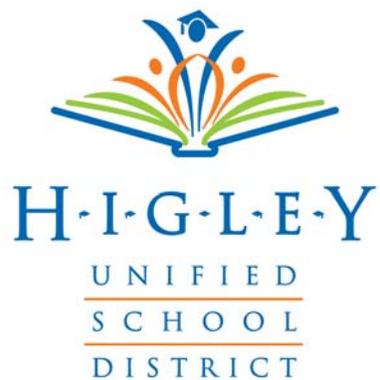


**Higley Unified School District**

**Tax Credit**

**Laws/Guidelines/Procedures**

**Handbook**



**Information on  
School Tax Credits  
As Applicable to Public Schools  
Extruded from  
Arizona Department of Revenue  
Pub 707**

A complete copy can be obtained at  
<http://www.azdor.gov/brochure/707.pdf>

## SCHOOL TAX CREDITS

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 will prevail.

### **What school tax credits are available to individuals?**

An individual may claim a credit for making contributions or paying fees to a public school for support of extracurricular activities or character education programs. An individual may also claim a credit for making a donation to a qualified school tuition organization for scholarships to private schools.

### **Who may claim the individual school tax credit?**

The individual school tax credits are available only to individuals. Partnerships and S corporations cannot pass these credits through to their partners or shareholders. These credits are also not available to trusts estates, regular corporations, or S corporations.

### **What form does an individual use to claim these credits?**

An individual that makes contributions or pays fees to a public school for support of extracurricular activities or character education programs would use Arizona Form 322 to claim this credit. An individual that makes a contribution to a qualifying school tuition organization would use Arizona Form 323 to claim this credit.

### **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 both 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 department.

### **Must a taxpayer have a child in school in order to claim one or both of these credits?**

No.

**Is a charter school considered to be a public school or a private school?**

A charter school is defined in ARS §15-101 as a public school. Therefore, a charter school is eligible for the credit for contributions made or fees paid to a public school to support extracurricular activities or character education.

**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 this credit you must make cash contributions or pay fees to a public school for support of extracurricular activities.

**Will I qualify for the credit if I pay fees for my own child to participate in an extracurricular activity?**

Yes, fees that you pay for your own child to participate in an extracurricular activity qualify for the credit.

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

Yes, if the contributions are in support of extracurricular activities.

**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, preschools, community colleges and universities do not qualify for the credit.

**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. It is important to note that at least some monetary amount must be levied to participate in an extracurricular activity in order for the credit to be available.

**What are extracurricular activities?**

Extracurricular activities mean school sponsored activities that 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. Generally, any educational or recreational activities that supplement the educational program of the school are considered to be extracurricular activities. ARS §15-342.24 requires each district school board to determine which activities are extracurricular and what fees will be levied.

**What is an enrolled student?**

An enrolled student is a student included by the school in its average daily membership count (ADM). Preschool students, except handicapped students, and adult education students should not be included.

**If a school establishes a central fund to pay for extracurricular activities, would a payment to this central fund qualify for this 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.

**Can a taxpayer make a contribution or pay fees to an organization (e.g., PTA, school foundation, school district or school club) which gives the funds in a lump sum to the school or directly pays for extracurricular activities or character education?**

**No.** ARS §43-1089.01 requires that the fees be paid “to a public school.” Therefore, the payment must be made directly to the public school or district only.

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

**Yes.** Each school must submit a report by February 28<sup>th</sup>, after the close of the calendar year, on a form prescribed by the department showing the dollar amount of fee and contribution payments received and spent.

This report should be mailed no later than February 28<sup>th</sup> of the following calendar year to:

Arizona Department of Revenue  
Office of Economic Research and Analysis  
1600 West Monroe  
Phoenix, Arizona 85007

**Must a public school issue a receipt to the taxpayer for contributions or payment of extracurricular activity fees?**

Yes. The receipt should include the public school name, school district number, taxpayer name, amount paid, date paid and a description of the activity being supported.

