

# SCHOOL TAX CREDITS

This publication provides general information about school tax credits for individuals. For complete details, refer to the Arizona Revised Statutes. In case of inconsistency or omission in this publication, the language of the Arizona Revised Statutes will prevail.

## **What school tax credits are available to individuals?**

An individual may claim a credit for making contributions or paying fees to a public school for support of extra curricular activities or character education programs. An individual may also claim a credit for making a donation to a qualified school tuition organization for scholarships to private schools.

## **Who may claim the individual school tax credits?**

The individual school tax credits are available only to individuals. Partnerships and S corporations cannot pass these credits through to their partners or shareholders. These credits are also not available to trusts, estates, regular corporations, or S corporations.

## **What form does an individual use to claim these credits?**

An individual that makes contributions or pays fees to a public school for support of extra curricular activities or character education programs would use Arizona Form 322 to claim this credit. An individual that makes a contribution to a qualifying school tuition organization would use Arizona Form 323 to claim this credit.

## **Can a taxpayer receive a refund of these credits?**

No. The credits may only be used to the extent they reduce a tax liability to zero. Any unused amounts may be carried forward for not more than five consecutive taxable years.

## **Can a taxpayer claim both credits in the same taxable year?**

Yes.

## **On the Arizona state income tax return, can a taxpayer claim both an itemized deduction and a tax credit for a contribution made to either a public school or a school tuition organization?**

No. Any amount claimed as a tax credit cannot be taken as an itemized deduction. However, you may still claim any excess over the amount claimed as a credit as an itemized deduction as long as the contribution did not benefit your dependent.

## **Must a taxpayer have a child in school in order to claim one or both of these credits?**

No.

## **Is a charter school considered to be a public school or a private school?**

A charter school is defined in ARS §15-101 as a public school. Therefore, a charter school is eligible for the credit for contributions made or fees paid to a public school to support extracurricular activities or character education.

## **Credit for Contributions Made or Fees Paid to a Public School**

### **What do I have to do to qualify for this credit?**

To qualify for the credit you must make cash contributions or pay fees to a public school for support of extra curricular activities or for character education programs.

### **Will I qualify for the credit if I pay fees for my own child to participate in an extra curricular activity or character education program?**

Yes, fees that you pay for your own child to participate in an extra curricular activity or character education program qualify for the credit.

### **Do contributions I make to the school qualify for the credit?**

Yes, if the contributions are in support of extra curricular activities or a character education program.

### **What is the maximum dollar amount of the credit?**

The credit is equal to the amount contributed or the amount of fees paid. However, for single taxpayers or heads of household, the credit cannot exceed \$200. For married taxpayers that file a joint return, the credit cannot exceed \$400. If married taxpayers file separate returns, each spouse may claim 1/2 of the credit that would have been allowed on a joint return.

### **What is a character education program?**

A character education program is a program defined in ARS § 15-719. Under this statute each district may develop it's own course of study for each grade. At a minimum, the character education program must include instruction in the definition and application of at least six of the following character traits: truthfulness, responsibility, compassion, diligence, sincerity, trustworthiness, respect, attentiveness, obedience, orderliness, forgiveness and virtue.

### **What public schools and grades are eligible for the credit?**

Public schools and charter schools that provide instruction in grades kindergarten through 12 are eligible for the credit. Nongovernmental schools, pre-schools, community colleges, and universities do not qualify for the credit.

### **What is a fee paid for the support of extra curricular activities?**

A fee is a dollar amount paid to a public school for the support of extracurricular activities. It is important to note that at least some monetary amount must be levied to participate in an extracurricular activity in order for the credit to be available.

### **What are extracurricular activities?**

Extracurricular activities means school sponsored activities that require enrolled students to pay a fee in order to participate. Such activities may include, but are

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not limited to, use of band uniforms, use of equipment or uniforms for varsity athletics, use of scientific laboratory equipment or materials, or in-state or out-of-state trips that are solely for competitive events. Generally, any educational or recreational activities that supplement the educational program of the school are considered to be extracurricular activities. ARS §15-342.24 requires each district school board to determine which activities are extracurricular and what fees will be levied.

## **What is an enrolled student?**

An enrolled student is a student included by the school in its average daily membership count (ADM). Pre-school students, except handicapped students, and adult education students should not be included.

## **If a school establishes a central fund to pay for extracurricular activities, would a payment to this central fund qualify for the tax credit?**

Yes. The credit is authorized for any fees paid by a taxpayer to a public school located in this state for the support of extracurricular activities.

## **Where should the central fund be held?**

The central fund should be held at the school district, but the district must separately account for the funds from each public school and not transfer funds from one public school to another.

## **Can a taxpayer make a contribution or pay fees to an organization (e.g., PTA, school foundation, school district or school club) which then gives the funds in a lump sum to the school or directly pays for extracurricular activities or character education?**

No. ARS §43-1089.01 requires that the fees be paid "to a public school." Therefore, the payment must be made directly to the public school or district only.

