

# School Tax Credits

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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 (A.R.S.) will prevail.

## What school tax credits are available to individuals?

There are five different school tax credits that an individual may be eligible to claim.

An individual may claim a credit for making contributions or paying fees to a public school for support of qualified activities or qualified programs.

An individual may also claim two separate credits for making donations to a qualified school tuition organization for scholarships to private schools.

Additionally, an individual who is a shareholder of an S corporation may claim two separate credits for contributions made by the S corporation to a qualified school tuition organization when the S corporation qualifies for a corporate credit and makes an election to pass that credit through to its individual shareholders.

## Who may claim the individual school tax credits?

The individual school tax credits are available only to individuals.

The individual school tax credits are not available to trusts, estates, regular corporations, or S corporations. Additionally, partnerships and S corporations cannot pass the individual credits through to its partners or shareholders. However, an S corporation that is eligible for the corporate school tuition tax credits may elect to pass those corporate credits through to its individual shareholders.

## What forms should an individual use to claim these credits?

An individual that makes contributions or pays fees to a public school for support of qualified activities or qualified programs uses Arizona Form 322 to claim this credit.

An individual that makes a contribution to a qualifying school tuition organization uses Arizona Form 323 and Arizona Form 348 (depending on the level of donations) to claim these credits.

An individual shareholder of an S corporation uses Form 335-I and/or 341-I to claim the private school tuition tax credit(s), which an S corporation passed through to its individual shareholders.

## 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 five 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, contributions made or fees paid for support of qualified activities or qualified programs to a charter school are eligible for the credit on Arizona Form 322.

## 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 qualified activities or qualified programs.

### What are qualified activities or qualified programs for the purpose of the public school credit?

For the purpose of the public school credit, qualified activities and qualified programs include any of the following:

- Extracurricular activities
- Character education programs
- Standardized testing fees for college credit or readiness offered by a widely recognized and accepted educational testing organization

- Preparation courses and materials for standardized testing
- The career and technical education industry certification assessment
- Cardiopulmonary resuscitation training pursuant to A.R.S. §15-718.01

### **What are extracurricular activities?**

Extracurricular activities are school-sponsored activities that may 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 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 are standardized testing fees for college credit or readiness?**

These are testing fees paid to the school for the SAT, PSAT, ACT, advanced placement and international baccalaureate diploma tests and other similar tests.

### **What is a widely recognized and accepted educational organization testing organization?**

A widely recognized and accepted educational testing organization means the College Board, the ACT, the International Baccalaureate and other organizations that are Arizona Department of Revenue

widely recognized and accepted by colleges and universities in the United States and that offer college credit and readiness examinations.

### **What is career and technical education industry certification assessment?**

This is an assessment for career and technical preparation programs for students.

### **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.

### **What is an enrolled student for the purpose of extracurricular activities?**

An enrolled student is a student included by the school in its average daily membership count. Pre-school students, except handicapped students, and adult education students are excluded.

### **Will I qualify for the credit if I pay fees for my own child to participate in qualified activities or qualified programs?**

Yes, if the fees you pay for your own child to participate in qualified activities or qualified programs qualify for the credit.

### **Do contributions I make to the school qualify for the credit?**

Yes, if the contributions are in support of qualified activities or qualified programs.

### **Do I qualify for the credit if I 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 qualified activities or qualified programs?**

No. A.R.S. §43-1089.01 requires that the contributions be made and that fees be paid “to a public school.” Therefore, the payment must be made directly to the public school or district only.

### **Do I qualify to claim the credit if I make a contribution or pay fees for qualified testing to the testing company instead of directly to the school?**

No. A.R.S. §43-1089.01 requires that the fees be paid “to a public school.” Therefore, for standardized testing to qualify for the public school tax credit, the checks will need to be made out to the public school and not the testing company.

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

No, beginning in 2016, credit-eligible fees paid and contributions made to a public school from January 1 through April 15 of a calendar year may be used as a tax credit to either the current or preceding taxable year and is considered to have been made on the last day of that taxable year.

