

Fiscal Note

BILL # SB 1496

TITLE: tax credit; qualifying charitable organizations

SPONSOR: Mesnard

STATUS: As Introduced

PREPARED BY: Hans Olofsson

Description

This bill makes changes to the individual income tax credit program for cash contributions to Qualifying Charitable Organizations (QCOs), which are described in more detail in the *Analysis* section below. The changes include expanding the scope of services qualifying for the QCO tax credit.

Estimated Impact

We estimate that the bill's provision to expand the scope of qualifying services would likely increase the use of the QCO individual income tax credit, which would result in a reduction of General Fund revenue collections. We do not have a methodology for quantifying the impact. The magnitude will depend on how broadly the Department of Revenue (DOR) currently interprets the QCO statutes regarding eligible services. We have asked DOR for their estimate of the bill's impact but have not yet received a response.

Analysis

Arizona law provides an individual income tax credit for cash contributions made to certain qualifying charitable organizations that provide assistance to Arizona residents who either: (1) receive Temporary Assistance of Needy Families (TANF) benefits, (2) are low-income residents, or (3) are children who have a chronic illness or physical disability. The maximum QCO credit donation amount in 2025 is \$495 for single filers and \$987 for married couples filing jointly. In FY 2024, Arizona taxpayers claimed a total of \$84 million in QCO credits. (Arizona law also provides a separate credit for cash contributions to Qualifying Foster Care Organizations (QFCO) with a 2025 credit cap of \$618 for single filers and \$1,234 for married couples filing jointly.)

There are several changes under the bill, which are described below.

First, for QCOs, the bill adopts the broader of definition of "services" used for the purpose of qualifying for the tax credit for contributions to Qualifying Foster Care Charitable Organizations (QFCOs). There is a considerable overlap of what constitutes as "services" for the purposes of claiming either the QCO or QFCO credit under current law, such as cash assistance, medical care, childcare, food, clothing, and job placement. Beyond a specific list of qualifying services, both credits also can be taken for "other assistance that is reasonably necessary" to meet basic needs.

This bill would expand the specific definition of QCO qualifying "services" to include behavioral health, character education programs, workforce development programs, secondary education student retention programs, as well as housing and financial literacy services. This expansion could incentivize higher use of the QCO credit. But DOR may already consider some of these services to qualify for the QCO label under the current broad "basic needs" provision. We would need DOR's input to evaluate the extent to which the bill actually expands eligible services beyond their current interpretation of QCO statutes.

The bill also requires that in the written statement submitted to DOR, the charitable organization will either direct or spend (rather than only spend, as provided under current law) at least 50% of its budget on services assisting low-income



residents. This is a clarifying change that mostly applies to "umbrella organizations" that coordinate and support the work of multiple charities by managing fundraising, providing administrative services, and distributing funds to member charities. Since this provision is essentially a technical clarification (rather than a substantive change), we do not expect that it will have any fiscal impact.

Local Government Impact

For the same reasons as outlined above, we do not have a methodology for quantifying the impact.

2/7/25