# OVERVIEW OF INCOME TAX CREDITS

GEORGANNA MEYER
CHIEF ECONOMIST
OFFICE OF ECONOMIC RESEARCH & ANALYSIS

SEPTEMBER, 2013

# 90 MINUTES ON INCOME TAX CREDITS? REALLY?

1. The history of income tax credit in Arizona
2. The cost of income tax credits
3. What is the purpose of income tax credits?
4. Are they effective in accomplishing these goals?

# The History of Income Tax Credits in Arizona

| ARIZONA TAX CREDITS | # | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Agricultural Pollution Control Equipment | 325 | 1 | 1 | 1 | 1 |
| Agricultural Water Conservation System | 312 | 1 | 1 | 1 | 1 |
| Clean Elections | | 1 | 1 | 1 | |
| Commercial & Industrial Solar Credit | 336 | 1 | 1 | 1 | 1 |
| Contributions to Charities Providing Assistance to Poor | 321 | 1 | 1 | 1 | 1 |
| Contributions to School Tuition Organizations | 335 | 1 | 1 | 1 | 1 |
| Contributions to School Tuition Organizations for Disabled/Displaced | 341 | 1 | 1 | 1 | 1 |
| Donations to Military Family Relief Fund | 340 | 1 | 1 | 1 | 1 |
| Employing National Guard Members | 333 | 1 | 1 | 1 | 1 |
| Employment of TANF Recipients | 320 | 1 | 1 | 1 | 1 |
| Enterprise Zone | 304 | 1 | 1 | cf | cf |
| Environmental Technology Facility | 305 | 1 | 1 | 1 | 1 |
| Family | | 1 | 1 | 1 | 1 |

# Notes on the Income Tax Credit List

- 1935 to 1974
  - Only one credit available
  - Credit for Taxes Paid to Other States or Countries
- 2nd Credit offered in Arizona
  - Renter's Property Tax Credit
- Then the Property Tax Credit
- 1978 and 1980
  - Residential Insulation Credit
  - Solar Energy Credit

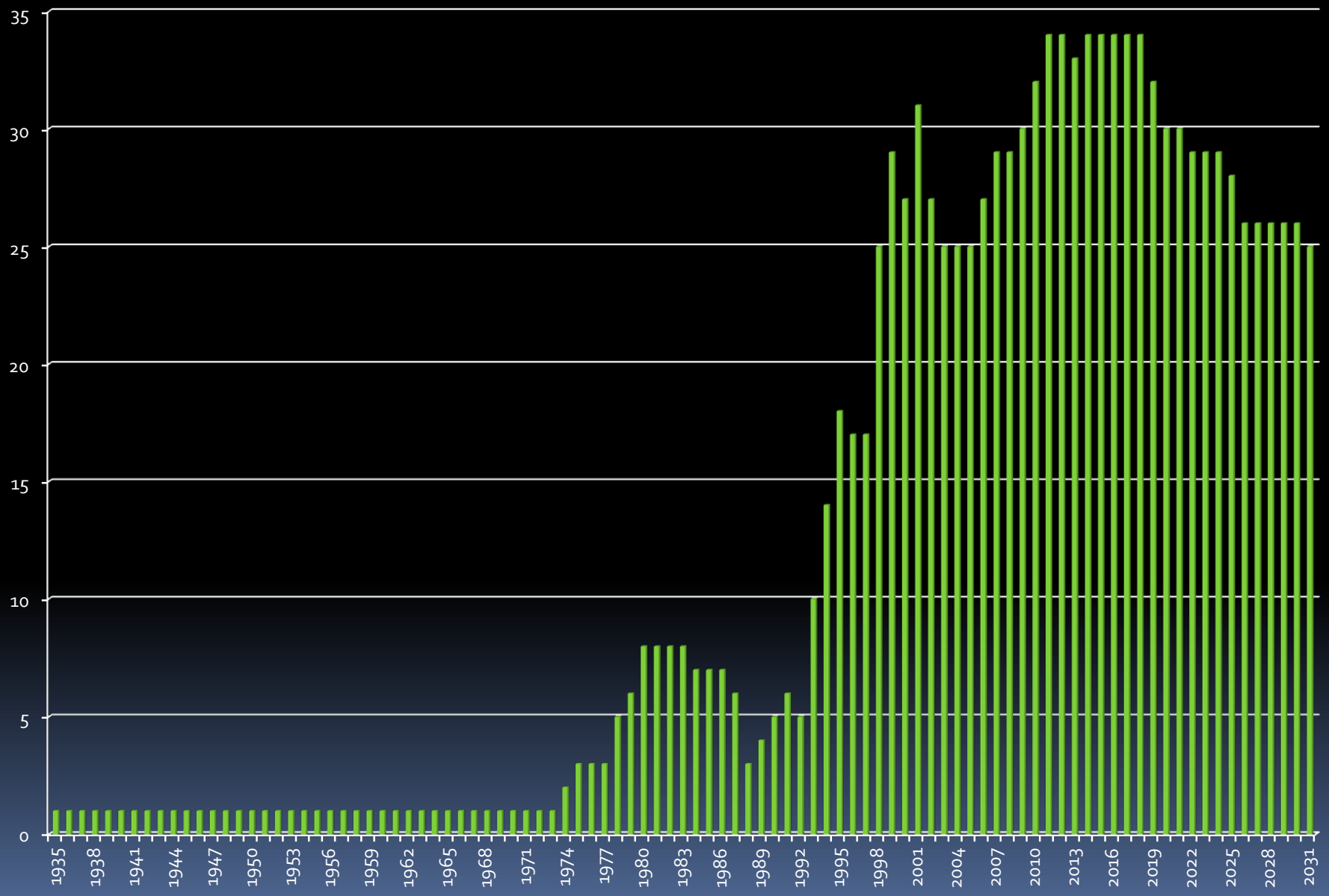
# Notes on the Income Tax Credit List

- 1st Corporate Credit
  - 1979
  - Certain Point-Of-Sale Equipment
- 1981 through 1989
  - 2 more corporate credits
  - Groundwater Measuring Device Credit
    - 1983
  - Correctional Industries Credit
    - 1989

# Notes on the Income Tax Credit List

- Tax Year with the highest credit available count
  - 2011, 2012, 2014, 2015
    - 34 credits

