

# Make an S-Corp donation and receive a full tax credit to reduce your Arizona state tax liability.

S-Corporations (S-Corps), with an Arizona state tax liability, can assist low-income or disabled/displaced children obtain scholarships to receive a quality education.

Arizona tax law allows S-Corps and LLC's taxed as S-Corps to receive a **full tax credit** against their shareholder's Arizona state tax liability by making these donations.

## Arizona Tax Credit Program Facts

- Donated funds are used to provide much-needed tuition scholarships for low-income and disabled/displaced families attending K-12 schools in Arizona.
- The donation must be made from the S-Corp to Arizona Tuition Connection. \$5,000 minimum.
- The S-Corp can either claim the credit against income taxes at the corporate level (income tax reported on an Arizona 120S corporate income tax return) or it may make an irrevocable election to pass the credit through to its individual shareholders.
- Unused credits from contributions can be carried forward for up to 5 years.
- Any prorated share of the credit that would be distributed to non-eligible partners, estates, or trusts are lost.
- There is no maximum donation amount, but the state does assign an annual overall cap. The cap for 2023 is approximately \$158M for the low-income and \$6M for the disabled/displaced tax credit.
- Corporate tax credits are issued on a first-come, first-serve basis until the cap is reached.
- A corporation can direct its donation to a particular school but cannot direct the donation to an individual student. Additionally, the corporation's shareholders may not directly benefit from the donation.





## S-Corp Reporting Requirements

- The S-Corp passes the credit to their shareholders based on the ownership interest in the corporation.
- The S-Corp will pass the credit onto the shareholder at the end of its fiscal year/tax year. The individual shareholder would claim the credit on their tax return in the calendar year the taxes are passed through.
- Donors must choose if their donation will be used for Low-Income or Disabled/Displaced scholarships.
  - For Low-Income corporate donations – Form 335 and 335-S will be completed by the S-Corp and submitted with their 120S. A copy of Form 335-S is also forwarded to the shareholders.
  - For Disabled/Displaced corporate donations – Form 341 and 341-S will be completed by the S-Corp and submitted with their 120S. A copy of Form 341-S is also to be forwarded to the shareholders.

## Individual Shareholder Reporting Requirements

- These credits will not impact the individual taxpayer's ability to participate in other state tax credits. For example, an individual taxpayer could claim the maximum Original and Switcher credits, plus their share of the S-Corp corporate credits.
- For Low-Income corporate donations – The individual will claim their credit on Form 335-I.
- For Disabled/Displaced corporate donations – The individual will claim the credit on Form 341-I.
- The individual taxpayer may carry forward any unused credit for up to 5 years.

## STEPS TO DONATING

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1. Talk to your tax professional and determine how much you would like to donate.  
Min of \$5,000.
2. Contact Tim Kuhn at [tim@arizonatuitionconnection.com](mailto:tim@arizonatuitionconnection.com) or at 480-409-4106.
3. Arizona Tuition Connection will apply to the Arizona Department of Revenue (ADOR) for approval of the donation. The only reason the donation would not be accepted is if the annual cap has been met.
4. We will notify you once approval has been received from the ADOR. The donation amount must be provided to Arizona Tuition Connection within 20 days of approval.
5. Shareholders apply the tax credit to their individual state taxes.