

GUIDELINES FOR THE PUBLIC SCHOOL EXTRACURRICULAR ACTIVITY (ECA) TAX CREDIT

An individual may claim a nonrefundable tax credit for making cash contributions or for certain fees paid to a public school located in Arizona for the support of extracurricular activities or character education programs. The credit is equal to the amount of fees paid or cash contributions, not to exceed \$400 for married filing joint filers and \$200 for all other filing statuses. The following information is intended to assist public schools in understanding their statutory requirements pertaining to ECA tax credit monies.¹

I. OVERVIEW – A.R.S. § 43-1089.01

To qualify for the credit, an individual must make contributions or pay fees to a public school for support of extracurricular activities or for character education programs.

What is a character education program?

A character education program is a program defined in A.R.S. § 15-719. Each district may develop its own course of study for each grade. At a minimum, the character education program must include:

- Instruction in the definition and application of at least six of the following character traits: truthfulness, responsibility, compassion, diligence, sincerity, trustworthiness, respect, attentiveness, obedience, orderliness, forgiveness, virtue, fairness, caring, citizenship and integrity.
- Use of activities, discussions and presentations to illustrate and reinforce the application of the character traits
- Presentations by teachers or mentors who demonstrate the character traits

What are extracurricular activities?

Extracurricular activities are school sponsored optional activities that require enrolled students to pay a fee in order to participate. The activities must supplement the school's education program. 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. Extracurricular activities do not include any senior trips or events that are recreational, amusement or tourist activities.

Generally, any optional, noncredit, educational or recreational activities that supplement the education program of the school are considered to be extracurricular activities per § 15-342(24). Fees for the use of scientific or other equipment must be optional and not part of a course taken for credit. [See rubric on page 5 to assist schools in determining if an extracurricular activity is tax credit eligible.]

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. At least some monetary amount must be levied to participate in an extracurricular activity in order for the credit to be available. A blanket waiver of all activity fees would make the activity ineligible for the tax credit.

Any fees charged must be no more than the actual costs of the activity and must be adopted by the Governing Board at a public meeting after notice to all parents of students enrolled in the district. The

¹ House Bill 2301 (Laws 2011, Chapter 195) amended A.R.S. § 43-1089.01. This publication provides general information and includes the session law provisions. For complete details, refer to A.R.S. § 43-1089.01. In case of inconsistency or omission in this publication, the language of the Arizona Revised Statutes will prevail.

Governing board must authorize principals to waive all or part of the fee if it creates an economic hardship for a pupil. If a school or district is unable to waive all or part of the fee, then no fees may be charged for the activity and it would no longer be tax credit eligible.

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

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

What is an enrolled student?

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

II. REPORT TO THE DEPARTMENT OF REVENUE

Must each public school make a report to the Department of Revenue?

Yes. Each school must submit a report by February 28, on a form prescribed by the department, showing the number of payments, the dollar amount of fee and contributions received and the amount spent categorized by specific extracurricular activity or character education program.

A separate form or a facsimile of the report should be submitted with the required information for each school within the district or charter holder. A report must be submitted even if the school did not receive any cash contributions. The reported amount should only include ECA tax credit monies and exclude any other private donations.

Where should the school send the reports?

School districts should submit completed forms to Darlene Teller by email to dteller@azdor.gov; or fax to (602) 716-7991; or mail to Arizona Department of Revenue, Office of Economic Research and Analysis, 1600 W. Monroe Street, 9th Floor, Phoenix, AZ 85007-2650. If submitting by mail, allow an extra week for delivery. Charter schools should submit completed forms to Karshannon Gene by email to kgene@azdor.gov; or fax to (602) 716-7991; or mail to the address noted above.

What time period should the reports cover?

The report should be based on fees and contributions received and spent from January 1 through December 31 and not the amount spent during the school fiscal year. The amount spent in a calendar year should also include the use of unspent monies carried over from a previous calendar year.

Must the school report how the money was spent categorized by specific extracurricular activity or character education program?