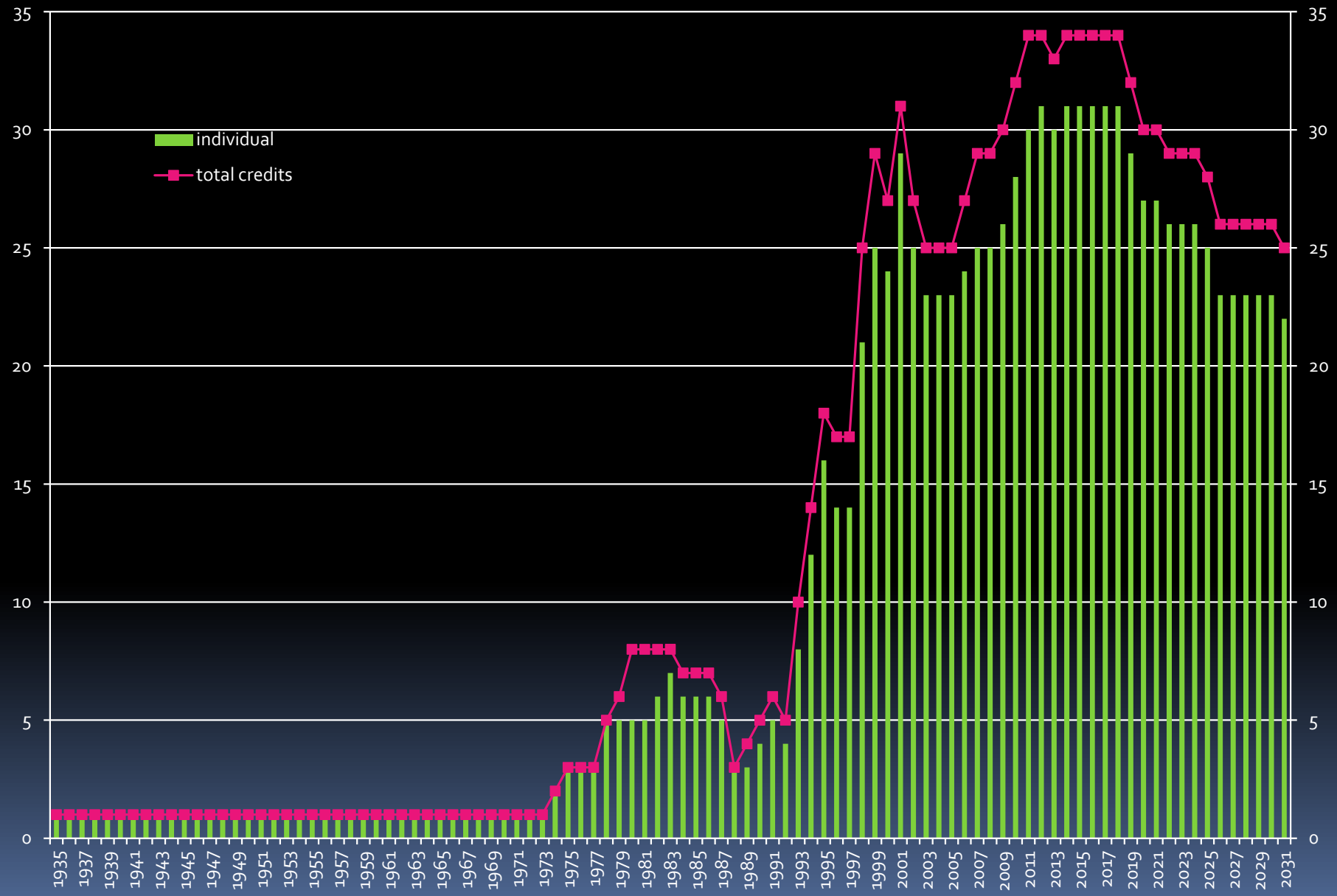
# INCOME TAX CREDITS OFFERED IN ARIZONA



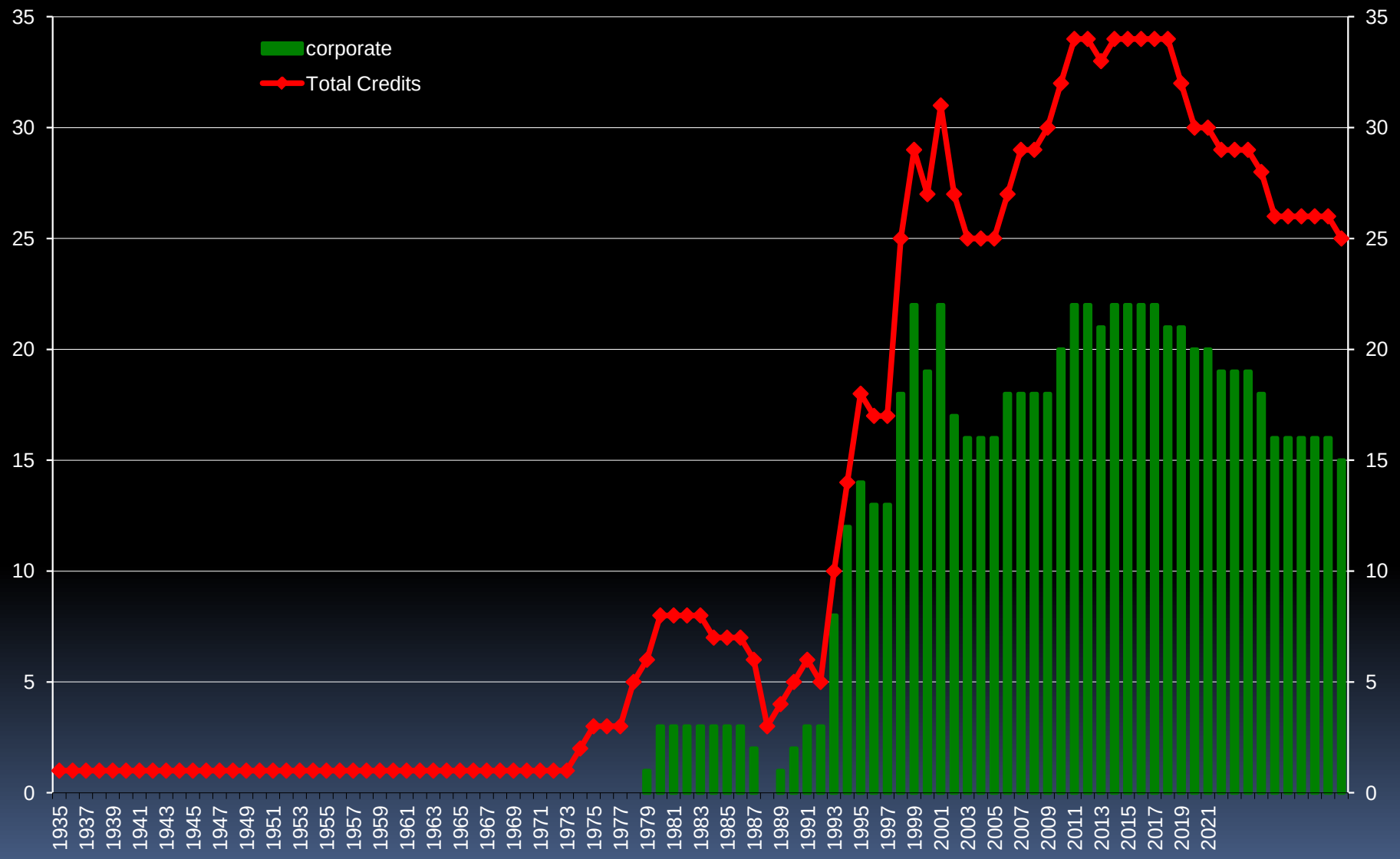
# Notes on Income Tax Credit Counts

- Number of credits accelerated beginning in mid-90s
- 8 credits added on 1998 alone
- Credit spikes in 1999 and 2001
  - Alternative Fuel Vehicle Tax Credits
- The drop in 2003
  - Repeal of Alternative Fuel Vehicle Tax Credits

# INDIVIDUAL INCOME TAX CREDITS IN ARIZONA



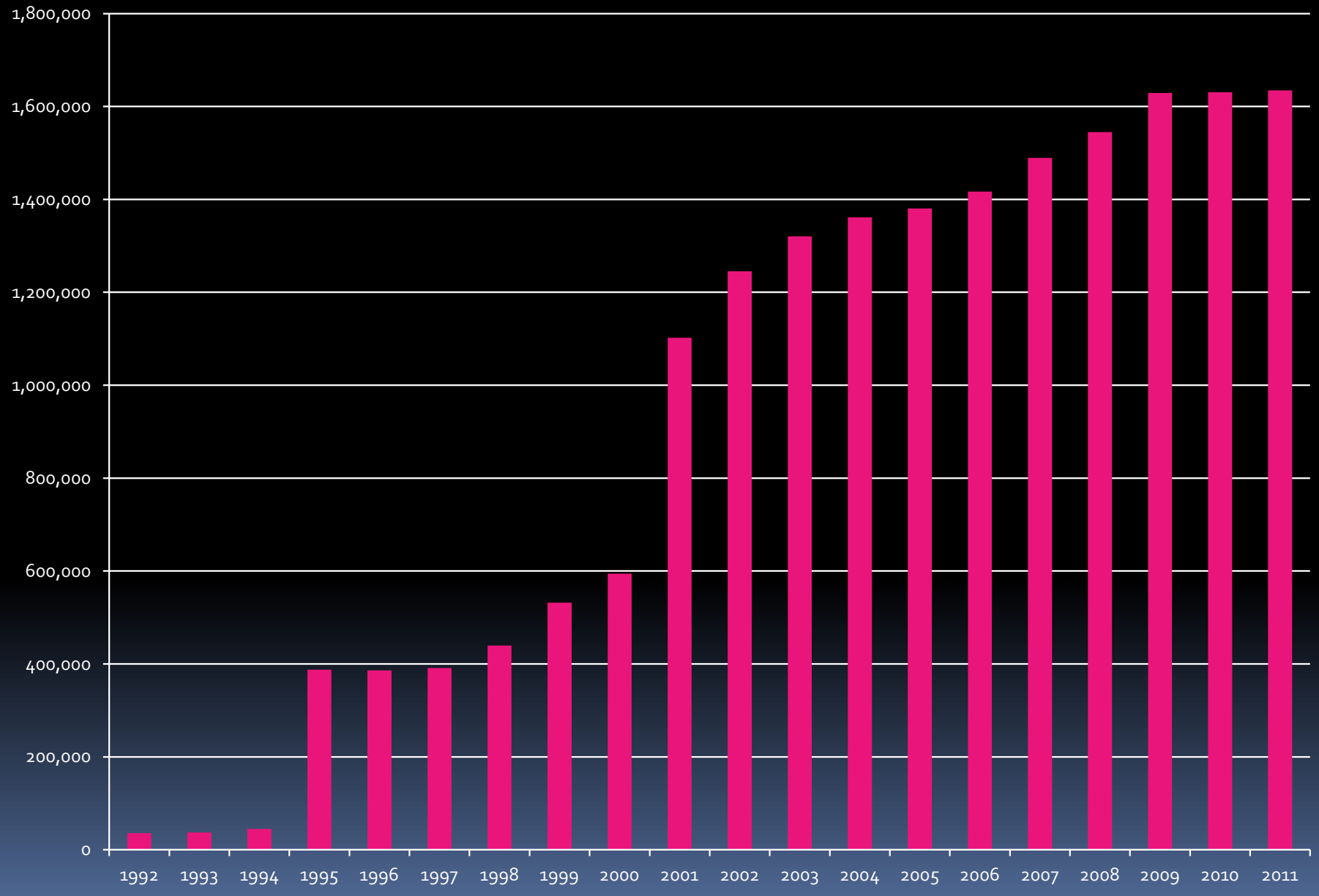
# CORPORATE INCOME TAX CREDITS IN ARIZONA



# The Cost of Income Tax Credits in Arizona

| | | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| Agricultural | # of claims | | | *3* | 5 | |
| Pollution | credit available | Data Not | Data Not | *$16,569* | $14,331 | Data Not |
| Control | credit used | Available | Releasable | *$13,306* | $14,087 | Releasable |
| Equipment | carry forward | | | *$3,263* | $244 | |
| Agricultural | # of claims | | | | | |
| Preservation | credit available | | | | | |
| District | credit refunded | | | | | |
| **REFUNDABLE** | carry forward | | | | | |
| Agricultural | # of claims | | | *139* | 136 | 137 |
| Water | credit available | Data Not | Data Not | *$6,356,874* | $8,562,113 | $8,912,273 |
| Conservation | credit used | Available | Available | *$1,008,226* | $1,486,292 | $1,853,588 |
| | carry forward | | | *$4,510,204* | $6,328,967 | $6,333,995 |
| Alternative | # of claims | | | | | |
| Fuel Delivery | credit available | | | | | |
| System | credit used | | | | | |
| **NONREFUNDABLE** | carry forward | | | | | |
| Alternative | # of claims | | | | | |
| Fuel | credit available | | | | | |
| Vehicles | credit used | | | | | |
| **NONREFUNDABLE** | carry forward | | | | | |
| Clean Elections | # of claims | *24,939* | 24,908 | 26,088 | 33,966 | 34,358 |
| | credit available | *$618,653* | $712,628 | $691,600 | $830,123 | $875,909 |
| | credit used | *$574,614* | $644,314 | $633,415 | $773,000 | $815,625 |
| | carry forward | | | | | |

