.R.S § 43-1089.03. The switcher tax credit allows an individual to make additional tax-credit-eligible contributions to a STO after they have made the maximum tax-credit-eligible contribution for the year to a STO under the original private school STO individual income tax credit program.

The original and switcher individual income tax credits are for individuals only. Corporations and insurers also may receive tax credits for contributions to STOs under separately-authorized programs. The corporate STO tax credits are not subject to Committee review this year. *Attachment 1* provides an overview of all current STO tax credit programs.

The statute creating the original private school STO individual income tax credit program does not include a specific statement of purpose or a rationale. Minutes from committee meetings indicate supporters were seeking to provide more educational opportunities for children from low-income families.

Revenue Impact

Beginning in FY 2015, the Department of Revenue (DOR) is required to report the use of individual income tax credits on a fiscal year basis. The same requirement applies to corporate income tax credits, beginning in FY 2016. Based on DOR's annual reports, the cost of the credit was \$25.8 million in FY 2015, \$32.7 million in FY 2016, and \$38.3 million in FY 2017. The number of taxpayers that claimed the individual tax credit was 35,800 in FY 2015, 45,400 in FY 2016, and 50,996 in FY 2017 (see *Table 1*).

<u>Fiscal Year</u>	<u># of Claims</u>	<u>Credits Used (\$)</u>	<u>% Change</u>
2015	35,811	25,789,900	(not available)
2016	45,408	32,684,200	26.7
2017	50,996	38,341,200	17.3

DOR additionally reports credit use by tax year. Such data is available from the tax year the credit was established, as displayed below in *Table 2*. Credit use by tax year differs from credit use by fiscal year for several reasons, including the filing of extended and amended tax returns and time periods that do not fully overlap.

Table 2

Individual Income Tax Credits Claimed for "Switcher" Credit by Tax Year

<u>Tax Year</u>	<u># of Claims</u>	<u>Credits Used (\$)</u>	<u>% Change</u>
2012	16,518	12,948,000	NA
2013	28,932	23,201,400	79.2
2014	36,211	25,520,300	10.0
2015	41,532	28,986,600	13.6
2016 ^{1/}	43,911	31,191,400	9.4

^{1/} Tax year 2016 data represents only a portion of the tax year due to pending extension returns.

The number of credits claimed by fiscal year can differ from the amount of contributions made for that fiscal year (\$35.5 million of contributions in FY 2016, for example, versus \$32.7 million of credits claimed). This is because donors may not have enough tax liability to claim the credit for a fiscal year, forget to claim the credit, or decide to carry the credit forward to a future fiscal year.

The switcher tax credit results in foregone General Fund costs to the extent that STO-funded scholarships result in students not attending public school. Currently each pupil added to the statewide K-12 Average Daily Membership (ADM) count costs the state General Fund about \$5,700, on average. The state General Fund, therefore, saves an average of \$5,700 for each private school STO scholarship recipient who otherwise would attend public school. This implies that the program has no net General Fund cost if at least 6,700 students would have otherwise attended public schools in the absence of switcher private school STO individual income tax scholarships (\$38.3 million in credits used in FY 2017 ÷ \$5,700 state savings per pupil ≈ 6,700 students).

The actual number of students in this category is unknown. It could represent a relatively high percentage of pupils receiving scholarships from the switcher program because only incoming kindergarteners and military dependents receiving scholarships under the program do not have to be "switching" from public schools. We, however, do not know the composition of switcher scholarship recipients.

Beyond its impact on K-12 operating costs, the credit could result in lower School Facilities Board (SFB) costs for new school construction and building renewal grants. New school construction costs would be reduced if the SFB approved fewer new schools because of lower public school enrollment growth from the credit. This could reduce the cost of SFB building renewal grants as well because fewer school buildings would require funding from that program. The amount of SFB foregone costs due to the credit is unknown. In addition, there has been relatively little SFB-funded new school construction in recent years due to slow enrollment growth in district schools.

Economic Benefits

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

More Background

Attachment 2 from the DOR publication "School Tuition Organization Income Tax Credits in Arizona Summary of Activity: FY 2015/2016" (June 2017) provides information on contributions received and scholarships awarded by each STO under the switcher tax credit program for FY 2016. A total of 55 STOs received \$35.5 million in donations that year. Nine STOs received more than \$1 million in contributions in FY 2016 and accounted for \$27.3 million, or 77%, of total revenues for the year.

STOs distributed \$28.5 million in scholarships from the switcher tax credit program in FY 2016 (see Table 3 and Attachment 2). Historical data on scholarships and grants on a calendar year basis are summarized in Table 3.

<u>Fiscal Year</u>	<u>Total \$ Awarded</u>	<u># of Scholarships</u>	<u>Average Scholarship</u>
2012	\$ 0	0	\$ 0
2013	4,681,200	4,473	1,047
2014	17,561,500	13,261	1,324
2015	24,260,500	16,286	1,490
2016	28,523,500	20,976	1,360

The total number of awards distributed by the program has increased from zero in FY 2012, the first year the credit was offered, to 20,976 in FY 2016, the highest level observed to date (see Table 3). The highest average scholarship amount to date was \$1,490 in FY 2015 versus \$1,360 for FY 2016. The latter amount was (\$130) or (8.7%) lower than the current peak amount from FY 2015.

DOR's June 2017 STO report notes that the number of STO scholarships paid does not equate to the number of students receiving scholarships because families can apply for scholarships from more than one STO. Thus, the number of scholarships reported in Table 4 does not equate to the number of students receiving switcher scholarships. Schools do not report the number of individual students receiving STO scholarships.

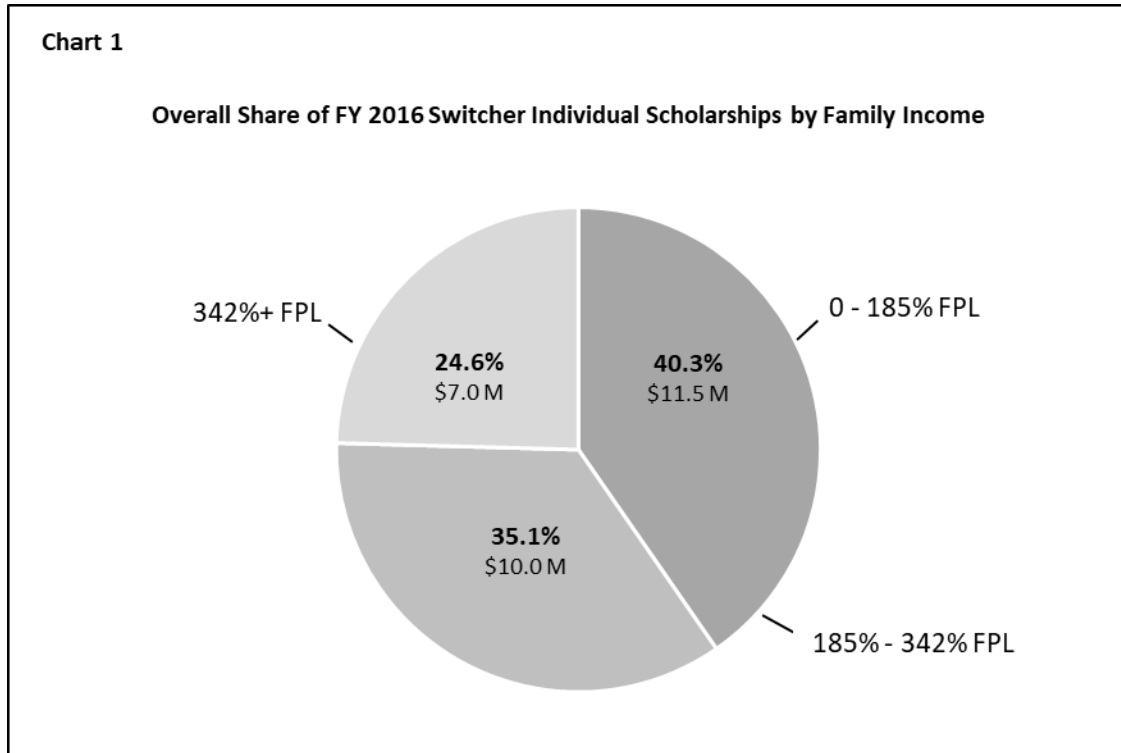
Students received 73,555 scholarships from the 4 STO scholarship programs combined in FY 2016 (see Table 4 and the original credit review for more information). This equates to an average of 1.6 STO scholarships for each of Arizona's roughly 45,000 private school pupils (73,555 scholarships ÷ 45,000 pupils = 1.6 scholarships per pupil). Some pupils, such as public school switchers and military dependents, can receive scholarships from more than one STO program (such as Switcher and Corporate Low Income) in addition to receiving scholarships from more than one STO within the same STO program (such as Switcher).