For example, qualifying contributions made to a public school from January 1, 2018, to April 17, 2018, may be used as a tax credit on either your 2017 or 2018 Arizona income tax return.

If April 15 falls on a Saturday, Sunday or a legal holiday, a contribution shall be considered timely if made on the next business day. For example: April 15, 2018, falls on a Sunday and District of Columbia Emancipation Day will be observed on Monday, April 16, 2018. You have until Tuesday, April 17, 2018, to file your return.

#### **What is the maximum 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 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.

#### **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.

#### **Must each public school make a report to the Arizona Department of Revenue (ADOR) detailing amounts and uses of the extracurricular activity and character education program funds?**

Yes. Each school must report on a form prescribed by ADOR 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 activity or 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 made or fees paid for qualified activities or qualified programs?**

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 or program being supported.

#### **May I make credit-eligible contributions through payroll withholding?**

Yes. You may 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.

#### **Individual Private School Tuition Credits**

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 amount of the credits?**

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

#### **Maximum for Credit for Contributions to Private School Tuition Organizations (Claimed on Arizona Form 323)**

For tax year 2017, the credit cannot exceed \$546 for single taxpayers or heads of household. For married taxpayers that file a joint return, the credit cannot exceed \$1,092. The maximum credit is indexed annually for inflation. 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.

#### **Maximum for Credit for Contributions to Certified School Tuition Organization - Individual (Claimed on Arizona Form 348)**

For tax year 2017, the credit cannot exceed \$543 for single taxpayers or heads of household. For married taxpayers that file a joint return, the credit cannot exceed \$1,085. The maximum credit is indexed annually for inflation. 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 (Claimed on Arizona Form 323).

### **What is a school tuition organization?**

A school tuition organization is an organization 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 ADOR certify school tuition organizations?**

Yes. ADOR is required to certify school tuition organizations and will maintain a registry of currently certified school tuition organizations on its website, [www.azdor.gov](http://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 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.

Your donation will 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 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's tax return. For example, contributions made to a school tuition organization from January 1, 2018 to April 17, 2018 may be used as a tax credit on either your 2017 or 2018 Arizona income tax return.

If April 15 falls on a Saturday, Sunday or a legal holiday, a contribution shall be considered timely if made on the next business day. For example: April 15, 2018, falls on a Sunday and District of Columbia Emancipation Day will be observed on Monday, April 16, 2018. You have until Tuesday, April 17, 2018, to file your return.

### **Must a private school tuition organization issue a receipt to the taxpayer for contributions made?**

Yes. The receipt should include the private school tuition organization's name, taxpayer name and address, amount paid, date paid and the tax year for which the taxpayer will claim the credit.

### **S Corporation Private School Tuition Credits Passed Through to its Individual Shareholders**

There are two corporate private school tuition tax credits that an S corporation may be able to claim. For tax years beginning after December 31, 2014, an S corporation that qualifies for corporate private school tuition credit may elect to pass through the credit to its individual shareholders. An S corporation that qualifies to claim the corporate private school tuition tax credits would claim these credits on Arizona Form 335 and/or 341.

### **How will I know if I can claim one of these credits?**

If you are a shareholder of an S corporation that elects to pass the corporate credit through to its individual shareholders, the S corporation will provide you with Arizona Form 335-S and/or 341-S.

### **How much of a credit may I claim if I receive a Form 335-S or Form 341-S?**

The amount of credit you may claim will be shown on the Form 335-S and/or Form 341-S that you receive from the S corporation.

### **How do I claim one or both of these credits?**

If you receive Form 335-S from the S corporation, you use Form 335-I to claim that credit. If you receive Form 341-S from the S corporation, you use Form 341-I to claim that credit.

### **Can I claim a corporate private school tuition credit passed through from an S corporation (Arizona Forms 335-I and 341-I) even if I have already claimed the maximum amount allowed under the two individual private school tuition credits (Arizona Forms 323 and 348)?**

Yes. The corporate private school tuition credits passed through from an S corporation are different credits that are not subject to the limitations under the two individual private school tuition credits.

**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

**Browse:**

ADOR Website .....[www.azdor.gov](http://www.azdor.gov)

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