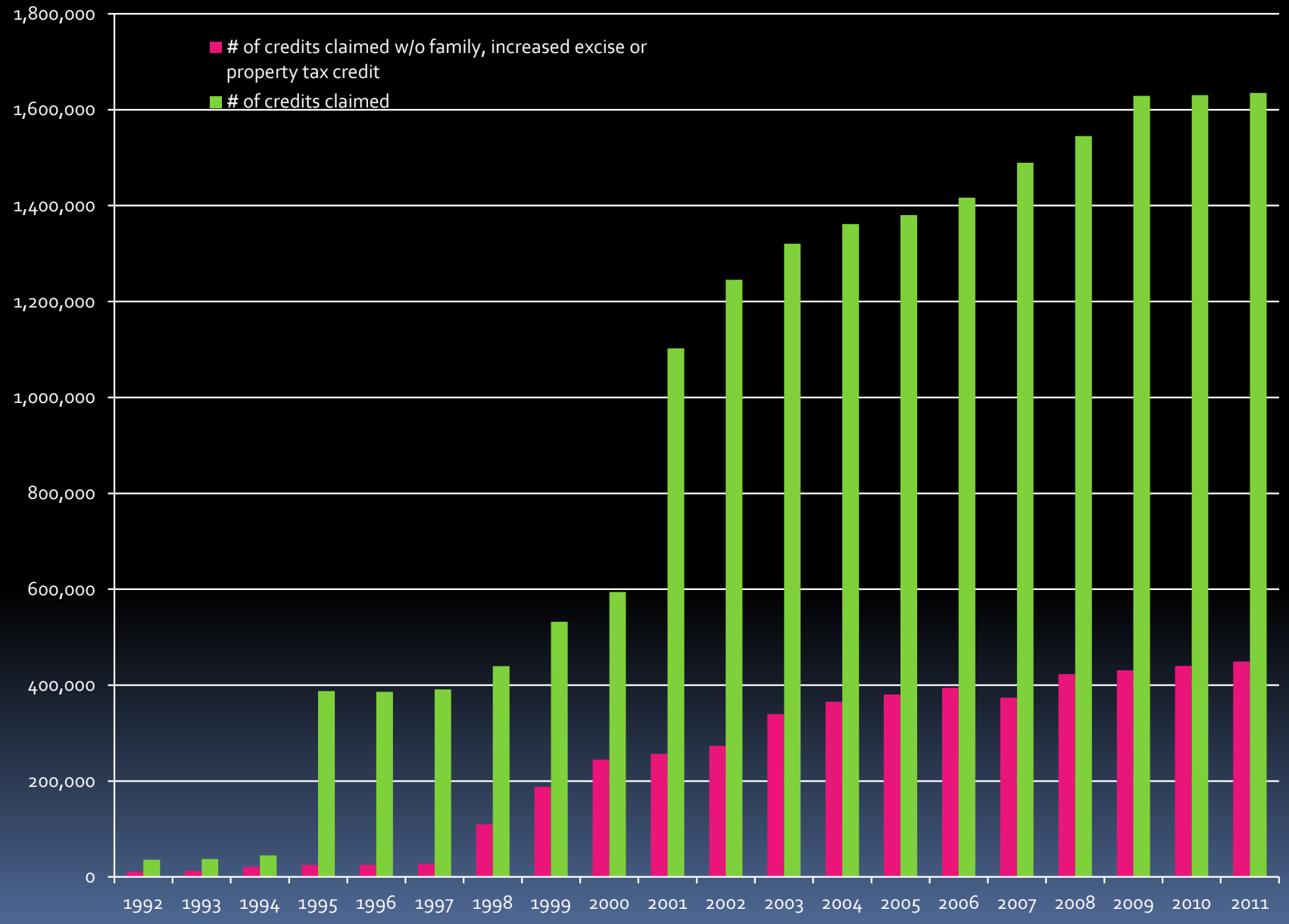
# # of Individual Income Tax Credits Claimed



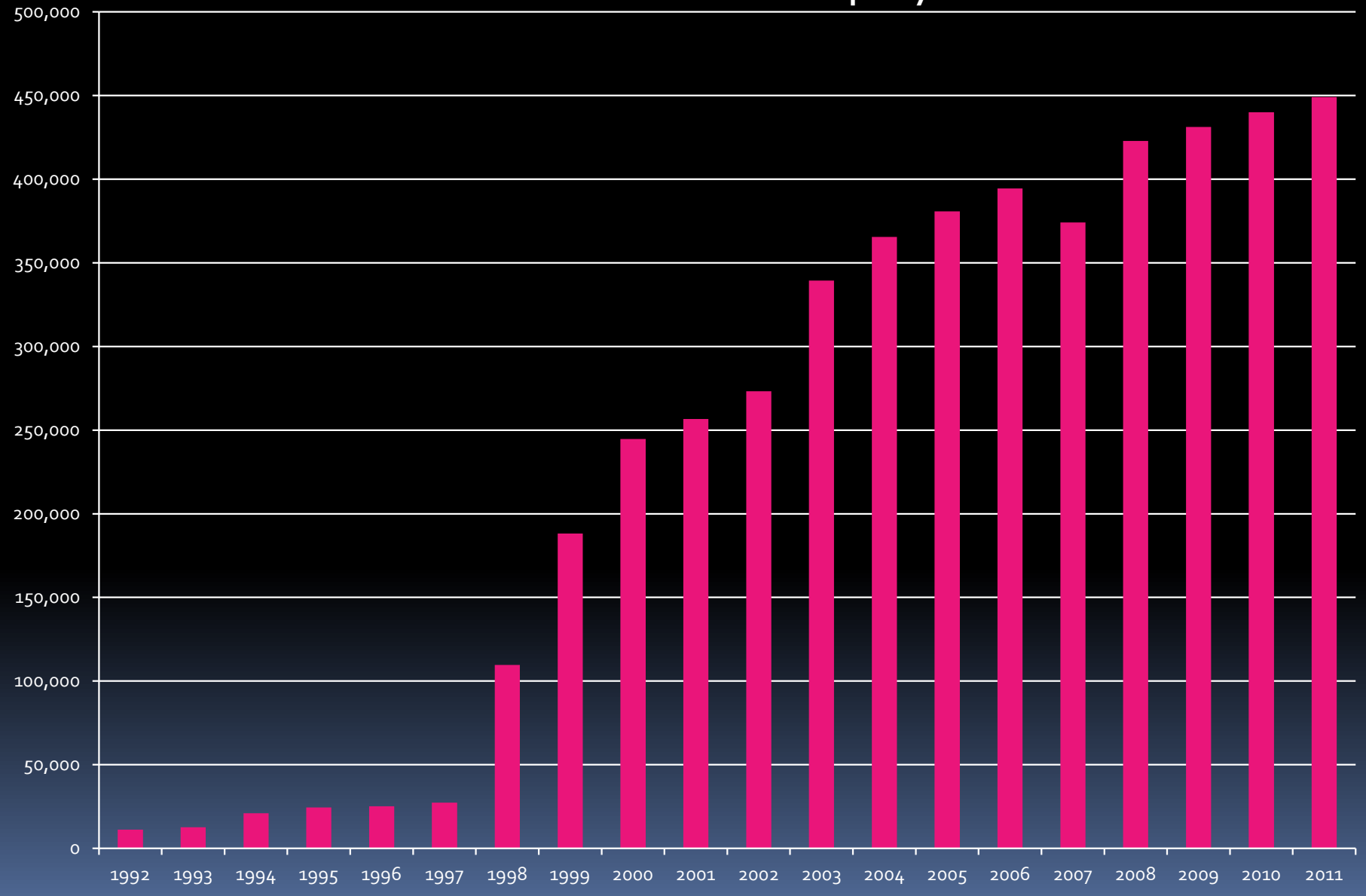
# Notes on # of Individual Income Tax Credits Claimed

- Tax credits are generally received because the taxpayer did something
  - Bought something
  - Donated something or to someone
  - Performed an activity
- Property tax credit, Family tax credit, Credit for Increased Excise Taxes Paid
  - Eligibility to take these credits is achieved by having income below a threshold amount
  - No action required

