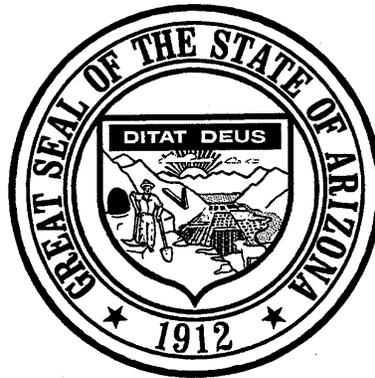


# STATE OF ARIZONA



# 2012 Tax Handbook

**JLBC**

Prepared by the Staff  
of the Joint Legislative Budget Committee

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# FOREWORD

The *2012 Tax Handbook* provides a description of each state tax and certain other revenue categories. The Handbook also includes a 20-year history of the collections and distributions for each revenue category, as well as summaries of all statutory revisions between the 2006 and 2012 legislative sessions. A listing of tax law changes prior to the 2006 legislative session is available on the Joint Legislative Budget Committee (JLBC) website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf). Appendix B provides the estimated dollar value of individual historical tax law changes enacted by the Legislature since FY 1989.

The Tax Handbook includes tables that provide the estimated impact of tax credits and exemptions to the Sales Tax, Individual Income Tax, and Corporate Income Tax sections. These tables were prepared by the Office of Economic Research and Analysis section of the Arizona Department of Revenue.

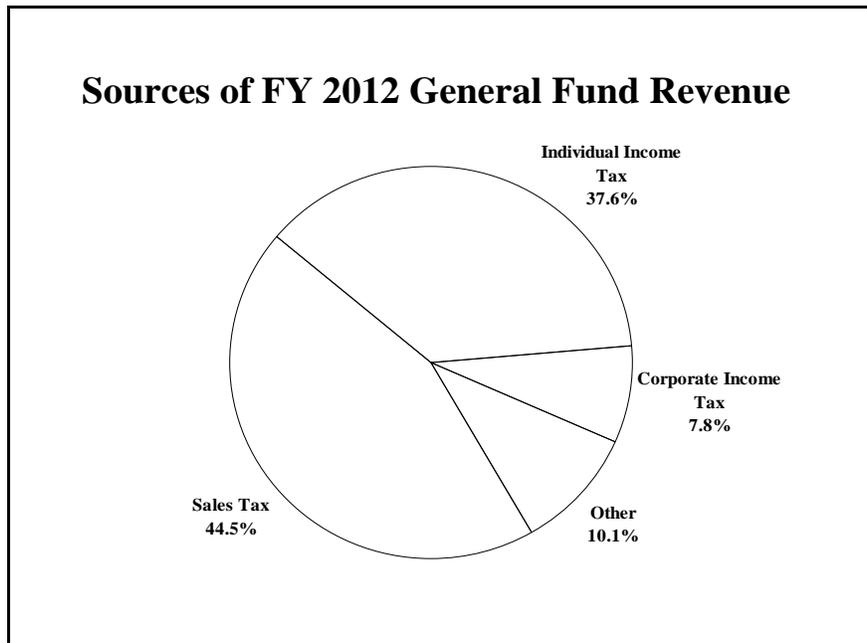
Each entry in the Tax Handbook includes the following sections (where applicable):

- Description – a comprehensive narrative description of the tax or revenue source.
- Distribution – a 20-year history of collections and a description of how the tax is distributed by fund, or shared with other jurisdictions such as cities and towns.
- Who Pays the Tax – a description of who is legally responsible for the payment of the tax or fee.
- Tax Base and Rate – a definition of the tax base, a discussion of exemptions, if any, and a description of the tax rate(s).
- Tax Refunds and/or Credits – a description of circumstances under which tax refunds are made, and/or credits are allowed.
- Payment Schedule – due dates, delinquency dates, and payment schedules, as well as an explanation of how the tax or fee is remitted to the state.
- Impact of Tax Law and Revenue Changes – includes tax law and other revenue changes from 2006 through 2012. As noted above, tax law changes prior to 2006 are available on the JLBC website.

# OVERVIEW OF ARIZONA TAXES

The revenues from Arizona's different taxes are deposited in a number of funds. The largest fund is the General Fund. In FY 2012, on-going General Fund revenue was \$8.21 billion, which combined with the temporary 1¢ sales tax of \$916 million, urban revenue sharing of \$(424) million, one-time financing sources of \$108 million, and a beginning balance of \$3 million, resulted in a total revenue amount of \$8.82 billion.

While revenues from numerous taxes are deposited in the General Fund, 3 taxes constitute the bulk of General Fund collections: the sales tax, the individual income tax, and the corporate income tax. In FY 2012, these 3 taxes represented approximately 90% of General Fund on-going revenues (excluding Urban Revenue Sharing and one-time budget solutions). As noted in the following chart, the largest category is the state sales tax, which represented almost 44% of General Fund revenue collections in FY 2012. Individual and corporate income tax represented 38% and 8%, respectively, of General Fund revenue.



The state levies many other taxes. Some of the other taxes generate sizable amounts of revenue, but their collections are not deposited in the General Fund. For example, the motor vehicle fuel tax generated over \$470 million in FY 2012 and the unemployment insurance tax (including federal reimbursements) generated almost \$1.5 billion. However, these collections were deposited in the Highway User Revenue Fund and the Unemployment Compensation Fund, respectively.

This handbook provides a listing and description of the taxes levied by the State of Arizona. It shows revenue collection amounts and tax distributions by fund. In addition, the handbook provides the estimated incremental dollar impact of tax law changes.

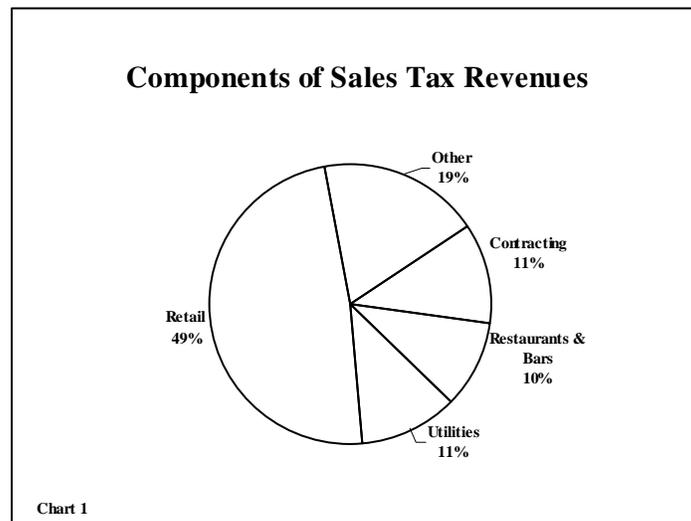
# **SALES AND USE TAXES**

# TRANSACTION PRIVILEGE TAX

## DESCRIPTION

The transaction privilege tax (TPT) is Arizona's version of a sales tax. Across the United States, there are 13 states that levy a transaction privilege tax, 17 states that employ a sales tax, and another 15 states that impose a hybrid tax. All 3 types of taxes are levied upon consumer spending, but they differ with regard to the legal burden of the tax. Under Arizona's transaction privilege tax, the seller is responsible for remitting to the state the entire amount of tax due based on the gross proceeds or gross income of the business. The seller may include the tax in the purchase price or absorb the tax. Because of its similarity to the sales tax, the transaction privilege tax is often referred to as a sales tax.

