

Extracurricular Activities Fees Tax Credit

Presented By
Cris Cable and Elizabeth Whitaker • OAG
Accounting Services
Darlene Teller • Department of Revenue

October 30, 2012



The Series:

The Basics– August 2012

- Download @ http://azauditor.gov/ASD/Webinar/School_District_Webinar.htm

Extracurricular Activities Fees Tax Credit

District Level Oversight– Early 2013



Outline

- › Accounting & Coding Requirements
- › Department of Revenue Guidelines
- › Taxpayer Receipts
- › Department of Revenue Reports
- › Character Education Program
- › What are Extracurricular Activities?
- › Short-Term Capital Items
- › Non Eligible Activities
- › Questions



Tax Credit Monies

Option #1:

- › Extracurricular Activities Fees Tax Credit Fund
 - Held on deposit with the County Treasurer
 - Fund 526



Tax Credit Monies

Option #2:

▶ Auxiliary Operations Fund

- Easily Accessible
 - Bank Account
- Fund 525



Tax Credit Monies

Accounting For:

▶ Revenues

Fund	Program	Function	Object	Unit
525 or 526	000	0000	1790	000

▶ Expenditures

Fund	Program	Function	Object	Unit
525 or 526	XXX	XXXX	6XXX	XXX



Tracking Receipt and Use:

AO Cash Balance: \$10,000
 Non-Tax Credit: \$3,000
 Tax Credit: \$7,000

Football	\$1,500
Band	1,000
Character Ed.	500
No Donor Restrictions	4,000
Total Tax Credit	\$7,000



Tax Credit Monies

Details on Cash
 Collection Process
 Refer to Auxiliary
 Operations
 Webinar #1



Tax Credit Monies



☐
☐
☐
☐

2 Employees:

- Open Mail
- Record Payment
- Issue Receipt



Outline

- ▶ Guidelines from the Department of Revenue
- ▶ Issuing a receipt to the taxpayer
- ▶ Annual report to the Department of Revenue
- ▶ Character Education Program
- ▶ What are Extracurricular Activities
- ▶ Temporary use for short-term capital items
- ▶ Examples of activities that are not tax credit eligible



Website Information

- ▶ DOR's website is www.azdor.gov
- ▶ Select *Tax Credits & School Tax Credits for Individuals*
 - Publication 707 - general information about school tax credits
 - Link to Form 322 for an individual taxpayer claiming the credit
 - List of public schools - external link to DOE's website
 - Guidelines for Public Schools
- ▶ Or select *Reports & Research* and *School Tax Credit*
 - Public School Report (Form 10621) - annual report to DOR
 - Also under *Forms* and *Other*
 - Annual Reports based on information submitted by schools



Publication 707

- ▶ Provides general information for both the Public and Private School Tax Credits
- ▶ Written for the benefit of the taxpayer claiming the credit
- ▶ Resource for taxpayers that want more information before making a cash contribution



Guidelines for the Public School ECA Tax Credit

- ▶ Provides general information to assist schools in complying with the statutory requirements of the tax credit and includes:
 - Overview of A.R.S. § 43-1089.01
 - Report to the Department of Revenue
 - Use of unspent ECA contributions previously designated for a specific purpose
 - Temporary use for short-term capital items
 - Rubric to determine if an activity is tax credit eligible



Issuing a Receipt to the Taxpayer

- ▶ A receipt must be issued to the taxpayer for cash contributions or fees paid with all of the following information:
 - Name of the school
 - Name and number of the school district
 - Name and address of the taxpayer
 - Do not include Social Security number on receipt
 - Amount contributed or fees paid
 - Date contributed or paid
 - Description of the activity
- ▶ Maintain a log with taxpayer's name, address, and other information included on the receipt
 - Copy of log is retained by the school and not submitted to DOR