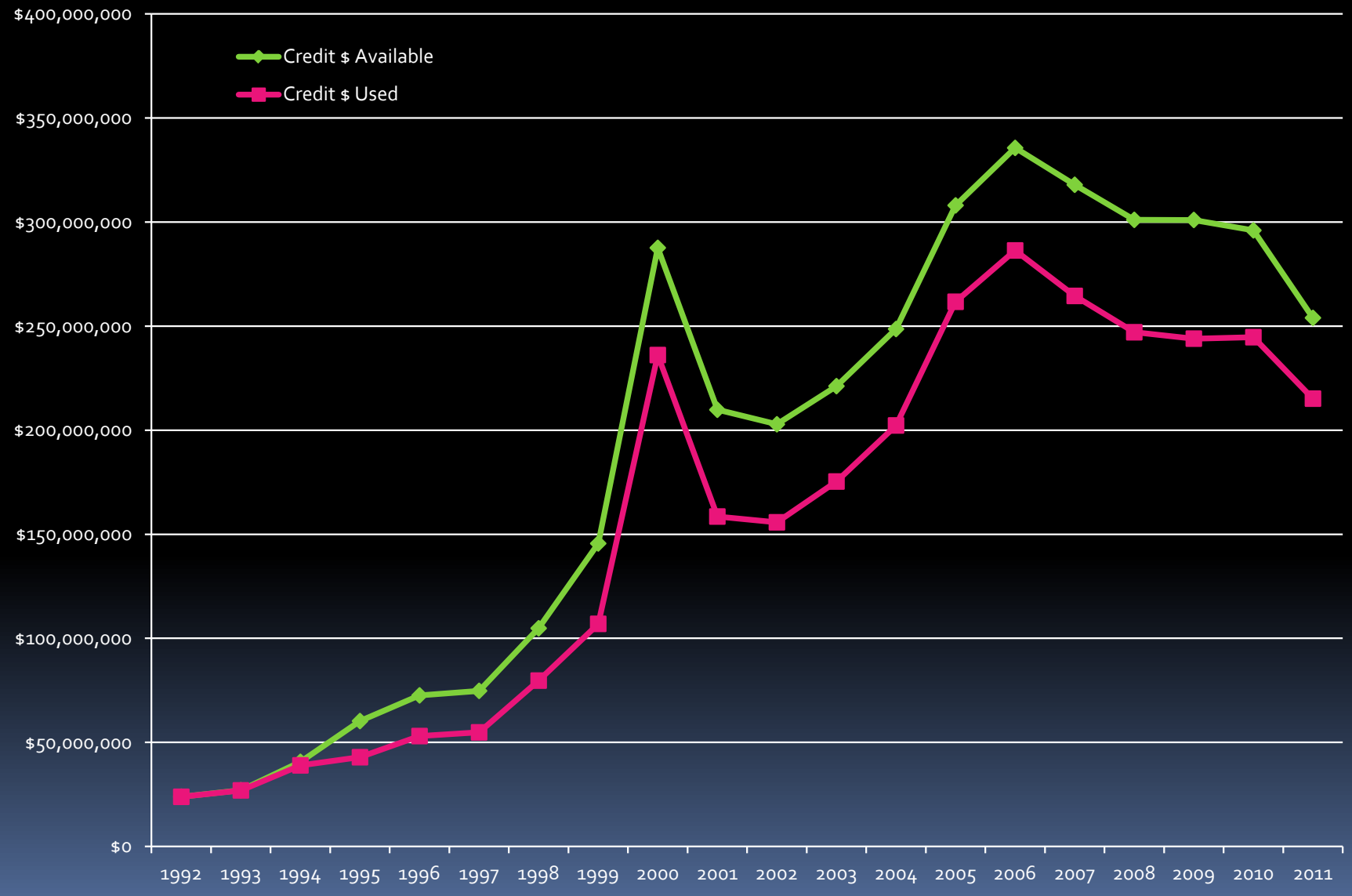
# # of Individual Income Tax Credits Claimed



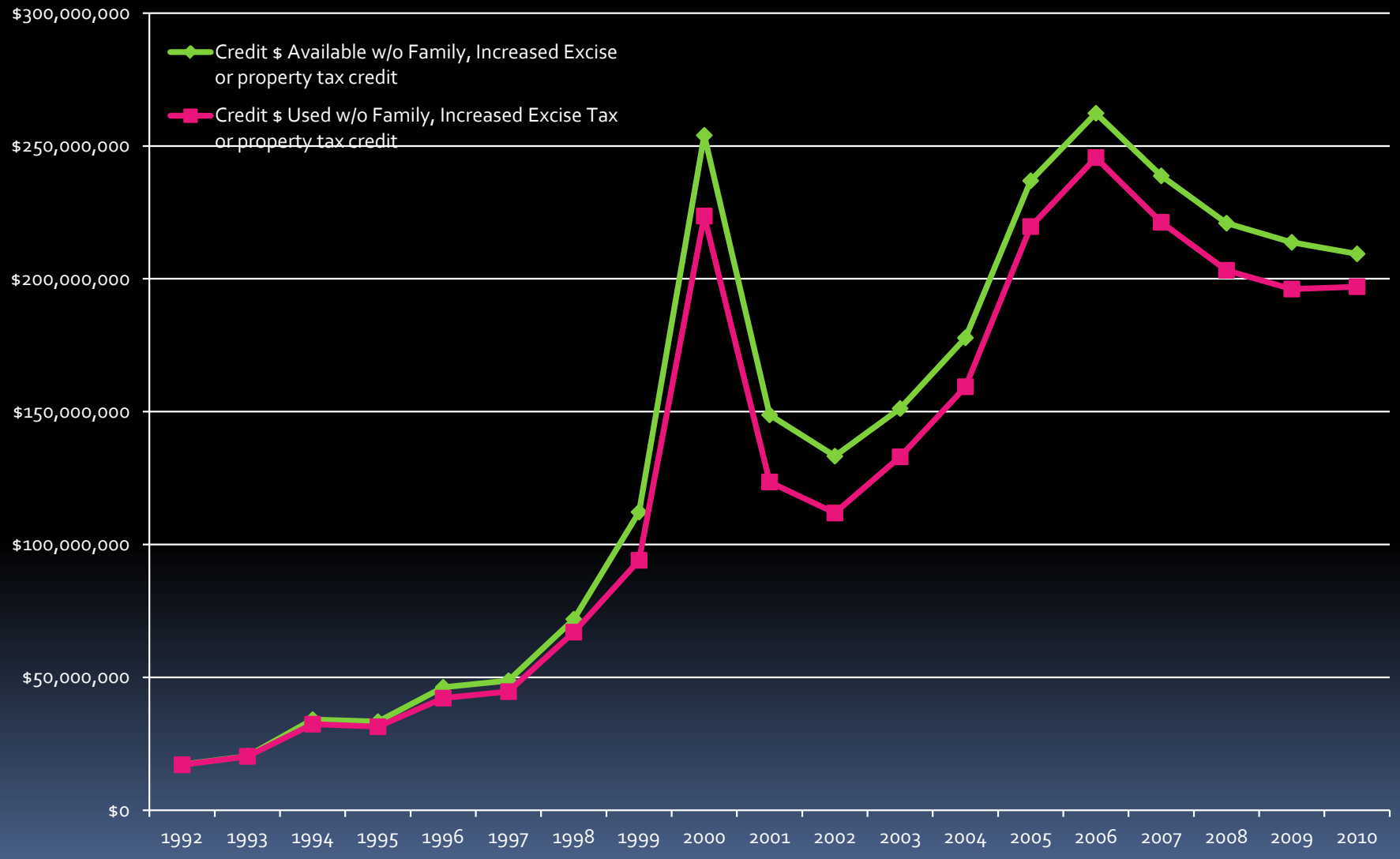
# # of Individual Income Tax Credits Without Family Tax Credit, Credit for Increased Excise Taxes Paid or Property Tax Credit



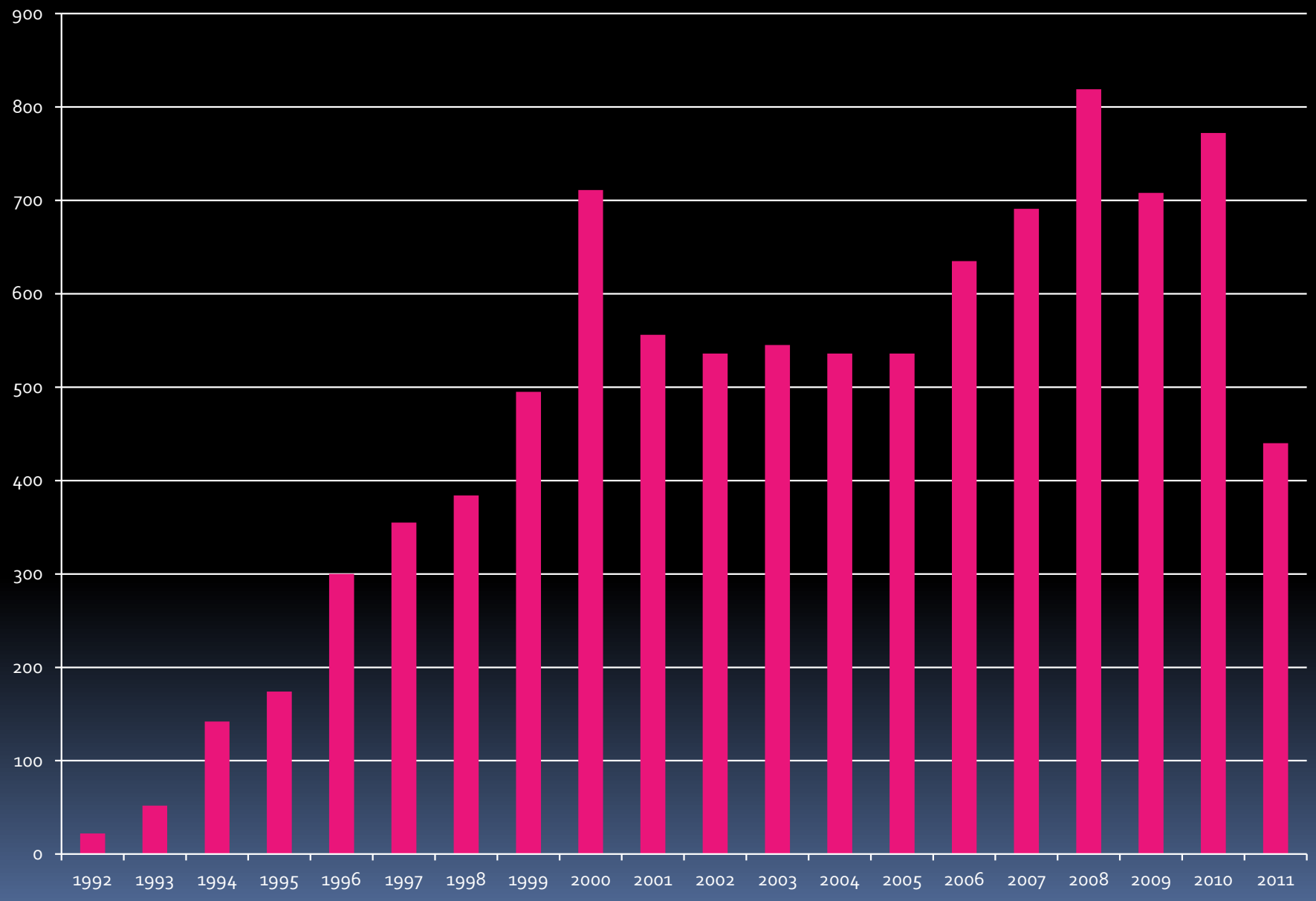
# INDIVIDUAL INCOME TAX CREDIT DOLLARS AVAILABLE vs. CREDIT DOLLARS USED TO OFFSET INDIVIDUAL INCOME TAX LIABILITY