The sales tax consists of many different tax categories. The largest of these, the retail sales tax, comprises approximately 49% of total sales tax revenues retained by the state. Other large sales tax categories include contracting, utilities, and restaurants and bars. *Chart 1* illustrates the relative importance of the major categories. A full listing of all sales tax classifications is provided in *Table 4*.



The sales tax is the state's single largest revenue source, representing 44.5% of General Fund revenues in FY 2012. A significant portion of state sales tax revenues is shared with the counties and cities. This revenue sharing occurs through the distribution base, described in further detail in the Distribution Section below.

Beginning in June 2010, the TPT rate rose from 5.6% to 6.6%, with the extra 1.0% being dedicated exclusively to public primary and secondary education, health and human services, and public safety. This tax increase will last for 36 consecutive months and is not subject to the regular TPT distribution. This tax increase was approved by voters on May 18, 2010 and is commonly known as Proposition 100. The additional 1.0% tax increased TPT and use tax revenues by \$864 million in FY 2011 and \$916 million in FY 2012.

In June 2001, the TPT rate had previously risen from 5.0% to 5.6%, with the extra 0.6% being dedicated to education. This tax increase was also approved by voters and is commonly known as Proposition 301.

## DISTRIBUTION

TPT revenues are shared with Arizona's counties and cities through a complex system of formulas established in statute. See *Table 1* for amounts distributed. Legislative changes to the state sales tax usually have local government impacts, unless otherwise specified through hold harmless provisions (provisions designed not to harm local governments).

## Transaction Privilege Tax

*Distribution.* The Department of Revenue (DOR) transmits all sales tax revenues to the State Treasurer, separately accounting for payments of estimated taxes, the transient lodging tax, transaction privilege and severance taxes on mining and timber collected from businesses located on Indian reservations, and education sales taxes. The aforementioned tax collections have dedicated uses. All other sales tax revenues are credited to a clearing account. A portion of transaction privilege, severance, and jet fuel excise taxes referred to as the distribution base is designated for distribution to counties, cities, and other purposes pursuant to A.R.S. § 42-5029(D)(4). (The allocation of distribution base monies to special purposes is described on the following page.) After the required distributions to counties, cities, and other special purposes, remaining distribution base monies are credited to the General Fund (see *Table 1 and Table 4*). The portion of sales tax revenues (non-shared) not designated to the distribution base is directly credited to the General Fund.

**Table 1**

**TAX COLLECTIONS AND DISTRIBUTION (20-year history)\***

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Cities</u>	<u>Counties</u>	<u>Proposition 301</u>	<u>Proposition 100</u>	<u>Total</u>
FY 2012	\$3,652,165,656	\$392,475,912	\$635,967,967	\$542,394,529	\$915,835,541	\$6,138,839,605
FY 2011	\$3,448,016,988	\$373,259,250	\$604,829,288	\$514,345,951	\$864,501,708	\$5,804,953,185
FY 2010	\$3,422,528,509	\$356,997,763	\$578,479,176	\$513,589,704		\$4,871,595,152
FY 2009	\$3,756,407,238	\$387,050,618	\$627,176,822	\$558,899,709		\$5,329,534,387
FY 2008	\$4,353,564,848	\$447,060,657	\$724,417,089	\$645,827,821		\$6,170,870,415
FY 2007	\$4,457,494,716	\$462,037,141	\$748,684,984	\$666,184,022		\$6,334,800,863
FY 2006	\$4,273,358,451	\$439,120,139	\$711,550,274	\$628,471,192		\$6,052,500,056
FY 2005	\$3,661,168,623	\$376,212,970	\$609,615,497	\$538,346,435		\$5,185,343,525
FY 2004	\$3,294,788,319	\$340,535,844	\$551,804,282	\$487,214,807		\$4,674,343,252
FY 2003	\$3,033,877,715	\$316,406,294	\$512,704,759	\$447,841,034		\$4,310,829,802
FY 2002	\$3,000,431,898	\$311,693,101	\$505,067,501	\$439,004,543		\$4,256,197,043
FY 2001	\$2,983,552,245	\$312,676,402	\$506,661,075			\$3,802,889,722
FY 2000	\$2,829,307,415	\$299,386,513	\$485,126,158			\$3,613,820,086
FY 1999	\$2,577,768,324	\$272,402,244	\$441,400,596			\$3,291,571,164
FY 1998	\$2,367,883,017	\$253,826,710	\$411,300,801			\$3,033,010,528
FY 1997	\$2,211,158,987	\$240,264,373	\$389,324,389			\$2,840,747,749
FY 1996	\$2,103,275,229	\$233,196,324	\$377,871,323			\$2,714,342,876
FY 1995	\$1,968,613,472	\$219,908,226	\$356,339,289			\$2,544,860,987
FY 1994	\$1,787,609,451	\$200,069,251	\$304,745,483			\$2,292,424,185
FY 1993	\$1,626,535,290	\$184,318,955	\$280,754,631			\$2,091,608,876

\* The figures displayed in this table include revenues collected from the sales tax and its affiliated taxes – the use tax, mining and timber severance taxes, jet fuel taxes, and the rental occupancy tax. The table excludes funds distributed to multipurpose facility districts and other special distributions.

As previously mentioned, revenues collected from the Proposition 100 1.0% tax will not be distributed to counties and municipalities, nor other government entities. Two-thirds of the additional revenue is appropriated to public primary and secondary education and the remaining one-third is appropriated to both health and human services and public safety.

Revenues collected from the 0.6% Proposition 301 tax go directly toward education programs. For a more extensive discussion of the specific uses of education tax revenues, please refer to the Department of Education – Basic State Aid Formula Summary section of the *FY 2013 Appropriations Report*.

Monies in the distribution base are allocated on a monthly basis in the following way:

- 25% is paid to the cities in proportion to their population based on the last U.S. decennial census or special census.
- 40.51% is paid to the counties according to the formula described below.
- The remaining 34.49% is retained by the state and used to make various allocations and appropriations specified by statute. (General Fund retains the distribution base monies that remain after the required allocations and appropriations.)

In total, the counties receive 40.51% of distribution base revenues. The amount that each county receives is determined by the following calculations:

## **Transaction Privilege Tax**

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1. 38.08% of the total TPT distribution base is calculated.
2. 2.43% of the total TPT distribution base is calculated.
3. Each county's share of the 38.08% portion of the TPT distribution base is calculated using an average of percent of total point-of-sale and percent of total secondary net assessed valuation.
4. Each county's share of the 38.08% portion of the TPT distribution base is calculated using an average of percent of total point-of-sale and percent of total census population.
5. The shares that each county would receive under the two previous steps are compared, with the larger of the two amounts selected for each county. The "new" amounts are added for all 15 counties to determine the difference between this total and the sum of the 38.08% proportions. This difference is subtracted from the sum of the 2.43% proportions calculated in Step 2.
6. Any money remaining from the 2.43% portion is distributed among all 15 counties based on Step 4's combined percentage. Add the amount for each county from this step to the total for each county from Step 5 to get the total amount to be distributed to each county for the month.

