



Scottsdale *Unified* School District

Engage, Educate and Empower Every Student, Every Day

Scottsdale Unified School District

Tax Credit

Laws/Guidelines/Procedures

Handbook

2011-2012

**Information on
School Tax Credits
Extracted from
Arizona Department of Revenue
Publication 707
&
Guidelines for the Public School Extracurricular
Activity (ECA) Tax Credit**

A complete copy can be obtained at
<http://www.azdor.gov/TaxCredits/SchoolTaxCreditsforIndividuals.aspx#public>

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 extracurricular 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 C 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 extracurricular 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 extracurricular activities or for character education programs.

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

Yes, fees that you pay for your own child to participate in an extracurricular 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 extracurricular 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 its 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, preschools, community colleges, and universities do not qualify for the credit.

What is a fee paid for the support of extracurricular 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 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). Preschool 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 28th, 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 28th 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.

Information provided by the Arizona Department of Revenue Publication 707

Guidelines for the Public School Extracurricular Activity (ECA) Tax Credit

Provided by the Office of Economic Research & Analysis
Arizona Department of Revenue

Use of unspent ECA contributions designated for a specific purpose

The site council of each individual public school that received contributions that are NOT designated for a specific purpose shall determine how the contributions are used. The principal, director or chief administrator of a charter school shall determine how the contributions are used if the charter school does not have a site council.

Can a school reclassify unspent contributions that were previously designated for a specific purpose?

Unspent ECA contributions at the end of the fiscal year that were previously designated for a specific extracurricular activity or character education program, such as the school band, can be reclassified to undesignated contributions in the following fiscal year but only if that specific activity has been discontinued or has not been used for two consecutive fiscal years. In the following fiscal year, those contributions would be considered undesignated and the site council of the individual school shall determine how the contributions are used. See A.R.S.43-1089.01(E) as amended by HB 2301.

Temporarily allow 50% of unencumbered ECA Tax Credit monies for Soft Capital

Section 4 of HB 2301 allows individual schools to temporarily use up to 50% of the unencumbered contributions it received prior to December 31, 2010 for short-term capital items such as technology, textbooks, library resources, instructional aids, pupil transportation vehicles, furniture and equipment in FY 2011/12 and 2012/13. A public school that uses unencumbered contributions for short-term capital items must report these expenditures to the Joint Legislative Budget Committee at the end of each fiscal year.

How should a school determine if ECA tax credit contributions from prior years are available for soft capital purchases?

1. Identify the remaining unspent balance of ECA contributions that were received prior to December 31, 2010 that are unencumbered or have not been committed through purchase orders at fiscal yearend.
2. Calculate 50% of the unencumbered contributions identified from step 1 to determine the maximum amount that could be spent on soft capital expenditures.
3. Reduce the upper limit established in step 2 if a portion of the funds has been designated by the donor for a particular extracurricular activity or character education program.

Can a school spend ECA tax credit donations that were designated for a specific purpose on short-term capital items?

No. If the donor designated the contributions for a specific purpose, such as a school band, those funds should not be redirected and used for soft capital purchases.

What role should the individual school's site council have in soft capital purchases?

While the site council has the authority to determine where undesignated funds should be spent, any funds spent on short-term capital items may also require the Governing Board's authorization and must also go through the school procurement code and USFR purchasing process. A school may require the site council to provide a general authorization for the school to use a certain dollar amount, as calculated above, for soft capital purchases without requiring the site council to determine the specific category of soft capital item.

Must the soft capital purchases be associated with extracurricular activities or character education programs?

No. The amount of ECA contributions that can be used for soft capital items, as determined above, can be used for any short-term capital item in FY 2011/2012 and 2012/2013.

How must extracurricular activity fees be adopted?

