



# Young Lawyers Division

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## Arizona Deductions and Credits Under the New Tax Law

Major changes have occurred in the ability to deduct state and local taxes under the Tax Cuts and Jobs Act of 2017 ("2017 Tax Act"). The 2017 Tax Act was effective at the beginning of 2018, and even though most people won't see its effect until filing their return next year, there are some important considerations before the end of this year.

Under the 2017 Tax Act, state and local tax deductions (including income tax and property tax) are capped at \$10,000 through December 31, 2025. Under prior law, state and local tax deductions were unlimited. Depending on numerous factors, this may cause an increase in taxation of high income individuals, and will definitely affect persons who reside in states with high income and property taxes.

One way to reduce the impact of the \$10,000 cap is to take advantage of as many state tax credits as possible. These state tax programs reduce your state income tax on a dollar for dollar basis for contributions up to the stated limits. Arizona offers various tax credits, including tax credits for donations to Public Schools, Certified School Tuition Organizations, and Qualifying Charitable Organizations.



The Public School Tax Credit is available to individuals who make contributions or pay fees directly to a public school in Arizona for support of extracurricular activities. The maximum credit allowed is \$400 for married couples and \$200 for single filers.

The Certified School Tuition Organization Tax Credit applies when either an individual taxpayer or a corporate taxpayer contributes to a Certified School Tuition Organization which provides scholarships to students enrolled in Arizona private schools.

There are several different tax credits available for individuals and corporations for donating to a Certified School Tuition Organization, but the maximum credit for an initial donation is \$1,110 for married couples and \$555 for single filers.

The tax credit for contributions to a Qualifying Charitable Organization is a maximum of \$800 for married couples and \$400 for single filers. The Qualifying Charitable Organization needs to provide immediate basic needs to residents of Arizona who receive temporary assistance for needy families benefits, are low income, or are children who have a chronic illness or physical disability. Donations to Southern Arizona Legal Aid or the Pima County Bar Foundation qualify for this tax credit.

If the charity meets the requirements for a Qualifying Charitable Organization and provides immediate basic needs to at least 200 qualifying individuals in the foster care system, then it qualifies as a Qualifying Foster Care Charitable Organization and a maximum deduction of \$1,000 for married couples and \$500 for single filers applies for contributions.

Many organizations which are dependent upon charitable contributions are concerned that the 2017 Tax Act could result in fewer contributions. Because the new tax act increases the standard deduction to \$12,000 for single filers and \$24,000 for married persons, taxpayers may find that they did not reach these thresholds for itemizing deductions, and therefore their charitable contributions did not reduce their federal tax obligation. This is one of the many reasons why it is important to consider taking advantage of the above tax credit programs.

Many of the changes are very fact-specific and require numerical comparisons to determine whether any changes or additional tax planning could be beneficial. Be sure to consult your tax professional before the end of this year.