**Are school districts required to follow School District Procurement Rules for purchases of goods or services from district employees?**

Yes. Arizona Revised Statutes (A.R.S.) §38-503(C) prohibits public employees from providing their employers with any equipment, material, supplies, or services, unless provided under an award or contract let after public competitive bidding. Accordingly, Attorney General Opinion 106-002 clarified that districts must follow the School District Procurement Rules, regardless of the expenditure amount, when purchasing goods or services from district employees. This applies to any purchase using district monies, including extracurricular activities fees tax credit contributions and monies held in trust by the district such as student activities monies. Although the School District Procurement Rules exempt expenditures of student activities monies from the Rules, that exemption does not apply to purchases in which a school district employee acts as a vendor. Following the guidelines for competitive purchasing below the dollar limits required for sealed bids prescribed in the USFR is not sufficient to comply with the requirements of A.R.S. §38-503(C).

## **Arizona Revised Statutes Regarding Tax Credits**

### **A.R.S. §43-1089.01 Tax Credit; public school fees and contributions; definitions**

- A. A credit is allowed against the taxes imposed by this title for the amount of any fees or cash contributions made by a taxpayer during the taxable year to a public school located in this state for the support of extracurricular activities or character education programs of the public school, but not exceeding:
  - a. Two hundred dollars for a single individual or head of household.
  - b. Four hundred dollars in taxable year 2006 and any subsequent year for a couple filing a joint return.
- B. A husband and wife who file separate returns for a taxable year in which they could have filed a joint return may each claim only one-half of the tax credit that would have been allowed for a joint return.
- C. The credit allowed by this section is in lieu of any deduction pursuant to section 170 of the internal revenue code and taken for state tax purposes.
- D. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the taxpayer may carry the amount of the claim not used to offset the taxes under this title forward for not more than five consecutive taxable years' income tax liability.
- E. The site council of the public school that receives contributions that are not designated for a specific purpose shall determine how contributions are used at the school site. If a charter school does not have a site council, the principal, director or chief administrator of the charter school shall determine how the contributions that are not designated for a specific purpose are used at the school site.

- F. A public school that receives fees or a cash contribution pursuant to subsection A of this section shall report to the Department, in a form prescribed by the Department, by February 28<sup>th</sup> of each year the following information:
- a. The total number of fee and cash contribution payments received during the previous calendar year.
  - b. The total dollar amount of fees and contributions received during the previous calendar year.
  - c. The total dollar amount of fees and contributions spent by the school during the previous calendar year.
- G. For the purpose of this section:
- a. “Character education programs” means a program described in section 15-719
  - b. “Extracurricular activities” means school sponsored activities that require enrolled students to pay a fee in order to participate including fees for:
    - i. Band uniforms
    - ii. Equipment or uniforms for varsity athletic events
    - iii. Scientific laboratory materials
    - iv. 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.

A.R.S. § 15-342.24 Discretionary powers

(24) For common and high school pupils, assess reasonable fees for optional extracurricular activities and programs conducted when the common or high school is not in session, except that no fees shall be charged for pupils’ access to or use of computers or related materials. For high school pupils, the governing board may assess reasonable fees for fine arts and vocational education courses and for optional services, equipment and materials offered to the pupils beyond those required to successfully complete the basic requirements of any other course, except that no fees shall be charged for pupils’ access to or use of computers or related materials. Fees assessed pursuant to this paragraph shall be adopted at a public meeting after notice has been given to all parents of pupils enrolled at schools in the district and shall not exceed the actual costs of the activities, programs, services, equipment or materials. The governing board shall authorize principals to waive the assessment of all or part of a fee assessed pursuant to this paragraph, if it created an economic hardship for a pupil. For the purpose of the paragraph, “extracurricular activity” means any optional, noncredit, educational or recreational activity which supplements the education program of the school, whether offered before, during or after regular school hours.