# Individual Income Tax Credit $ Available vs. Individual Income Tax Credit Used WITHOUT FAMILY TAX CREDIT, CREDIT FOR INCREASED EXCISE TAXES PAID OR PROPERTY TAX CREDIT



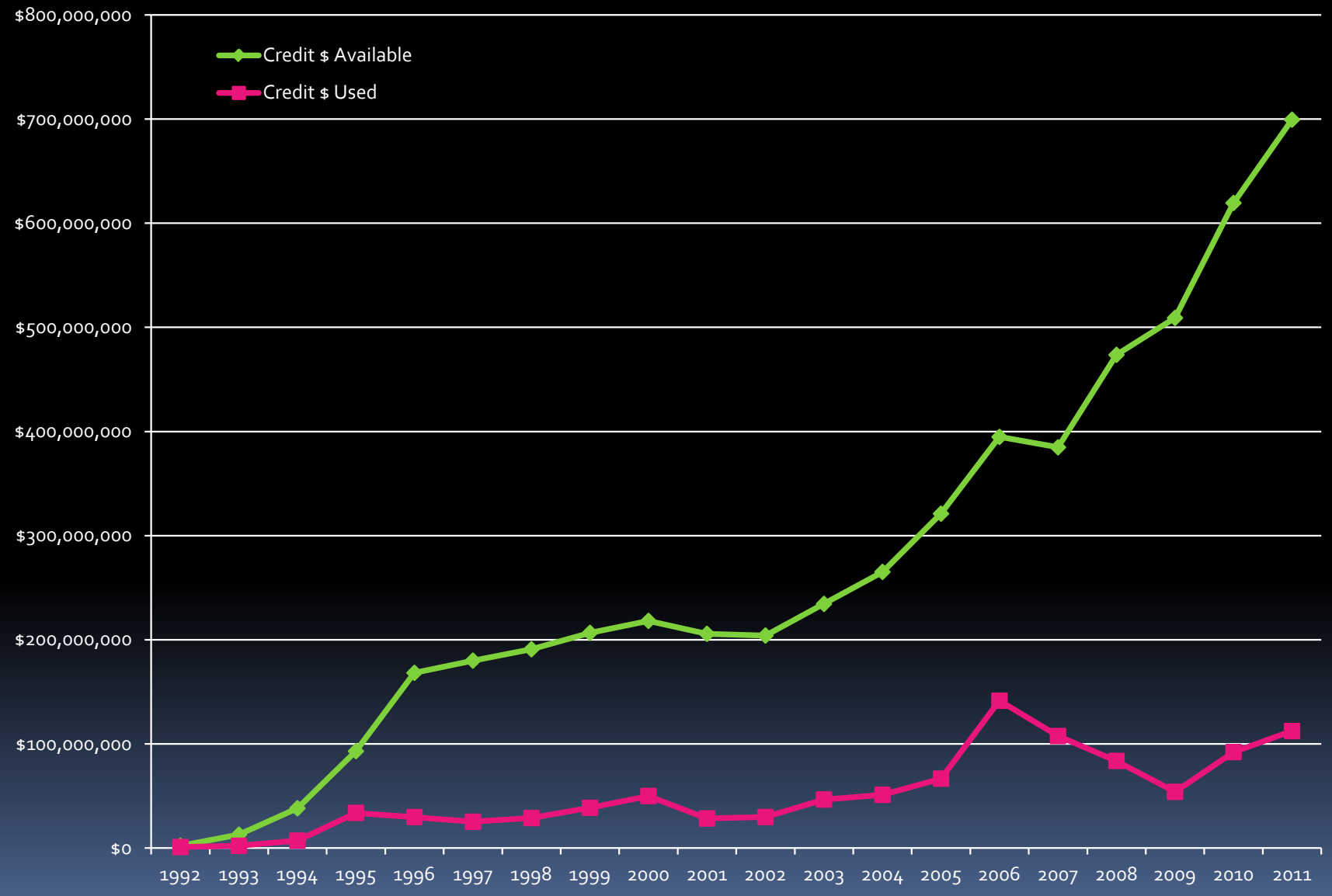
# # of Corporate Income Tax Credits Claimed



# Notes on # of Corporate Income Tax Credits Claimed

- Spike in 2000
  - Alternative Fuel Vehicle Credit
    - Nonrefundable and Refundable
  - Alternative Fuel Delivery System
    - Nonrefundable and Refundable
  - Vehicle Refueling Apparatus & Infrastructure
    - Nonrefundable and Refundable
  - Neighborhood Electric Vehicle Credit
    - Nonrefundable only

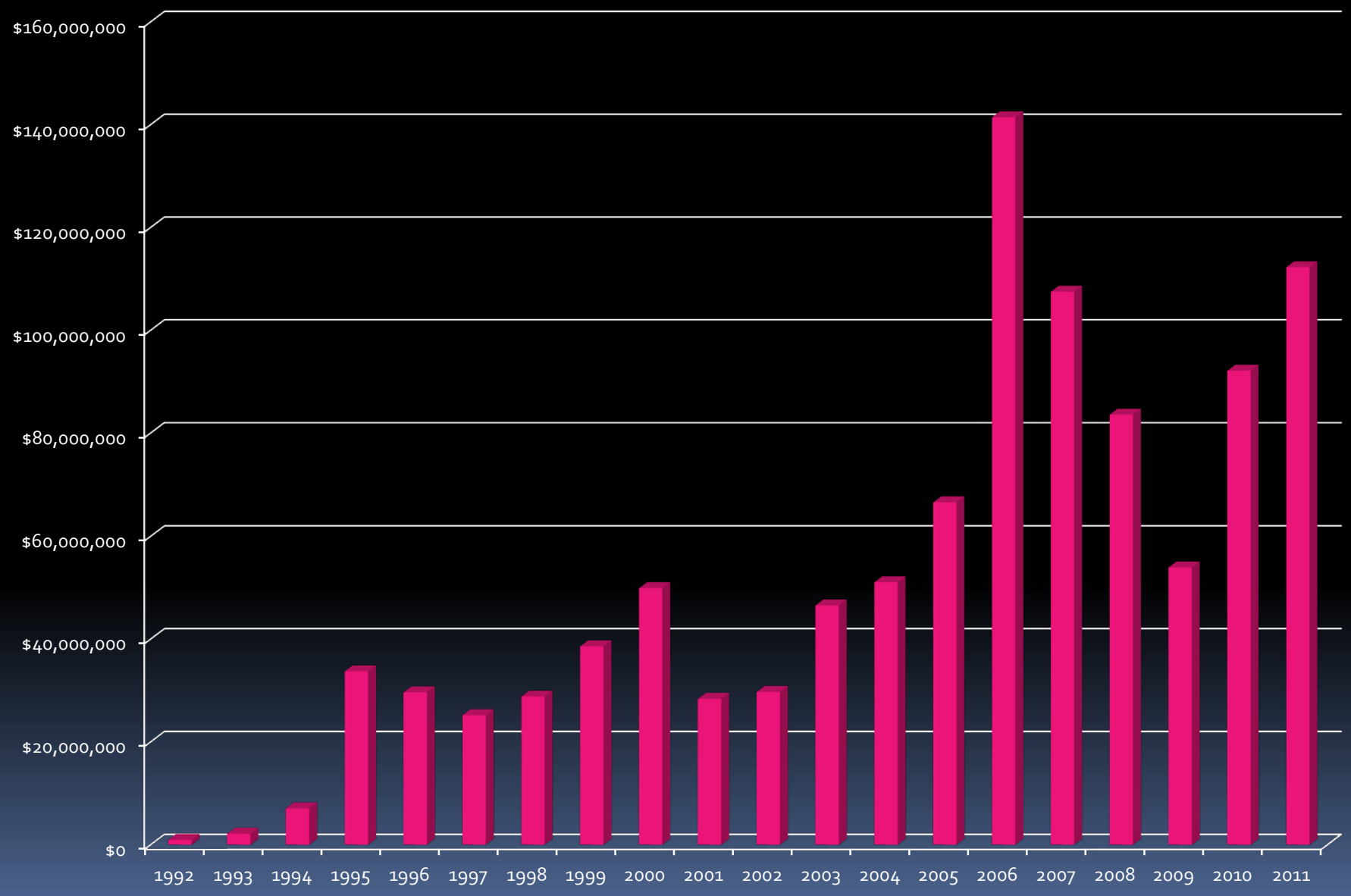
# Corporate Income Tax Credit $ Available vs. Corporate Income Tax Credit Used



# Notes on Corporate Income Tax Credit $ Available vs Used

- Two Reasons for Gap between Credit $ Available and Credit $ Used
  - Research and Development Tax Credit
  - Reduction in Corporate Income Tax Liability before credits

