

Arizona Individual and Corporate Tax Credits

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Arizona’s tax code, like that of many state, national and international governments, includes a series of tax credits individuals and corporations may use to offset taxes owed. The goal of tax credits is to incentivize investments in sectors the State deems socially and economically beneficial to certain groups within the population (typically those in need) and to the greater citizenry. In some cases, tax credits are temporary measures used to stimulate initial investment. Others are long-term incentives to address persistent needs or projects spanning many years.

As Table 1 indicates, Arizona’s tuition tax credit is only one of more than two-dozen credits in state law. Moreover, this table includes only those credits for which budget data were available. Additional tax credits for which numbers were not available are listed in the Arizona statutes. As the table demonstrates, Arizona’s tax credits include incentives for resource conservation (alternative energy and water conservation), economic investments (technology, research and development and defense contracting) and social welfare (charity organizations, education and family expenses).

Table 1: Arizona’s Individual and Corporate Tax Credits

Credit	Description
Agricultural Preservation District	A refundable credit for a taxpayer who owns property classified as agricultural property and who conveys ownership or development rights to an agricultural preservation district.
Agricultural Water Conservation System	Taxpayers that incur expenses to purchase and install an agricultural water conservation system in Arizona. This credit was repealed for corporations for taxable years beginning from and after December 1, 1999.
Agricultural Pollution Control Equipment	Taxpayers that incur expenses during the taxable year to purchase agricultural pollution control equipment.
Alternative Fuel	Taxpayers that convert conventional vehicles to alternative fuel vehicles and refueling vehicles, and for purchasing alternative fuel vehicles or purchasing refueling station alternative fuel/refueling equipment.
Alternative Fuel Delivery Systems	An alternative fuel delivery system is any facility that provides for the fueling of an alternative fuel vehicle.
Vehicle Refueling Apparatus	Taxpayers who purchase a vehicle refueling apparatus for installation on property located in Arizona.
Clean Elections	A nonrefundable credit is allowed for donations made directly to the Clean Elections Fund or a donation made on the tax return.
Construction Materials	Taxpayers that purchase construction materials, in excess of five million dollars, for a building used predominantly for mining, manufacturing, fabricating, refining, metallurgical operations or research and development. This credit was repealed for corporations for taxable years beginning from and after December 1, 1999.
Contributions to Charities that Provide Assistance to the Working Poor	Individual taxpayers that make cash contributions to certain charities that provide help to the working poor.
Contributions Made or Fees Paid to Public Schools	Individual taxpayers that make contributions or paid certain fees to public schools in Arizona.
Contributions to School Tuition Organizations	Individual taxpayers that made contributions to a school tuition organization that provides scholarships or grants to qualified schools.
Correctional Industries	Corporate taxpayers for the investment in qualified property on the grounds of an

