

CORPORATE TAX CREDIT FAQ

2020/ 2021 Arizona Corporate Income Tax Credit

Low Income Cap: \$123,042,188 and Disabled/ Displaced Cap: \$5,000,000

NOTE: This form MUST be received by STO4KIDZ on or before JUNE 30, 2020 to be submitted to ADOR for approval on JULY 2, 2020
Applications can **ONLY** be submitted to ADOR by STO4KIDZ, NOT the corporation.

Why Allocate Corporate Tax Dollars to STO4KIDZ?

At no out of pocket cost, you will receive a **dollar-for-dollar** State Tax Credit on your corporate income tax liabilities and may also qualify to claim your contribution on your federal taxes as a donation to STO4KIDZ, a non-profit charitable organization **which in-turn awards a minimum 90% of every dollar in scholarships** to qualified private school students in Arizona **at the beginning of each semester**.

Must consult your tax advisor for your corporate tax your eligibility.

Corporate Tax Credit History: (A.R.S. §20-224.06 and § 43-1183)

In 2006 and then in 2008, the Arizona State Legislature passed into law the Corporate Income Tax Credit and then the Disabled/ Displaced Corporate Income Tax Credit, which allows a corporation to make a contribution to a qualified STO (School Tuition Organization) and receive dollar-for-dollar Tax Credit up to the total amount of their tax liabilities. **The statewide Low-Income corporate Tax Credits for fiscal year 2020/2021 is \$123,042,188 and Disabled/Displaced Tax Credit is \$5,000,000.**

On **July 2, 2020** the Pre-approval applications are submitted on behalf of corporations to ADOR by STO4KIDZ. ADOR will process applications on a first-come-first-serve basis.

Who can participate ?

1. C-Corporations can allocate up to 100% of their state income tax liabilities for the given tax year as long as it does not exceed the statewide cap for the year. Credit can be carried forward for up to 5 years.

2. S-Corporations (as defined in section 1361 of the Internal Revenue Code) can either claim the credit against income taxes at the corporate level (income tax reported on an Arizona 120S corporate income tax return) or it may make an irrevocable election to pass the credit through to its individual shareholders. The S-Corp must make a minimum aggregate contribution of \$5,000 within their taxable year in order to pass the credit through to its shareholders. Any pro-rata shares that would be distributed to non-eligible partners (individual partners in a partnership) or estates or trusts (shareholders in an S-Corp) are lost. An S-Corp owned by a grantor trust is eligible to pass through the credit. The contribution must be made by the S-Corp, not a shareholder, in order to be eligible for the corporate tax credit. Each individual shareholder may claim only a pro rata share of the credit based on the individual's ownership interest in the S-corp. (A.R.S. § 43-1089.04)

3. Insurance companies that pay tax on premiums, can allocate up to 100% of their premium tax Liabilities.

4. Can an LLC participate in this tax credit?

Only those LLCs that are taxed as S-corps for federal and state purposes are eligible to make a contribution for a tax credit.

Can a corporation donate after the end of it's fiscal year and still claim the credit on its prior fiscal year tax return?

No. Corporations can only claim their contribution in the tax year in which the contribution is made. (Plus five years for carryforward purposes).

The law allows your corporation to allocate your tax liability to a School Tuition Organization (STO) such as **STO4KIDZ**, designating a private school, not a specific student. However, if there are not enough eligible students at your designated school, the money will be awarded among eligible students attending other qualifying private schools in Arizona.

Who will benefit from Corporate Tax Credit?

- * K-12 students with a demonstrated financial need
- * Pre-K-12 Student with Disabilities
- * Kindergarten Students with demonstrated financial need
- * US Armed Forces Dependents
- * Student Transferring from a Public or Charter School with demonstrated financial need
- * Foster Children
- * Previously Received Corporate or Switcher Scholarship

Corporate Tax Allocation Procedures:

1. Determine how much to allocate based on your corporation's tax liability for the current year.

2. Complete and submit the Corporate Income Tax Allocation Pledge Form to STO4KIDZ **by or before June 30, 2020.**

3. STO4KIDZ will prepare your pre-approval form and will submit to ADOR on July 2, 2020. (ADOR will only accept applications submitted by an STO such as STO4KIDZ)

4. The same day our office receives your approval notification from ADOR, we will email your corporation a copy of the approval form with key instructions.

5. **Within 20 days** you will fund School Tuition Organization 4 Kidz (STO4KIDZ) in order to keep the tax credit for the fiscal year 2020.

NOTE: A school tuition organization cannot award, restrict, or reserve scholarships solely on the basis of a donor's recommendation. A taxpayer may not claim a tax credit if the taxpayer agrees to swap donations with another taxpayer to benefit either taxpayer's own dependent. A.R.S. 43-1603 (C). Any designation of your own dependent as a potential recipient is prohibited.