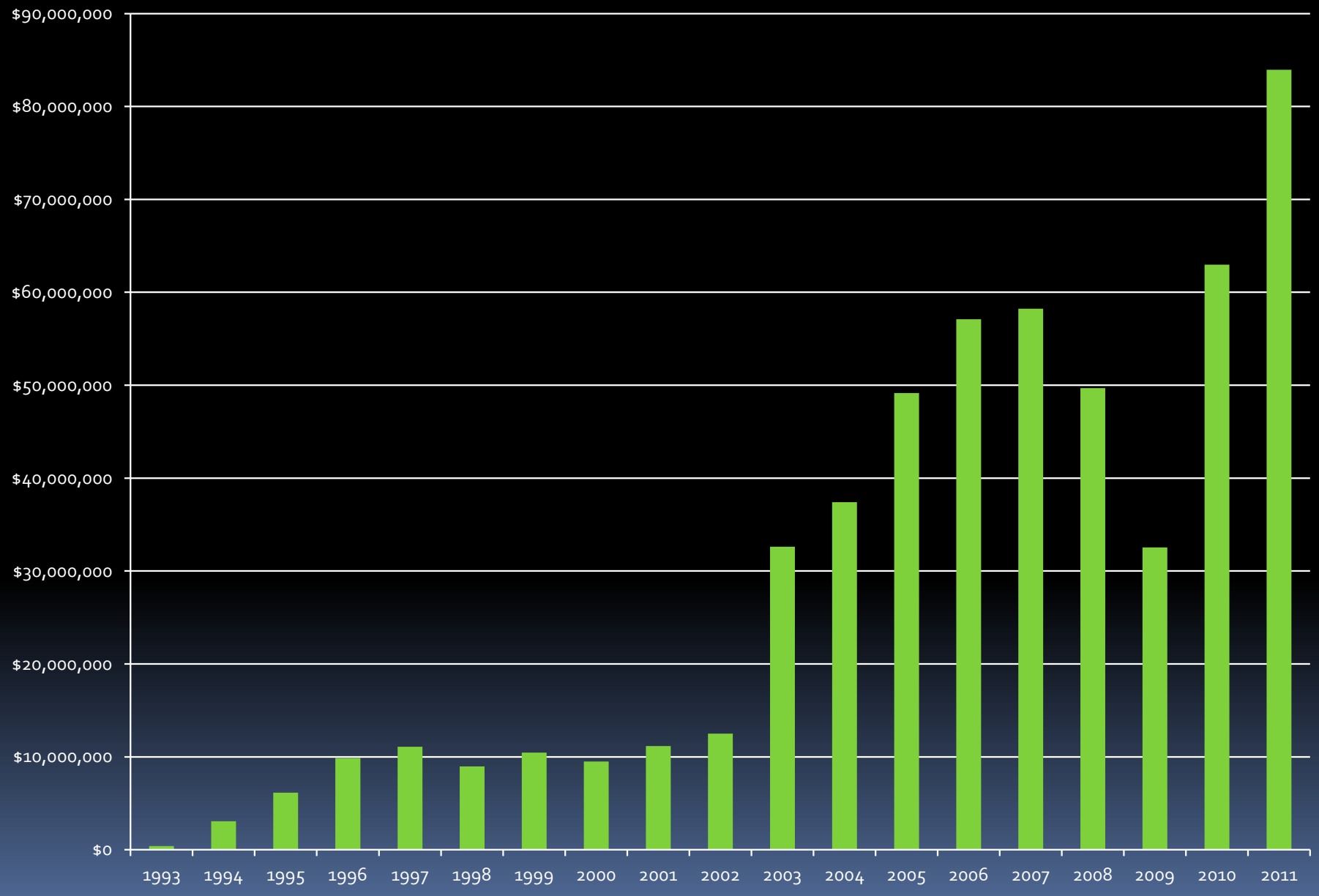
# Corporate Income Tax Credit $ Used



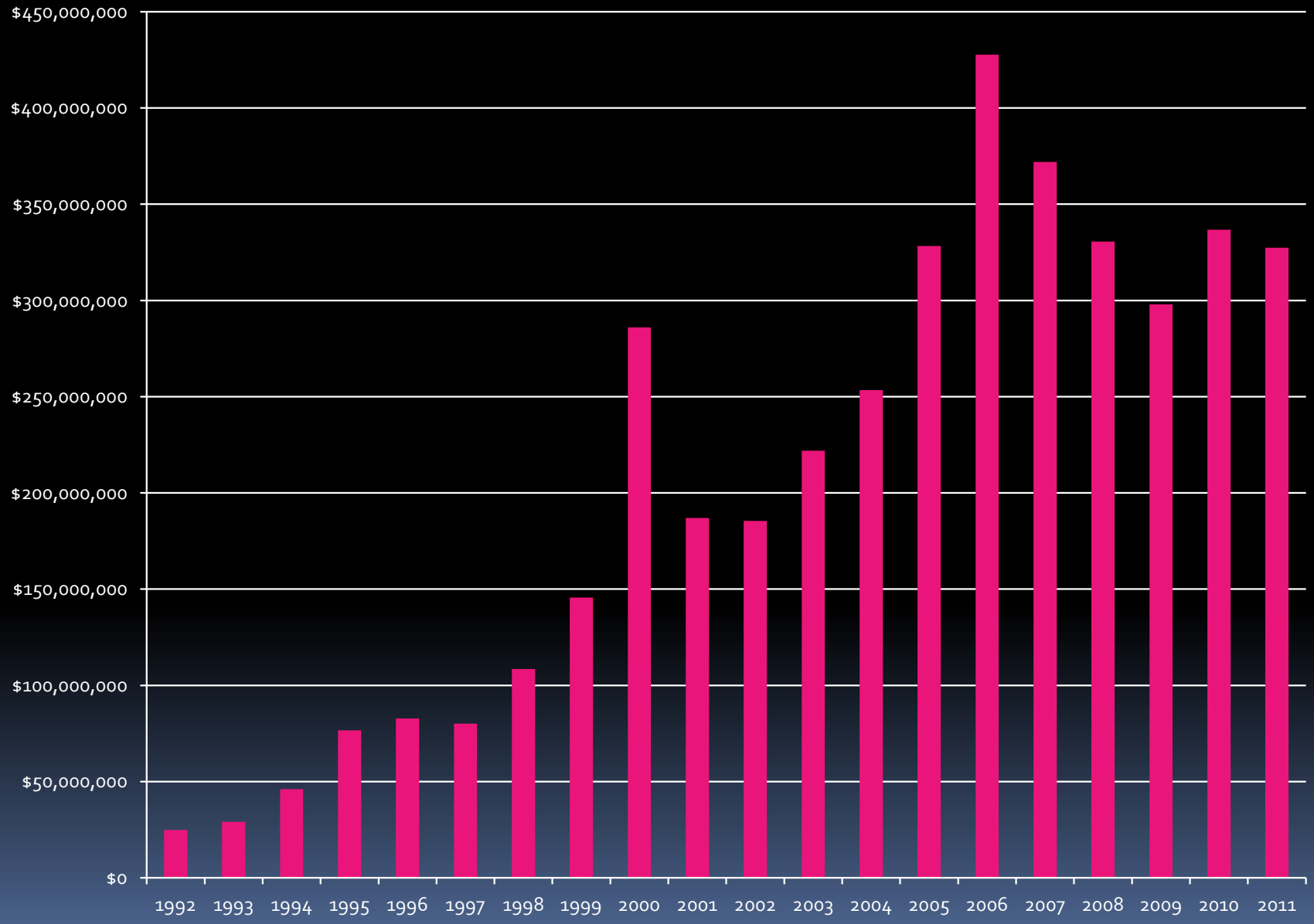
# Notes on Corporate Income Tax Credit $ Used

- Spike in 2006
  - Consolidated Filer credit
  - Beginning of the corporate Credit for Donations to School Tuition Organizations
  - Economic boom

# R&D Corporate Income Tax Credit $ Used



# Corporate and Individual Credit $ Used



# What is the Purpose of Income Tax Credits?

# Four Categories of Tax Credits

- Equity/Tax Relief
- Economic Development
- Environmental Concerns
- Targeting Specific Behaviors

# EQUITY/TAX RELIEF

- Credit for Taxes Paid to Other States and Countries (1935)
- Property Tax Credit (1975)
- Family Tax Credit (1995)
- Credit for Increased Excise Taxes Paid (2001)

# EQUITY/TAX RELIEF

- Credit for Taxes Paid to Other States and Countries (1935) $84 million
- Property Tax Credit (1975) $7 million
- Family Tax Credit (1995) $5.5 million
- Credit for Increased Excise Taxes Paid (2001) $35 million
- Total cost in 2010? $131.5 million

# ECONOMIC DEVELOPMENT

- Enterprise Zone (1990)
- Environmental Technology Facility (1993)
- Military Reuse Zone (1993)
- Motion Picture (1993)
- Research & Development (1993)
- Healthy Forest (2005)
- Research & Development Refundable (2010)
- New Employment (2011)
- Solar Liquid Fuel Research & Development (2011)
- University Research & Development (2012)

# Economic Development

- Enterprise Zone (1990) $6 million
- Environmental Technology Facility (1993) Not Releasable
- Military Reuse Zone (1993) Not Releasable
- Motion Picture (1993) $8.5 million
- Research & Development (1993) $65 million
- Healthy Forest (2005) $0
- Research & Development Refundable (2010) $4 million
- New Employment (2011) No claimants yet
- Solar Liquid Fuel Research & Development (2011) No claimants yet
- University Research & Development (2012) No claimants yet
- Total Cost in 2010? More than $83 million

# Environmental Concerns

- Agricultural Water Conservation System (1994)
- Pollution Control Device (1995)
- Solar Energy Device (1995)
- Solar Hot Water Heater Plumbing Stub Outs & Electrical Outlets (1998)
- Agricultural Pollution Control Equipment (1999)
- Commercial & Industrial Solar (2006)
- Water Conservation Credit (2007)
- Renewable Energy Production (2011)

# Environmental Concerns

- Agricultural Water Conservation System (1994) $1 million
- Pollution Control Device (1995) $2.5 million
- Solar Energy Device (1995) $5 million (estimate)
- Solar Hot Water Heater Plumbing Stub Outs & Electrical Outlets (1998) Not Releasable
- Agricultural Pollution Control Equipment (1999) Not Releasable
- Commercial & Industrial Solar (2006) $.5 million
- Water Conservation Credits (2007) $1 million
- Renewable Energy Production (2011) No claimants yet
- Total Cost in 2010? More than $10 million

# Targeting Behavior

- Clean Elections (1998)
- Contributions to Charities – Working Poor (1998)
- Employing TANF Recipients (1998)
- Individual Contributions to STOs (1998)
- Public School Extra Curricular Activity Fee (1998)
- Taxes Paid for Coal Consumed in Generating Electrical Power (1998)
- School Site Donation (2001)
- Corporate Contributions to STOs (2006)
- Employing National Guard Members (2006)

