

## Memorandum

TO: Revenue Interim Committee

FROM: Aaron McNay, Economist – Tax Policy and Research

DATE: April 18, 2022

SUBJECT: Annual Report on Student Scholarship Organization Credit

Each year the Department of Revenue is required by 15-30-3112, MCA to make a report to the Revenue and Transportation Interim Committee on the Student Scholarship Organization Credit. This memorandum briefly describes the Student Scholarship Credit and reports on the use of the credit over the previous five years.

Starting in tax year 2016, individuals and corporations were allowed to claim a credit for donations made to student scholarship organizations during the tax year. The credit was non-refundable and was equal to the amount of the donation but could not exceed \$150 per taxpayer. The credit was limited to \$3 million in total donations each tax year, with the possibility of increasing the credit in future years. To claim the credit, a taxpayer must have donated the claimed funds directly to the student scholarship organization before the end of the tax year and could then claim the donation on their tax return.

The Student Scholarship Organization credit was modified during the 2021 legislature. Starting in tax year 2022, the maximum credit amount each taxpayer could claim was increased from \$150 to \$200,000. In addition, taxpayers could carry forward unused credit amounts for up to three years. The changes also included a reduction in the maximum number of donations that would qualify for the credit, with a maximum of \$1 million in credits for tax year 2022 and \$2 million in tax year 2023. The maximum amount of donations that qualify for credits could increase in future tax years by an additional 20% of the previous maximum amount if at least 80% of the possible credits were claimed the previous year.

Based on tax returns, the Student Scholarship Organization Credit was claimed on 188 personal income tax forms for tax year 2016, with 233 people claiming the credit. The total credit amount claimed on tax returns for 2016 was \$32,129. A total of \$28,482 credits were claimed on 175 income tax returns by 207 individuals in tax year 2017. There was a large decrease in the number of taxpayers claiming the credit in tax years 2018 and 2019, with only 75 returns claiming the credit in 2018 and 12 in 2019. The number of credits decreased as well, with only \$11,651 and \$1,563 credits claimed in tax years 2018 and 2019, respectively. The number of returns claiming the credit, and the total number

of credits claimed increased in tax year 2020, with 44 returns claiming \$6,241 credits.

| Figure 1 |                          |                              |                       |                                  |                                      |
|----------|--------------------------|------------------------------|-----------------------|----------------------------------|--------------------------------------|
| Tax Year | Returns Claiming Credits | Individuals Claiming Credits | Total Credits Claimed | Average Credit Amount Per Return | Average Credit Amount Per Individual |
| 2016     | 188                      | 233                          | \$32,129              | \$171                            | \$138                                |
| 2017     | 175                      | 207                          | \$28,482              | \$163                            | \$138                                |
| 2018     | 75                       | 88                           | \$11,651              | \$155                            | \$132                                |
| 2019     | 12                       | 14                           | \$1,563               | \$130                            | \$112                                |
| 2020     | 44                       | 52                           | \$6,241               | \$142                            | \$120                                |

Current tax records indicate that no corporations or passthroughs claimed the tax credit on their tax returns for tax years 2016 through 2019.