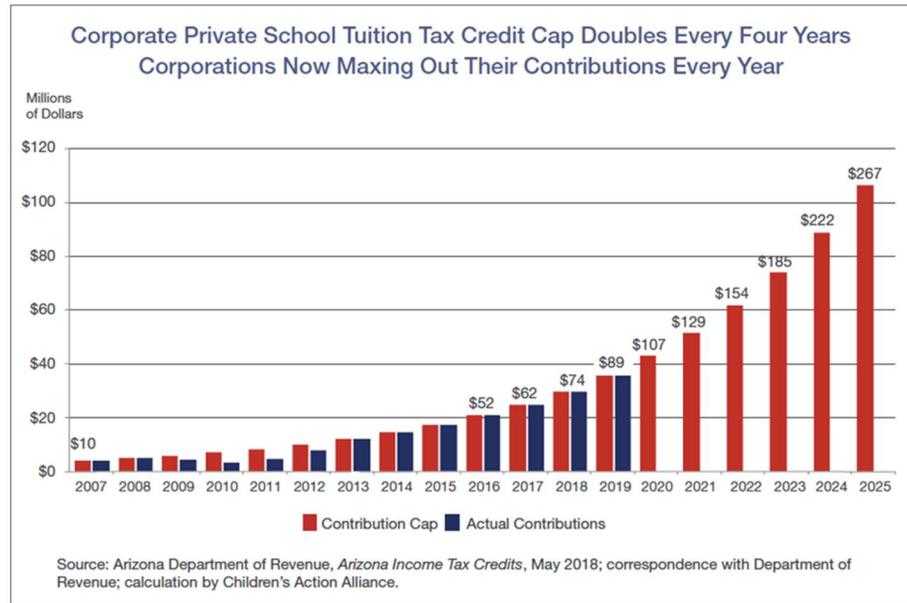


## It's Time to put the Brakes on the Automatic Growth of Corporate Tax Credits to Private Schools

Arizona's tax credits to support private schools diverted more than \$171 million from the state budget in 2018 – funding that could otherwise be used to fund public schools. That amount will increase because the private school tuition tax credit which is available to corporations is subject to an aggregate limit that automatically increases by 20% each year. Nothing else in state law is allowed to grow on autopilot by 20% annually, and the impact on state revenues is evident. In 2007, the first year of the corporate tax credit program, the cap was \$10 million. In the current state budget year, it is \$89 million. By 2025, the cap will exceed \$267 million.



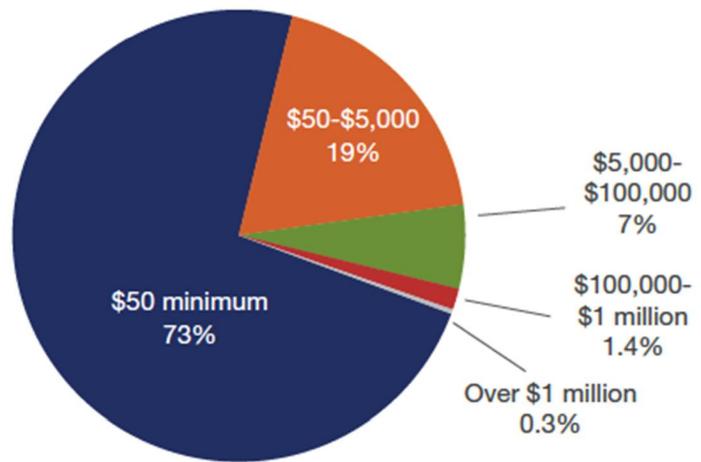
*“You don’t have to be a mathematician to have determined that a 20 percent escalator that is compounding, at some point in time is actually going to exceed the totality of the corporate income tax.” - Steve Yarbrough, former state senator and prime sponsor of the corporate private school tax credit legislation, Capitol Media Services, December 28, 2017*

The private school tuition tax credit, along with the dozens of other tax credits that are available to corporations, are enabling many corporations to significantly reduce or entirely eliminate their state income tax bill. In 2016, corporations reduced their tax liability by \$114 million through the use of all tax credits available to them. In addition, if corporations do not owe enough income taxes to use their tax credits, they are allowed to save the unused portion of the credit and apply it against future tax liability. Today, corporations are carrying forward a \$1.3 billion balance in tax credits that can hit the state budget at any time. The carry-forward balance for

corporations is expected to grow because the amount of corporate taxes due will decrease with the phasing down of the corporate tax rate.

Allowing any tax cut or credit to grow automatically by 20 percent each year is not a responsible approach to state budgeting. That is especially true when there is no accountability to determine whether diverting public tax dollars to religious and other private schools improves academic achievement and when Arizona's public schools, community colleges and universities are receiving less state funding today than a decade ago. It is time for lawmakers to put the brakes on the automatic growth of corporate private school tax credits.

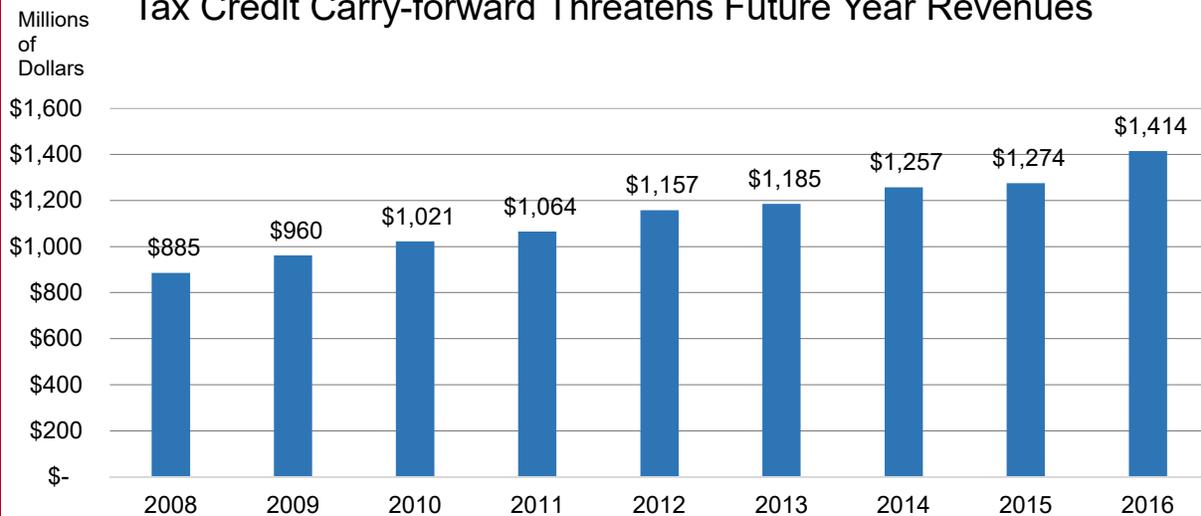
### 74 Percent of Arizona Corporations Paid the \$50 Minimum Income Tax in 2015



Note: Amounts shown before tax credits.

Source: Arizona Department of Revenue, Corporate Taxpayer by Size of Tax Liability Tax Year 2015.

### Tax Credit Carry-forward Threatens Future Year Revenues



Source: Department of Revenue, *Arizona Income Tax Credits*, November



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