BILL # SB 1081

TITLE: marriage penalty elimination; tax credits

SPONSOR: Martin

STATUS: As Amended by Senate Finance

REQUESTED BY: Senate

PREPARED BY: Jake Corey

FISCAL ANALYSIS

Description

The bill, as amended by Senate Finance, modifies the following individual income tax credits to allow married couples to claim a credit that is twice the amount single filers are currently allowed to claim: 1) Charitable Organization Providing Assistance to the Working Poor, 2) Private School Tuition Organization, and 3) Public School Extracurricular Activities. The increases in the cap for married couples would be phased in over five years. The bill further requires that any new individual income tax credit enacted after December 31, 2005 include a credit amount for married couples twice the amount allowed for single filers.

Estimated Impact

The bill could result in an estimated General Fund revenue loss of between $(370,000) and $(2.1) million in FY 2006 for the Charitable tax credit and the Public School tax credit provisions. The estimated range of revenue loss would include: 1) Charitable tax credit ($10,000 to $80,000); and 2) Public School Extracurricular Activities tax credit ($360,000 to $2.0 million). Once it is fully implemented in FY 2010, the bill could result in a General Fund revenue loss of between $(2.1) million and $(11.9) million.

The JLBC Staff is unable to determine the fiscal impact of the Private School Tuition Organization (STO) tax credit with certainty. The provision would have two potential impacts: 1) the increased tax credit would reduce state revenues from the individual income tax (estimated loss of between $(390,000) and $(2.2) million in FY 2006); and 2) new STO scholarships would reduce the state's K-12 education costs if students attend private school who otherwise would have attended public school. Once fully implemented in FY 2010, the bill would be revenue neutral if between 400 and 2,300 students attend private school who otherwise would have attended public school.

The Department of Revenue (DOR) estimates that the bill would result in a General Fund revenue loss of $(23) million. Of the total, DOR estimates $900,000 would be due to the Charitable credit, $8.7 million would be due to the Private School Tuition Organization credit, and $13.2 million would be due to the Public School Extracurricular Activities credit. The department has not attempted to account for any K-12 savings that could result from increasing the Private School Tuition Organization credit.

Analysis

The bill would increase the amount that a married couple can claim for certain tax credits such that the maximum allowable for a married couple would be twice that of individual filers. In analyzing the fiscal impact of each credit, JLBC Staff has made the following assumptions:

- Married couples account for between 50% to 75% of the total amount of credits claimed
- Raising a credit's maximum allowable amount for married couples will result in 20% to 75% of married couples increasing their claim
- Raising a credit's maximum allowable amount for married couples will not result in additional married couples claiming the credit
- Aside from any increases in the maximum allowable amount of a credit, the total amount of credits claimed will annually increase by 3%

Analysis (Continued)

Charitable Organization Providing Assistance to the Working Poor

A.R.S. § 43-1088 allows taxpayers to claim a credit for contributions made to a charitable organization that provides assistance to the working poor. The charitable organization must expend at least 50% of it budget on services for Temporary Assistance for Needy Families (TANF) recipients or low income households. Currently, the amount of the credit is capped at $200 for both individuals and married couples. In the first year, the bill would raise the cap for a married couple to $240. Over five years, the bill would increase the married couple cap to $400.

According to the most recent data available from DOR, total credits claimed by both single individuals and married couples equaled approximately $590,000 in FY 2001. Using a 3% growth rate, total credits claimed would be $680,000 in FY 2006. Assuming married couples claim between 50% and 75% of these credits, we estimate married couples would claim between approximately $340,000 and $510,000. Further assuming between 20% and 75% of married couples would increase their claim, raising the cap for married couples to $240 in FY 2006 would result in additional credits claimed of between $10,000 and $80,000. In FY 2010, when the cap would be raised to $400, between $80,000 and $430,000 additional credits would be claimed. If additional married couples made contributions and claimed the credit as a result of increasing the available credit, there would be a further loss of state revenues.

Private Student Tuition Organization

A.R.S. § 43-1089 allows taxpayers to claim a credit for contributions made to a school tuition organization. Student tuition organizations are charitable organizations that allocate at least 90% of their annual revenue to private schools for scholarships or tuition grants. Currently, the amount of the credit is capped at $500 for an individual and $625 for a married couple. In the first year, the bill would raise the cap for a married couple to $700. Over five years, the bill would increase the married couple cap to $1,000.

According to the most recent data available from DOR, total credits claimed by both single individuals and married couples equaled $29.5 million in FY 2003. Using a 3% growth rate, total credits claimed would be $32.2 million in FY 2006. Assuming married couples claim between 50% and 75% of these credits, we estimate married couples would claim between approximately $16.1 million and $24.2 million. Further assuming between 20% and 75% of married couples would increase their claim, raising the cap for married couples to $700 in FY 2006 would result in additional credits claimed of between $390,000 and $2.2 million. In FY 2010, when the cap would be raised to $1,000, between $2.2 million and $12.2 million additional credits would be claimed. If additional married couples made contributions and claimed the credit as a result of increasing the available credit, there would be a further loss of state revenues.