The remaining 34.49% of distribution base revenues is allocated to various purposes as provided by A.R.S. § 42-5029(D)(4), including expansion of the Phoenix convention center, school capital finance, multipurpose facilities, construction of a bridge and improvement of a highway at Phoenix International Raceway, and the Tourism and Sports Authority (TSA). The TSA's share of distribution base monies is equal to the amount of sales taxes collected at the University of Phoenix Stadium. In addition, some monies are transferred to the Water Quality Assurance Revolving Fund, as required by A.R.S. § 49-282. After these distributions have been made, the remainder is credited to the General Fund. From this amount, the following distributions are subject to appropriation:

- 1) DOR receives monies sufficient to cover administrative expenses.
- 2) Department of Economic Security (DES) receives monies for the purposes stated in Title 46, Chapter 1 (public welfare, out-of-wedlock pregnancy prevention, and aging).
- 3) The Firearm Safety and Ranges Fund receives \$50,000 derived from retail sales taxes collected during the current fiscal year.

### Multipurpose Facility Districts

Laws 1997, Chapter 297 expanded existing legislation that authorized county stadium districts to include multipurpose facilities, defined as facilities located in the district to accommodate sporting, entertainment, cultural, civic, and convention events and meetings. The legislation also expanded the ability to form a district to two or more municipalities located within a county and authorized these districts to generate TPT revenue. If a district were to construct a facility, the state would divert one-half the state TPT revenues generated at the facility from the General Fund to the district.

Laws 1999, Chapter 162 required the state to pay a county multipurpose facility district one-half of all the TPT revenue received each month from all persons doing business at a multipurpose facility or generated from the construction of a multipurpose facility. In no case are the monthly payments to exceed the net new revenues generated in a given month compared to the TPT revenues generated in the same month during the year prior to the vote authorizing the creation of the district. Payments were to begin when the district board of directors delivered to the State Treasurer a resolution requesting payment and would continue for 10 years after either the commencement or completion of the primary component of the facility, at the option of the district. Chapter 162 required that the publicly owned components of the district cost at least \$200 million to construct. The definition of a multipurpose facility was broadened to include secondary components such as parking lots and garages, on-site infrastructure, artistic components, public parks, plazas, and some commercial facilities. Chapter 162 was effective retroactively from July 1, 1998.

### *Rio Nuevo*

In 1999, Tucson voters approved Proposition 400 authorizing the creation of a development area called the Rio Nuevo Multipurpose Facility District. This district, which receives a diversion of state transaction privilege taxes (TPT) to finance the development of a multipurpose facility and supporting projects, stretches east from Downtown Tucson along the retail-intensive Broadway Corridor.

## Transaction Privilege Tax

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### Background

Several pieces of legislation paved the way for the creation of the Rio Nuevo District. Laws 1990, Chapter 390 introduced the concept of a county stadium district, permitting Maricopa County to impose a 0.25% TPT for 3 years upon the award of a Major League Baseball franchise. These tax revenues could then be used to finance the construction of a stadium, either directly or by securing district bond obligations.

Laws 1997, Chapter 297, expanded the county stadium district concept to include multipurpose facilities located in the district such as those used for sporting, entertainment, cultural, civic, meeting or convention events. Laws 1999, Chapter 162 then increased the revenue payments to these districts by allowing them to retain the state's share of TPT from sales of secondary businesses that are deemed "necessary or beneficial" to the development of the primary component multipurpose facility. This law also limited TPT payments to the lesser of: (1) 50% of collections or (2) revenues net of those received prior to the year of the election authorizing the district. This method of permitting a local area to use the state's tax collections to finance local development projects with the expectation that future tax collections will increase as a result, is known as tax increment financing. Lastly, Laws 1999, Chapter 172 required the facility's municipality to spend a matching amount on projects by the district's expiration date in order to receive state TPT revenues.

### Creation of the Rio Nuevo Multipurpose Facility District

Tucson voters approved Proposition 400 in November 1999, establishing the Rio Nuevo Multipurpose Facilities District from 1999 to 2009. Proposition 400 ballot information described Rio Nuevo as a development project of cultural and recreational amenities and improvements, historical recreations, and mixed-use developments. The District limits begin west in downtown where the primary component multipurpose facility, the Tucson Convention Center, is located. From downtown, Rio Nuevo then stretches east along the Broadway Corridor encompassing the District's secondary component businesses. Management responsibilities were given to a District Board made up of 4 Directors appointed by the Tucson City Council. Through FY 2012, Rio Nuevo has received a total of \$100.2 million in TPT distributions from the state (See *Table 2*). Laws 2006, Chapter 376 extended the period Rio Nuevo could receive these payments from 10 years to 25 years (to July 1, 2025).

### Reconstituted Rio Nuevo District

Laws 2009, Chapter 3 reconstituted the District board by replacing the 4 director body appointed by the city council with one made up of 9 Directors appointed by the Governor and the Legislature. In addition, Rio Nuevo will receive state TPT diversions only through 2025 or the time of last debt service payment, whichever comes first.

State TPT payments to the Rio Nuevo District are shown in the table below:

<b><u>Fiscal Year</u></b>	<b><u>Distributions</u></b>
FY 2012	\$13,647,100
FY 2011	\$13,515,900
FY 2010	\$8,727,300
FY 2009	\$10,399,300
FY 2008	\$15,456,200
FY 2007	\$14,974,900
FY 2006	\$10,968,200
FY 2005	\$7,469,600
<u>FY 2004</u>	<u>\$5,081,200</u>
Total	\$100,239,700

Source: DOR, Annual Reports

### *Phoenix Convention Center Expansion*

In November 2001, Phoenix voters approved a ballot measure that would provide \$300 million to expand the Phoenix Convention Center from the city fund that was established to pay for construction and expansion of the Civic Plaza's first phase in the 1960s. Laws 2003, Chapter 266 authorized the expansion of eligible convention centers with matching state funds.

## **Transaction Privilege Tax**

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Chapter 266 established the Arizona Convention Center Development Fund (ACCDF) for the purpose of enabling qualifying cities to develop and expand major convention facilities. The Phoenix Convention Center expansion project is the only project qualified under Chapter 266.

The state's obligation for the Phoenix Convention Center project is to pay the debt service and related costs on \$300 million of construction bonds. Pursuant to Laws 2003, Chapter 266, the state's obligation was to begin in the first fiscal year after the Certificate of Completion for the project was filed with the State Treasurer, which occurred on March 25, 2009. The statutory schedule was for \$5 million in debt payments in the first year (FY 2010), \$10 million in the second year (FY 2011), \$15 million in the third year (FY 2012), \$20 million in the fourth year (FY 2013), and then followed by \$500,000 annual increases up to a maximum of \$30 million per year until debt service and related costs are retired.

Laws 2011, Chapter 28 suspends the debt payment in FY 2012 to conform the total state contribution with the actual payment schedule. Chapter 28 provides further changes to the payment schedule in subsequent years as well in order to align the state contributions more closely to the annual debt service payments.

### *Public Infrastructure Improvements*

Laws 2012, Chapter 328 authorizes the State Treasurer to pay state prime contracting tax revenues generated from qualifying projects to a municipality or county in order to fund up to 80% of the costs of public infrastructure improvements (roads, water and wastewater facilities) needed to support the activities of a manufacturing facility. The total amount of state tax dollars paid to cities and counties statewide under Chapter 328 is capped at \$50 million over 10 years. Chapter 328 is effective from October 1, 2013 through September 30, 2023. In order for a city or county to receive state prime contracting tax monies, the manufacturing plant must make certain minimum capital investments depending on its location (\$500 million in Maricopa and Pima and \$50 million in all other counties). The State Treasurer is not allowed to make any payments to a city or county before July 1, 2014. The total amount of statewide distributions to cities and counties is limited to \$5 million in FY 2015. Monies for public infrastructure improvements are distributed from the state and local share of prime contracting taxes generated from qualifying projects.

