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, standardized testing fees for college readiness, assessment for career and technical preparation programs or cardiopulmonary resuscitation training per A.R.S. § 15-718.01. 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 readiness, preparation courses and material for standardized testing, the career and technical education industry certification assessment or CPR training.

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, non-credit, 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. A fee is no longer required for an activity to be eligible however if a school decides to charge a fee the following requirements must be met.

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.
If an activity fee is charged, it 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. 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. Preschool 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 donors, the dollar amount of fee and contributions received and the amount spent by extracurricular activity or 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 public school tax credit monies and exclude any other private donations.

**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. There is no reason for schools to ask the taxpayer the tax year they intend to claim the credit.

Must the school report how the money was spent?

Yes. The report form includes a list of 12 categories of extracurricular activities or programs that are most commonly used based on information collected over the last several years. Although the extracurricular activity for your district might have a unique name, list the amount spent that best describes the activity from these 12 categories. The categories are: 1) athletics or sports, 2) field trips, 3) clubs, academic competitions or comparable extracurricular programs, 4) music, band, choir, orchestra, fine arts or performing arts, 5) after school enrichment or tutoring programs, 6) extended kindergarten programs, 7) non-credit summer programs, 8) drivers education programs, 9) character education programs, 10) standardized testing for college credit or readiness, 11) assessment for career and technical preparation programs and 12) CPR training.

The amount spent should be based on the extracurricular activity or program categories noted above and not by the type of expenses made for these activities. Furthermore, undesignated contributions must be reported by the 12 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.

How Should a School fill out the form?

<table>
<thead>
<tr>
<th>LINE</th>
<th>ENTER</th>
<th>HELPFUL HINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 -5</td>
<td>school site information</td>
<td>Please use your full school name, do not use abbreviations</td>
</tr>
<tr>
<td>6</td>
<td>total number of donors</td>
<td>Count a donor one time even if the donation goes to multiple programs</td>
</tr>
<tr>
<td>7</td>
<td>total amount of fees and/or contributions received in 2017</td>
<td>If you have carryover amounts or you did not spend all current contributions: your total contributions and total spending will not match this is ok. Do not include private donations in your totals.</td>
</tr>
<tr>
<td>8</td>
<td>list amount spent by categories</td>
<td>The activity for your school might have a unique name, but list the amount spent that best describes the activity from the 12 categories on the form.</td>
</tr>
<tr>
<td>9</td>
<td>total spent for 2017</td>
<td>Amount spent should be based on the activity or program categories not by the type of expenses made for these activities. All funds spent must be included in the 12 categories do not list as “undesignated”</td>
</tr>
</tbody>
</table>

Where should the school send the reports?

- District schools send to: DistrictCreditReport@azdor.gov
- Charter schools send to: CharterCreditReport@azdor.gov
- OR fax to: (602)-716-7991

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?

<table>
<thead>
<tr>
<th>In accordance with A.R.S. § 15-342(24) and § 43-1089.01(H)(3):</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Is the activity sponsored by the district/school?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Is the activity for enrolled students?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Is the activity optional?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Is the activity non-credit?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Does the activity supplement the district/school’s educational program?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. If an activity fee is charged, is it paid directly to the district/school?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>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?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>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?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.**

---

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