Yes. The report must list the specific activity or program and the corresponding dollar amount associated with these activities. For example, character education, field trips, athletics, sports, fine arts, music, band, orchestra, choir, performing arts, drama club, academic competitions, chess club, speech & debate, other clubs, after school enrichment, tutoring, extended kindergarten, non-credit summer program, or short-term capital. Listing a total amount spent for all clubs is acceptable. However, combining tutoring, band, and clubs into one activity described as after school programs does not satisfy the reporting requirement. Do not use abbreviations or describe the amount spent as *general* or *undesignated*.

Is the form available on the department's website?

Yes. The Public School Report (Form 10621) can be downloaded at www.azdor.gov, under the "Forms" link, then click on "Other" and scroll down to the Public School Report.

III. USE OF UNSPENT ECA CONTRIBUTIONS PREVIOUSLY DESIGNATED FOR A SPECIFIC PURPOSE

The site council of each individual public school that receives contributions that are NOT designated for a specific purpose shall determine how the contributions are used. The principal, director or chief administrator of a charter school shall determine how the contributions are used if the charter school does not have a site council.

Can a school reclassify unspent contributions that were previously designated for a specific purpose?

Unspent ECA contributions at the end of the fiscal year that were previously designated for a specific extracurricular activity or character education program, such as the school band, can be reclassified to undesignated contributions in the following fiscal year but only if 1) that specific purpose or program has been discontinued or 2) the specific purpose or program has not been used for two consecutive fiscal years. In the following fiscal year, those contributions would be considered undesignated and the school's site council would determine how the contributions are used.

IV. TEMPORARILY REDIRECT ECA TAX CREDIT MONIES FOR SHORT-TERM CAPITAL ITEMS

Section 4 of HB 2301 (Laws 2011, Chapter 195) allows individual schools to temporarily use up to 50% of the unencumbered contributions it received on or before December 31, 2010 for short-term capital items such as technology, textbooks, library resources, instructional aids, pupil transportation vehicles, furniture and equipment in FY 2011/12 and 2012/13.

A public school that uses unencumbered contributions for short-term capital items must report these expenditures to the Joint Legislative Budget Committee at the end of each fiscal year. Reporting instructions for the last fiscal year can be found at www.azleg.gov under *JLBC* and *Legislative Reports* and then scroll down to *Education Reports*.

How should an individual school determine if ECA tax credit contributions from prior years are available for the purchase of short-term capital items?

1. Identify the remaining unspent balance of ECA contributions that were received on or before December 31, 2010 that are unencumbered (i.e. have not been committed through purchase orders at fiscal yearend).
2. Calculate 50% of the unencumbered contributions identified from step 1 to determine the maximum amount that could be spent on short-term capital items.
3. Reduce the upper limit established in step 2 if a portion of those funds have been designated by the donor for a particular extracurricular activity or character education program.
4. Repeat steps 1 through 3 to determining if additional contributions are available for FY 2012/13 depending on activity in FY 2011/12.

Can a school redirect ECA tax credit donations towards short-term capital items that were originally designated for a specific purpose?

No. If the donor designated the contribution for a specific purpose, such as a school band, those funds should not be redirected and used for short-term capital items unrelated to the designated activity.

What role should the individual school's site council have in the purchase of short-term capital items?

While the site council has the authority to determine where undesignated funds should be spent, any funds spent on short-term capital items may also require the Governing Board's authorization and must also go through the school procurement code and USFR purchasing process. (Some charter schools have been exempted by their sponsor from the procurement rules and the USFRCS purchasing process.) An individual school should require the site council to provide a general authorization for the school to use a certain dollar amount, as calculated above, for the purchase of short-term capital items without requiring the site council to determine the specific category of short-term capital items.

Must the short-term capital items be associated with extracurricular activities or character education programs?

No. The amount of ECA contributions that can be used for short-term capital items, as determined above, can be used for any short-term capital item in FY 2011/12 and 2012/13.

V. EXTRACURRICULAR TAX CREDIT WEBINAR

The Arizona Association of School Business Officials (AASBO) sponsored an extracurricular tax credit webinar with the Office of the Auditor General on October 30, 2012. The recorded webinar with a time outline and slides is available at www.azauditor.gov/ASD/Webinar/School_District_Webinar.htm under *Auxiliary Operations Series*.