Credit	Description
	Arizona correctional facility, or for the employment of inmates in the Arizona correctional facility, or for the employment of inmates in prison construction (for an Arizona facility). This credit was repealed for taxable years beginning from and after December 1, 1999.
Credit for Taxes Paid to Another State or Country	Individual taxpayers that paid a net income tax to Arizona and another qualified state or foreign country, on the same income.
Defense Contracting	Taxpayers certified by the Arizona Department of Commerce as a qualified defense contractor for qualified increases in employment.
Employment of TANF Recipients	Taxpayers that employ recipients of Temporary Assistance for Needy Families (TANF).
Enterprise Zone	Taxpayers whose business is located in an Arizona enterprise zone that have a net increase in qualified employment positions.
Environmental Technology	Taxpayers that incur expenses in constructing a qualified environmental technology facility.
Family Tax Credit	Taxpayers below certain income levels, with differing amounts for different household sizes.
Increased Excise Taxes	This credit is for Arizona residents whose federal adjusted gross income is beneath a certain threshold (\$25,000 or less for Married Filing Joint or Head of Household, or \$12,500 for Married Filing Separately or Single) and who cannot be claimed as a dependent by any other taxpayer.
Military Reuse Zone	Taxpayers with a net increase in employment of full-time employees working in a military reuse zone.
Pollution Control	Taxpayers that purchase real or personal property that is used within Arizona in the taxpayer's trade or business to control or prevent pollution.
Property Tax	A credit against the taxes imposed by this title for a taxable year for property taxes accrued or rent, or both, paid in that taxable year.
Recycling Equipment	Taxpayers who acquire and place in service recycling equipment in Arizona. This credit was repealed for corporations not individuals.
Research and Development Expenses	Corporate taxpayers with an increase in qualifying research and development expenses conducted in Arizona.
School Site Donation	For the donation of real property and improvements to an Arizona school district or Arizona charter school for use as a school or as a site for the construction of a school. The credit applies to taxable years beginning from and after December 31, 2000.
Solar Energy	Individual taxpayers who install a solar energy device in a residence located in Arizona.
Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets	For the installation of solar hot water heater plumbing stub outs and electric vehicle recharge outlets in houses or dwelling units constructed by the taxpayer. The houses or dwelling units must be located in Arizona.
Taxes Paid for Coal Consumed in Generating Electrical Power	For corporate taxpayers, a credit equal to 30 percent of the amount paid by the seller or purchaser as transaction privilege tax or use tax for coal sold to the taxpayer that is consumed in the generation of electrical power in Arizona.
Technology Training	A refundable credit for providing technological skills training to not more than 20 employees.
Underground Storage Tanks	Taxpayers that incurred expenses for corrective actions taken with respect to the release of a regulated substance from an underground storage tank. To qualify for this credit, the taxpayer must not have been liable or responsible for the corrective action as an owner or operator of the underground storage tank.
Wheels to Work Donation	This tax credit is for the fair market value of any motor vehicle donated by the taxpayer to the Wheels to Work program. The credit applies to taxable years beginning from and after December 31, 1998.

Table 2 includes how much money was claimed in tax credits since 1998, the first year of the individual tax credit scholarships. The data represent totals for individuals and corporations by type, and grand totals are included near the bottom. Relevant percentages are displayed in the last three rows.