## **WHO PAYS THE TAX**

### Individuals and Businesses

Persons or companies engaging in business in the state are legally responsible for payment of the tax. However, in practice TPT is passed on to consumers [A.R.S. § 42-5001].

*Internet Taxation.* A current topic in tax policy discussions is the extent to which transactions conducted on the Internet are subject to the sales tax. While the legal landscape is still evolving, we attempt to describe current Arizona policy with respect to 3 different Internet sales scenarios.

1. A consumer purchases an item on the Internet from a company headquartered out of state that also has a store in Arizona. This can be either a sales tax or a use tax situation, depending on whether the retailer has created a semi-separate Internet version of itself. If the product is shipped from the retailer's "Internet company" located in another state, it is a use tax situation. If the product is shipped from the local retail branch, it is a sales tax situation. Regardless, the vendor is required to collect the tax because it has a physical presence (nexus) in this state.
2. A consumer makes an Internet purchase from an out-of-state company that has no physical presence in Arizona but whose products are sold in Arizona retail stores. For example, consider a situation in which vitamins are bought on the Internet from an out-of-state company; this company's vitamins are also sold in Arizona grocery stores. In this case, the vendor is not responsible for collecting a tax for the state because it has no nexus in Arizona. The purchaser is legally responsible for paying the use tax.
3. A consumer buys something on the Internet from an out-of-state company that has no presence whatsoever in Arizona. Since the vendor has no nexus in Arizona, the purchaser is required to pay the use tax.

## Transaction Privilege Tax

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### Tribal Members and Businesses

Indian tribal members or companies engaged in business activities on the reservation are not subject to the sales tax. This exclusion applies to affiliated Indian members who have been adopted into the tribe and who have attained full and unrestricted membership privileges in that tribe.

Non-Indian or non-affiliated Indian retailers engaged in business activities located on the reservation are not subject to the sales tax if the activity is performed for an Indian tribal member of the reservation. The activity is subject to the sales tax, however, if it is performed for a non-Indian or non-affiliated Indian.

For business activities performed for Indian tribal members by retailers located off the reservation, those activities are subject to the sales tax. Sales of tangible personal property to an Indian tribal member, however, are not subject to the sales tax if the solicitation, delivery and payment of the goods take place on the reservation. In addition, the sale of a motor vehicle to an Indian tribal member who resides on the reservation is exempt from the sales tax [A.R.S. § 42-5061].

Other than motor vehicles sales, there are no specific statutory references related to the imposition of Arizona state sales tax on tribal members. Thus, to facilitate the administration of state sales tax on Indian reservations, DOR has adopted sales tax rulings based on the decisions in several court cases. The most recent ruling, which is reflected in the description above, was issued in April 1995 and is referred to as TPR 95-11.

### **TAX BASE AND RATE**

In general, the tax base is the gross proceeds of sales or gross income derived by a person from a taxable business. However, there are variations between the tax bases of the different classifications of the TPT, as specified in A.R.S. § 42-5061 - A.R.S. § 42-5077. Notably, the contracting tax has a unique tax base. The tax base for contractors is 65% of the value of a contract, based on the assumption that labor costs represent 35% of the value of a contract [A.R.S. § 42-5023].

*Exemptions.* There are numerous (over 100) sales tax exemptions provided in statute, such as exemptions for food and medicine. The effect of these exemptions is to reduce the size of the tax base. See *Table 4* for specific tax exemption statutes for each sales tax classification. Attached at the end of this section is the Transaction Privilege and Use Tax Expenditures section of DOR's publication, *The Revenue Impact of Arizona's Tax Expenditures, FY 2010/11 (Preliminary)*. This document provides a complete listing of the sales tax exemptions, and includes the estimated FY 2011 dollar impact of each exemption (where available). *Table 3* below lists exemptions with an estimated revenue impact of at least \$400 million in FY 2011. The complete list of tax expenditures is shown in *Attachment B* at the end of *Transaction Privilege Tax* section.

**Table 3**

#### **THE FY 2011 DOLLAR VALUE OF MAJOR SALES TAX EXEMPTIONS**

<b><u>Exemptions</u></b>	<b><u>Additional Collections at a 5% Rate</u></b>
Wholesale Trade	\$3,513,500,000
Sale of Articles to be Incorporated into a Manufactured Product	1,449,700,000
Professional, Scientific, and Technical Services	955,000,000
Health Care and Social Assistance Services	902,900,000
Food for Home Consumption	628,600,000
Administrative and Business Support Services	444,000,000
Commercial Lease	403,400,000
Other	<u>887,969,000</u>
Total	\$9,185,069,000

Source: DOR. The Revenue Impact of Arizona's Tax Expenditures Fiscal Year 2010/2011

*Tax Rates.* Once the net tax base is computed, it is multiplied by the applicable tax rate to derive the total tax due. The tax rates vary according to the business classification of the taxable activity. Most categories, however, are taxed at the rate of 6.6%. *Table 4* lists the tax rates for each classification. In addition, a complete list of sales tax

## Transaction Privilege Tax

rates by all Arizona cities, including the tax rates levied by state, county, and city governments, is provided in *Attachment A* at the end of this section [A.R.S. § 42-5010].

### TAX REFUNDS AND/OR TAX CREDITS

*Telecommunications Service Assistance Program.* Local exchange telephone companies may claim a tax credit for rate reductions given to elderly low-income persons [A.R.S. § 42-5016].

*Accounting Allowance.* A taxpayer may claim a tax credit of 1% of the amount of tax due, not to exceed \$10,000 in any calendar year. This credit is designed to reimburse taxpayers for expenses incurred in accounting for and reporting sales tax payments [A.R.S. § 42-5017].

### PAYMENT SCHEDULE

*Due Dates.* TPT is due to DOR every month on or before the 20th day of the month after the month in which the tax accrues. For example, for taxable sales made in January, a tax payment is due to DOR by February 20 [A.R.S. § 42-5014].

<u>Classification</u>	<u>A.R.S. Exemption Statute</u>	<u>Tax Rate</u>	<u>Distribution Base</u> <sup>1/</sup>	<u>Non-Shared Base</u> <sup>2/</sup>	<u>Education</u> <sup>3/</sup>	<u>Proposition 100</u> <sup>4/</sup>
Retail	42-5061	6.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment	1.0% Increment
Transporting	42-5062	6.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment	1.0% Increment
Utilities	42-5063	6.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment	1.0% Increment
Telecommunications	42-5064	6.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment	1.0% Increment
Publication	42-5065	6.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment	1.0% Increment
Job Printing	42-5066	6.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment	1.0% Increment
Pipeline	42-5067	6.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment	1.0% Increment
Private Car Line	42-5068	6.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment	1.0% Increment
Transient Lodging	42-5070	6.5%	50%	50%	None	1.0% Increment
Personal Property Rental	42-5071	6.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment	1.0% Increment
Mining	42-5072	3.125%	32%	68%	None	None
Amusement	42-5073	6.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment	1.0% Increment
Restaurant and Bar	42-5074	6.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment	1.0% Increment
Prime Contracting	42-5075	6.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment	1.0% Increment
Owner Builder	42-5076	6.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment	1.0% Increment
Membership Camping	42-5077	6.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment	1.0% Increment

<sup>1/</sup> Represents the portion of revenues that is designated for the distribution base.  
<sup>2/</sup> Represents the portion of revenues that is designated for the non-shared base.  
<sup>3/</sup> Represents the portion of revenues that is designated for education.  
<sup>4/</sup> Represents the portion of revenues that is designated for public primary and secondary education, health and human services, and public safety. This increment is not subject to the regular TPT distribution.

