# State Tax Credit Scholarship Programs FAQ

## 1. What are State Corporate Tax Credit Scholarship Programs?

These programs allow companies who pay corporate and other types of taxes to receive a tax credit if they redirect their state tax liability to AAA Scholarship Foundation (AAA), and AAA then uses these redirected tax dollars to fund income-based scholarships primarily for students that are either below grade level, failing at their previous school, or both, to attend the school (up to grade 12) that best meets their unique learning needs.

## 2. How many states have these programs and do the programs vary?

State corporate tax credit scholarship programs exist in 22 states with different program cap amounts, amounts that a company may contribute, application processes and deadlines and credit-carry forward provisions. AAA is an approved scholarship organization (SO) in Arizona, Florida, Georgia and Nevada.

## 3. What types of taxes are accepted in each program and how much is the credit?

| State | Taxes Allowed | Amount of Credit | Credit Carry Forward |
|---|---|---|---|
| Arizona | Insurance Premium and Corporate Income Tax | Dollar-for-dollar | 5 years |
| Arizona Lexie's Law (for special needs and foster children) | Insurance Premium and Corporate Income Tax | Dollar-for-dollar | 5 years |
| Florida | Corporate Income, Insurance Premium Tax, Direct Pay Sales and Use Tax, Oil and Gas Tax, Alcohol Beverage Excise Tax | Dollar-for-dollar | 10 years* |
| Georgia | Corporate Income and Entity-Level Income Tax for Electing Pass-Through Businesses | Dollar-for-dollar | 3 years |
| Georgia | Insurance Premium Tax | Dollar-for-dollar up to $1 million per company | 3 years |
| Nevada | Modified Business Tax | Dollar-for-dollar | 5 years |

* If you file a consolidated return in Florida, you can transfer your credit-carry forward to different entities in the State. If you do not file a consolidated tax return in Florida, you cannot transfer your credit-carry forward to other entities – only those the tax was pledged for.

## 4. CAN MY COMPANY PARTICIPATE IF IT IS AN LLC OR S CORP?

| LLC Taxed As: | AZ | FL | GA | NV |
|---|---|---|---|---|
| **Disregarded Entity (Where Reporting Entity is Individual)** | Not Eligible* | | (1) In the case of a single individual or a head of household, the actual amount expended or $2,500.00 per tax year, whichever is less; or (2) In the case of married couple filing a joint return, the actual amount expended or $5,000.00 per tax year, whichever is less; or (3) In the case of a married couple filing a separate return, the actual amount expended or $2,500.00 per tax year, whichever is less | 100% of MBT tax |
| **Partnership** | (1) Where partner is an individual - not eligible* (2) Where partner is a corporation - 100% of either income tax or insurance premium tax - minimum of $5,000/year | Direct pay sales tax permit holders may contribute up to 100% of sales tax | 75% of state income tax for partnerships electing to pay tax at the entity level; otherwise up to a max of $25,000 of income tax per partner annually | 100% of MBT tax |
| **S-Corp** | 100% of either income tax or insurance premium tax - minimum of $5,000/year | | 75% of state income for S-corps electing to pay tax at the entity level, otherwise up to a max of $25,000 of income tax per shareholder annually | 100% of MBT tax |

*AAA is not authorized to accept contributions from individuals in Arizona. Please refer to the ADOR website for a list of Scholarship Organizations that are authorized to accept these types of contributions.

## 5. WHAT IS THE APPLICATION PROCESS?

In each state, the respective Department of Revenue ("DOR") must approve a company's participation prior to payment. The approval process does not oblige the company to remit the funds – it is merely a way to ensure that the annual program cap is not over-subscribed.

The application process varies in each state:

- **Arizona**: AAA must apply to the DOR on the company's behalf and payment to be made within 20 days of approval.
- **Florida**: Online application to the DOR by the company. Payment is based on type of tax redirected: income tax – the corporation's tax return filing deadline, including timely filed

extensions[1]; insurance premium tax – no later than the due date of your insurance premium tax return, March 1; alcoholic beverage tax – June 30; direct pay sales and use tax – June 30; oil and/or gas production tax – June 30.

- **Georgia**: AAA must apply to the DOR on the company's behalf and payment to be made within 60 days of approval.
- **Nevada**: AAA must apply to the Nevada Department of Taxation on the company's behalf and payment to be made within 30 days of approval.