<u>STO Program</u>	<u>Number of Scholarships</u>	<u>Scholarships (\$)</u>	<u>Tax Donations (\$)</u>
Original Individual	31,578	\$54,433,900	\$65,436,300
Switcher Individual	20,964	\$28,523,500	\$35,522,700
Low-Income Corporate	20,077	\$43,465,800	\$51,597,900
Displaced/Disabled Corporate	936	\$4,395,400	\$5,000,000
Total	73,555	\$130,818,600	\$157,556,900

A.R.S. §43-1603B5 requires STOs to report the percentage and total dollar amount of scholarships awarded during the previous year to: 1) students whose family income qualifies them for free or reduced price lunches (FRPL) under the federal school lunch program (up to 185% of the poverty level, or \$44,863 for a family of four for FY 2016), and 2) students whose family income exceeds the FRPL eligibility threshold by less than 185% (so up to 342.25% of the poverty level, or \$82,997 for a family of four for FY 2016).

DOR reports that for FY 2016, students with family income of up to 185% of the poverty level received 40.3% (\$11.5 million) of program scholarships that year and that students with family income of 185% to 342% of the poverty level received 35.1% (\$10.0 million) of scholarships. The remaining 24.6% (\$7.0 million) of scholarships

went to students whose family income was greater than 342% of the poverty level (\$82,997 for a family of four for FY 2016) (see *Chart 1* below).



Private schools enrolled an estimated 45,019 students in FY 2014 under most recent estimates from the National Center on Education Statistics (NCES), which is the federal clearinghouse for education data. This represented 4.1% of Arizona’s total K-12 population in FY 2014.

Historical data on private and public school enrollment are summarized in *Table 5*.

As indicated in *Table 5*, Arizona’s private school enrollment grew from 44,991 students in FY 1998 (the first year of the original private school STO individual income tax credit program) to 45,019 students in FY 2014, which was an increase of 28 students, or 0.0%. *Table 6*, however, shows relatively strong private school growth through FY 2008 (up by 6,599 students, or 15%) followed by a steep decline (-7,031 students, or - 13.6%) between FY 2008 and FY 2010. The steep decline after FY 2008 may have been influenced by the Great Recession and continuing growth in charter school options for school-age children.

Table 5

Private and Public School Enrollment

	<u>FY 1998</u>	<u>FY 2002</u>	<u>FY 2008</u>	<u>FY 2010</u>	<u>FY 2014</u>	<u>FY 98 – 14</u> <u>Growth</u>
Private School Enrollment ^{1/}	44,991	44,360	51,590	44,559	45,019	0.0%
Public School Enrollment ^{2/}	777,722	877,928	1,041,062	1,049,732	1,072,451	37.9%

^{1/} Data from the National Center for Education Statistics: Private School Universe Survey
^{2/} Data from the Arizona Department of Education: Annual Report

Complexity

DOR indicates that it is administratively simple for individuals to donate to STOs and claim the credit. DOR notes, however, that receiving donations is more complex for STOs, in that they must ask every donor if they have given to another STO in the fiscal year, and, if so, how much and, if so, which tax year they will be applying it against because of the ability to give a donation until April 15 and count it against the prior tax year. This is necessary because the switcher tax credit can only be used once a taxpayer has contributed the maximum amount allowed for a tax credit under the original private school STO individual income tax credit program.

DOR also indicates that the annual reporting process for donations is time-consuming for both STOs and DOR because of the sheer number of STOs and the fact that most STOs are staffed by volunteers, which leads to reporting inconsistencies and makes it difficult for DOR to educate STO staff on reporting requirements.

Potential Performance Measures

Performance measures could include:

1. Percentage of STO revenues retained for administrative costs.

The STOs would have this information readily available.

2. Percentage of private school tuition paid with award funding.

This information appears to be collected by STOs, but would require additional reporting.

3. Number of unduplicated students receiving STO scholarships.

Schools currently do not report this information to STOs. A state level database would have to be created in order to identify unduplicated students receiving scholarships from all STO programs combined.

Prior Review

The credit has not been previously reviewed.

**Public School Extracurricular Activity Fee
Tax Credit**

Public School Extracurricular Activity Fee Tax Credit

Summary

- The cost of the Public School Extracurricular Activity Fee Tax Credit was \$46.2 million in FY 2017.
- In FY 2017, the credit was claimed by 168,921 taxpayers at an average of \$273 per claim.
- The average Calendar Year (CY) 2016 contribution was \$168
 - School districts – \$156
 - Charter schools – \$271
- Twelve districts received more than \$1 million each and accounted for \$27.3 million (62%) of the total.
- School districts with higher family income levels tended to receive higher average contributions per pupil. Other factors affecting contribution levels could include:
 - Size of district
 - District administration
 - Community involvement

Statutes

A.R.S. § 43-1089.01 (Individual Income Tax)

Description

This credit was last reviewed in 2012. The description of the credit as well as other sections of the credit review have been updated from our 2012 report when relevant.

This credit is provided to taxpayers for any fees or contributions made to a K-12 public school in support of:

- Extracurricular activities;
- Character education programs;
- Standardized testing fees for college credit or readiness;
- Career and technical education industry certification;
- Cardiopulmonary Resuscitation (CPR) training.

School districts are not allowed to use any portion of contribution revenues for program administration.

Extracurricular activities are defined in statute as “school sponsored activities that require enrolled students to pay a fee in order to participate.” The definition includes, but is not limited to, the following list of items:

- Band uniforms;
- Equipment or uniforms for varsity athletics;
- Scientific laboratory materials; and
- In-state or out-of-state trips that are solely for competitive events.

Excluded from the definition of extracurricular activities are senior trips or events that are recreational, amusement or tourist activities.

Regarding character education, A.R.S. § 15-719 specifies that a character education program must include the following components:

- Instruction in the definition and application of at least 6 character traits;

- Activities, discussions and presentations on the application of the character traits; and
- Presentations by teachers or mentors who demonstrate the character traits.

Pursuant to A.R.S. § 15-718.01, school districts and charter schools are required to provide CPR training to high school students. Fees associated with these trainings are eligible for the credit. Other fees eligible for the credit include testing fees for the ACT, SAT, PSAT, advanced placement, and other similar exams, as well as certification assessment fees required by career and technical education programs.

Pursuant to Laws 2003, Chapter 169, public schools are required to report on a calendar year basis to DOR by February 28 of each year the following information: total number of donors, total dollar amount of fees and contributions received, and the amount spent by the school.

Beginning in FY 2016, taxpayers have the option to claim credit contributions made after December 31 but on or before April 15 in either the previous tax year or in the tax year the contribution was made.

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. In TY 2016, \$4.3 million was carried forward.

History and Rationale

The public school extracurricular activity fee tax credit was created by Laws 1997, Chapter 48 and became effective January 1, 1998. The first private school tuition organization tax credit was established at the same time.

As originally enacted, the maximum credit allowed was \$200. For all households, the cap was eventually increased to \$400 for a married couple filing jointly.

