



ARIZONA STATE SENATE
Fifty-Sixth Legislature, First Regular Session

VETOED

FACT SHEET FOR S.B. 1243

STOs; individual income tax credits

Purpose

Effective January 1, 2024, repeals the individual Credit for Contributions to Certified School Tuition Organizations (Switcher Credit) and increases, beginning TY 2024, the cap on the individual Credit for Contributions to School Tuition Organizations (Original Credit).

Background

A school tuition organization (STO) is a nonprofit organization exempt from federal taxation that allocates at least 90 percent of its revenue for educational scholarships or tuition grants to attend nongovernmental elementary or secondary schools. Subject to specified limitations, there are four credits a corporation, insurer or individual may receive against income tax liability for contributions made to an STO: 1) the corporate and insurer Credit for Contributions to STOs; 2) the corporate and insurer Credit for Contributions to STOs for Displaced or Disabled Students; 3) the Original Credit; and 4) the Switcher Credit.

Both the Original and Switcher Credit caps are annually adjusted for inflation. The Original Credit cap for TY 2023 is: 1) \$655 for a single individual or head of household; or 2) \$1,308 for a married couple filing jointly. The Switcher Credit cap for TY 2023 is: 1) \$652 for a single individual or head of household; or 2) \$1,301 for a married couple filing jointly. A taxpayer's contribution to an STO that exceeds the Original Credit cap but does not exceed the amount of the Switcher Credit cap is considered a contribution towards the Switcher Credit (A.R.S. §§ [43-1089](#); [43-1089.03](#); [43-1183](#); [43-1184](#); [43-1505](#); and [43-1603](#)).

By September 30 each year, each STO must report to ADOR outlined information separately compiled and identified relating to the Original and Switcher Credit, including: 1) the total number and dollar amount of contributions received during the previous fiscal year; 2) the total number of children awarded educational scholarships and tuition grants; 3) the total dollar amount of educational scholarships and tuition grants; and 4) information on each school to which educational scholarships or tuition grants were awarded ([A.R.S. § 43-1604](#)).

The Joint Legislative Budget Committee (JLBC) fiscal note estimates that STO donations to the consolidated Original Credit would increase by one percent, which would decrease state General Fund revenues by \$(1.2) million annually beginning in FY 2025. JLBC notes that the magnitude of the impact is difficult to predict with certainty ([JLBC fiscal note](#)).

Provisions

1. Repeals the Switcher Credit.

2. Increases, beginning TY 2024, the annual cap on the Original Credit:
 - a) from \$655 to \$1,456 for a single individual or head of household; and
 - b) from \$1,308 to \$2,902 for a married couple filing jointly.
3. Subjects any revenues from Switcher Credit contributions that have not been allocated by January 1, 2024, to the provisions governing the Original Credit.
4. Contains a savings clause.
5. Makes technical and conforming changes.
6. Becomes effective on January 1, 2024.

Governor's Veto Message

The Governor indicates in her [veto message](#) that S.B. 1243 enables spending that requires taxpayers to pay for private school tuition and diverts funding from Arizona public schools.

Senate Action

FIN 2/6/23 DP 4-3-0
3rd Read 2/21/23 16-13-1

House Action

WM 3/15/23 DP 6-4-0-0
3rd Read 5/15/23 31-27-1-0-1

Prepared by Senate Research
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MG/sr