# Targeting Behavior (continued)

- Investment in Qualified Small Business (2007)
- Corporate Contributions to STOs D/D (2009)
- Donations to the Military Family Relief Fund (2009)
- Renewable Energy Equipment Manufacturing (2010)
- Qualified Health Insurance Plans (2012)
- Individual Contributions to STOs – Switchers (2013)

# Targeting Behavior - Cost

- Clean Elections (1998) $0.5 million
- Contributions to Charities – Working Poor (1998) $17 million
- Employing TANF Recipients (1998) $0.1 million
- Individual Contributions to STOs (1998) $43 million
- Public School Extra Curricular Activity Fee (1998) $44 million
- Taxes Paid for Coal Consumed in Generating Electrical Power (1998) $2 million
- School Site Donation (2001) $0.1 million
- Corporate Contributions to STOs (2006) $8.5 million
- Employing National Guard Members (2006) $20,000

# Targeting Behavior – Cost (continued)

- Investment in Qualified Small Business (2007) $1 million
- Corporate Contributions to STOs D/D (2009) $0.2 million
- Donations to the Military Family Relief Fund (2009) $1 million
- Renewable Energy Equipment Manufacturing (2010) No claimants yet
- Qualified Health Insurance Plans (2012) No claimants yet
- Individual Contributions to STOs – Switchers (2013)
- Total Cost in 2010? $117 million

# Summary of Cost by Purpose

- Equity/Tax Relief
  - $131.5 million – 4 credits effective
- Economic Development
  - $83 million – 7 credits effective
- Environmental Concerns
  - $10 million – 8 credits effective
- Targeting Behaviors
  - $117 million – 13 credits effective

- The purpose of this credit is to encourage the creation of quality jobs by employers in this state.
- New employment credit
  - No credit claims yet but 6 taxpayers have been approved.

- The purpose of this credit is to encourage taxpayers to invest capital in businesses that are in the early stages of development.
- Investment in qualified small business
  - Commerce has selected 132 businesses that can receive money from taxpayers for tax credit purposes.
  - Commerce has approved 395 tax credits for $8.8 million.

- The purpose of this credit is to promote the development of commercial enterprises that promote forest health and reduce the risk of catastrophic wildfire and destructive insect infestation in forested areas in this state.
- Healthy forest tax credits
  - Only 3 businesses ever certified
  - Cannot release cost

- The purpose of this credit is to encourage taxpayers in this state to employ members of the Arizona national guard.
- Employing national guard members credit
  - No more than 10 taxpayers have ever claimed this credit .
  - Credit cost has never been releasable for individual income tax credit.

- The purpose of this credit is to encourage business investment that will produce high quality employment opportunities for citizens of this state and enhance the position of this state as a center for production and use of renewable energy products.
- Renewable energy industry credit
  - 4 pre-approvals by Commerce
  - No claims

- The purpose of this credit is to promote investment in renewable energy production using low-emission and zero-emission electricity generation technologies.
- Renewable energy production tax credit
  - 12 taxpayers "on list"
  - Maximum impact $20 million annually

- The purpose of this credit is to encourage business investment that will produce high quality employment opportunities for citizens of this state and enhance the position of this state as a center for corporate headquarters, commercial research and manufacturing.
- Qualified facilities credit
  - 3 Commerce pre-approvals

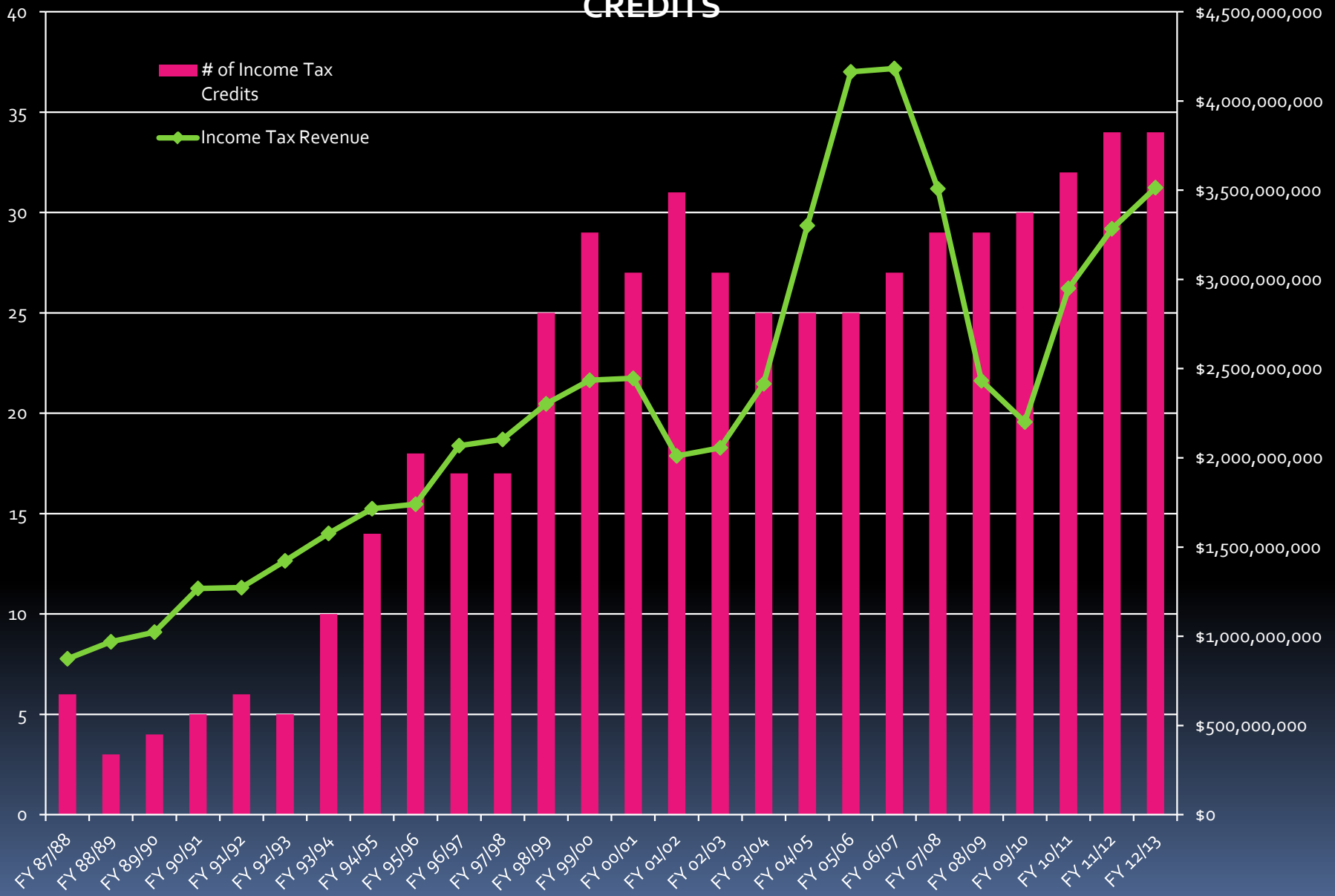
- The purpose of this credit is to stimulate the production and use of solar energy in commercial and industrial applications in this state by subsidizing the initial cost of the solar energy equipment purchased and installed for those purposes.
- Commercial & Industrial Solar Credit
  - 339 approvals since 2006
  - Regularly meets $5 million cap

- The purpose of this credit is to encourage contributions for the compassionate relief of military widows, widowers, spouse and minor children of military personnel in this state who were killed or wounded in the line of duty.
- Donations to military family relief fund credit
  - Slightly more than 3000 taxpayers claiming per year

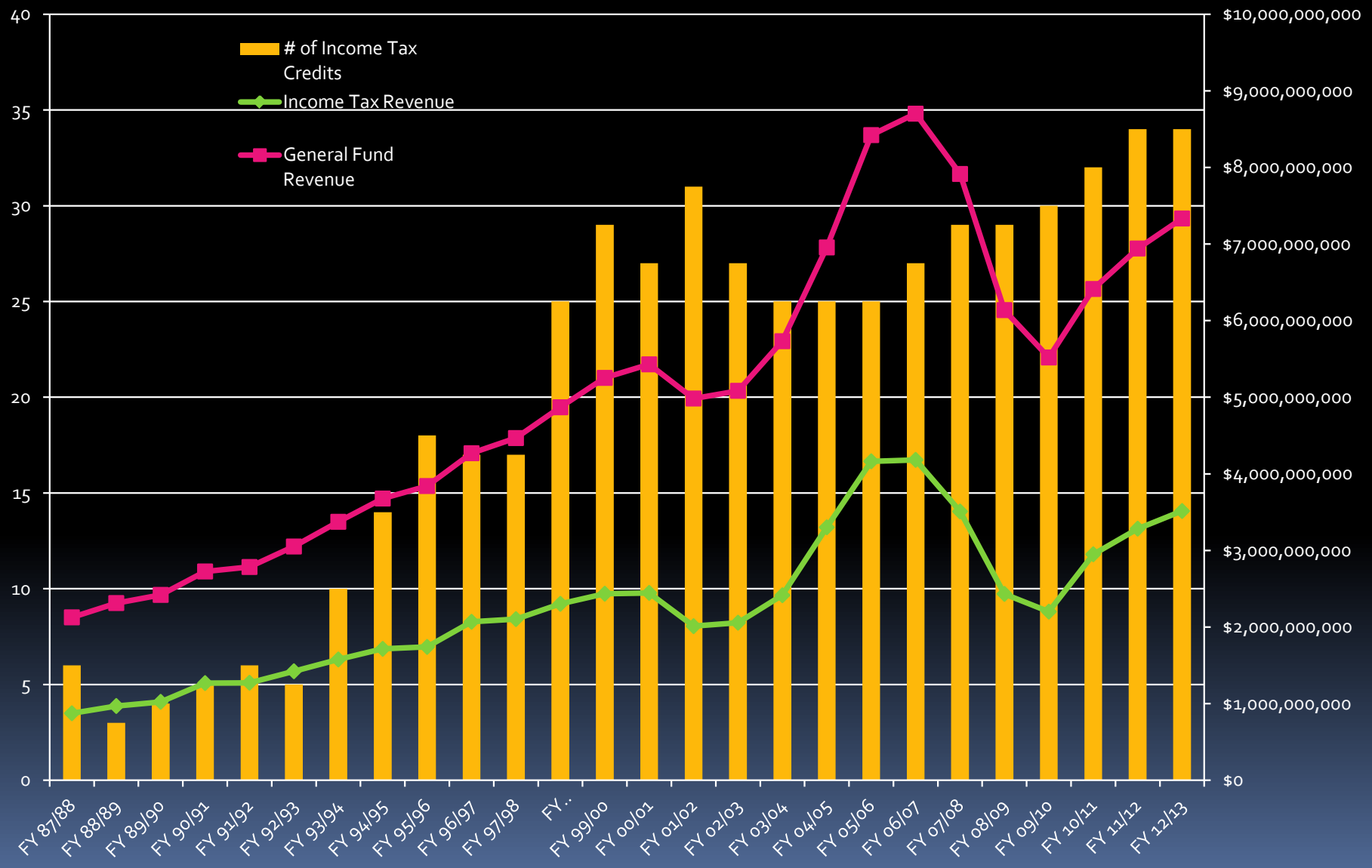
- The purpose of this credit is to encourage individuals to make charitable contributions to school tuition organizations <u>in order to improve education</u> by raising tuition scholarships for children in this state.
- Individual "switcher" credit
- Impact unknown yet