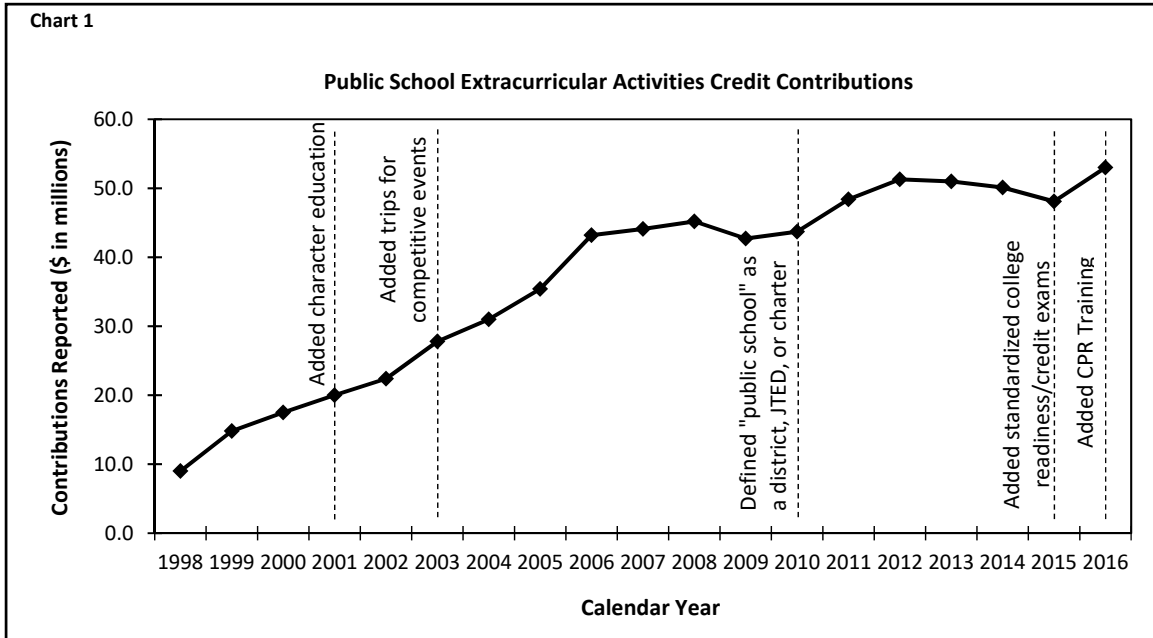
The credit did not initially contain provisions allowing a claim for contributions to character education programs, trips for competitive events, standardized exams for college credit and college readiness, or CPR training. These provisions were added over time. Additionally, Laws 2010, Chapter 332 clarified that a “public school” could be a school that is part of a school district, Joint Technical Education District (JTED), or charter school. *Chart 1* below shows these changes in relation to contributions made from 1998 to 2016.

The statute creating the tax credit does not include a specific statement of purpose or a rationale. As noted above, the credit was created at the same time as the private school tuition organization credit.

Revenue Impact

Beginning in FY 2015, the Department of Revenue (DOR) is required to report the use of individual income tax credits on a fiscal year basis. The same requirement applies to corporate income tax credits, beginning in FY 2016. The first report, which was for FY 2015, indicated that there was a total of 147,457 credit claims at a cost of \$40.1 million. Subsequent reports showed that 169,879 claimants used \$46.2 million in credits in FY 2016, and 168,921 claimants used \$46.2 million in credits in FY 2017.

DOR additionally reports credit use by tax year. Such data is available from the tax year the credit was established. Credit use by tax year differs from credit use by fiscal year for several reasons, including the filing of extended and amended tax returns and time periods that do not fully overlap.



For Tax Year 2016, the Arizona Department of Revenue (DOR) reports that public schools received \$53.0 million in extracurricular fees and contributions and that 168,921 individuals claimed \$46.2 million in related tax credit contributions. Historical data on credit contributions under the program are summarized in the table below.

Table 1 shows that total fees and contributions have increased from \$9.0 million in 1998, the first year the credit was offered, to \$53.0 million in 2016. The average contribution also has increased, from \$121 in 1998 to \$168 in 2016.

DOR’s annual reports on “Arizona Income Tax Credits” assume that the amount of tax credits claimed by individuals under the program in any given year equals total available credits. However, the revenue impact of the program cannot be determined with such data, as an individual tax filer may not choose or be able to take to the full donation as a credit. The taxpayer may forget to take the credit or may not have sufficient liability to claim the credit. As a result, the DOR’s donation data appears to overstate actual credit use. While DOR’s donation data seems to overstate the actual level of contributions, it is the only source of detailed information on the program.

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, this credit is one of several tax credits in statute that are primarily intended to encourage cash contributions to certain target groups in society, such as the working poor or students in private or public schools.

The \$53.0 million in extracurricular fees and contributions reported for 2016 includes \$44.0 million to school districts and \$9.1 million to charter schools. Twelve districts generated over \$1 million each and accounted for \$27.3 million (62%) of total revenues (see Attachment 1). Ten charter schools collected over \$125,000 each. Thirty-three districts and 83 charters did not submit a report or reported receiving no contributions.

Table 1
Public School Extracurricular Activity Fee Tax Credit Contributions ^{1/}

<u>Calendar Year</u>	<u># of Fees/Contributions</u>	<u>\$ Received</u>	<u>Average Fee/Contribution</u>
1998	74,242	\$ 8,983,300	\$121
1999	109,748	14,816,000	135
2000	149,215	17,458,200	117
2001	166,468	19,976,200	120
2002	143,697	22,416,700	156
2003	201,407	27,753,800	138
2004	213,987	30,958,900	145
2005	215,369	35,416,300	164
2006	218,664	43,230,433	198
2007	214,356	44,069,900	206
2008	233,450	45,164,400	193
2009	239,031	42,657,100	178
2010	250,004	43,718,700	175
2011	250,210	48,443,500	194
2012	253,134	51,287,400	203
2013	253,842	50,972,900	201
2014	266,087	50,992,000	192
2015	262,879	48,062,300	183
2016	314,683	53,018,000	168

^{1/} Reflects reported contributions, which may not match actual tax credits.

Contributions to school districts ranged from \$0 to \$494 per pupil in 2016, with an average per pupil contribution of \$45 (\$44.0 million district total ÷ 917,014 grand total district Average Daily Membership [ADM] pupils = \$45). Charter contributions ranged from \$0 to \$870 per pupil in 2016 (for charters with at least \$100,000 in program revenues), with an average contribution of \$53 per student (\$9.1 million charter total ÷ 170,210 grand total charter ADM = \$53).

Attachments 1 & 2 rank school districts by total dollars received and dollars received per pupil. *Attachment 1* shows that the largest school districts in the state tend to receive the most extracurricular fees and contributions. Two of the largest school districts in the state, Chandler Unified and Mesa Unified, for example, ranked 1 and 2, respectively, in total contributions and fees. *Attachment 2*, however, shows that small to medium size districts tend to report higher average fees and contributions per pupil. Prescott Unified, for example, (a medium size district) reported an average of \$218 per ADM versus \$99 and \$65 for Chandler Unified and Mesa Unified, respectively.

Attachments 1 & 2 also show each school district's participation rate in the Federal School Lunch Program in FY 2016. School district free or reduced price lunch data is often used as an indicator of average family income levels in a community. For FY 2016, a child from a family of 4 qualified for a free school lunch if their family had an annual income of \$31,525 or less. They qualified for a reduced price lunch if their household income was \$44,863 or less. For FY 2016, 58% of public school students statewide qualified for free or reduced price school lunches.

Comparing contributions per student with data on the percent of students eligible for a free or reduced price lunch, schools with a lower percentage of free or reduced price lunch students generated a higher level of contributions per student on average and vice versa. For example, schools with over 75% of students who qualified for the program received \$13 in contributions per pupil, compared to \$91 per pupil for schools with under 25% of students who qualified (see *Table 2*). (Charter schools were not

analyzed in a similar manner as free or reduced price lunch eligibility information was available for only a limited number of charters.)

<u>% FRPL</u>	<u>Total ADM</u>	<u>Total \$ Received</u>	<u>\$ per ADM</u>
0-24.9%	25,470	2,324,740	91
25-49.9%	358,935	26,300,418	73
50-74.9%	292,065	12,425,450	43
75-100%	219,008	2,779,660	13

While the above analysis demonstrated that a relationship between family income and contribution levels exists, a further examination of the data established that the size of the district impacted the strength of this relationship. The average contribution per student in districts with over 1,000 students and 75-100% of students qualifying for free or reduced price lunch was \$12. In smaller districts with less than 1,000 students, the average contribution per student was \$25. Family income affected contribution levels in both small and large districts, but the relationship is more pronounced in larger districts (see *Table 3*).

<u>% FRPL</u>	<u>\$ per ADM</u>	
	<u>< 1,000 students</u>	<u>> 1,000 students</u>
0-24.9%	-	91
25-49.9%	70	73
50-74.9%	65	42
75-100%	25	12

Since family income levels do not affect both small and large districts equally, there must be other factors that impact contribution levels. Although there is no data available to evaluate the impact of other factors, one such factor could include the ability of the school district administration to advertise the credit and make it accessible to potential contributors. For example, a quick survey of certain school districts showed that while most districts appear to advertise the credit on their web site and include a printable contribution form, some districts do not. Another factor that might impact contribution levels is the community's involvement in its school system. Community involvement could include volunteer organizations, such as the Parent Teacher Association.

