

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, character education programs or standardized testing fees for college readiness. 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, character education programs, standardized testing fees for college credit or readiness, preparation courses and material for standardized testing or the career and technical education industry certification assessment.

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 may 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 4 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 directly to a public school for the support of extracurricular activities. If an activity fee is charged, it must be no more than the actual costs of the activity and must be adopted by

¹ This publication provides general information about the school tax credit. For complete details, refer to Arizona Revised Statutes. In case of inconsistency or omission in this publication, the language of the Arizona Revised Statutes will prevail.

the Governing Board at a public meeting after notice to all parents of students enrolled in the district. If an activity fee is charged, the Governing Board must authorize principals to waive all or part of the fee if it creates an economic hardship for a pupil. In practice, 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. Thus, for an activity fee to be tax credit eligible, other funding sources (such as other fund raising or the use of undesignated tax credit donations approved by a site council) must be available to allow a student with an economic hardship to participate in the activity.

What are standardized testing fees for college credit or readiness?

These are fees for testing paid directly to a school for the use of a widely recognized and accepted educational organization such as SAT, PSAT, ACT, advanced placement, international baccalaureate diploma test and other similar test that are recognized and accepted by colleges and universities in the United States. The fees include preparation courses and materials used for standardized testing.

What are fees for career and technical education industry certification assessment?

Fees paid directly to a school for career and technical education industry certification assessment means an assessment for preparation programs (CTE) that provide students with a pathway to postsecondary education and careers.

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, character education program or standardized testing.

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 public school tax credit monies and exclude any other private donations.

Where should the school send the reports?

School districts should submit completed forms to Anisoara Dejeu by email to adejeu@azdor.gov; or fax to (602) 716-7991; or mail to Arizona Department of Revenue, Office of Economic Research and Analysis, 1600 West Monroe, Division Code 14, Phoenix, AZ 85007. If submitting by mail, allow an extra week for delivery. Charter schools should submit completed forms to Debbie MacNeil by email to dmacneil@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.

For contributions made after December 31 but on or before April 15, the taxpayer has the option to claim the tax credit in either the previous tax year or in the year the contribution was made. However, public schools will continue to report the total amount received and spent from January 1 through December 31. The school must issue a tax credit receipt with the date the contribution was made or fees paid without asking the taxpayer what tax year they intend to claim the tax credit.

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

Yes. The report must list the specific category of extracurricular activity, character education program or standardized testing and the corresponding dollar amount associated with these activities. Specific categories include: 1) athletics or sports, 2) field trips, 3) clubs, 4) fine arts or performing arts (including music, band, orchestra, and choir), 5) after school enrichment, 6) tutoring, 7) extended kindergarten, 8) other non-credit programs or activities, 9) character education programs or 10) standardized testing. The amount spent from contributions that were not designated for a specific purpose should be listed by the specific categories noted above instead of reported 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. 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 eight 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(H)(3):		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.	If an activity fee is charged, is it paid directly to the district/school? ²		
7.	If an activity fee is charged, was the fee for this activity adopted by the Governing Board at a public meeting after notice to all parents of enrolled students?		
8.	If an activity fee is charged, 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? If an extracurricular activity fee is charged, the fee 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, if any, 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? If an extracurricular activity fee is charged, 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 when a fee is charged. 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. See A.R.S. § 15-342(24). Thus, for an activity fee to be tax credit eligible, other funding sources (such as other fund raising or the use of undesignated tax credit donations approved by a site council) must be available to allow a student with an economic hardship to participate in the activity.

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