Annual Report to DOR

- ▶ Public School Report (Form 10621) for annual report to DOR
 - Under *Forms and Other or Reports & Research and School Tax Credit*
- ▶ Submit a report for each school within the district (or charter holder) on a calendar year basis
- ▶ Submit a report even if the school received no contributions
 - Either email, fax, or mail based on instructions on the form
 - Completed forms must be received by February 28
 - Report should exclude other private donations
- ▶ List the amount spent categorized by specific activity
 - For example, character education, field trips, athletics, sports, fine arts, music, band, academic competitions, clubs, after school enrichment, tutoring, or short-term capital items.
 - See page 6 of the 2011 Annual Report for a complete list
 - Do not use abbreviations to describe an activity
 - Do not describe the amount spent as *general* or *undesignated*



Character Education Program

- ▶ A.R.S. §15-719 defines a Character Education Program
- ▶ Each district may develop its own course of study for each grade. At a minimum, the program must include the following:
 - 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 visual media and literacy presentations to illustrate and reinforce the character traits
 - Presentations by teachers or mentors who demonstrate the character traits



Definition per § 43-1089.01

- ▶ A.R.S. §43-1089.01 defines extracurricular activities as school sponsored activities that require enrolled students to pay a fee in order to participate, including fees for:
 - Band uniforms
 - Equipment or uniforms for varsity athletic activities
 - Scientific laboratory materials
 - 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.



Definition per § 15-342(24)

- ▶ A.R.S. §15-342(24) defines an extracurricular activity as any optional, noncredit, educational or recreational activity that supplements the education program of the school
 - Fees for the use of scientific or other equipment must be optional and not part of a course taken for credit
 - Fees assessed must be adopted by the Governing Board at a public meeting after notice to all parents of enrolled students
 - Fees must not exceed the actual costs of the activities
 - 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



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?		
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.



Rubric to Determine if an Activity is Tax Credit Eligible

- ▶ Rubric to assist schools in determining if an extracurricular activity is tax credit eligible
- ▶ 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
- ▶ Frequently Asked Questions provides additional guidance with reference to statute or an Attorney General's Opinion



Fees for Extracurricular Activities

- ▶ At least some monetary amount must be charged to participate in the activity in order for the tax credit to be available
 - Blanket waivers to all students based on economic hardship would disqualify the activity for the tax credit
- ▶ Fees must be paid directly to the school or district
 - Fees paid directly to a third-party coordinating an activity do not qualify for the tax credit
- ▶ Fees charged must not exceed the actual costs of the activity



Undesignated Contributions

- ▶ The site council of each individual public school that accepts cash contributions not designated for a specific purpose will determine how the donations will be spent
 - The principal, director or chief administrator will determine how the contributions are used if a charter school does not have a site council
 - Undesignated contributions must be spent on an extracurricular activity or character education program consistent with all of the statutory requirements as designated contributions



Reclassify Unspent Designated Contributions

- ▶ Previously designated contributions that are unspent at the end of the fiscal year shall be reclassified to undesignated contributions in the following fiscal year but only if:
 - Specific purpose or program has been discontinued or
 - Specific purpose or program has not been used for two consecutive fiscal years
- ▶ In the following fiscal year, the contributions would be considered undesignated and the school's site council would determine how the contributions are used



Short-term Capital Items

- ▶ Schools may use up to 50% of unencumbered ECA tax credit contributions received on or before 12/31/2010 for short-term capital items in FY12 and FY13
 - Use for technology, textbooks, library resources, instructional aids, pupil transportation vehicles, furniture and equipment
 - Contributions designated by the donor for a specific purpose should not be redirected for short-term capital items
 - Reference page three of the Guidelines for more information
 - Schools that used unencumbered contributions for short-term capital items must submit a report to JLBC
 - Instructions at www.azleg.gov/jlbc/schooldistrictreportinginst.pdf



Examples of Activities NOT Eligible for the ECA Tax Credit

- ▶ Senior trips or events that are recreational, amusement or tourist activities
- ▶ AP testing
- ▶ Playground equipment
- ▶ Blanket wavier of all activity fees



Questions

Auditor General's Office

Accounting Services Division

www.azauditor.gov
(602) 553-0333
asd@azauditor.gov

Department of Revenue

Office of Economic Research & Analysis

www.azdor.gov
Darlene Teller
(602) 716-6436
dteller@azdor.gov