- The purpose of this credit is to encourage businesses to direct a portion of their taxes by contributing to school tuition organizations in order to improve education by raising tuition scholarships for children in this state.
- Credit for corporate donations to STOs
- Approved the maximum donations of $30 million in FY13.
  - Maximum increases to $36 million in FY14.

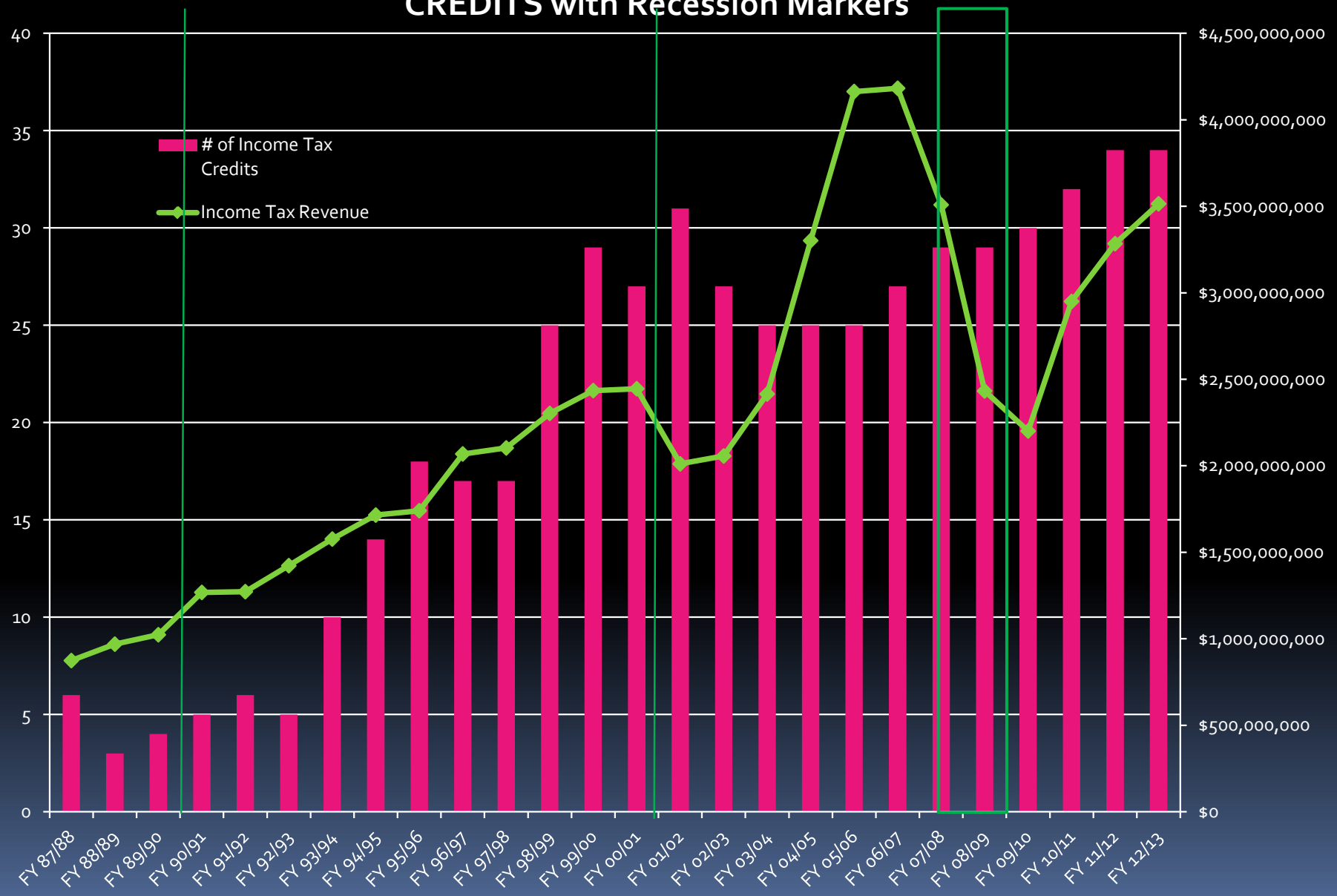
# NET INCOME TAX REVENUES COMPARED TO # OF INCOME TAX CREDITS



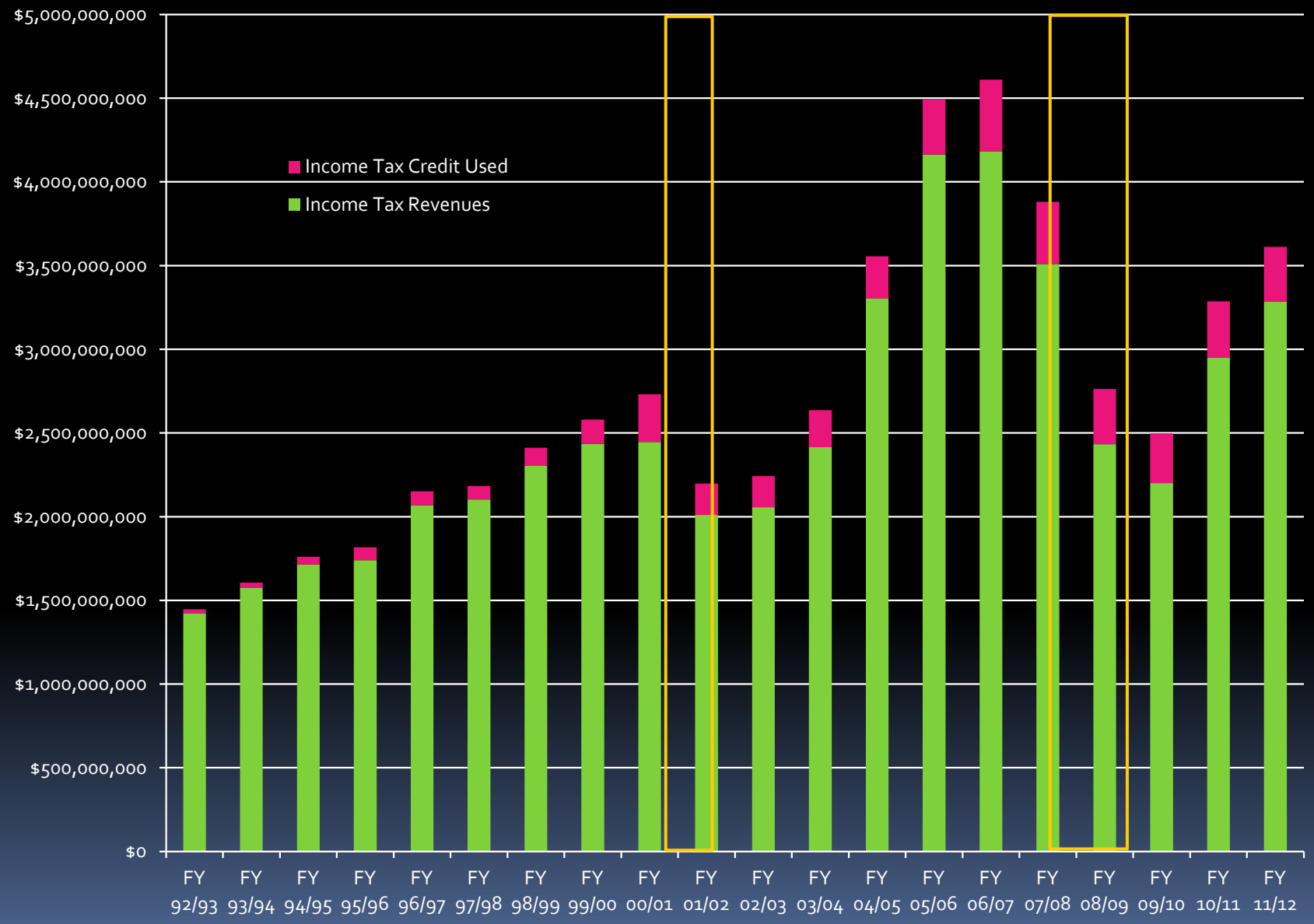
# INCOME TAX REVENUES AND GENERAL FUND REVENUES FROM INCOME AND TPT AS COMPARED TO # OF INCOME TAX CREDITS



# NET INCOME TAX REVENUES COMPARED TO # OF INCOME TAX CREDITS with Recession Markers



# Income Tax Revenues with Income Tax Credits Used



# THANK YOU!