



ARIZONA STATE SENATE
Fifty-Sixth Legislature, First Regular Session

VETOED

FACT SHEET FOR H.B. 2504

STO scholarships; foster care students

Purpose

Expands eligibility for educational scholarships and tuition grants awarded through the Credit for Contributions to Certified School Tuition Organizations (Switcher Credit) or the Credit for Contributions to School Tuition Organizations for Low-Income Students (Low-Income Credit) by including students who are placed in foster care before graduating from high school or obtaining a general equivalency diploma (GED).

Background

A school tuition organization (STO) is a nonprofit organization exempt from federal taxation that allocates at least 90 percent of its revenue for educational scholarships or tuition grants (scholarships or grants) for students to attend nongovernmental elementary or secondary schools. Subject to specified limitations, there are four credits a corporation, insurer or individual may receive against income tax liability for contributions made to an STO: 1) the corporate and insurer Low-Income Credit; 2) the corporate and insurer Credit for Contributions to STOs for Displaced Students or Students with Disabilities; 3) the individual Credit for Contributions to STOs; and 4) the individual Switcher Credit. An STO that receives contributions for the purposes of the Low-Income Credit must only provide scholarships and grants to children whose family income does not exceed 185 percent of the income limit required to qualify for the Free-and-Reduced-Price Lunch Program. A student who has been placed in foster care is eligible to receive a scholarship or grant awarded through the Credit for Contributions to STOs for Displaced Students or Students with Disabilities.

A student receiving a scholarship or grant awarded through the Low-Income Credit or Switcher Credit must: 1) have transferred to a nongovernmental school after attending a governmental school full-time for at least 90 days of the prior fiscal year; 2) enroll in a kindergarten program in a qualified school or a preschool program for students with disabilities; 3) be a dependent of a U.S. Armed Forces member stationed in Arizona; 4) be homeschooled; 5) have moved to Arizona from out of state; 6) have participated in an empowerment scholarship account (ESA) and did not renew the account or accept the ESA; or 7) have previously received specified STO scholarships and continued to attend a qualified school. A student who transfers to a qualified school after one full semester is eligible to receive a scholarship or grant awarded through the Low-Income Credit in the same academic year.

For school year 2022-2023, a scholarship or grant awarded through the Low-Income Credit is subject to a cap of: 1) \$5,900 for students in a preschool program for students with disabilities, a kindergarten program or grades 1 through 8; or 2) \$7,700 for students in grades 9 through 12. The cap is annually increased by \$200 (A.R.S. §§ [43-1089](#); [43-1089.03](#); [43-1183](#); [43-1184](#); [43-1504](#); [43-1505](#); and [43-1603](#); [ADOR](#)).

The Joint Legislative Budget Committee (JLBC) estimates that STO donations to the Switcher Credit program would increase by one percent, which would decrease state General Fund revenues by \$500,000 annually. The JLBC notes that the magnitude of the impact is difficult to predict with certainty ([JLBC fiscal note](#)).

Provisions

1. Adds students who are placed in Arizona foster care before graduating from high school or obtaining a GED to the student population that is eligible to receive a scholarship or grant awarded through the Switcher Credit or the Low-Income Credit.
2. Makes conforming changes.
3. Becomes effective on the general effective date.

Governor's Veto Message

The Governor indicates in her [veto message](#) that STO tax credits divert taxes to pay for private school tuition and that she is not supportive of expanding the STO tax credits.

House Action

ED 1/24/23 DP 6-4-0-0
3rd Read 3/1/23 31-28-1

Senate Action

FIN 3/20/23 DP 4-3-0
3rd Read 6/12/23 16-14-0

Vetoed by the Governor 6/19/23

Prepared by Senate Research
June 20, 2023
MG/sr