

Fiscal Note

BILL # HB 2014

TITLE: STOs; scholarships; corporate tax credits

SPONSOR: Livingston

STATUS: As Amended by House WM

PREPARED BY: Patrick Moran

Description

The bill would increase the aggregate cap on corporate tax credits for contributions to School Tuition Organizations (STOs) for scholarships to displaced or disabled pupils from \$6.0 million currently to \$10.0 million in FY 2023, \$15.0 million in FY 2024, and \$20.0 million in FY 2025 and each year thereafter.

Estimated Impact

We estimate the bill could reduce state General Fund revenues by up to \$(4.0) million in FY 2023, \$(9.0) million in FY 2024, and \$(14.0) million in FY 2025 and each year thereafter. These impacts assume corporations claim all credits that would become newly available under the bill. The actual impact could be less if corporations claim less than the full cap or if the additional donations to the displaced/disabled program are offset by reduced use of other corporate tax credits.

The Department of Revenue (DOR) has not yet provided an estimate of the bill's impact.

Analysis

The displaced/disabled STO program provides private school scholarships to any child that has previously been placed in foster care before graduating from high school or students with a disability. Corporate tax credits for donations to the displaced/disabled program have been capped at \$6.0 million since FY 2022 and previously were capped at \$5.0 million. In each of the last 5 years, corporations have fully utilized the credit up to the cap. As a result, we assume corporations would continue to do so under the cap increases authorized by the bill.

The bill would also expand the authorized use of individual and corporate STO scholarship monies to include textbooks, uniforms, and public transportation services in addition to tuition. It would also increase the maximum scholarship available under the displaced/disabled program to be equal to the funding the student would have received under the K-12 Basic State Aid formula (current law limits scholarships to actual tuition or 90% of formula funding, whichever is less). Given that these provisions would not directly impact the statutory tax credit caps, we anticipate they would not have a material impact on state revenues.

The displaced/disabled tax credit cap increases may result in foregone General Fund spending to the extent that additional STO-funded scholarships reduce public school enrollment.

Local Government Impact

Beginning in FY 2024, incorporated cities and towns receive 18% of individual and corporate income tax collections from 2 years prior from the Urban Revenue Sharing (URS) Fund established by A.R.S. § 43-206. Therefore, under the bill, URS distributions to cities and towns would decrease by \$(720,000) in FY 2025, \$(1.6) million in FY 2026, and \$(2.5) million in FY 2027.

2/17/23