## **Must each public school make a report to the Department of Revenue detailing amounts and uses of the extracurricular activity and character education program funds?**

Yes. Each school must submit a report by February 28 after the close of the calendar year, on a form prescribed by the department, showing the dollar amount of fee and contribution payments received and spent.

This report should be mailed no later than February 28 of the following calendar year to:

Arizona Department of Revenue  
Office of Economic Research and Analysis  
1600 West Monroe, Phoenix Arizona 85007

## **Must a public school issue a receipt to the taxpayer for contributions or payment of extracurricular activity fees?**

Yes. The receipt should include the public school name, school district number, taxpayer name, amount paid, date paid, and a description of the activity being supported.

## **Private School Tuition Credit**

### **What do I have to do to qualify for this credit?**

To qualify for this credit, you must make cash contributions to a tuition organization that provides scholarships or grants to qualified schools.

### **What is the maximum dollar amount of the credit?**

The credit is equal to the amount contributed. However, for single taxpayers or heads of household, the credit cannot exceed \$500. For married taxpayers that file a joint return, the credit cannot exceed \$1,000. If married taxpayers file separate returns, each spouse may claim only 1/2 of the credit that would have been allowed on the joint return.

### **What is a school tuition organization?**

A school tuition organization is one that is tax exempt under Section 501(c)(3) of the Internal Revenue Code, allocates at least 90 percent of its annual revenue to scholarships or grants, and makes its scholarships/grants available to students of more than one qualified school.

### **Will the Department of Revenue certify school tuition organizations?**

No. There is no requirement that the department certify a school tuition organization. However, the taxpayer should ask questions of the organization to determine if the organization (1) is tax exempt under Section 501(c)(3) of the Internal Revenue Code; (2) allocates 90 percent of its annual revenues to scholarships; and (3) makes scholarships available to students of more than one school.

### **What is a qualified school?**

A qualified school is a non-governmental preschool for handicapped students, or a non-governmental primary or secondary school located in Arizona. The school cannot discriminate on the basis of race, color, handicap, familial status, or national origin. The primary school begins with kindergarten, and the secondary school ends with grade 12.

### **Are there situations where a contribution to a school tuition organization, as defined in statute, would not qualify for the tax credit?**

The law lists only one situation that does not qualify for the tax credit. The credit will not be allowed if the taxpayer designates a donation to the school tuition organization for the direct benefit of a dependent of the taxpayer.

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## School Tuition Organization

**A school tuition organization must allocate at least 90 percent of its annual revenues to scholarships or grants. Does that mean that the organization must actually pay out 90 percent of its annual revenues in any given year?**

No. The organization may, for instance, grant a four-year scholarship to a student and pay the money out in four installments at the beginning of each school year. The total amount of the four-year grant, however, must be included in the allocation percentage of the year in which the scholarship was granted and not split over the life of the scholarship, if the monies were received and became part of the annual revenues of the year the scholarship was granted.

**What happens if a student is granted a four-year scholarship, but does not attend for the entire four years?**

The school tuition organization should as quickly as possible reallocate the unused portion of the scholarship to another student so as to maintain the same allocation percentage in the year the scholarship was first granted.

**Can a school tuition organization send a block grant of money to a school for later distribution to students as decided by the school and include that block grant in their annual revenue allocation formula?**

No. A student must apply directly to the tuition organization, and the tuition organization must decide whether or not to award the scholarship to the student.

**Can a school tuition organization send a check directly to a qualifying school to pay for the tuition of a student?**

Yes, as long as the student has applied for and been approved for a scholarship. The check should be forwarded with the stipulation that funds are to be used only for a specific student.

**A school tuition organization cannot limit availability to only students of one school. Does that mean that the organization must actually make grants to more than one school?**

No. A school tuition organization should have a list of qualifying schools for which they would grant scholarships. They do not have to actually allocate funds to more than one school in any given year, but they must be willing to make grants to more than one school.

**Can scholarships or grants made to an all boys or all girls school be included in a school tuition organization's 90 percent annual allocation test?**  
Yes.

**Must a school tuition organization make a report to the Department of Revenue detailing amounts and uses of contributions?**

Yes. The school tuition organization must make a report at the end of each calendar year that shows the total number and dollar amount of contributions received and the total number and dollar amount of contributions awarded by school. The report should be mailed to the department no later than February 28 of the next year at:

Arizona Department of Revenue  
Office of Economic Research and Analysis  
1600 West Monroe, Phoenix, Arizona 85007

### **For Additional Information, call:**

Phoenix ..... (602) 255-3381  
Toll free from area codes 520 & 928 (800) 352-4090

### **For Hearing Impaired - TDD only:**

Phoenix ..... (602) 542-4021  
Toll free from area codes 520 & 928 (800) 397-0256

### **Or Write to:**

Arizona Department of Revenue  
Taxpayer Information & Assistance  
1600 W Monroe  
Phoenix AZ 85007

### **For Related Tax Information:**

Recorded Tax Information..... (602) 542-1991  
Toll free from area codes 520 & 928 ... (800) 845-8192  
Forms by Mail ..... (602) 542-4260

**Internet Address** ..... [www.azdor.gov](http://www.azdor.gov)

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