More Background

Table 4 below compares school spending in 2011 and 2016 by type of activity. DOR did not report identical spending categories for activity and education programs in both years, in part due to changes in statute. As a result, *Table 4* does not provide a direct comparison for all categories.

In CY 2016, total school spending was \$56.7 million, a 24% increase from CY 2011. This includes \$1.1 million in spending for standardized testing fees and \$39,065 for career and technical preparation, which was added in 2010. CPR training, which was added in 2016, accounted for only \$80 of total spending in CY 2016. The greatest share of total spending in both years was for athletics or sports, field trips, academic competitions, music, and other fine and performing arts.

Table 4
Extracurricular Fee Funding by Category of Activity ^{1/}

<u>Description</u>	<u>CY 2011</u>		<u>CY 2016</u>	
	<u>\$ Spent</u>	<u>% of Total</u>	<u>\$ Spent</u>	<u>% of Total</u>
Athletics or Sports	\$12,183,076	26.7%	\$16,981,996	30.0%
Field Trips	9,523,140	20.9%	12,998,864	22.9%
Clubs & Academic Competitions	6,166,912	13.5%	9,090,842	16.0%
Music, Band, Choir, Fine Arts, & Performing Arts	7,049,294	15.5%	8,217,694	14.5%
After School Enrichment or Tutoring	4,113,402	9.1%	4,915,689	8.7%
Character Education Programs	1,064,697	2.3%	1,558,673	2.8%
Extended Kindergarten Programs	1,470,306	3.2%	1,368,488	2.4%
Standardized Testing for College Credit or Readiness	-	-	1,088,641	1.9%
Non-Credit Summer Programs	662,115	1.5%	94,016	0.2%
Driver Education Programs	155,367	0.3%	93,398	0.2%
Career and Technical Preparation	-	-	39,065	0.1%
CPR Training	-	-	80	0.0%
Extended Day of After School Program	2,051,457	4.5%	-	-
Short-Term Capital Items (Laws 2011, Ch 195)	848,764	1.9%	-	-
Pending Requests for Extracurricular Activity	347,855	0.8%	-	-
Other	-	-	<u>211,818</u>	<u>0.4%</u>
Total	\$45,636,385	100.0%	\$56,659,264	100.0%

^{1/} Reflects usage of tax credit contributions, which may not match contributions or tax credits for the same year.

Complexity

DOR indicates that the public school extracurricular activity tax credit has become more difficult to administer since 2006 due to statutory changes. A.R.S. § 43-1089.01 now requires a public school to report how the tax credit money was spent categorized by specific extracurricular activity or character education program. This reporting requirement increased data collection and reporting responsibilities for public schools and DOR in administering the tax credit program. DOR notes that the requirement that schools report how they spent tax credit monies "(has) provided valuable feedback and an opportunity to contact schools that might need additional assistance in determining if an activity is eligible for the tax credit."

Potential Performance Measures

Performance measures could include:

1. Student participation rates in extracurricular activities, character education programs, standardized testing, and career and technical education. While the school districts would have this information available, this measure would require them to compile and report additional data.

Prior Review

The credit was last reviewed by the Joint Legislative Income Tax Credit Review Committee in 2012. The Committee recommended at that time that the credit be retained and placed on the review schedule for 2017.

Attachment 1

Notes:

1. "Free/Reduced Lunch %" and "Average Daily Membership" (ADM) data are from ADE for FY 2016.
2. "\$ Received" data on public school extracurricular activities and contributions are from DOR for calendar year 2016.
3. The "\$ Received" column is blank if a district did not report program data to DOR.
4. The "Free/Reduced Lunch %" column is blank if a district does not participate in the federal school lunch program (mostly includes only very small school districts)
5. The analysis excludes charter schools. Charters received \$9.1 million in extracurricular fees and contributions for 2016.

Percent Qualifying for Free/Reduced Price Lunch and Average Daily Membership by District Dollars Received
Sorted by Total Contributions Received

Rank	District	Free/Reduced Lunch %	Total ADM	\$ Received	\$ per ADM
1	Chandler Unified District	25.7%	41,603	4,103,094	99
2	Mesa Unified District	59.8%	60,637	3,949,984	65
3	Tucson Unified District	68.7%	45,357	2,712,821	60
4	Scottsdale Unified District	25.4%	22,686	2,686,334	118
5	Paradise Valley Unified District	35.1%	30,968	2,493,030	81
6	Gilbert Unified District	27.1%	34,196	2,455,039	72
7	Kyrene Elementary District	30.4%	16,383	2,317,319	141
8	Deer Valley Unified District	28.6%	32,504	1,839,033	57
9	Peoria Unified School District	42.3%	35,181	1,623,181	46
10	Amphitheater Unified District	48.2%	13,182	1,098,221	83
11	Flagstaff Unified District	38.3%	9,290	1,019,718	110
12	Tempe Union High School District	27.9%	13,854	1,013,895	73
13	Catalina Foothills Unified District	12.4%	4,746	906,939	191
14	Vail Unified District	25.2%	13,723	880,459	64
15	Prescott Unified District	38.0%	3,832	836,612	218
16	Glendale Union High School District	61.2%	15,116	759,907	50
17	Marana Unified District	42.4%	11,693	730,233	62
18	Dysart Unified District	49.8%	23,806	727,270	31
19	Lake Havasu Unified District	53.8%	5,249	696,258	133
20	Cave Creek Unified District	9.0%	7,392	621,186	84
21	Madison Elementary District	38.9%	5,483	538,328	98
22	Higley Unified School District	19.7%	11,331	443,133	39
23	Fountain Hills Unified District	35.0%	1,506	385,927	256
24	Phoenix Union High School District	81.7%	26,657	381,896	14
25	Tanque Verde Unified District	15.4%	2,000	353,482	177
26	Washington Elementary School District	85.1%	22,054	346,032	16
27	Tempe School District	72.1%	11,068	306,018	28
28	Payson Unified District	62.3%	2,312	305,227	132
29	Flowing Wells Unified District	73.7%	5,158	288,896	56
30	Sierra Vista Unified District	41.2%	5,437	274,357	50
31	Sunnyside Unified District	82.4%	15,831	264,081	17
32	Yuma Union High School District	68.2%	11,404	260,402	23
33	Chino Valley Unified District	57.1%	2,266	242,572	107
34	Humboldt Unified District	61.2%	5,533	242,509	44
35	Sahuarita Unified District	35.5%	5,731	225,703	39
36	Florence Unified School District	58.6%	8,041	201,824	25
37	Apache Junction Unified District	64.8%	3,813	176,370	46
38	Queen Creek Unified District	28.9%	5,582	167,972	30
39	Litchfield Elementary District	35.8%	10,617	167,152	16
40	Buckeye Union High School District	57.0%	3,856	162,461	42
41	Sedona-Oak Creek JUSD #9	42.1%	1,042	155,704	149