*Delinquency Dates.* Tax payments are delinquent if not postmarked on or before the 25th day of the month or received by DOR on or before the next-to-last business day of the month.

*Alternative Payment Schedules.* DOR may authorize different payment schedules depending on the taxpayer's estimated tax liability or transient nature of the business.

- Taxpayers with an estimated annual tax liability of \$500 or less may pay on an annual basis.
- Taxpayers with an estimated annual tax liability of between \$500 and \$1,250 may pay on a quarterly basis.
- Taxpayers whose business is of a "transient character" may be required to pay on a daily, weekly, or transaction-by-transaction basis.

*Estimated Tax Payments.* Taxpayers who pay income taxes and whose business had an annual sales tax liability in the preceding calendar year of \$1,000,000 or more must make a single estimated advance payment in June of each year. Normally, the full June tax bill would be due on July 20. This estimated payment is in addition to the regular

## Transaction Privilege Tax

June sales tax liability (which represents May sales). Laws 2010, 7<sup>th</sup> Special Session, Chapter 12 lowered the threshold for estimated TPT payments from \$1,000,000 in annual TPT tax liability to \$100,000 for FY 2010 through FY 2012. Prior to FY 2007, the threshold for estimated payments was \$100,000. Laws 2006, Chapter 351 increased the threshold to \$1,000,000.

Pursuant to A.R.S. § 42-5014, the estimated tax payment should equal either 1) one-half of the actual tax liability for May of the current calendar year, or 2) the actual tax liability for the first 15 days of June of the current calendar year. Estimated payments are due by June 20. In July of each year, those taxpayers that made estimated payments in the preceding month may subtract the amount of June's estimated payment from their July tax bill.

When the estimated payments program was first enacted in 1989, the estimated payments provided a one-time boost to state revenues by advancing a portion of the next fiscal year's revenues into the current fiscal year. If the program is ever eliminated (as is periodically proposed), it would entail a one-time cost to state revenues. This is because every July taxpayers make a "claim" for the preceding month's estimated payment, and every June taxpayers make a counterbalancing estimated payment. Eliminating the June payment leaves the July claim without a counterbalance – and the state with a one-time cost.

*Collection.* DOR may enter into agreements with cities and towns that levy TPT to provide a uniform method of administration, collection, and auditing of sales taxes. In FY 2011, DOR collected transaction privilege and use taxes for 73 Arizona cities and towns (*see the DOR's Fiscal Year 2011 Annual Report*) [A.R.S. § 42-6001]. Laws 2010, 2nd Regular Session, Chapter 154 requires cities or towns that do not enter into an agreement with DOR for the collection of municipal TPT to report to DOR by September 1 of each year the total amount of these taxes collected in the preceding fiscal year.

### IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006. The estimated initial dollar impact of these changes is summarized by fiscal year in *Table 5* below.

<b>ANNUAL INCREMENTAL DOLLAR IMPACT OF TAX LAW AND REVENUE CHANGES <sup>1/</sup></b>		
<b><u>Session/Chapter</u></b>	<b><u>Description</u></b>	<b><u>Revenue Impact</u></b>
<b><u>FY 2013</u></b>		
L 12, Ch 232	Exemption of Solar Photovoltaic Electricity Transfers	Unknown
L 12, Ch 331	Exemption for Fuel and Equipment Replacement Parts (Healthy Forest)	Unknown
L 10, 7 <sup>th</sup> SS, Ch 12	Estimated Payment Threshold reverts from \$100,000 to \$1,000,000 beginning in FY 2013 (one-time impact FY 2013 impact)	<u>(\$2,000,000)</u>
Subtotal FY 2013		\$ (52,000,000)
<b><u>FY 2012</u></b>		
L 10, 6 <sup>th</sup> SS, SCR 1001	Increases TPT and use tax rate from 5.6% to 6.6% (Proposition 100)	\$ 51,333,800
<b><u>FY 2011</u></b>		
L 10, 6 <sup>th</sup> SS, SCR 1001	Increases TPT and use tax rate from 5.6% to 6.6% (Proposition 100)	\$ 864,501,700
<b><u>FY 2010</u></b>		
L 10, 7 <sup>th</sup> SS, Ch 12	Reduces Estimated Payment Threshold from \$1,000,000 to \$100,000 for FY 2010 through FY 2012 (one-time FY 2010 impact)	\$ 48,000,000
<b><u>FY 2007</u></b>		
L 06, Ch 333	Solar Energy Devices – Commercial Applications	(500,000)
L 06, Ch 351	Increase Estimated Payment Threshold to \$1,000,000 (one-time FY 2007 impact)	(55,200,000)
L 06, Ch 354	Eliminate Sales Tax Categories	(200,000)
L 06, Ch 371	Liquid Natural Gas Exemption	<u>(378,600)</u>
Subtotal FY 2007		\$ (56,278,600)

<sup>1/</sup> Excluding Proposition 301 revenue.

## Transaction Privilege Tax

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### 2012 TAX LAWS

**Laws 2012, Chapter 3** was the annual correction bill that made technical, conforming, and clarification changes to the Arizona Revised Statutes. (Contained various effective dates)

**Laws 2012, Chapter 170** conformed Arizona Revised Statutes to the provisions of Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1, which created the Arizona Commerce Authority. (Effective August 2, 2012)

**Laws 2012, Chapter 198** establishes the prepaid wireless telecommunications 911 excise tax. The tax is equal to 0.8% of the gross income derived from the retail sale of prepaid wireless telecommunications services. The revenue generated from the tax will be deposited in the Emergency Telecommunications Services Revolving Fund. (Effective January 1, 2014)

**Laws 2012, Chapter 232** provides a TPT and Use Tax exemption for the portion of sales proceeds attributable to the transfer of solar photovoltaic electricity from a retail electric customer to an electric utility distribution system. Arizona's major electric utility companies offer buyback programs to individuals who own solar photovoltaic energy generating systems (such as solar panels). Under this type of buyback program, the electric utility company redistributes excess electricity generated by an individual's solar energy system, and then credits the value of the redistributed electricity against the individual's future energy consumption. Prior to Chapter 232, this type of transaction was subject to TPT or Use Tax. The fiscal impact of Chapter 232 is unknown. (Effective retroactively from January 1, 2007)

**Laws 2012, Chapter 328** authorizes the State Treasurer to pay state prime contracting tax revenues generated from qualifying projects to a city or county in order to fund up to 80% of the costs of public infrastructure improvements (roads, water and wastewater facilities) needed to support the activities of a manufacturing facility located in that city or county. The total amount of state tax dollars paid to cities and counties statewide under Chapter 328 is capped at \$50 million over 10 years. In order for a city or county to receive state prime contracting tax monies, the manufacturing plant must make certain minimum capital investments depending on its location (\$500 million in Maricopa and Pima and \$50 million in all other counties). The State Treasurer is not allowed to make any payments to a city or county before July 1, 2014. The total amount of statewide distributions to cities and counties is limited to \$5 million in FY 2015. Monies for public infrastructure improvements are distributed from the state and local share of prime contracting taxes generated from qualifying projects. (Effective from October 1, 2013 through September 30, 2023)

**Laws 2012, Chapter 331** extends existing tax incentives under the Healthy Forest program from 2014 through 2024. Additionally, Chapter 331 also eases program qualification requirements and establishes new tax incentives for certified Healthy Forest Enterprises (HFE). Among the new incentives are TPT and Use Tax exemptions for motor vehicle fuel and equipment replacement parts sold to qualified HFE's. The fiscal impact of the TPT and Use Tax incentives is currently unknown. (Effective August 2, 2012)

**Laws 2012, Chapter 332** allows taxpayers who are required to pay municipal TPT and affiliated use taxes to "non-program cities" (municipalities that are not under contract with DOR for tax collection services) to submit their payments through an online portal (Effective August 2, 2012)

### 2011 TAX LAWS

**Laws 2011, Chapter 40** prevents a city or town from imposing or increasing sales tax on residential renters unless approved by municipal voters. (Effective retroactively from January 1, 2011).

