



ARIZONA STATE SENATE
Fiftieth Legislature, Second Regular Session

AMENDED
FACT SHEET FOR S.B. 1047

tax credit; school tuition organizations

Purpose

Establishes a tax credit for excess contributions to certified school tuition organizations.

Background

As defined by statute, a school tuition organization (STO) is a 501(c)(3) charitable organization that allocates at least 90 percent of its annual revenue for education scholarships or tuition grants to allow children to attend any qualified school of their parent's choice. Each STO is required to file an annual report with the Arizona Department of Revenue (DOR) outlining the amount of contributions received, the number of scholarships and tuition grants awarded, and the number of students receiving a scholarship or grant.

A tax credit is a dollar-for-dollar reduction in individual or corporate tax liability. Currently, a nonrefundable individual and corporate tax credit is allowed for cash contributions made to an STO. The individual credit is equal to the cash contribution made, and is capped at \$500 for individual filers and \$1000 for joint filers. The statewide amount of the corporate credit is capped at \$10,000,000 on a first-come, first-served basis, increasing by 20 percent each fiscal year thereafter. Any unused individual or corporate credits may be carried forward up to five consecutive years.

JLBC states in its fiscal note that the bill is estimated to decrease state General Fund revenues by approximately \$4 million in FY 2013. This estimate is speculative, as the taxpayer response to changing incentives under the bill is difficult to predict with certainty. If the bill results in the diversion of students from public to private schools, there would be an offsetting state savings from lower state K-12 costs. Under the \$4 million estimate, approximately 800 students would have to be diverted from public schools in FY 2012 in order for the bill to have no net state fiscal impact for that year. The Department of Revenue (DOR) estimates that the fiscal impact of the bill "will not be significant."

Provisions

1. Establishes the credit for contributions to certified school tuition organizations ("excess STO credit").
2. Limits the award of excess STO credit monies for educational scholarships or tuition grants to a student who:

- a) attended a governmental primary or secondary school as a full-time student or attended a preschool program that offers services to students with disabilities at a governmental school for at least 90 days of the prior fiscal year and transferred from a governmental school to a qualified school;
 - b) enrolls in a qualified school in a kindergarten program or a preschool program that offers services to students with disabilities;
 - c) is the dependent of a member of the Armed Forces of the United States who is stationed in this state;
 - d) received an education scholarship or tuition grant under the above paragraphs and continues to attend a qualified school in a subsequent year.
3. Requires an STO to give priority to students and siblings of students on a waiting list for scholarships if the STO maintains a waiting list.
 4. Requires that only an STO that is certified pursuant to statute at the time of donation may receive donated funds.
 5. Limits the excess STO credit in any taxable year to \$500 for a single individual or a head of household or \$1,000 for a married couple filing a joint return.
 6. Limits, in any taxable year, a husband and wife who file separate returns to a claim of only one-half of the excess STO credit that would have been allowed, had they filed a joint return.
 7. Requires that the excess STO credit be adjusted annually according to the average annual change in the metropolitan Phoenix consumer price index, except that the dollar amounts shall not be revised downward.
 8. Allows a claimant to carry forward the amount of the claim not used to offset the taxes, but not more than five consecutive taxable years.
 9. Specifies that the excess STO credit is in lieu of any deduction taken pursuant to Section 170 of the Internal Revenue Code and taken for state tax purposes.
 10. Prohibits the excess STO credit if the taxpayer:
 - a) designates the contribution for the direct benefit of any dependent of the taxpayer or if the taxpayer designates a student beneficiary as a condition of the contribution;
 - b) with the intent to benefit the taxpayer's dependent, agrees with one or more other taxpayer to designate each taxpayer's contribution to the STO organization for the direct benefit of the other taxpayer's dependent.
 11. Allows a taxpayer to apply an excess STO credit that is made on or before April 15 following the close of the taxable year, to claim that credit in either the current or preceding taxable year. That credit is considered to have been made on the last day of that taxable year.
 12. Prohibits a taxpayer from claiming the excess credit and the credit under section 43-1089 (credit for contributions to school tuition organization; definitions), unless the taxpayer's

contribution under section 43-1089 exceeds the limits allowed. In that case, a taxpayer may claim the excess amount under the new excess STO credit.

13. Requires an STO to allocate at least 90 percent of its annual revenue from contributions from tax credits for educational scholarships or tuition grants, rather than 90 percent of its total annual revenue.
14. Allows a qualified school to accept an educational scholarship or tuition grant from an STO in an amount that exceeds the school's total cost of educating the student but requires the excess amount to be returned to the STO that made the award or grant.
15. Requires an STO to give priority to students and siblings of students on a waiting list if the STO maintains a waiting list.
16. Allows the STO to allocate those returned monies as a multiyear award for the same student or as an educational scholarship or tuition grant for other students.
17. Allows an employer, at an employee's written request, to reduce the amount of employee's income tax withheld, if the employee will use that amount for the excess STO credit.
18. Adds the excess STO credit to the income tax credit review schedule.
19. Requires each STO to annually report to DOR information regarding excess STO credits and identifies required information.
20. Includes a purpose statement.
21. Contains technical and conforming changes.
22. Becomes effective on the general effective date, retroactive to TY 2012.

Amendments Adopted by Committee of the Whole

1. Strikes language requiring STO's to give priority to siblings of students who received an educational scholarship or tuition grant from an STO in the previous year.
2. Makes a conforming change.

Senate Action

FIN	1/12/12	DP	5-2-0
3 rd Read	1-19/12		19-9-1-1

Prepared by Senate Research
January 19, 2012
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