Rank	District	Free/Reduced	Total	\$ Received	\$ per ADM
		Lunch %	ADM		
42	Phoenix Elementary District	85.7%	6,495	149,536	23
43	Nadaburg Unified School District	64.8%	848	148,610	175
44	Oracle Elementary District	63.0%	403	146,037	362
45	Roosevelt Elementary District	87.2%	8,874	145,869	16
46	Creighton Elementary District	87.9%	6,028	141,590	23
47	Continental Elementary District	37.0%	519	123,613	238
48	J O Combs Unified School District	45.2%	4,111	117,459	29
49	Alhambra Elementary District	93.0%	12,740	105,486	8
50	Wickenburg Unified District	55.6%	1,118	100,540	90
51	Snowflake Unified District	43.5%	2,318	95,961	41
52	Cartwright Elementary District	86.9%	17,449	95,533	5
53	Blue Ridge Unified School District No. 32	53.4%	2,005	91,787	46
54	Balsz Elementary District	91.8%	2,334	89,038	38
55	Colorado River Union High School District	54.7%	1,912	88,627	46
56	Liberty Elementary District	50.0%	3,243	86,608	27
57	Agua Fria Union High School District	40.1%	7,504	86,307	12
58	Tolleson Union High School District	68.6%	11,155	84,353	8
59	Kingman Unified School District	66.4%	6,363	82,335	13
60	Mingus Union High School District	76.0%	1,125	77,758	69
61	Show Low Unified District	54.5%	2,284	77,306	34
62	Pendergast Elementary District	65.1%	9,504	77,246	8
63	Wilson Elementary District	86.0%	1,175	76,458	65
64	Laveen Elementary District	69.3%	6,275	72,107	11
65	Maricopa Unified School District	55.5%	6,085	71,131	12
66	Osborn Elementary District	76.6%	2,776	69,178	25
67	Winslow Unified District	63.9%	2,093	67,460	32
68	Casa Grande Elementary District	78.6%	6,539	54,873	8
69	Round Valley Unified District	45.9%	1,199	52,247	44
70	Crane Elementary District	67.3%	6,031	51,118	8
71	Littleton Elementary District	84.2%	5,163	51,033	10
72	Mammoth-San Manuel Unified District	81.2%	662	48,975	74
73	Safford Unified District	52.8%	2,946	46,924	16
74	Yuma Elementary District	69.7%	8,214	46,125	6
75	Clarkdale-Jerome Elementary District	52.0%	451	45,186	100
76	Santa Cruz Valley Unified District	74.7%	3,301	44,721	14
77	Holbrook Unified District	75.9%	1,639	43,889	27
78	Camp Verde Unified District	68.7%	1,376	43,575	32
79	East Vally Institute of Technology		8,013	42,926	5
80	St Johns Unified District	51.2%	754	41,757	55
81	Bullhead City School District	79.3%	2,679	41,065	15
82	Glendale Elementary District	89.0%	12,864	40,703	3
83	Avondale Elementary District	72.1%	5,290	39,325	7
84	Benson Unified School District	50.2%	1,238	39,201	32
85	Isaac Elementary District	88.8%	6,859	39,200	6
86	Nogales Unified District	79.3%	5,462	38,870	7
87	Casa Grande Union High School District	59.1%	3,850	38,535	10
88	Heber-Overgaard Unified District	53.3%	428	36,480	85
89	Pine Strawberry Elementary District	67.0%	110	34,116	311
90	Gadsden Elementary District	93.3%	5,074	33,850	7
91	Page Unified District	62.8%	2,557	32,540	13
92	Williams Unified District	61.6%	568	31,105	55
93	Pima Unified District	52.1%	796	30,616	38
94	Pima Accommodation District		62	30,616	494

Rank	District	Free/Reduced	Total	\$ Received	\$ per ADM
		Lunch %	ADM		
95	Buckeye Elementary District	64.8%	4,773	27,805	6
96	Tombstone Unified District	64.9%	744	26,900	36
97	Willcox Unified District	77.9%	1,092	25,656	24
98	Parker Unified School District	75.6%	1,776	24,768	14
99	Ajo Unified District	83.0%	401	24,513	61
100	Douglas Unified District	86.3%	3,689	23,340	6
101	Patagonia Union High School District	85.4%	61	23,340	383
102	Saddle Mountain Unified School District	68.9%	1,443	22,945	16
103	Beaver Creek Elementary District	77.0%	284	22,841	80
104	Bisbee Unified District	68.7%	596	22,401	38
105	Palominas Elementary District	50.4%	976	22,186	23
106	Ray Unified District	62.5%	444	21,216	48
107	Mayer Unified School District	87.8%	501	20,458	41
108	St David Unified District	79.2%	377	20,376	54
109	Morenci Unified District	36.2%	1,375	19,360	14
110	Thatcher Unified District	38.4%	1,656	18,357	11
111	Altar Valley Elementary District	58.4%	597	18,342	31
112	Miami Unified District	68.3%	1,065	18,200	17
113	Bagdad Unified District	39.9%	411	17,663	43
114	Morristown Elementary District	67.0%	104	17,350	166
115	Sonoita Elementary District	37.0%	98	16,880	172
116	Globe Unified District	61.7%	1,619	16,862	10
117	Tolleson Elementary District	84.6%	2,804	16,256	6
118	Fowler Elementary District	78.9%	4,426	16,129	4
119	Coolidge Unified District	72.6%	2,041	15,626	8
120	Palo Verde Elementary District	78.0%	447	14,432	32
121	Sacaton Elementary District	86.4%	519	13,747	26
122	Pearce Elementary District	62.0%	101	13,661	135
123	Western Maricopa Education Center		6,069	13,590	2
124	Union Elementary District	84.1%	1,884	13,521	7
125	Murphy Elementary District	92.4%	1,699	11,850	7
126	Concho Elementary District	96.0%	156	11,058	71
127	Red Rock Elementary District	56.0%	294	10,892	37
128	Grand Canyon Unified District	68.7%	280	9,818	35
129	Young Elementary District		23	8,850	385
130	Mary C O'Brien Accommodation District	66.2%	202	8,325	41
131	Eloy Elementary District	87.4%	863	8,292	10
132	Tonto Basin Elementary District	82.0%	54	8,035	150
133	Maine Consolidated School District	47.0%	108	7,690	71
134	Santa Cruz Valley Union High School District	87.0%	446	7,652	17
135	Baboquivari Unified School District #40	70.5%	964	7,651	8
136	Littlefield Unified District	94.1%	381	7,545	20
137	Somerton Elementary District	86.3%	2,716	7,493	3
138	Arlington Elementary District	80.0%	224	6,900	31
139	Hyder Elementary District	87.0%	91	6,900	76
140	Valley Union High School District	77.0%	91	6,825	75
141	Antelope Union High School District	82.4%	258	6,530	25
142	Duncan Unified District	62.1%	271	6,235	23
143	Mohave Valley Elementary District	62.5%	1,162	6,175	5
144	Yarnell Elementary District	85.0%	33	6,150	186
145	Patagonia Elementary District		83	5,944	72
146	San Simon Unified District	67.0%	110	5,750	52
147	San Fernando Elementary District		17	5,750	338

Rank	District	Free/Reduced	Total	\$ Received	\$ per ADM
		Lunch %	ADM		
148	Ash Fork Joint Unified District	56.0%	226	5,594	25
149	Kirkland Elementary District	77.0%	63	5,176	82
150	Toltec School District	76.3%	1,022	5,127	5
151	Mohawk Valley Elementary District	82.0%	156	5,120	33
152	Congress Elementary District	95.0%	95	5,054	53
153	Bicentennial Union High School District	77.0%	103	4,891	47
154	Canon Elementary District	87.0%	102	4,863	47
155	Maricopa County Regional District		515	4,850	9
156	Bonita Elementary District	52.0%	103	4,700	46
157	Fort Huachuca Accommodation District	33.9%	941	4,700	5
158	Riverside Elementary District	87.8%	846	4,150	5
159	Vernon Elementary District	67.0%	98	4,126	42
160	Alpine Elementary District		57	4,039	71
161	Ash Creek Elementary District	90.0%	21	4,000	189
162	Kayenta Unified District	86.7%	1,680	3,900	2
163	Superior Unified School District	91.6%	352	3,700	10
164	Coconino County Reg Accom District		121	3,475	29
165	Aguila Elementary District	87.0%	147	3,400	23
166	Solomon Elementary District	67.0%	172	3,250	19
167	Gila Bend Unified District	75.0%	390	3,200	8
168	Pomerene Elementary District	52.0%	91	2,920	32
169	Picacho Elementary District	87.0%	157	2,608	17
170	Colorado City Unified District	86.7%	545	2,530	5
171	Seligman Unified District	67.0%	146	2,500	17
172	Quartzsite Elementary District	87.0%	207	2,482	12
173	Pinon Unified District	90.3%	1,171	2,400	2
174	Tuba City Unified School District #15	90.6%	1,624	2,400	1
175	Bowie Unified District	83.2%	45	2,000	44
176	Mcnary Elementary District	92.0%	116	2,000	17
177	Elfrida Elementary District	82.0%	110	1,900	17
178	Ganado Unified School District	77.7%	1,413	1,800	1
179	Mobile Elementary District	80.0%	12	1,700	138
180	Sanders Unified District	94.9%	730	1,600	2
181	Sentinel Elementary District	75.0%	37	1,600	43
182	Skull Valley Elementary District	35.0%	20	1,600	82
183	Hillside Elementary District		24	1,600	67
184	Naco Elementary District	89.0%	288	1,400	5
185	Double Adobe Elementary District		38	1,400	37
186	Window Rock Unified District	78.0%	1,831	1,300	1
187	Yavapai Accom School District #99		59	1,235	21
188	Hackberry School District	90.0%	45	1,200	27
189	Paloma School District	72.0%	97	1,200	12
190	San Carlos Unified District	99.0%	1,478	1,200	1
191	Stanfield Elementary District	85.0%	497	1,200	2
192	Wenden Elementary District	92.0%	80	1,200	15
193	Apache Elementary District		9	1,200	133
194	Chinle Unified District	78.4%	3,349	1,155	0
195	Cochise Elementary District	52.0%	78	1,100	14
196	McNeal Elementary District	57.0%	52	1,000	19
197	Cedar Unified District	98.0%	112	900	8
198	Salome Consolidated Elementary District		110	800	7
199	Fort Thomas Unified District	95.1%	600	784	1
200	Wellton Elementary District	86.0%	215	600	3