## 6. HOW DOES MY COMPANY TAKE THE STATE TAX CREDIT?

The state tax credits are taken when your company files its state tax return. Generally, the state has a schedule that lists all available tax credits, including the tax credit scholarship. Your company will complete the tax credit schedule, attach a copy of the acknowledgement that you receive from AAA and then file the return. If your company cannot take the fully approved tax credit in the year it is awarded, most states allow you to carry it forward for a certain number of years (see #3 above for details). Also, the IRS generally allows your company to report these tax credits as payments of state income tax under IRC Section 162(a) on your federal tax return, rather than as charitable contributions (see #8 below).

## 7. DOES THE STATE TREAT MY COMPANY'S PAYMENT TO AAA AS AN ESTIMATED TAX PAYMENT?

The answer depends on 1) how your company calculates its estimated tax payments and 2) in which state it is participating.

First, if your company uses the previous year's tax liability to determine its current year estimates (the "lookback" method), then your first year of participation in the tax credit scholarship program will have no effect on your estimated tax payments. However, it may have a very positive affect on your subsequent year installments because the tax credit can be "netted" against the liability in determining the installments.

Second, Florida is one state that allows your company to treat its payment to AAA as estimated tax payments regardless of how you calculate your estimated taxes. Florida law allows you to apply your remittance to any estimated tax payment when determining whether you've met the prior year exception.

## 8. IS MY CONTRIBUTION A CHARITABLE DEDUCTION FOR FEDERAL TAX PURPOSES?

Generally, no. Instead, your company's contribution will be treated as an ordinary and necessary business expense under IRC section 162(a) if it meets the requirements promulgated by the Internal Revenue Service (IRS) safe-harbor revenue procedure (Rev. Proc. 2019-12):

Safe harbor for C-Corporations (Section 3.03 of Rev. Proc. 2019-12):
*"If a C corporation makes a payment to or for the use of an organization described in section 170(c) and receives or expects to receive a tax credit that reduces a state or local tax imposed on the C corporation in return for such payment, the C corporation may treat such payment as meeting the requirements of an ordinary and necessary business expense for purposes of section 162(a) to the extent of the credit received or expected to be received."*

[1] In Florida, the corporate tax return filing deadline is generally the 1st day of the 5th month following the end of their fiscal year. Florida corporations that wait to apply for a credit against their prior year Florida income taxes should do so before they timely file for an extension, otherwise, they can be penalized for failing to make timely estimated tax payments.

Safe harbor for Pass-Through Entities (Section 4.03 of Rev. Proc. 2019-12):
*"If a specified pass-through entity described in section 4.02 of this revenue procedure makes a payment to or for the use of an organization described in section 170(c) and receives or expects to receive a tax credit described in section 4.02(4) of this revenue procedure that the entity applies or expects to apply to offset a state or local tax described in section 4.02(3) of this revenue procedure other than a state or local income tax, the specified pass-through entity may treat such payment as meeting the requirements of an ordinary and necessary business expense for purposes of section 162(a) to the extent of the credit received or expected to be received."*

For individuals and disregarded entities where the reporting entity is an individual, the IRS has provided the following guidance under IRC Section 164 (IRS Notice 2019-12):

*"Under the safe harbor, an individual may treat as a payment of state or local tax for purposes of section 164 the portion of a payment for which a charitable contribution deduction under section 170 is or will be disallowed under Treas. Reg. § 1.170A-1(h)(3) (T.D. 9864). This treatment as a payment of state or local tax under section 164 is allowed in the taxable year in which the payment is made to the extent the resulting credit is applied, consistent with applicable state or local law, to offset the individual's state or local tax liability for such taxable year or the preceding taxable year. In states and localities that permit an individual to carry forward an excess credit amount to a subsequent taxable year, an individual may treat the carryforward amount as a state or local tax payment under section 164 for the taxable year or years to which the credit is applied, consistent with applicable state or local law, to offset a state or local tax liability."*

You should discuss this and another other important financial reporting decision with your CPA or tax adviser. We will be happy to help any answers they may have.