**Laws 2011, Chapter 66** prohibits a city or town from contracting with or employing auditors on a contingent fee basis for the purpose of auditing any TPT or affiliated taxes levied by the city or town. (Effective retroactively from January 1, 2011).

**Laws 2011, Chapter 129** requires the Department of Revenue to maintain an official and up-to-date copy of the Model City Tax Code (MCTC), which is to be posted on its website, beginning July 1, 2012.

## **Transaction Privilege Tax**

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**Laws 2011, Chapter 144** prevents cities or towns from levying TPT, use tax, or any similar tax, on the gross proceeds of sales or gross income derived from a commercial lease, if at least 80% of the voting shares of each corporation are owned by the same shareholders. (Effective July 20, 2011).

**Laws 2011, Chapter 249** provides that provisional community college districts are included in the distribution of Proposition 301 Workforce Development monies. (Effective October 1, 2011).

### **2010 TAX LAWS**

**Laws 2010, 6<sup>th</sup> Special Session, SCR 1001** referred to the voters in a May 2010 Special Election a 3-year increase in the TPT, including the use tax from 5.6% to 6.6%. The extra 1.0% would be dedicated exclusively to public primary and secondary education, health and human services, and public safety. Proposition 100 was approved by the voters and the new rate began on June 1, 2010. The 1% is not subject to the regular TPT/use tax distribution, and is estimated to generate TPT and use tax revenues of \$825 million in FY 2011, \$901 million in FY 2012, and \$951 million in FY 2013. (Effective June 1, 2010)

**Laws 2010, 7<sup>th</sup> Special Session, Chapter 12** lowered the threshold for estimated TPT payments from \$1,000,000 in TPT tax liability to \$100,000 for FY 2010 through FY 2012. It is estimated that this would generate one-time revenues of \$48,000,000 in FY 2010. Beginning in FY 2013, the threshold reverts back to \$1,000,000.

**Laws 2010, 7<sup>th</sup> Special Session, Chapter 12** eliminated the Tourism funding formula, which had previously allowed the Tourism Fund to collect 3.5% of last year's gross transient lodging tax revenues, 3.0% of last year's gross amusement tax revenues, and 2.0% of last year's gross restaurant and bar tax revenues. This legislation was estimated to increase ongoing General Fund revenues by \$10,655,200. Laws 2010, Chapter 128 reinserted the Tourism funding formula in statute but left the formula inactive pending future legislative authorization.

**Laws 2010, Chapter 225** extended the TPT and use tax exemptions for the Environmental Technology Assistance Program for 5 additional taxable years.

**Laws 2010, Chapter 294** delayed the termination of the prime contracting TPT exemption for the installation of solar energy devices for commercial or industrial use by 6 taxable years.

### **2009 TAX LAWS**

**Laws 2009, 1<sup>st</sup> Special Session, Chapter 3** established a state and county tax amnesty program, which ran from May 1, 2009 through June 1, 2009. The program allowed DOR to abate or waive all or part of penalties and to impose reduced interest payments for tax liabilities for all qualifying taxpayers. To qualify for the program, a taxpayer must have filed a return, and paid any balance due by June 1, 2009. The one-month amnesty program generated a total of \$31.8 million, including \$16.7 million in corporate income taxes, \$2.1 million in individual income taxes, and \$13.0 million in sales tax revenue. After accounting for sales taxes collected on the behalf of counties, and revenue sharing to cities and counties, a total of \$27.3 million was deposited into the state's General Fund. The one-time revenue impact of the tax amnesty program has not been included in the tax law changes table at the beginning of this section.

**Laws 2009, 4<sup>th</sup> Special Session, Chapter 3** changed the end of the state's General Fund contribution to the Rio Nuevo multipurpose facility district from 2025 to the earlier of that date or the completion of the currently scheduled debt service payments. Chapter 3 also stated that no state funds may be used for operating expenses of the facility, or for any costs that qualify for funding from the Arizona Convention Center Development Fund.

### **2008 TAX LAWS**

**Laws 2008, Chapter 194** provided that internet application for services designed to assess student learning, or to promote curriculum design are exempt from the TPT, the telecommunications classification, and the rental property classification. The impact to the General Fund has not been determined. (Effective retroactively to January 1, 2000)

**Laws 2008, Chapter 255** provided that preconstruction services related to prime constructing to be exempt from TPT. The impact to the General Fund has not been determined. (Effective retroactively to January 1, 2001)

## **Transaction Privilege Tax**

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**Laws 2008, Chapter 303** modified the deduction for development fees from TPT for prime contactors or subcontractors. Chapter 303 intends to clarify, and not to expand, the provisions of Laws 2006, Chapter 386, relating to deduction of development fees. The impact to the General Fund has not been determined. (Effective retroactively to September 1, 2006)

### **2007 TAX LAWS**

**Laws 2007, Chapter 169** provided that medallions and coins that are authorized by the Arizona Historical Advisory Commission to commemorate Arizona's 2012 statehood centennial to be exempt from state and local TPT. (Effective September 19, 2007)

**Laws 2007, Chapter 188** established a mechanism to determine TPT liability under the prime contracting classification for former property owners who make improvements that are not included in the original sales contract after title to the property has been transferred to a new owner. It excludes property owners who hire contractors to make improvements from being defined as prime contractors, regardless of the existence of a sales contract, retroactive to January 8, 1991. Chapter 188 allows the former property owner to be liable for TPT under the prime contracting classification only on improvements not included in the sales contract made by the former owner after the title to the property has been transferred to a new owner. A refund mechanism is established by which refunds for taxable periods after January 8, 1991 may be claimed if they are filed before January 1, 2008. The maximum cumulative amount of refunds is limited to \$10,000. Valid aggregate claims in excess of \$10,000 will result in the proportional reduction of all refunds. (Effective September 19, 2007)

**Laws 2007, Chapter 265** repealed Laws 2002, Chapter 330, which limited the tribal community colleges transfer of TPT revenues to Diné College. It increased the recipients of the TPT distributions to include qualifying Indian tribes, with the funds to be used for maintenance, renewal and capital expenses of community colleges owned, operated and chartered by the tribes. Chapter 265 allowed for existing compacts between qualifying Indian tribes and the state to be renewed for 10 years after a hearing and review of the compact during the last year of the compact's first 10-year term. This legislation was estimated to increase Arizona Community Colleges General Fund expenditures by \$194,000 in FY 2008. (Effective September 19, 2007)