Rank	District	Free/Reduced	Total	\$ Received	\$ per ADM
		Lunch %	ADM		
201	Central AZ Valley Institute of Technology		946	600	1
202	Hayden-Winkelman Unified District	81.0%	263	500	2
203	Bouse Elementary District	85.0%	30	400	14
204	Red Mesa Unified District	93.4%	631	400	1
205	Blue Elementary District		13	400	31
206	Santa Cruz Elementary District	80.0%	213	300	1
207	Cottonwood-Oak Creek Elementary District	65.9%	2,007		
208	Fredonia-Moccasin Unified District	57.5%	202		
209	Joseph City Unified District	43.7%	380		
210	Owens School District No.6	80.0%	16		
211	Peach Springs Unified District	87.0%	226		
212	Topock Elementary District	92.0%	95		
213	Whiteriver Unified District	93.6%	2,113		
214	Yucca Elementary District	85.0%	28		
215	Coconino Assn for Voc Ind and Tech		479		
216	Gila County Regional District		17		
217	Mountain Institute JTED		464		
218	Valentine Elementary District		65		
STATE TOTALS		67.2%	912,661	43,957,543	54

Attachment 2

Percent Qualifying for Free/Reduced Price Lunch and Average Daily Membership by District Dollars Received

Sorted by Contributions per ADM

Rank	District	Free/Reduced Lunch %	Total ADM	\$ Received	\$ per ADM
1	Pima Accommodation District		62	30,616	494
2	Young Elementary District		23	8,850	385
3	Patagonia Union High School District	85.4%	61	23,340	383
4	Oracle Elementary District	63.0%	403	146,037	362
5	San Fernando Elementary District		17	5,750	338
6	Pine Strawberry Elementary District	67.0%	110	34,116	311
7	Fountain Hills Unified District	35.0%	1,506	385,927	256
8	Continental Elementary District	37.0%	519	123,613	238
9	Prescott Unified District	38.0%	3,832	836,612	218
10	Catalina Foothills Unified District	12.4%	4,746	906,939	191
11	Ash Creek Elementary District	90.0%	21	4,000	189
12	Yarnell Elementary District	85.0%	33	6,150	186
13	Tanque Verde Unified District	15.4%	2,000	353,482	177
14	Nadaburg Unified School District	64.8%	848	148,610	175
15	Sonoita Elementary District	37.0%	98	16,880	172
16	Morristown Elementary District	67.0%	104	17,350	166
17	Tonto Basin Elementary District	82.0%	54	8,035	150
18	Sedona-Oak Creek JUSD #9	42.1%	1,042	155,704	149
19	Kyrene Elementary District	30.4%	16,383	2,317,319	141
20	Mobile Elementary District	80.0%	12	1,700	138
21	Pearce Elementary District	62.0%	101	13,661	135
22	Apache Elementary District		9	1,200	133
23	Lake Havasu Unified District	53.8%	5,249	696,258	133
24	Payson Unified District	62.3%	2,312	305,227	132
25	Scottsdale Unified District	25.4%	22,686	2,686,334	118
26	Flagstaff Unified District	38.3%	9,290	1,019,718	110
27	Chino Valley Unified District	57.1%	2,266	242,572	107
28	Clarkdale-Jerome Elementary District	52.0%	451	45,186	100
29	Chandler Unified District	25.7%	41,603	4,103,094	99
30	Madison Elementary District	38.9%	5,483	538,328	98
31	Wickenburg Unified District	55.6%	1,118	100,540	90
32	Heber-Overgaard Unified District	53.3%	428	36,480	85
33	Cave Creek Unified District	9.0%	7,392	621,186	84
34	Amphitheater Unified District	48.2%	13,182	1,098,221	83
35	Skull Valley Elementary District	35.0%	20	1,600	82
36	Kirkland Elementary District	77.0%	63	5,176	82
37	Paradise Valley Unified District	35.1%	30,968	2,493,030	81
38	Beaver Creek Elementary District	77.0%	284	22,841	80
39	Hyder Elementary District	87.0%	91	6,900	76
40	Valley Union High School District	77.0%	91	6,825	75
41	Mammoth-San Manuel Unified District	81.2%	662	48,975	74
42	Tempe Union High School District	27.9%	13,854	1,013,895	73
43	Gilbert Unified District	27.1%	34,196	2,455,039	72
44	Patagonia Elementary District		83	5,944	72
45	Maine Consolidated School District	47.0%	108	7,690	71
46	Alpine Elementary District		57	4,039	71
47	Concho Elementary District	96.0%	156	11,058	71
48	Mingus Union High School District	76.0%	1,125	77,758	69
49	Hillside Elementary District		24	1,600	67
50	Mesa Unified District	59.8%	60,637	3,949,984	65

Rank	District	Free/Reduced	Total	\$ Received	\$ per ADM
		Lunch %	ADM		
51	Wilson Elementary District	86.0%	1,175	76,458	65
52	Vail Unified District	25.2%	13,723	880,459	64
53	Marana Unified District	42.4%	11,693	730,233	62
54	Ajo Unified District	83.0%	401	24,513	61
55	Tucson Unified District	68.7%	45,357	2,712,821	60
56	Deer Valley Unified District	28.6%	32,504	1,839,033	57
57	Flowing Wells Unified District	73.7%	5,158	288,896	56
58	St Johns Unified District	51.2%	754	41,757	55
59	Williams Unified District	61.6%	568	31,105	55
60	St David Unified District	79.2%	377	20,376	54
61	Congress Elementary District	95.0%	95	5,054	53
62	San Simon Unified District	67.0%	110	5,750	52
63	Sierra Vista Unified District	41.2%	5,437	274,357	50
64	Glendale Union High School District	61.2%	15,116	759,907	50
65	Ray Unified District	62.5%	444	21,216	48
66	Canon Elementary District	87.0%	102	4,863	47
67	Bicentennial Union High School District	77.0%	103	4,891	47
68	Colorado River Union High School District	54.7%	1,912	88,627	46
69	Apache Junction Unified District	64.8%	3,813	176,370	46
70	Peoria Unified School District	42.3%	35,181	1,623,181	46
71	Blue Ridge Unified School District No. 32	53.4%	2,005	91,787	46
72	Bonita Elementary District	52.0%	103	4,700	46
73	Bowie Unified District	83.2%	45	2,000	44
74	Humboldt Unified District	61.2%	5,533	242,509	44
75	Round Valley Unified District	45.9%	1,199	52,247	44
76	Sentinel Elementary District	75.0%	37	1,600	43
77	Bagdad Unified District	39.9%	411	17,663	43
78	Buckeye Union High School District	57.0%	3,856	162,461	42
79	Vernon Elementary District	67.0%	98	4,126	42
80	Snowflake Unified District	43.5%	2,318	95,961	41
81	Mary C O'Brien Accommodation District	66.2%	202	8,325	41
82	Mayer Unified School District	87.8%	501	20,458	41
83	Sahuarita Unified District	35.5%	5,731	225,703	39
84	Higley Unified School District	19.7%	11,331	443,133	39
85	Pima Unified District	52.1%	796	30,616	38
86	Balsz Elementary District	91.8%	2,334	89,038	38
87	Bisbee Unified District	68.7%	596	22,401	38
88	Red Rock Elementary District	56.0%	294	10,892	37
89	Double Adobe Elementary District		38	1,400	37
90	Tombstone Unified District	64.9%	744	26,900	36
91	Grand Canyon Unified District	68.7%	280	9,818	35
92	Show Low Unified District	54.5%	2,284	77,306	34
93	Mohawk Valley Elementary District	82.0%	156	5,120	33
94	Palo Verde Elementary District	78.0%	447	14,432	32
95	Winslow Unified District	63.9%	2,093	67,460	32
96	Pomerene Elementary District	52.0%	91	2,920	32
97	Camp Verde Unified District	68.7%	1,376	43,575	32
98	Benson Unified School District	50.2%	1,238	39,201	32
99	Arlington Elementary District	80.0%	224	6,900	31
100	Blue Elementary District		13	400	31
101	Altar Valley Elementary District	58.4%	597	18,342	31
102	Dysart Unified District	49.8%	23,806	727,270	31
103	Queen Creek Unified District	28.9%	5,582	167,972	30