To be eligible for tax credits, extracurricular activity fees must be adopted by the Governing Board at a public meeting after notice to all parents of students enrolled in the district. Districts typically adopt a fee schedule near the beginning of the school year and may later publish supplementary fee schedules. Best practice is for any extracurricular activity fees, including fees for field trips, to be included on the district's published fee schedules. Activity fees that have not been properly noticed or adopted by the Governing Board are not tax credit eligible.

Can the fees be paid directly to a third party that is coordinating the activity?

Extracurricular activity fees must be paid directly to the district or school. Fees paid to third parties do not qualify for tax credits.

Must the District waive all or part of an activity fee if it creates an economic hardship for a student?

The Governing Board must authorize a principal to waive all or part of an activity fee if it creates an economic hardship for a student. If a student does not raise enough money through tax credit donations and cannot otherwise afford to participate in an extracurricular activity, the student's principal must be authorized to waive all or part of the fee. In practice, this means the principal must find another funding source to pay for the student's activity fee. For example, the school's site council may choose to use undesignated tax credit donations to pay for the activity fees of students for whom payment would represent an economic hardship. Best practice is for a site council, at the beginning of the school year, to identify which activity fees it will cover and in what amounts. If a school or district is unable to waive part or all of an activity fee for a student for whom the fee creates an economic hardship, then no fees may be charged for the activity and the activity would no longer be tax credit eligible.

Arizona Revised Statutes regarding Tax Credits

A.R.S. 43-1089.01 Tax Credit; public school fees and contributions; definitions

- A. A credit is allowed against the taxes imposed by this title for the amount of any fees or cash contributions made by a taxpayer during the taxable year to a public school located in this state for the support of extracurricular activities or character education programs of the public school, but not exceeding:
 - a. Two hundred dollars for a single individual or a head of household.
 - b. Four hundred dollars in taxable year 2006 and any subsequent year for a married couple filing a joint return.
- B. A husband and wife who file separate returns for a taxable year in which they could have filed a joint return may each claim only one-half of the tax credit that would have been allowed for a joint return.
- C. The credit allowed by this section is in lieu of any deduction pursuant to section 170 of the internal revenue code and taken for state tax purposes.
- D. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the taxpayer may carry the amount of the claim not used to offset the taxes under this title forward for not more than five consecutive taxable years' income tax liability.
- E. The site council of the public school that receives contributions that are not designated for a specific purpose shall determine how the contributions are used at the school site. If a charter school does not have a site council, the principal, director or chief administrator of the charter school shall determine how the contributions that are not designated for a specific purpose are used at the school site.
- F. A public school that receives fees or a cash contribution pursuant to subsection A of this section shall report to the Department, in a form prescribed by the Department, by February 28th of each year the following information:
 - a. The total number of fee and cash contribution payments received during the previous calendar year.
 - b. The total dollar amount of fees and contributions received during the previous calendar year.
 - c. The total dollar amount of fees and contributions spent by the school during the previous calendar year, categorized by specific extracurricular activity or character education program.
- G. For the purpose of this section:
 - a. "Character education programs" means a program described in section 15-719
 - b. "Extracurricular activities" means school sponsored activities that require enrolled students to pay a fee in order to participate including fees for:
 - i. Band uniforms
 - ii. Equipment or uniforms for varsity athletic events
 - iii. Scientific laboratory materials
 - iv. In-state or out-of-state trips that are solely for competitive events.Extracurricular activities do not include any senior trips or events that are recreational, amusement or tourist activities.

A.R.S. 15-342.24 Discretionary powers

(24) For common and high school pupils, assess reasonable fees for optional extracurricular activities and programs conducted when the common or high school is not in session, except that no fees shall be charged for pupils' access to or use of computers or related materials. For high school pupils, the Governing Board may assess reasonable fees for fine arts and vocational education courses and for optional services, equipment and materials offered to the pupils beyond those required to successfully complete the basic requirements of any other course, except that no fees shall be charged for pupils' access to or use of computers or related materials. Fees assessed pursuant to this paragraph shall be adopted at a public meeting after notice has been given to all parents of pupils enrolled at schools in the district and shall not exceed the actual costs of the activities, programs, services, equipment or materials. The Governing Board shall authorize principals to waive the assessment of all or part of a fee assessed pursuant to this paragraph if it creates an economic hardship for a pupil. For the purpose of this paragraph, "extracurricular activity" means any optional, noncredit, educational or recreational activity which supplements the education program of the school, whether offered before, during or after regular school hours.