The webinar includes accounting and coding requirement for the extracurricular activity fees, guidelines for the tax credit and examples of activities that are not eligible for the tax credit. The webinar time outline provides section start times to review a specific topic. The total broadcast time, including responding to questions asked by participants viewing the live broadcast, is 1 hour and 17 minutes.

Introduction [start time 0:00]; accounting for tax credit monies [start time 4:20]; tracking tax credit receipt and use [start time 7:20]; tax credit collection process [start time 9:00];

Department of Revenue introduction [start time 12:05];

Resource information [start time 13:45];

Issuing tax credit receipts [start time 18:20];

Annual reporting requirements [start time 19:55];

Character Education [start time 25:30];

Statutes related to extracurricular activities [start time 26:50];

Extracurricular activity eligibility rubric [start time 29:25];

Fees for extracurricular activities [start time 35:45];

Undesignated contributions and the site council [start time 37:10];

Reclassify unspent designated contributions [start time 38:00];

Use of short-term capital items through June 30, 2013 [start time 39:05];

Examples of activities that are not eligible for the tax credit [start time 41:35]; and

Questions [start time 44:45]

VI. RUBRIC TO DETERMINE IF AN ACTIVITY IS TAX CREDIT ELIGIBLE

The rubric on the following page is intended to assist schools in determining if an extracurricular activity is tax credit eligible based on the yes or no answer to nine questions. If you answered no to any of the questions, then the activity is not tax credit eligible. If you are not certain how to answer any of the questions, you should consult your school's attorney before offering tax credits for the activity.

IS THIS A TAX CREDIT ELIGIBLE EXTRACURRICULAR ACTIVITY?

In accordance with A.R.S. § 15-342(24) and § 43-1089.01(G)(2):		Yes	No
1.	Is the activity sponsored by the district/school?		
2.	Is the activity for enrolled students?		
3.	Is the activity optional?		
4.	Is the activity non-credit?		
5.	Does the activity supplement the district/school's educational program?		
6.	Does the district/school charge a fee for participation in the activity? ²		
7.	Is the activity fee paid directly to the district/school?		
8.	Was the fee for this activity adopted by the Governing Board at a public meeting after notice to all parents of enrolled students?		
9.	Has the Governing Board authorized the principal to waive all or part of the activity fee if it creates an economic hardship for a student?		

If you answered NO to any of these questions, then the activity is not tax credit eligible. If you are not certain how to answer any of the above questions, you should consult the school's attorney before offering tax credits for the activity.

Frequently Asked Questions

1. How must extracurricular activity fees be adopted? To be eligible for tax credits, extracurricular activity fees must be adopted by the Governing Board at a public meeting after notice to all parents of students enrolled in the district. See A.R.S. § 15-342(24). Districts typically adopt a fee schedule near the beginning of the school year and may later publish supplementary fee schedules. Best practice is for any extracurricular activity fees, including fees for field trips, to be included on the district's published fee schedules. Activity fees that have not been properly noticed or adopted by the Governing Board are not tax credit eligible.

2. Can the fees be paid directly to a third-party that is coordinating the activity? Extracurricular activity fees must be paid directly to the district or school. Fees paid to third-parties do not qualify for tax credits. See Arizona Attorney General Opinions I03-008 and I98-007.

3. Must the district waive all or part of an activity fee if it creates an economic hardship for a student? The Governing Board must authorize a principal to waive all or part of an activity fee if it creates an economic hardship for a student. See A.R.S. § 15-342(24) and Arizona Attorney General Opinion I99-021. If a student does not raise enough money through tax credit donations and cannot otherwise afford to participate in an extracurricular activity, the student's principal must be authorized to waive all or part of the fee. In practice, this means the principal must find another funding source to pay for the student's activity fee. For example, the school's site council may choose to use undesignated tax credit donations to pay for the activity fees of students for whom payment would represent an economic hardship. See A.R.S. § 43-1089.01(E). Best practice is for a site council, at the beginning of the school year, to identify which activity fees it will cover and in what amounts. If a school or district is unable to waive part or all of an activity fee for a student for whom the fee creates an economic hardship, then no fees may be charged for the activity and the activity would no longer be tax credit eligible. See A.R.S. § 15-342(24).

² Any fees charged must be no more than the actual costs of the activity. See A.R.S. § 15-342(24).