### 9. CAN MY COMPANY PARTICIPATE IN THESE PROGRAMS ANONYMOUSLY?

Yes, you may keep your company participation in the programs anonymous. However, there are many strategies to market your contribution should you decide it is beneficial. For example:

- ***Internal marketing***: If your company has employees or customers who may be eligible for a scholarship, AAA can work with your human resources or communications staff to develop notices, conduct educational events and/or help employees or customers fill out the applications. We can't earmark contributions for specific students or employees, but we can assist with marketing.
- ***External marketing:*** AAA can work with your marketing team to design community events specific to your social responsibility strategy. For example, we worked with an insurance company that has a bilingual reading program to host a school reading night. With another corporate partner, we annually host an event for state and local officials to tour their facilities, followed by lunch and a discussion on education policy. As another example, we can also arrange for check signing presentations at schools or with elected officials. We design each strategy to meet your company's needs.

### 10. WHAT CONSTITUTES A GOOD SCHOLARSHIP ORGANIZATION?

You will want to partner with a scholarship organization ("SO") that shares your company's values. There is a wide variety of SO's in most states – many give exclusively to a school or a set of schools (i.e. Catholic, Episcopal) – and many are small family run enterprises, so you should do your due diligence to ensure that it is a reputable and stable organization. Questions to ask:

- Does the SO have clean ("unqualified") audits/reviews for the past three years? Most good non-profits should have their current audit posted on their website.
- Does the SO have a policy against nepotism and/or candidates for office on the payroll?
- What is their staff experience in running non-profit organizations?
- Does the SO have an outside party endorsement for good practices (i.e. Charity Navigator or GuideStar)?
- How many scholarships did the SO award for FY 2026 and what was the total dollar amount awarded?
- What percentage of the SO's FY 2026 annual revenue was awarded to scholarships?
- What percentage of the SO's FY 2026 revenues went to administrative costs?
- Does the SO give the scholarship to the child rather than a school (so that the scholarship is portable for that child should he/she need a different educational setting)?
- Have the SO explain how they define 'low-income' or ''economically-disadvantaged.'

### 11. HOW IS AAA UNIQUE?

AAA is the only state approved SO in the country that is approved to manage state corporate tax credit scholarship programs in four states. And many other things make us distinct. The AAA Scholarship Foundation:

- has been awarded the prestigious Candid Platinum Seal, demonstrating transparency in management practices. AAA reports quantitative metrics about its work, demonstrating the progress we're making toward achieving our mission and illustrating to stakeholders and funders that we are intentional about measurement and learning in order to maximize the difference we are making in the world.
- awards scholarships directly to families – not schools.
- promotes relief for parent(s) of student(s) that are either below grade level, failing at their previous school, or both, and empowers them to be able to choose the best educational setting for their children's learning needs.
- awards scholarships for at least a 3-year term in states that allow multi-year commitments – we believe that the continuity of an educational setting is important for children to succeed.
- is managed by the nation's leading state corporate tax credit scholarship program professionals with more than 20 years of experience successfully administering programs.
- has a CPA on-staff to ensure that your tax questions are answered correctly and to ensure timely and accurate reporting.
- limits our overhead to 2.18 percent for administrative funding.

### 12. CAN YOU DESCRIBE A TYPICAL AAA SCHOLARSHIP RECIPIENT?

The typical AAA Scholarship student is either below grade level, failing at their previous school, or both, when they receive an income-based scholarship. Parents, who find their children in these circumstances and

care about their future look for viable options. They seek an atmosphere that challenges and engages their child to reverse inappropriate learning and/or social patterns and the lifelong negative impact they imply. They wish to change their child's learning environment, acquaintances and the unfortunate predictable outcomes associated with school failure.

Another is the first-time student, who is just entering kindergarten. Parents, wanting to empower their child's academic journey from day one, choose the AAA scholarship so that their child will have a quality education tailored specifically for their learning needs ensuring their time in school is a seamless experience from K-12.

Your contributions to AAA provide the lifelines that these parents need.

> *"As a parent, you want to do anything possible to ensure your children are successful. The AAA Scholarship Foundation helped to ease the financial burden I faced and made it possible for me to send my son to a school where he has been able to reach his full potential and develop into a young man that cares about his community and has goals for the future. I am forever grateful to those that make this program possible."*
>
> *-- Parent of AAA Scholarship Foundation Student*