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 two separate credits for making donations of a certain amount 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 forms 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 and Arizona Form 348 (if the higher level of donation is made) to claim these credits.

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 all three 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 any of these credits?
No.

Is a charter school considered to be a public school or a private school?
A charter school is defined in A.R.S. § 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 or payroll withholding 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, if the fees 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.

Must the credit for contributions made or fees paid to a public school be claimed in the year of donation?
Yes.

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 A.R.S. § 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, virtue, fairness, caring, citizenship, and integrity.
- Use of activities, discussions and presentations to illustrate and reinforce the application of the character traits.
- Presentations by teachers or mentors who demonstrate the character traits.

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 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 are 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. Extracurricular activities do not include any senior trips or events that are recreational, amusement or tourist activities. Generally, any optional, noncredit, educational or recreational activities that supplement the education program of the school are considered to be extracurricular activities. A.R.S. § 15-342.24 requires each district school board to determine which activities are extracurricular and what fees will be levied. Fees must not exceed the actual costs of the activity. Fees for the use of scientific or other equipment must be optional and not part of a course taken for credit.

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, 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. A.R.S. § 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 report on a form prescribed by the department by February 28 of the following calendar year showing the number of payments, the dollar amount of fee and contributions received and the amount spent categorized by specific extracurricular activity or character education program.

Completed forms can be faxed to 602-716-7991 or mailed to:

Arizona Department of Revenue
Office of Economic Research and Analysis
PO Box 29099
Phoenix AZ 85038

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 name and number, taxpayer name and address, amount paid, date paid, and a description of the activity being supported.

May I make credit eligible contributions through payroll withholding?
Yes. You may now be able to make credit eligible contributions to a public school through payroll withholding. Check with your employer to see if your employer has agreed to withhold contributions that qualify for this credit from your pay.

Private School Tuition Credits

Beginning January 1, 2012, there are two private school tuition tax credits available for individual taxpayers. Taxpayers who donate the maximum amount allowed under the Credit for Contributions to Private School Tuition Organizations (Arizona Form 323) may make an additional donation to a qualified school tuition organization and claim the additional Credit for Contributions to Certified School Tuition Organization – Individuals (Arizona Form 348).

What do I have to do to qualify for these credits?
To qualify for these credits, you must make cash or payroll withholding contributions to a tuition organization that provides scholarships or grants to qualified schools.

What is the maximum dollar amount of the credits?
The credit is equal to the amount contributed. However, each credit has a maximum amount that cannot be exceeded:

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Credit for Contributions to Private School Tuition Organizations (Arizona Form 323)
In tax year 2013 for single taxpayers or heads of household, the credit cannot exceed $517. For married taxpayers that file a joint return, the credit cannot exceed $1,034. For tax year 2014, those amounts increase to $528 and $1,056, respectively. 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.

Credit for Contributions to Certified School Tuition Organization - Individual (Arizona Form 348)
In tax year 2013 for single taxpayers or heads of household, the credit cannot exceed $514. For married taxpayers that file a joint return, the credit cannot exceed $1,028. For tax year 2014, those amounts increase to $525 and $1,050, respectively. 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. This credit is only available to those individuals that first donated the maximum amount allowed under the Credit for Contributions to Private School Tuition Organizations (Arizona Form 323).

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 contributions 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?
Yes. The Arizona Department of Revenue is required to certify school tuition organizations and will maintain a registry of currently certified school tuition organizations on its website, **www.azdor.gov.**

What is a qualified school?
A qualified school is a non-governmental preschool for disabled students, or a non-governmental primary or secondary school located in Arizona. The school cannot discriminate on the basis of race, color, disability, familial status, or national origin. The primary school begins with kindergarten, and the secondary school ends with grade 12. Qualified schools must also require all teaching staff and personnel that have unsupervised contact with the students to be fingerprinted.

Are there situations where a contribution to a school tuition organization, as defined in statute, would not qualify for the tax credits?
Yes. Your donation to the school tuition organization will not qualify for the credits if you designate the donation for the direct benefit of your dependent. Additionally, your donation will also not qualify if you designate a student beneficiary as a condition of your contribution to the school tuition organization. Additionally, the tax credits are not allowed if you agree with another person to designate each other's contribution to the school tuition organization for the direct benefit of each other's dependent, a practice commonly known as swapping.

May I make credit eligible contributions through payroll withholding?
Yes. You may now be able to make credit eligible contributions to a school tuition organization through payroll withholding. Check with your employer to see if your employer has agreed to withhold contributions that qualify for this credit from your pay.

Must the private school tuition tax credits be claimed in the year of donation?
No, credit eligible contributions made to a school tuition organization from January 1 through April 15 of a calendar year may be used as a tax credit on the prior year taxes. For example, contributions made to a school tuition organization from January 1, 2014 to April 15, 2014 may be used as a tax credit on either your 1) 2013 or 2) 2014 Arizona income tax return.

For Additional Information, call:

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

Or Write to:

Arizona Department of Revenue
Taxpayer Information & Assistance
PO Box 29086
Phoenix AZ 85038-9086

Internet Address ..... www.azdor.gov

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