

Fiscal Note

BILL # HB 2278

TITLE: ~~alternative mathematics graduation pathway~~
S/E subject: student tuition organizations

SPONSOR: Fillmore

STATUS: As Amended by Senate Appropriations

PREPARED BY: Patrick Moran

Description

The bill would increase the limits on tax credits for individual income tax credits for donations to school tuition organizations (STOs) and the corporate tax credit for donations to STOs providing scholarships to displaced or disabled pupils.

Estimated Impact

The bill would reduce General Fund revenues by an estimated \$(2.0) million in FY 2023, \$(10.9) million in FY 2024, and \$(11.0) million in FY 2025.

Analysis

STO Individual Income Tax Credit Expansion

The bill would consolidate the 2 existing individual income tax credits for donations to School Tuition Organizations (STOs) that provide tuition scholarships to students attending private schools. Currently, the "original" credit is capped at \$623 for individuals (\$1,245 for married filing jointly), while the "switcher" credit provides an additional credit of \$620 for single filers (\$1,238 for married filers) for individuals who have already received the maximum credit from the "original" program. A.R.S. § 43-1603 requires STOs to use switcher donations to pupils that attended a public school in the prior year for at least 90 days, are homeschooled, moved from out-of-state, or previously participated in the Empowerment Scholarship Account (ESA) program. The "original" STO credit had a cost of \$71.1 million in FY 2021 while the switcher credit had an impact of \$43.2 million, for a total impact of \$114.3 million.

Under the bill, the "switcher" credit would no longer be available, but the "original" credit cap would be increased by an amount equal to the current value of the "switcher," such that the individual cap in Tax Year 2022 would be \$1,243 for singles and \$2,483 for married couples filing jointly. Given that the total current cap of the combined original and switcher credit is the same as in the bill, we do not anticipate the consolidation of the 2 credits would have a material impact on donations and corresponding credit utilization in FY 2023.

In FY 2024, however, the cap on the maximum credit would be increased by \$250 for single filers and \$500 for married filers. Under current law, the cap would only be increased by the Phoenix-Mesa CPI. We estimate that the dollar increases to \$1,493 for individuals (\$2,983 for married couples) in TY 2023 (FY 2024) would provide a larger increase than the CPI.

According to DOR data, the 5-year average number of claimants of the original credit is 93,282. Given that the credit is non-refundable, we estimate that a married couple filing jointly would need to have adjusted gross income of at least \$127,000 in FY 2024 in order to be able to at least partially benefit from the credit increase. Based on DOR data, we estimate that 29.2% of claimants in FY 2024 would potentially have sufficient tax liability to receive an increase in the credit. Assuming donors to STOs have the same income would therefore imply that 27,250 claimants would receive an

(Continued)



increased credit under the bill in FY 2024. The corresponding decrease in General Fund revenues would be approximately \$(8.7) million in FY 2024 and each year thereafter.

Displaced/Disabled Corporate STO Credit Expansion

The bill would also increase the aggregate cap on corporate income tax credits for donations to STOs providing scholarships to displaced or disabled pupils from \$6,000,000 in FY 2022 to \$8,000,000. Beginning in FY 2024, the cap would be adjusted annually by 2%. Corporations have applied for credits that have reached the current aggregate cap in every year. As a result, we assume this provision would decrease General Fund revenues by \$(2.0) million in FY 2023, \$(2.2) million in FY 2024, and \$(2.3) million in FY 2025.

The bill would eliminate the cap on scholarships granted by school tuition organizations from corporate STO donations. Scholarships are currently capped at \$5,800 for K-8 pupils and \$7,700 for private school pupils. The elimination of the cap would likely increase average scholarship grants from corporate STOs. The increase in scholarships per pupil, however, would not impact the availability of Corporate STO tax credits, which are subject to an aggregate cap. As a result, we do not anticipate any direct fiscal impacts from this provision.

Local Government Impact

Beginning in FY 2024, incorporated cities and towns receive 18% of the individual income tax from two years prior. We estimate that the bill would result in an annual revenue loss to local governments of \$(360,000) in FY 2025, \$(2.0) million in FY 2026, and \$(2.2) million in FY 2027.

4/5/22