A.R.S. 15-719 Character education program instruction; fund

- A. Each common, high and unified school district and charter school may provide instruction to kindergarten programs through the twelfth grade on character development.
- B. Each district may develop its own course of study for each grade. At a minimum, the character education program must include:
 - a. 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, virtue, fairness, caring, citizenship, and integrity.
 - b. The use of activities, discussions and visual media and literacy presentations to illustrate and reinforce the application of the character traits.
 - c. Presentations by teachers or mentors who demonstrate the character traits.
- C. At the request of the school district or charter school, the Department of Education may certify that the school district or charter school has a character development instruction program that meets all of the requirements in subsection B of this section.
- D. Parents may elect for their child not to participate in the program.
- E. The school district or charter school may accept donations or charge fees for the program if the program is not offered during regular school hours.
- F. A character education special plate fund is established consisting of monies received pursuant to section 28-2421. The Department of Education shall administer the fund. Monies in the fund are continuously appropriated. Monies from the fund shall be annually distributed by the Department by July 1st.
- G. The Character Education and Development Division at the Department of Education shall allocate monies through at least two but no more than four private character

education foundations that are incorporated nonprofit corporations in this state and that are qualified under section 501(c)(3) of the United States internal revenue code for federal income tax purposes. The Director of the Character Education and Development Division at the Department of Education shall select private character education foundations that provide character education programs that demonstrate proven and effective researched - based curriculum and training to receive monies from the character education special plate fund.

- H. On notice from the Department of Education, the state treasurer shall invest and divest monies in the fund as provided by section 35-313, and monies earned from investment shall be credited to the fund.
- I. Monies in the fund are exempt from the provisions of section 35-190 relating to lapsing of appropriations.

<http://www.azleg.state.az.us>

What does the above ARS 43-1089.01 mean for SUSD?

The site council of the public school that receives contributions that are not designated for a specific purpose shall determine how the contributions are used at the school site. If a charter school does not have a site council, the Principal, Director, or chief administrator of the charter school shall determine how the contributions that are not designated for a specific purpose are used at the school site.

This means:

- Anytime you want to spend money out of your **General Extracurricular Account (# T700)** you **MUST** have your Site Council meet, discuss, and approve the expenditure. A copy of their minutes should be kept as backup when a requisition is submitted for a Purchase Order. The completed Purchase Order would then become a part of that file.
- Any other extracurricular account would **NOT** require Site Council approval because the funds have been designated for a specific purpose.

In-State or Out-of-State trips that are solely for competitive events. Extracurricular activities do not include any senior trips or events that are recreational, amusement or tourist activities.

This means:

- Every field trip using tax credit money must have documentation (rationale) stating the educational purpose.
- This documentation shall serve as back up when a requisition is submitted for a Purchase Order.
- The completed Purchase Order would then become a part of that file.
- Those files would be kept at the school site for audit purposes if requested.
- The file should contain all pertinent information in relation to the trip (trip approval with rationale, requisition, Purchase Order, itinerary, roster, permission slips, etc.)