**Laws 2007, Chapter 276** penalized municipalities located entirely within metropolitan areas with populations exceeding 2 million people that provide retail tax incentives to induce businesses to locate within their borders. This penalty does not apply to cities or towns that adopted retail tax incentives prior to July 1, 2007, and several other exceptions are provided. Municipalities are required to report to DOR the value of any actual or contingent tax incentives offered to retail businesses as an inducement or in exchange for locating within their borders. Municipalities that do offer these incentives shall be penalized by a commensurate reduction in state shared revenue. (Effective September 19, 2007)

### **2006 TAX LAWS**

**Laws 2006, Chapter 105** clarified that the sales tax does not apply to postage in printing jobs. Under the job printing classification, printing jobs may include pre-printed postage. This chapter clarified that the amount collected by the business for the postage is exempt from the sales tax. This legislation has no fiscal impact. (Effective September 21, 2006)

**Laws 2006, Chapter 123** modified the due dates for sales tax payments by standardizing the delinquent date for all payments, regardless of how the payments are made. The chapter clarified that payments, including electronic payments, are delinquent if they are not received by DOR by the second to the last day of the month, and that payments received by mail must be postmarked before the 25<sup>th</sup> day of the month. This legislation has no fiscal impact. (Effective September 21, 2006)

**Laws 2006, Chapter 171** provided a municipal sales tax exemption for the state fair. Current statute exempts income received from state and county fairs from the state sales tax. This chapter expanded that exemption to municipal sales taxes. This legislation has no state fiscal impact. (Effective retroactively from June 30, 1999)

**Laws 2006, Chapter 222** expanded the sales tax exemption made available to motion picture producers by Laws 2005, Chapter 317 to include printing activity related to motion picture production. The printing exemption was estimated to have a negligible fiscal impact. (Effective retroactively from January 1, 2006)

## Transaction Privilege Tax

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**Laws 2006, Chapter 225** exempted food donated by a restaurant to a qualified nonprofit organization that regularly serves free meals to the needy from the sales and use tax. The donated food exemption was estimated to have a negligible fiscal impact. (Effective September 21, 2006)

**Laws 2006, Chapter 321** exempted the sale of food prepared off campus that is provided to school districts, charter and private schools for consumption during school hours from TPT and use tax. (Effective September 21, 2006)

**Laws 2006, Chapter 333** eliminated the \$5,000 cap on the existing sales tax exemption for the purchase of solar energy devices. The removal of the cap is expected to reduce sales tax revenue by approximately \$(500,000) per fiscal year. (Effective retroactively from January 1, 2006)

**Laws 2006, Chapter 351** increased the threshold beyond which a June estimated sales tax payment is required from the current \$100,000 to \$1.0 million. (Effective September 21, 2006)

**Laws 2006, Chapter 354** eliminated the sales tax on membership camping fees. The state revenue impact was estimated to be \$(100,000) in FY 2007 and \$(120,000) per year in subsequent fiscal years. (Effective November 1, 2006)

**Laws 2006, Chapter 371** provided an exemption from sales and use tax for natural gas purchased to fuel equipment used to convert natural gas into liquefied natural gas. This exemption is expected to result in a decrease of \$(379,000) per fiscal year in sales and use tax collections.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

Attachment A

State and Local Use Tax Rates by City  
Revised August 6, 2012

Cities by County	State	City	Total Rate	Cities by County	State	City	Total Rate
<b>Apache County</b>				<b>Maricopa County</b>			
Eagar	6.60	3.00	9.60	Scottsdale	6.60	1.45	8.05
St. Johns	6.60	3.00	9.60	Surprise	6.60	2.20	8.80
Springerville	6.60	-	6.60	Tempe	6.60	2.00	8.60
<b>Cochise County</b>				Tolleson	6.60	-	6.60
Benson	6.60	-	6.60	Wickenburg	6.60	-	6.60
Bisbee	6.60	-	6.60	Youngtown	6.60	3.00	9.60
Douglas	6.60	2.50	9.10	<b>Mohave County</b>			
Huachuca City	6.60	-	6.60	Bullhead City	6.60	2.00	8.60
Sierra Vista	6.60	1.75	8.35	Colorado City	6.60	2.00	8.60
Tombstone	6.60	-	6.60	Kingman	6.60	2.00	8.60
Wilcox	6.60	-	6.60	Lake Havasu City	6.60	2.00	8.60
<b>Cocconino County</b>				<b>Navajo County</b>			
Flagstaff	6.60	-	6.60	Holbrook	6.60	3.00	9.60
Fredonia	6.60	4.00	10.60	Pinetop-Lakeside	6.60	-	6.60
Page	6.60	3.00	9.60	Show Low	6.60	-	6.60
Sedona	6.60	3.00	9.60	Snowflake	6.60	-	6.60
Tusayan	6.60	-	6.60	Taylor	6.60	-	6.60
Williams	6.60	-	6.60	Winslow	6.60	-	6.60
<b>Gila County</b>				<b>Pima County</b>			
Globe	6.60	-	6.60	Marana	6.60	2.00	8.60
Hayden	6.60	3.00	9.60	Oro Valley	6.60	-	6.60
Miami	6.60	-	6.60	Sahuarita	6.60	-	6.60
Payson	6.60	-	6.60	South Tucson	6.60	-	6.60
Star Valley	6.60	-	6.60	Tucson	6.60	2.00	8.60
Winkelman	6.60	-	6.60	<b>Pinal County</b>			
<b>Graham County</b>				Apache Junction	6.60	-	6.60
Pima	6.60	-	6.60	Casa Grande	6.60	-	6.60
Safford	6.60	2.50	9.10	Coolidge	6.60	3.00	9.60
Thatcher	6.60	2.50	9.10	Eloy	6.60	3.00	9.60
<b>Greenlee County</b>				Florence	6.60	3.00	9.60
Clifton	6.60	-	6.60	Kearny	6.60	-	6.60
Duncan	6.60	-	6.60	Mammoth	6.60	2.00	8.60
<b>La Paz County</b>				Marana	6.60	2.00	8.60
Parker	6.60	-	6.60	Maricopa	6.60	2.00	8.60
Quartzsite	6.60	2.50	9.10	Queen Creek	6.60	2.25	8.85
<b>Maricopa County</b>				Superior	6.60	-	6.60
Apache Junction	6.60	-	6.60	Winkelman	6.60	-	6.60
Avondale	6.60	1.50	8.10	<b>Santa Cruz County</b>			
Buckeye	6.60	-	6.60	Nogales	6.60	-	6.60
Caretree	6.60	-	6.60	Patagonia	6.60	-	6.60
Cave Creek	6.60	3.00	9.60	<b>Yavapai County</b>			
Chandler	6.60	1.50	8.10	Camp Verde	6.60	2.00	8.60
El Mirage	6.60	3.00	9.60	Chino Valley	6.60	3.00	9.60
Fountain Hills	6.60	2.60	9.20	Clarkdale	6.60	-	6.60
Gila Bend	6.60	1.50	8.10	Cottonwood	6.60	-	6.60
Gilbert	6.60	-	6.60	Dewey-Humboldt	6.60	2.00	8.60
Glendale	6.60	2.90	9.50	Jerome	6.60	-	6.60
Goodyear	6.60	2.50	9.10	Prescott	6.60	2.00	8.60
Guadalupe	6.60	-	6.60	Prescott Valley	6.60	2.33	8.93
Litchfield Park	6.60	2.80	9.40	Sedona	6.60	3.00	9.60
Mesa	6.60	1.75	8.35	<b>Yuma County</b>			
Paradise Valley	6.60	2.50	9.10	San Luis	6.60	4.00	10.60
Peoria	6.60	1.80	8.40	Somerton	6.60	2.50	9.10
Phoenix	6.60	2.00	8.60	Wellton	6.60	-	6.60
Queen Creek	6.60	2.25	8.85	Yuma	6.60	-	6.60

Sources: League of Arizona Cities & Towns; Arizona Department of Revenue

Arizona Tax Research Association

# Transaction Privilege Tax

## Attachment B

The following preliminary information on sales tax exemptions and credits for FY 2011 is provided courtesy of DOR.