Table 2: Combined Individual and Corporate Tax Credits, 1998-2003^a

	1998	1999	2000	2001	2002	2003
Agricultural Pollution Control Equipment	\$0	\$0	\$15,218	\$17,500	\$32,542	\$0
Agricultural Preservation District	\$0	\$0	\$0	\$0	\$0	\$0
Agricultural Water	\$625,676	\$970,210	\$1,578,411	\$1,470,129	\$1,246,811	\$1,424,697
Alternative Fuel-combined credits	\$1,226,083	\$21,190,719	\$40,410,910	\$6,565,334	\$2,686,627	\$1,628,249
Clean Elections	\$0	\$502,151	\$551,256	\$602,398	\$689,510	\$728,997
Consolidated Filers	\$3,365,054	\$2,935,442	\$3,456,160	\$3,492,320	\$2,196,494	\$2,335,704
Construction Materials	\$1,041,619	\$414,824	\$204,184	\$100	\$100	\$0
Defense Contracting	\$116,500	\$833,724	\$1,859,951	\$0	\$0	\$0
Donations to Charities that Provide Assistance to the Working Poor	\$476,691	\$1,154,768	\$1,792,123	\$2,196,043	\$2,676,900	\$3,259,400
Donation of Motor Vehicles	\$0	\$102,327	\$549,223	\$173,319	\$40,261	\$0
Employment of TANF Recipients	\$35,325	\$47,189	\$27,648	\$57,901	\$173,550	\$466,392
Enterprise Zone	\$9,858,940	\$13,868,450	\$10,761,805	\$9,173,062	\$7,394,797	\$7,184,545
Environmental Technology	\$365,267	\$69,877	\$26,658	\$1,084,588	\$0	\$0
Family	\$7,390,406	\$7,925,721	\$7,799,840	\$7,356,939	\$7,382,178	\$7,445,937
Income Taxes Paid to Another State or Country	\$53,091,028	\$51,433,659	\$57,403,404	\$58,777,258	\$52,843,508	\$62,484,651
Increased Excise Taxes	\$0	\$0	\$0	\$22,612,548	\$28,403,741	\$29,581,905
Military Reuse Zone	\$0	\$170,634	\$97,440	\$109,373	\$0	\$0
Pollution Control	\$4,241,078	\$6,879,188	\$3,860,390	\$2,728,596	\$1,735,342	\$2,412,182
Private School Tuition Organizations	\$1,815,798	\$13,781,341	\$17,701,284	\$24,924,656	\$26,171,191	\$29,445,494
Property Tax	\$5,290,628	\$4,987,796	\$4,653,837	\$5,015,318	\$5,106,544	\$5,301,879
Contributions Made or Fees Paid to Public Schools	\$8,990,042	\$14,775,353	\$17,526,299	\$20,004,715	\$22,455,129	\$27,753,764
Recycling Equipment	\$12,660	\$16,028	\$20,231	\$24,370	\$8,412	\$3,426
Research and Development	\$9,053,864	\$10,445,778	\$8,949,912	\$9,919,656	\$11,928,174	\$26,089,220
School Site Donation	\$0	\$0	\$0	\$2,869,356	\$2,380,444	\$561,908
Solar Energy	\$691,218	\$917,941	\$924,231	\$868,225	\$977,721	\$402,796
Solar Hot Water Heater Plumbing Stub Outs and Electric and	\$8,874	\$7,944	\$11,566	\$7,804	\$3,312	\$0

	1998	1999	2000	2001	2002	2003
Vehicle Recharge Outlets						
Technology Training	\$0	\$0	\$0	\$35,010	\$30,000	\$33,006
Underground Storage	\$0	\$0	\$0	\$0	\$0	\$0
Taxes Paid for Coal Consumed in Generating Electrical Power	\$678,039	\$803,476	\$778,015	\$1,556,016	\$1,504,851	\$1,229,020
Tax Credit Totals	\$108,569,107	\$145,233,217	\$181,054,336	\$182,143,796	\$182,330,790	\$210,544,873
Corporate Income Tax Revenue	\$494,259,141	\$541,016,080	\$578,600,654	\$365,834,943	\$419,714,003	\$453,997,662
Individual Income Tax Revenue	\$1,829,482,893	\$2,009,412,447	\$2,203,508,519	\$2,049,537,664	\$2,009,293,815	\$2,167,644,256
Corporate and Individual Income Tax Revenue	\$2,323,742,034	\$2,550,428,527	\$2,782,109,173	\$2,415,372,607	\$2,429,007,818	\$2,621,641,918
Total tax credits as a percent of total income tax revenue	4.67%	5.69%	6.51%	7.54%	7.51%	8.03%
Individual school tuition organizations tax credit as a percentage of total income tax revenue	0.08%	0.54%	0.64%	1.03%	1.08%	1.12%
School tuition organization tax credit as a percentage of total tax credits	1.67%	9.49%	9.78%	13.68%	14.35%	13.99%

a. The numbers included herein represent the best estimate available through the Arizona Department of Revenue (DOR). In most cases, the numbers come from the September 2006 DOR report on tax credits, but blank cells in that report were supplemented by DOR annual reports or expenditure reports. In addition, late filings, extensions and amended taxes will periodically change numbers. Finally, cells with zero dollars may be either real zeros or missing data due to privacy reasons. Therefore, tax credit totals do not equal a sum of the respective columns but instead represent the sum of given and missing data.