Examples of events that are recreational, amusement or tourist activities that **CANNOT** be paid for out of tax credit accounts:

- Fiddlesticks
- Castles & Coasters
- Disneyland/Magic Mountain
- Bowling Alleys
- Parties
- Anything purely recreational and not an obvious educational program

Examples of events that could be paid out of a tax credit account if the activity supplements an educational program:

- Phoenix Zoo
- Science Center Museum
- Arts in Education (plays, symphonies, etc.)
- Band/Orchestra/Chorus Festivals (to include transportation, lodging, entry fees)
- Athletic Competitions (to include transportation, lodging, entry fees)

Trips can be paid (split) from more than one fund

Example: Band festival in California

1. Costs covered by tax credit: transportation, lodging, food, and festival entry fees for those days during the actual competition
2. Costs covered by another fund: Disneyland entry fee, food at Disneyland, and any other costs affiliated with the day at Disneyland

Examples of items or services that CAN be purchased with Tax Credit money:

- Field trip entry fees (zoo, museums, fine arts or athletic competitions, etc.) as long as there is a specific educational purpose.
- Transportation for the field trip (district bus, district approved charter bus, airfare)
- Food for students on field trip
- Athletic equipment and/or supplies (not for P.E. class)
- Uniforms for band and athletics if kept at the school
- Guest speakers conducting assemblies at school or providing clinics to students (e.g., cheer)
- Programs during school day if a supplement to educational purpose, optional to students, not part of the grade and does not require homework (e.g., a colonial fair teaching students traditions and crafts of those times)
- Programs before or after school (tutoring, special classes such as Spanish as long as the program is optional to students)
- Programs offering lunchtime activities (e.g., YMCA, etc.)
- Equipment or supplies related to any of the above
- Substitute teachers if proper procedures are followed and documentation is provided verifying the extracurricular activity.

A public school that receives fees or cash contributions pursuant to subsection A of this section shall report to the Department, in a form prescribed by the Department, by February 28th of each year the following information:

- 1. The total number of fee and cash contribution payments received during the previous calendar year.*
- 2. The total dollar amount of fees and contributions received during the previous calendar year.*
- 3. The total dollar amount of fees and contributions spent by the school during the previous calendar year, categorized by specific activity or program*

Reporting Requirements:

School Name/Address/Contact
Total # of Contributors
Total \$ Contributed
Total \$ Spent for Extracurricular Activity
Specific Activity or Program

District Office will be responsible for gathering the information from each school site, compiling it into a report for the Department of Revenue and submitting the report to the Department of Revenue on or before February 28th of each year.

Schools will be responsible to submit State Reports to District Office on or before February 1st of each year.

What does House Bill 2301 mean for SUSD?

Section 4 of HB 2301 allows individual schools to temporarily use up to 50% of the unencumbered contributions it received prior to December 31, 2010 for short-term capital items such as technology, textbooks, library resources, instructional aids, pupil transportation vehicles, furniture and equipment in FY 2011/2012 and 2012/2013. A public school that uses unencumbered contributions for short-term capital items must report these expenditures to the Joint Legislative Budget Committee at the end of each fiscal year.

- All SUSD site Principals were given the maximum amount that could be used for capital purchases at their site.
- Sites were asked to review the maximum amount that could be used for capital purchases with their site council and notify the District Office of the amount they would like set aside for tax credit capital purchases.
- A specific tax credit capital account was created and funds were transferred from the general extracurricular tax credit account to a tax credit capital account at each school. This will allow the District Office to track capital purchases and to ensure that no more than 50% of encumbered funds are spent on capital purchases.
- The District Office will submit a list of capital purchases to the Joint Legislative Budget Committee and the end of each fiscal year.
- SUSD site principals have been notified that capital purchases will only be allowed in FY 2011/2012 and 2012/2013.

Important Tax Credit Facts

- Tax Credit donations must be postmarked by December 31st to count for the current tax year.
- Married filing jointly can claim up to \$400.00
- Single can claim up to \$200.00
- Tax Credits can only be used for extracurricular events that are:
 - School sponsored events
 - Require a fee in order to participate
 - Limited to enrolled students
- Tax Credits are NON REFUNDABLE
- Tax Credit payments cannot be transferred from one school to another
- Tax Credits program is only for Arizona residents; residents from other states cannot claim an Arizona public school tax credit.
- Businesses, corporations, trusts, and estates do not qualify for a public school tax credit.