Rank	District	Free/Reduced	Total	\$ Received	\$ per ADM
		Lunch %	ADM		
104	Coconino County Reg Accom District		121	3,475	29
105	J O Combs Unified School District	45.2%	4,111	117,459	29
106	Tempe School District	72.1%	11,068	306,018	28
107	Holbrook Unified District	75.9%	1,639	43,889	27
108	Liberty Elementary District	50.0%	3,243	86,608	27
109	Hackberry School District	90.0%	45	1,200	27
110	Sacaton Elementary District	86.4%	519	13,747	26
111	Antelope Union High School District	82.4%	258	6,530	25
112	Florence Unified School District	58.6%	8,041	201,824	25
113	Osborn Elementary District	76.6%	2,776	69,178	25
114	Ash Fork Joint Unified District	56.0%	226	5,594	25
115	Willcox Unified District	77.9%	1,092	25,656	24
116	Creighton Elementary District	87.9%	6,028	141,590	23
117	Aguila Elementary District	87.0%	147	3,400	23
118	Phoenix Elementary District	85.7%	6,495	149,536	23
119	Duncan Unified District	62.1%	271	6,235	23
120	Yuma Union High School District	68.2%	11,404	260,402	23
121	Palominas Elementary District	50.4%	976	22,186	23
122	Yavapai Accom School District #99		59	1,235	21
123	Littlefield Unified District	94.1%	381	7,545	20
124	McNeal Elementary District	57.0%	52	1,000	19
125	Solomon Elementary District	67.0%	172	3,250	19
126	Mcnary Elementary District	92.0%	116	2,000	17
127	Elfrida Elementary District	82.0%	110	1,900	17
128	Santa Cruz Valley Union High School District	87.0%	446	7,652	17
129	Seligman Unified District	67.0%	146	2,500	17
130	Miami Unified District	68.3%	1,065	18,200	17
131	Sunnyside Unified District	82.4%	15,831	264,081	17
132	Picacho Elementary District	87.0%	157	2,608	17
133	Roosevelt Elementary District	87.2%	8,874	145,869	16
134	Safford Unified District	52.8%	2,946	46,924	16
135	Saddle Mountain Unified School District	68.9%	1,443	22,945	16
136	Litchfield Elementary District	35.8%	10,617	167,152	16
137	Washington Elementary School District	85.1%	22,054	346,032	16
138	Bullhead City School District	79.3%	2,679	41,065	15
139	Wenden Elementary District	92.0%	80	1,200	15
140	Phoenix Union High School District	81.7%	26,657	381,896	14
141	Cochise Elementary District	52.0%	78	1,100	14
142	Morenci Unified District	36.2%	1,375	19,360	14
143	Parker Unified School District	75.6%	1,776	24,768	14
144	Santa Cruz Valley Unified District	74.7%	3,301	44,721	14
145	Bouse Elementary District	85.0%	30	400	14
146	Kingman Unified School District	66.4%	6,363	82,335	13
147	Page Unified District	62.8%	2,557	32,540	13
148	Paloma School District	72.0%	97	1,200	12
149	Quartzsite Elementary District	87.0%	207	2,482	12
150	Maricopa Unified School District	55.5%	6,085	71,131	12
151	Agua Fria Union High School District	40.1%	7,504	86,307	12
152	Laveen Elementary District	69.3%	6,275	72,107	11
153	Thatcher Unified District	38.4%	1,656	18,357	11
154	Superior Unified School District	91.6%	352	3,700	10
155	Globe Unified District	61.7%	1,619	16,862	10
156	Casa Grande Union High School District	59.1%	3,850	38,535	10

Rank	District	Free/Reduced	Total	\$ Received	\$ per ADM
		Lunch %	ADM		
157	Littleton Elementary District	84.2%	5,163	51,033	10
158	Eloy Elementary District	87.4%	863	8,292	10
159	Maricopa County Regional District		515	4,850	9
160	Crane Elementary District	67.3%	6,031	51,118	8
161	Casa Grande Elementary District	78.6%	6,539	54,873	8
162	Alhambra Elementary District	93.0%	12,740	105,486	8
163	Gila Bend Unified District	75.0%	390	3,200	8
164	Pendergast Elementary District	65.1%	9,504	77,246	8
165	Cedar Unified District	98.0%	112	900	8
166	Baboquivari Unified School District #40	70.5%	964	7,651	8
167	Coolidge Unified District	72.6%	2,041	15,626	8
168	Tolleson Union High School District	68.6%	11,155	84,353	8
169	Avondale Elementary District	72.1%	5,290	39,325	7
170	Salome Consolidated Elementary District		110	800	7
171	Union Elementary District	84.1%	1,884	13,521	7
172	Nogales Unified District	79.3%	5,462	38,870	7
173	Murphy Elementary District	92.4%	1,699	11,850	7
174	Gadsden Elementary District	93.3%	5,074	33,850	7
175	Douglas Unified District	86.3%	3,689	23,340	6
176	Buckeye Elementary District	64.8%	4,773	27,805	6
177	Tolleson Elementary District	84.6%	2,804	16,256	6
178	Isaac Elementary District	88.8%	6,859	39,200	6
179	Yuma Elementary District	69.7%	8,214	46,125	6
180	Cartwright Elementary District	86.9%	17,449	95,533	5
181	East Vally Institute of Technology		8,013	42,926	5
182	Mohave Valley Elementary District	62.5%	1,162	6,175	5
183	Toltec School District	76.3%	1,022	5,127	5
184	Fort Huachuca Accommodation District	33.9%	941	4,700	5
185	Riverside Elementary District	87.8%	846	4,150	5
186	Naco Elementary District	89.0%	288	1,400	5
187	Colorado City Unified District	86.7%	545	2,530	5
188	Fowler Elementary District	78.9%	4,426	16,129	4
189	Glendale Elementary District	89.0%	12,864	40,703	3
190	Wellton Elementary District	86.0%	215	600	3
191	Somerton Elementary District	86.3%	2,716	7,493	3
192	Stanfield Elementary District	85.0%	497	1,200	2
193	Kayenta Unified District	86.7%	1,680	3,900	2
194	Western Maricopa Education Center		6,069	13,590	2
195	Sanders Unified District	94.9%	730	1,600	2
196	Pinon Unified District	90.3%	1,171	2,400	2
197	Hayden-Winkelman Unified District	81.0%	263	500	2
198	Tuba City Unified School District #15	90.6%	1,624	2,400	1
199	Santa Cruz Elementary District	80.0%	213	300	1
200	Fort Thomas Unified District	95.1%	600	784	1
201	Ganado Unified School District	77.7%	1,413	1,800	1
202	San Carlos Unified District	99.0%	1,478	1,200	1
203	Window Rock Unified District	78.0%	1,831	1,300	1
204	Central AZ Valley Institute of Technology		946	600	1
205	Red Mesa Unified District	93.4%	631	400	1
206	Chinle Unified District	78.4%	3,349	1,155	0
207	Cottonwood-Oak Creek Elementary District	65.9%	2,007		
208	Fredonia-Moccasin Unified District	57.5%	202		
209	Joseph City Unified District	43.7%	380		

Rank	District	Free/Reduced	Total	\$ Received	\$ per ADM
		Lunch %	ADM		
210	Owens School District No.6	80.0%	16		
211	Peach Springs Unified District	87.0%	226		
212	Topock Elementary District	92.0%	95		
213	Whiteriver Unified District	93.6%	2,113		
214	Yucca Elementary District	85.0%	28		
215	Coconino Assn for Voc Ind and Tech		479		
216	Gila County Regional District		17		
217	Mountain Institute JTED		464		
218	Valentine Elementary District		65		
STATE TOTALS		67.2%	912,661	43,957,543	54

School Site Donation Tax Credit

School Site Donation Tax Credit

Summary

- The cost of the individual tax credit was \$40,698 in FY 2017.
- In FY 2017, the individual credit was claimed by 19 taxpayers at an average of \$2,142 per claim.
- The cost of the corporate tax credit was \$0 in FY 2017 as no taxpayers claimed the corporate tax credit.
- More individual taxpayers have used the credit than corporate taxpayers. In the last 5 years, there has been an annual average of 1 corporate credit claim compared to 15 individual tax credit claims.
- Tax credit usage declined significantly with the reduction in school construction during the recession. Combined individual and corporate use peaked in tax year 2006 at \$10.6 million.