As indicated, total tax credits represent a small percentage of the total taxes due to the State of Arizona. The low was in 1998 at 4.67 percent, while 2003 saw just a little more than eight percent. Thus, the amount of total tax revenue that was forgone by the State through tax credits was quite small. Even then, this decision to forgo taxes for certain purposes is not a loss to the State. Rather, that tax credit money was invested in various state organizations serving the needs and interests of Arizona's citizens without channeling money through the State's general fund.

When looking at school tuition organization (STO) tax credits for individuals as a percentage of total tax credits, the numbers indicate the individual STO credit plays a minor role in all of Arizona's credits. The first year was artificially low, given a legal challenge to the credit's constitutionality, but the subsequent percentage was never more than 15 percent. Even more striking, as a percentage of total taxes due, the number barely reached more than one percent in any year.

In 2006, the Arizona Legislature expanded the school tuition tax credit to allow corporations to donate to STOs. However, unlike the credit for individuals, the corporate program has a cap of \$10 million in total donations for the first year. Table 3 below estimates the relationship of the corporate tax credit to real numbers taken from tax year 2003. Assuming the full amount will be taken the first year, the corporate tuition tax credit would represent only 4.53 percent of total tax credits. Moreover, the corporate tax credit for scholarships represents just a little more than one third of one percent of the total income tax revenue.

Table 3: First Year of Corporate Tax Credit Scholarships as a Percentage of Credits, Revenue (2003 data)

2003 Tax Credit Totals	\$210,544,873
2003 Tax Credit Totals plus \$10 million for corporate tax credit scholarships	\$220,544,873
Corporate Income Tax Revenue	\$453,997,662
Individual Income Tax Revenue	\$2,167,644,256
Corporate and Individual Income Tax Revenue	\$2,621,641,918
Total tax credits as a percent of total income tax revenue	8.41%
Individual school tuition tax credit as a percentage of total income tax revenue	1.12%
Individual school tuition tax credit as a percentage of total tax credits	13.35%
Corporate school tuition tax credit as a percentage of total tax credits	4.53%
Corporate school tuition tax credit as a percentage of total income tax revenue	0.38%

Given that tax credits represent an acknowledgment of investments deemed economically and socially beneficial to the state, this list of credits is revealing. Specifically, many private organizations, both businesses and non-profits, receive support thanks to Arizona's tax credits, which they then invest in the state through goods and services for Arizona's citizens. Quite simply, state leaders recognize that social and economic benefits for the greater good do not derive solely from government.

In addition, those organizations and initiatives deemed socially and economically beneficial include many faith-based organizations. For example, from 1998 to 2003, Arizona taxpayers claimed more than \$11 billion in tax credits for contributions made to charitable organizations serving those in need. Among the many charitable organizations eligible for support through this tax credit are a number of groups that approach their service work from a religious orientation. This demonstrates that Arizona has a tradition of encouraging private support for charitable work without regard to religious orientation.

Arizona Faith-based Charitable Organizations Eligible for Support Through Tax Credits (Partial List)

Alzona Lutheran Preschool and Child Care Center
 Arizona Baptist Children's Services
 Catholic Community Services of Southern Arizona
 Christ Child Society of Phoenix
 Christ Evangelical Lutheran Church
 Church of the Master's Christian Assistance Program
 Crisis Pregnancy Centers of Greater Phoenix
 Faith Works
 Fellowship of Christian Athletes
 First Presbyterian Church

Grace Evangelical Free Church
Holy Family Church
Hope of Glory Ministries
Jesus Cares Ministries
Jewish Family and Children's Service
Neighborhood Christian Clinic
Salvation Army
Serving Jesus Christ With Joy
Valley Christian Centers
Victory Christian Center

Taken together, the data in these tables point to two unequivocal conclusions. First, the individual and corporate tuition tax credit programs are just two of dozens of tax credits available in Arizona, and they represent a small percentage of Arizona's total tax credits and an even smaller percentage of Arizona's income tax revenue. Second, social and economic benefits for the greater good do not derive solely from government. Private and religious organizations of all types provide valuable services to the citizens of Arizona, of which private and religious schools are but one.

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