<http://www.azleg.state.az.us>

## What does the above ARS §43-1089.01 mean for HUSD?

***The site council of the public school that receives contributions that are not designated for a specific purpose shall determine how the contributions are used at the school site.***

This means:

- Site Councils **MUST** meet, discuss, and approve expenditures from your **Undesignated Extracurricular Accounts**. A copy of their minutes should be kept as backup when a requisition is submitted for a Purchase Order. The completed Purchase Order would then become a part of that file.
- Any other extracurricular account would **NOT** require Site Council approval because the funds had been designated for a specific purpose.

***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.***

This means:

- Every field trip using tax credit money must have documentation (rationale) stating the educational purpose.
- This documentation shall serve as back up when a requisition is submitted for a Purchase Order.
- The completed Purchase Order would then become a part of that file.
- Those files would be kept at the school site for audit purposes if requested.
- The file should contain all pertinent information in relation to the trip (trip approval with rationale, requisition, Purchase Order, itinerary, roster, permission slips, etc.)

Examples of events that are recreational, amusement or tourist activities that **CANNOT** be paid for out of tax credit accounts:

- Fiddlesticks
- Disneyland/Magic Mountain
- Bowling Alleys
- Parties
- Anything purely recreational and not an obvious educational program

Examples of events that could be paid out of a tax credit account if the activity supplements an educational program:

- Phoenix Zoo
- Science Center Museum
- Arts in Education (plays, symphonies, etc.)

- Band/Orchestra/Chorus Festivals (to include transportation, lodging, entry fees)
- Athletic Competitions (to include transportation, lodging, entry fees)

Trips can be paid (split) from more than one fund

Example: Band festival in California

1. Costs covered by tax credit: transportation, lodging, food and festival entry fees for those days during the actual competition
2. Costs covered by another fund: Disneyland entry fee, food at Disneyland, and any other costs affiliated with the day at Disneyland

Examples of items or services that CAN be purchased with Tax Credit money:

- Field trip entry fees (zoo, museums, fine arts or athletic competitions, etc.) as long as there is a specific educational purpose.
- Transportation for the field trip (district bus, district approved charter bus, airfare)
- Food for students on field trip
- Athletic equipment and/or supplies (not for P.E. class)
- Uniforms for band and athletics if kept at school
- Guest speakers conducting assemblies at school or providing clinics to students (e.g., cheer)
- Programs during school day if a supplement to educational purpose, optional to students, not part of the grade and does not require homework (e.g., a colonial fair teaching students traditions and crafts of those times)
- Programs before or after school (tutoring, special classes such as Spanish as long as the program is optional to students)
- Programs offering lunchtime activities (e.g., YMCA, etc.)
- Equipment or supplies related to any of the above
- Substitute teachers if proper procedures are followed and documentation is provided verifying the extracurricular activity.

***A public school that receives fees or cash contributions pursuant to subsection A of this section shall report to the Department, in a form prescribed by the Department, by February 28<sup>th</sup> of each year the following information:***

- 1. The total number of fee and cash contributions received during the previous calendar year.***
- 2. The total dollar amount of fees and contributions received during the previous calendar year.***
- 3. The total dollar amount of fees and contributions spent by the school during the previous calendar year.***

Reporting Requirements:

School Name/Address/Contract  
Total # of Contributors  
Total \$ Contributed  
Total \$ Spent for Extracurricular Activity

District Office will be responsible for gathering the information from each school site, compiling it to a report for the Department of Revenue and submitting the report to the Department of Revenue on or before February 28<sup>th</sup> of each year.

Schools will be responsible to submit State Reports to District Office on or before February 1<sup>st</sup> of each year.

### **Important Tax Credit Facts**

- **Tax Credit Donations must be post marked by December 31<sup>st</sup> to count for the current tax year.**
- **Married filing joint can claim up to \$400.00**
- **Single can claim up to \$200.00**
- **Tax Credits can only be used for extracurricular events that are:**
  - **School sponsored events**
  - **Require a fee in order to participate**
  - **Limited to enrolled students**
- **Tax Credits are NON REFUNDABLE**
- **Tax Credit payments cannot be transferred from one school to another**
- **Tax Credit donations are for Arizona residents only. Residents from other states cannot claim an Arizona public school tax credit.**