Statutes

A.R.S. § 43-1089.02 (Individual Income Tax) and A.R.S. § 43-1181 (Corporate Income Tax)

Description

This credit was last reviewed in 2012. The description of the credit as well as other section of the credit review have been updated from our 2012 report when relevant.

The statutes provide corporations and individuals an income tax credit for donating real property and improvements to a school district or a charter school for use as a school or as a site for the construction of a school. To qualify for the credit, a few conditions must be met, including the following:

- The value of the donated property must be determined by an appraisal as defined in A.R.S § 32-3601 that is conducted by an independent party and paid for by the donee.
- An Arizona school district is not allowed to accept the donation unless the School Facilities Board (SFB) has determined that the real property and improvements are suitable as a school site or as a school. Pursuant to A.R.S. § 15-181, SFB does not approve donations for charter schools.

The credit is equal to 30% of the value of real property and improvements.

Refundable

The credit is not refundable.

Carry Forward

The unused portion of the credit may be carried forward for a maximum of 5 taxable years. The amount of credits carried forward at the end of Tax Year 2016 was \$101,989.

History and Rationale

This tax credit was created by Laws 2000, Chapter 334 and became effective on January 1, 2001. The purpose of the credit is to encourage developers and/or landowners to make a real property donation for a school. There has not been any substantive changes to the tax credit since its creation.

SFB is responsible for providing Arizona school districts with funding for new school construction, building renewal grants, and the correction of emergency deficiencies. SFB purchases land and approves new construction projects in order for districts to build new public schools throughout the state. When land or improvements are donated to

districts, it results in cost savings for SFB and in turn the state since new school construction is funded through General Fund monies.

A district may build a school on its own, through its own secondary property tax. A land donation qualifies for a credit if the school is funded by SFB or by a local property tax.

Revenue Impact

Beginning in FY 2015, the Department of Revenue (DOR) is required to report the use of individual income tax credits on a fiscal year basis. The same requirement applies to corporate income tax credits, beginning in FY 2016. Based on DOR’s annual reports, the cost of the individual tax credit was \$50,300 in FY 2015, \$293,000 in FY 2016, and \$40,698 in FY 2017. The number of taxpayers that claimed the individual tax credit was 69 in FY 2015, 53 in FY 2016, and 19 in FY 2017.

DOR additionally reports credit use by tax year. Such data is available from the tax year the credit was established, as displayed below in *Table 1*. Credit use by tax year differs from credit use by fiscal year for several reasons, including the filing of extended and amended tax returns and time periods that do not fully overlap.

School Site Donation Individual Tax Credit					
Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward	Value of Donated Property
2001	59	\$4,572,656	\$2,869,356	\$1,704,381	\$23,376,250
2002	66	3,711,546	2,380,444	1,331,022	11,176,500
2003	45	2,924,583	2,048,930	716,187	8,580,160
2004	100	5,671,414	3,513,793	2,157,621	30,130,700
2005	80	8,889,390	6,029,585	2,859,896	25,445,500
2006	89	10,553,076	7,812,958	2,534,946	35,051,850
2007	72	6,255,914	2,819,579	3,217,277	15,723,362
2008	55	2,010,294	321,623	1,639,328	1,966,838
2009	30	1,003,782	76,427	357,500	0
2010	30	1,109,133	223,949	759,483	1,128,000
2011	20	617,874	89,461	521,716	2,089,991
2012	11	608,953	38,578	156,776	0
2013	21	293,887	111,752	182,135	452,416
2014	20	508,350	303,735	204,615	842,461
2015	10	204,818	35,960	168,858	0
2016 ^{1/}	15	108,345	6,356	101,989	0

^{1/} Tax Year 2016 data represents a portion of the tax year due to pending extension returns.
of Claimants - the number of taxpayers that claimed the credit in each year.
Total Credit Available - 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 \$200,000 of the credit identified in tax year 2008, use \$100,000 of this amount in 2008 (leaving \$100,000 as a carry forward). If this taxpayer did not identify or claim the credit in 2009, that \$100,000 carry forward would not be included in the credit carry forward total for 2009.
Value of Donated Property – the total value of the donated property for which the credit was originally claimed in the respective tax year.
 x — No data publicly released by the Department of Revenue.

Individual credit use declined sharply after 2007. It is likely that the sharp economic downturn at the end of the decade decreased both interest in land donation and the assessed value of the donated property. In addition, school construction declined rapidly during the downturn. It is unclear what size the donated sites and/or improvements are and how many individuals are co-owners of a site and therefore eligible to claim the credit.

Based on the same annual reports, there were no corporate income tax credits claimed in FY 2016 or FY 2017.

Corporate credit use by tax year is shown in *Table 2 below*. Due to confidentiality concerns, DOR not reported for all tax years. However, based on the available information, the cost of the corporate credit decreased from \$616,500 in 2004 to \$0 in 2015.

Table 2 below, which was provided by DOR, contains information on the corporate income tax impact of the credit. It is unclear what size the donated sites and/or improvements are and how many individuals are co-owners of a site and therefore eligible to claim the credit. Tax Year 2016 data will not be reported until November 2018.

School Site Donation Corporate Tax Credit					
Tax Year	# of Claimants	Total Credit Available	Credit Used	Carry Forward	Value of Donated Property
2001	2	x	x	x	X
2002	4	x	x	x	X
2003	2	x	x	x	X
2004	3	\$616,473	\$616,473	\$0	\$2,054,910
2005	5	1,273,681	1,272,504	1,177	4,245,603
2006	6	2,756,579	2,755,447	1,132	9,184,675
2007	0	0	0	0	0
2008	2	x	x	x	x
2009	3	x	x	x	x
2010	3	x	x	x	x
2011	2	x	x	x	x
2012	2	x	x	x	x
2013	2	x	x	x	x
2014	0	0	0	0	0
2015	0	0	0	0	0

of Claimants - the number of taxpayers that claimed the credit in each year.
Total Credit Available - 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 \$200,000 of the credit identified in tax year 2008, use \$100,000 of this amount in 2008 (leaving \$100,000 as a carry forward). If this taxpayer did not identify or claim the credit in 2009, that \$100,000 carry forward would not be included in the credit carry forward total for 2009.
Value of Donated Property - the total value of the donated property for which the credit was originally claimed in the respective tax year.
 x - No data publicly released by the Department of Revenue.

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 behavioral in nature. It was designed to encourage the donation of real property to school districts and charter schools.

Although this credit was not directly intended to promote economic growth, it may still provide some economic benefits to Arizona districts and charter schools insofar as it provides less of a financial burden to the School Facilities Board (SFB) and charter schools in terms of financing new capital projects.

More Background

Since SFB must approve school site donations for Arizona school districts, they track all land donations that their districts receive. The data in *Table 3*, below, was provided by SFB, while the data in *Table 1* and *Table 2* were provided by DOR. Thus, there are discrepancies between the figures as the values in *Table 3* do not match the tax credits, which are 30% of the value of the land donated. There could be many reasons for the difference, such as a lack of sufficient taxpayer liability, which may stretched out claims for the credits for up to 5 years of the allowable carry forward. The data from SFB only includes school district land donations and is only for years 2001-2007. Since 2007, SFB has not received any land donations. Nonetheless, credits continue to be taken for this credit. If SFB last approved a donation in 2007, a credit could still be taken through approximately 2012 or 2013 given the 5-year carry forward.

However, SFB does not approve charter school land donations. As a result, we believe that the credit in recent years are related to charter schools.

<u>Tax Year</u>	<u># of Donations</u>	<u>Total Acres Donated</u>	<u>Donation Value</u>	<u>Average Donation</u>
2001	19	247	\$3,489,852	\$183,676
2002	18	274	4,386,411	243,690
2003	12	155	2,492,356	207,696
2004	10	149	2,050,223	205,022
2005	18	313	8,352,108	464,006
2006	18	331	51,720,590	2,873,366
2007	18	281	34,529,000	1,918,278

Complexity

The credit does not seem to be unnecessarily complex in terms of its administration and approval process, as evidenced by the SFB approval process before a district can accept a land donation.

Potential Performance Measures

One performance measure could include for 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 their land donations in terms of acres but charter schools do not track their donations.

Prior Review

The credit was last reviewed by the Joint Legislative Income Tax Credit Review Committee in 2012. The Committee recommended at that time that the credit be continued and placed on the 2017 review schedule.