

Position Paper: Arizona Education Tax Credits
Alliance4Action Education Action Team
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Issue: Should Arizona give tax credits to corporations and individuals for donations and expenses related to education?

Our Position: We believe Arizona should eliminate all education tax credits.

Why do we have this position: *Educational tax credits are seriously undermining public education.*

Background:

Arizona provides generous tax credits for various types of expenses and donations including those to educational institutions.

The education related credits fall into two categories: private school tuition organizations credits and extracurricular credits for public and charter schools.

Private school tuition organizations (STOs) fund private and religious school scholarships. Taxpayers who contribute to these organizations are eligible to receive a tax reduction for donations. Corporate contributions to school tuition organizations are also tax deductible.

Arizona taxpayers may also be reimbursed for contributions or for paying fees to public and charter schools for support of extracurricular activities or character education programs, such as the cost of after school clubs, band and athletic uniforms, lab equipment and some pre-college entrance testing.

How tax credits undermine public education:

- **The credits reduce the amount of state funds available for public schools.** Tax credits differ from deductions to taxable income in that they are dollar for dollar reductions in the amount of state tax owed. In other words, tax credits directly reduce the amount of money going into the state's general fund— thus decreasing the amount of money potentially available for funding public schools. Arizona is 48th in the country on per pupil state funding. The educational related credits for individual taxpayers cost the state \$135 million in 2014 and, additionally, corporate tax breaks exceeded \$39 million. In 2008, [three-fourths of Arizona companies](#) paid only the minimum \$50 in corporate taxes and with a 20% increase in cap allowed every year, the program is causing significant impact to the general fund. The recently enacted voucher expansion bill will drain the general fund even further.
- **Wealthier public and charter schools benefit more than those in poorer areas.** Extracurricular tax credit money has gone largely to subsidize public district and charter schools that serve primarily middle- and upper-income families. Taxpayers tend to direct their donations to their own children's schools and wealthier families are more able to make such donations. Public schools serving low income students are

penalized twice: they don't receive adequate funding from the state and they profit very little from donations that generate tax credits.

- **Lower income families are not able to benefit from tax credits.** Wealthier families are the primary beneficiaries of public and charter school extracurricular tax credits. Low-income families generally are not financially able to make donations to their children's schools. They also do not have as much money to spend on extracurricular school expenses and waiting for year end reimbursement of such expenses through tax credits is not feasible. In any case, because low income families pay low or no taxes, they would derive little benefit from the tax credits even if they did have allowable expenses or donations. Only owed tax liabilities can be reduced—there is no reimbursement if the tax liability is zero or is less than the incurred expenses or donations.
- **Extracurricular tax credits do not address basic public school needs.** In particular, public schools may not use income from the extracurricular educational tax credits towards salaries, most supplies, or building maintenance.
- **Tax credits are more favorable to private and religious schools.** The allowed maximums are higher for private and religious school tuition credits than for the public school extracurricular credits. The total maximum contribution for private school tuition scholarships in 2016 are up to \$2,177 for married couples and \$1,089 for individuals. Public and charter school extracurricular tax credits are limited to \$200 for individuals and \$400 for married couples. The credits for corporations are extremely generous and can cover the entirety of the corporation's state income tax liability, although there is a statewide cap of approximately \$52 million for fiscal year 2015-16.
- **“Low Income” is defined broadly for purposes of tuition tax credits.** School Tuition Organizations (STOs) disburse scholarship money (Empowerment Scholarship Accounts-ESAs) from the contributions made to them by individuals and corporations. In return, the contributing individuals and corporations receive tax credits. Until the 2017 legislative expansion, the ESAs were designated mainly for students with disabilities and low income families. Only 3% of the ESA funds have been designated for special needs students. Thirty-two percent of the ESA money given through the individual tax-credit programs goes to children of “low income” families, defined as those earning 185 percent of the federal poverty level, or \$44,862 for a family of four, according to data acquired by *The Arizona Republic*. The corporate tax credit for “low income” families has a more-generous definition — a family of four can earn as much as \$82,996. Thus, tuition tax credits appear to be benefiting more low income families than they really are.

Summary

In summary, every dollar that is donated to schools under the state's various educational tax credit programs is a dollar that an individual or a corporation does not pay into the state's general fund which pays for public education. Public money is literally being shifted from public schools to

private and religious schools. Public money for essential needs of public and charter schools, such as for salaries and maintenance, is being siphoned off the general fund. Arizona's constitution specifically mandates a system of public education that is as free as possible and open to all, prohibits sectarian education in public schools and requires that tax money be used to adequately fund public schools, including proper maintenance of all state educational institutions. Clearly, the state's system of tax credits is undermining public education and violates the intent of the state's constitution.