

ARIZONA PERSONAL TAX CREDITS SUMMARY-2016

NOTE: You must be careful to contribute to a **QUALIFYING** organization and get the correct **RECEIPT**. Be sure the receipt recites the “buzzwords” stated below. All of these contributions also qualify for a **Federal deduction**. Further info and lists of qualifying organizations can be found at www.azdor.gov/taxcredits

*Think of these credits as receiving a voucher from the charity to offset 100% against your Arizona taxes plus receiving a Federal deduction. For someone in the highest tax bracket, they would receive 140% “back” for every \$100 contributed. A married couple using all of the credits will **redirect \$4,773** of their AZ Income Tax and pay **ZERO tax** on the first approx. \$168,000 of income.*

CONTRIBUTION TO QUALIFYING CHARITABLE ORGANIZATIONS (FORMERLY WORKING POOR CREDIT)

A credit is allowed of up to \$400 (\$800 for a married couple filing a joint return), in lieu of an Arizona deduction, for contributions made to an exempt organization under IRC §501(c)(3) that spends at least 50% of its budget on services to Arizona residents who receive temporary assistance for needy families benefits or low income residents and their households (a five year credit carryforward provision applies). A contribution by April 15, 2017 may be claimed as a credit on either the 2016 or 2017 tax returns.

Examples: Goodwill, Salvation Army, Food for the Poor, Florence Project, Social Service Agency, etc. In prior years this credit was integrated with the foster care organization described below. For 2016 it has been “unbundled.” You may contribute the maximum to both. - *2015 credits claimed: \$31.8M on 105K tax returns*

CONTRIBUTION TO QUALIFYING FOSTER CARE CHARITABLE ORGANIZATIONS

A credit is allowed of up to \$500 (\$1000 for a married couple filing a joint return). The organization must provide services to at least 200 foster children in the state and spends at least 50% of its budget on services to foster children in the state. A contribution by April 15, 2016 may be claimed as a credit on either 2016 or 2017 tax returns.

According to a FAQ page on the Department of Revenue’s website, a foster child for this purpose must be either

- In a foster home with relatives approved by the Department of Economic Security (DES) *or*
- With a child welfare agency licensed by the DES Office of Licensing, Certification, and Regulation.

Children being fostered by organizations outside of DES do not qualify for this credit. The Department publishes a list of organizations that have qualified for this credit. *NOTE: If the same organization qualifies as Foster Care and a qualifying charitable organization, you may “fill up” on both of the credits*

MILITARY FAMILY RELIEF FUND

For taxable years through 2018, a credit is available (limited in overall total to \$1 million per year) of up to \$200 for individuals filing single, head of household or married filing separate status or \$400 for married couples filing a joint return. A receipt showing qualification for the credit must be obtained in advance from the **Arizona Department of Veterans Services** in order to claim the credit. The Department of Veterans Services will issue such receipts until such time as over \$1 M has been received in a calendar year. See: WWW.AZDOR.GOV/MFRF.HTM

2015 Credits claimed: \$1M on 3K tax returns.

PUBLIC SCHOOL EXTRA CURRICULAR ACTIVITIES AND CHARACTER DEVELOPMENT TAX CREDIT

A credit is allowed for fees paid by an individual during the taxable year to a **public school** (includes public charter schools) located in Arizona for the support of extra-curricular activities, character education programs, and CPR training of up to \$200 (\$400 for a married couple filing a joint return). Extra-curricular activities means school-sponsored activities that require enrolled students (even your own) to pay a fee in order to participate, including fees for: Band uniforms, equipment or uniforms for varsity athletic activities or scientific laboratory materials. A similar credit is also allowed for contribution to a public or charter school for character development instructional programs. Program must include instruction in at least six character traits. “Extracurricular activities” do not include in

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state or out of state trips that are solely for competitive events, or senior trips or events that are recreational, amusement or tourist alternatives.

The contribution can be made by **April 15 of the following year** and designated for either the current or the prior year. This credit is available only to individuals and unused may be carried forward up to 5 years.

If you do not have a “favorite” public school, contact us for suggestions. - *2015 Credits Claimed: \$48M on 263K tax returns*

VOLUNTARY CONTRIBUTIONS TO SCHOOL TUITION ORGANIZATIONS CREDIT (“PRIVATE SCHOOLS”)

A credit (in lieu of deduction) is allowed for voluntary cash contributions made to a **School Tuition Organization (STO)** of up to \$542. (\$1,090 for married filing joint returns). The credit is adjusted annually for inflation. A “School Tuition Organization” is a charitable organization in Arizona that is exempt from Federal taxation under §501(c)(3) of the internal Revenue Code and which allocates at least 90% of its annual revenue for educational scholarships or tuition grants to children to attend any of at least **two** qualified schools. A qualified school is a **non-governmental** primary or secondary school in Arizona that does not discriminate on the basis of race, color, handicap, familial status or national origin (retroactive legislation eliminated discrimination based on sex) and includes preschools for the handicapped. In addition, the school must satisfy the requirements prescribed by law for private schools in Arizona on January 1, 2008. **No credit is allowed if the taxpayer designates his donation for the direct benefit of any dependent of the taxpayer. ADOR publishes a list of qualifying STO’s schools.** Further “anti-abuse” provisions were enacted in 2012. Five-year credit carryforward on any unused credits.

Charter schools and programs operated by charter schools are not “qualified schools” for the purpose the credit. If an individual designates a specific child to be the beneficiary of his contribution as a condition of the contribution to the STO, no credit will be allowed. Similarly, if a taxpayer “swaps contributions” with another taxpayer to insure that his child will be a beneficiary of that taxpayer’s contribution no credit will be allowed.

STOs face additional certification, reporting, operation, audit and financial review requirements to be a qualifying organization. The annual STO report is based on the organization’s fiscal year rather than the calendar year, and the annual report deadline is September 30.

Payments by an Arizona individual made through April 15 of the following year to an STO can optionally be claimed as a credit on the **prior** year Arizona income tax return or applied to the year in which it was actually paid. *2015 Credits Claimed: \$62M on 81K tax returns*

Switcher Credit. Taxpayers who have made the **maximum contribution** under the credit cited above may make an **additional** contribution to a School Tuition Organization for the “switcher” credit. The credit is only available if the donor has already contributed the maximum under the “regular” program. The maximum credit for 2016 under the switcher credit is \$542. (\$1,083 for a married couple filing joint return).

A corporation (including S Corporations) qualifies for the STO Credit with certain exceptions and limits - *2015 Credits Claimed: \$31M on 37K tax returns (plus \$48M corporate on 97 tax returns)*

General Notes:

- April 15 means that day even if it falls on a weekend, etc...or if the tax return is extended.
- If a credit is retroactively claimed in the prior year, the charitable **deduction** must be claimed in the current year on your Federal tax return.
- Credit claimed as a Federal itemized deduction must be adjusted on your Arizona itemized deduction schedule.
- Unused credits (except Military Family Relief Fund) may be carried over five years.

If you have any questions please call:

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