If expanding the credit results in additional contributions made to student tuition organizations, these organizations may be able to offer additional scholarships to new students or increase existing awards to current students. Any loss in state revenues from married couples claiming additional credits could be offset if expansion of the credit resulted in new private school students or students remaining in private school who otherwise would have transferred to public school. It is difficult, however, to quantify all the incentives that factor into private school attendance, as there are both monetary and non-monetary ones.

Currently each pupil added to the statewide K-12 Average Daily Membership (ADM) count costs the state General Fund on average about $4,700. Based on past trends, JLBC Staff estimates that this amount will increase 2.5% annually in future years. Once the bill is fully implemented in FY 2010, the state General Fund would save an average of about $5,400 for each pupil that would have otherwise attended public school.

Assuming a state General Fund revenue loss of between $2.2 million and $12.2 million in FY 2010 to increase the married couple cap to $1,000, we estimate that this portion of the bill would be revenue neutral if between 400 and 2,300 pupils attend private school who otherwise would have attended public school. This includes both students who transfer from public schools to private schools as well as students who remain in private schools as a result of receiving tuition assistance. Given an estimated private school population of 45,000 in FY 2010, this would represent between 1% and 5% of that population.

Beyond its impact on K-12 operating costs, increasing the Private School Tuition Organization credit potentially could reduce School Facilities Board (SFB) costs for new school construction and building renewal pursuant to A.R.S. § 15-2041

Analysis (Continued)

and A.R.S. § 15-2031, which could help offset the cost of the tax credit. New school construction costs would decrease if the SFB approved fewer new schools because of reduced enrollment growth under the bill. This would reduce SFB building renewal costs as well because fewer school buildings would require funding under that formula.

The amount and timing of new construction and building renewal savings under the bill is difficult to predict because only growing school districts with projected space deficiencies qualify for new schools and the proportion of pupils who would leave such districts versus all other districts under the bill is unknown. The timing of any potential savings in SFB-related costs under the bill likewise is difficult to predict because new schools are approved through a multi-year process that would not be immediately affected by the bill.

Public School Extracurricular Activities

A.R.S. § 43-1089.01 allows taxpayers to claim a credit for the amount of any fees paid or contributions made in the taxable year to a public school in support of extracurricular activities or character education programs. Currently, the amount of the credit is capped at $200 for an individual and $250 for a married couple. In the first year, the bill would raise the cap for a married couple to $280. Over five years, the bill would increase the married couple cap to $400.

According to the most recent data available from DOR, total credits claimed by both single individuals and married couples equaled $27.7 million in FY 2003. Using a 3% growth rate, total credits claimed would be $30.3 million in FY 2006. Assuming married couples claim between 50% and 75% of these credits, we estimate married couples would claim between approximately $15.2 million and $22.7 million. Further assuming between 20% and 75% of married couples would increase their claim, raising the cap for married couples to $280 in FY 2006 would result in additional credits claimed of between $360,000 and $2.0 million. In FY 2010, when the cap would be raised to $400, between $2.0 million and $11.5 million additional credits would be claimed. If additional married couples made contributions and claimed the credit as a result of increasing the available credit, there would be a further loss of state revenues.

Local Government Impact

The Urban Revenue Sharing formula distributes 15% of income taxes collected two years prior to incorporated cities and towns. The bill, therefore, could reduce these distributions by between approximately $110,000 and $650,000 in FY 2008. Once the bill is fully implemented, it could reduce the distributions by between $650,000 and $3.6 million in FY 2012.

Regarding the Private School Tuition Organization tax credit, K-12 equalization funding to local school districts and charter schools would be lower under the bill than under current law because they would serve fewer pupils. The amount of funding loss per year, however, would depend on the number of existing public school pupils receiving scholarships each year under the bill versus the number of scholarships granted to "non-saving" pupils, which cannot be predicted.

Funding losses for most school districts would reduce General Fund costs rather than "local share" tax rates, since the latter are affected only by changes in tax rates and property values and neither of them would be affected by the bill. This would not be the case for "non-state aid" districts, however, because reductions in their ADM counts could cause them to lower their K-12 "local share" tax rates, since those rates are usually based on enrollments. Non-state aid districts would not necessarily lower their tax rates under the bill, though, because they are required to levy a "local share" tax rate equal to at least 50% of the K-12 Qualifying Tax Rate (QTR) pursuant to A.R.S. § 15-992(B).

Public school enrollment losses under the bill also potentially could reduce the amount of local property tax funding generated by school districts for overrides (which are capped at levels that indirectly tied to enrollment counts), school bond issuances, and "Excess Utilities" and other costs that may be funded with local property tax revenues.

2/7/05