### TRANSACTION PRIVILEGE AND USE TAX EXPENDITURES

	Additional Collections at a 5% Rate
<b>PREFERENTIAL TAX RATE CATEGORIES</b>	
Nonmetalliferous Mining; Oil and Gas Production .....	\$1,810,000
Commercial Lease .....	403,402,000
<b>Total Preferential Tax Rates</b> .....	<b>\$405,212,000</b>
<b>CREDITS</b>	
Accounting Credit.....	\$19,264,000
<b>Total Credits</b> .....	<b>\$19,264,000</b>
<b>EXEMPTIONS</b>	
<b>Sample of Services<sup>1</sup>:</b>	
<u>Professional Scientific and Technical Services:</u>	
Legal .....	\$163,661,000
Architectural and Engineering .....	211,757,000
Specialized Design Services .....	17,766,000
Computer System Design and Related Services .....	244,750,000
Management, Scientific and Technical Consulting.....	97,058,000
Scientific Research and Development .....	37,086,000
Advertising, Public Relations and Related Services .....	57,546,000
Other Professional, Scientific and Technical Services.....	47,981,000
Accounting, Tax Preparation & Bookkeeping .....	77,404,000
Total Reportable Professional, Scientific and Technical Services.....	\$955,010,000
<u>Health Care Services:</u>	
Physicians .....	\$355,761,000
Dentists .....	112,314,000
Chiropractors .....	13,480,000
Optometrists.....	9,374,000
Mental Health Practitioners .....	4,263,000
Specialty Therapists .....	18,045,000
All Other Health Practitioners.....	8,490,000
Outpatient Care Centers.....	84,882,000
Medical and Diagnostic Labs.....	55,591,000
Home Health Services.....	40,448,000
Other Ambulatory Health Services .....	72,736,000
<b>Sample of Services, continued<sup>2</sup></b>	
Nursing Care Facilities .....	\$48,652,000
Residential Mental Health Facilities .....	28,918,000
Community Care Facilities .....	42,821,000
Other Residential Care Facilities .....	7,108,000
Total Reportable Health Care Services.....	\$902,883,000

<sup>1</sup> This summary is not intended to be a comprehensive analysis of potential transaction privilege tax revenue from Services. Some portion of the value of these services may already be taxable.

<sup>2</sup> This summary is not intended to be a comprehensive analysis of potential transaction privilege tax revenue from Services. Some portion of the value of these services may already be taxable.

## Transaction Privilege Tax

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### Administrative and Business Support Services

Office Administrative Services .....	\$50,245,000
Facilities Support Services.....	24,823,000
Employment Placement and Executive Search Services .....	21,906,000
Business Support Services .....	74,710,000
Services to Buildings and Dwellings .....	147,417,000
Investigation and Security.....	38,981,000
Other Support Services .....	29,811,000
Waste Management and Remediation Services .....	56,115,000
Total Reportable Administrative and Business Support Services.....	\$444,009,000

### Personal Care Services

Barber .....	\$625,000
Beauty Salons .....	19,875,000
Nail Salons.....	917,000
Other Personal Care .....	5,269,000
Death Care Services.....	8,809,000
Drycleaner & Laundry .....	23,645,000
Pet Care (not Veterinary).....	2,802,000
Parking lot/garages .....	7,994,000
Other Personal Services .....	3,436,000
Total Reportable Personal Care Services.....	\$73,373,000

### Educational Services

Business School/Computer/Management Training.....	\$5,433,000
Technical and Trade Schools .....	21,347,000
Other Schools and Instruction.....	17,095,000
Education Support Services .....	5,535,000
Total Reportable Educational Services.....	\$49,410,000

### Financial Services

Mortgage and Nonmortgage Loan Brokers.....	\$27,046,000
Financial Transaction Processing and Clearing .....	94,484,000
Other Activities Related to Credit Intermediation .....	18,574,000
Securities and Commodity Contracts Intermediation .....	141,208,000
Portfolio Management .....	52,690,000
Investment Advice .....	9,931,000

### **Sample of Services, continued<sup>3</sup>**

All Other Financial Investment Activities .....	\$4,884,000
Total Reportable Financial Services .....	\$348,818,000

### Other Services

Automotive Repair and Maintenance .....	\$103,633,000
Electronic and Precision Repair and Maintenance.....	7,928,000
Commercial, Industrial Machinery Repair and Maintenance .....	19,945,000
Personal and Household Goods Repair and Maintenance.....	5,131,000
Data Processing, Hosting and Related Services.....	63,885,000
Local Messengers and Local Delivery.....	2,727,000
Total Reportable Other Services.....	\$139,365,000
Wholesale Trade.....	\$3,513,490,000
Cash Discounts .....	NIA*

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<sup>3</sup> This summary is not intended to be a comprehensive analysis of potential transaction privilege tax revenue from Services. Some portion of the value of these services may already be taxable.

\* No information available.

## Transaction Privilege Tax

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Trade-Ins.....	NIA
Sale of Warranty or Service Contracts .....	27,785,000
Sale of Tangible Personal Property by a Nonprofit Organization .....	NIA
Sale of Stocks and Bonds .....	NIA
Prescription Drugs and Medical Oxygen.....	350,800,000
Eyeglasses and Contact Lenses, Insulin, Insulin Syringe and Glucose Test Strips, prosthetic appliances, hearing aids and durable medical equipment .....	26,464,000
Sales to Nonresidents for use outside Arizona if the property is shipped or delivered outside the state.....	122,423,000
Food for Home Consumption .....	628,745,000
Textbooks that are required by any state university or community college.....	1,823,000
Meals Provided to Employees of Restaurants .....	NIA
Food Used in School Lunches .....	NIA
Sale of Arizona Lottery Tickets.....	29,177,000
Precious Metal Bullion and Monetized Bullion.....	NIA
Tangible Personal Property sold to a Qualifying Hospital or a Qualifying Health Care Organization .....	32,303,000
Tangible Personal Property Sold to or Purchased by Qualifying Community Health Centers and Health Care Organizations .....	33,128,000
Tangible Personal Property Sold to a Non-Profitable Organization which Regularly Serves Meals to the Needy and Indigent.....	518,000
Tangible Personal Property Sold to a Non-Profitable Organization which Provides Housing for Low Income Persons Over Sixty-Two Years .....	NIA
Gross Proceeds from Contracts to Build Housing for Nonprofits to House Low Income Persons Over Sixty-Two Years .....	NIA
Magazines or other Periodicals or other Publications To Encourage Tourist Travel .....	NIA*
Sale of Articles to a Contractor for Incorporation or Fabrication Under a Contract.....	NIA
Sale of Articles to be Incorporated into a Manufactured Product.....	\$1,449,703,000
Exempt Motor Vehicle Sales (certain nonresidents and Indians) .....	22,315,000
Tangible Personal Property Purchased by a Nonprofit Charitable Organization that uses such property for training, etc., for mentally or physically handicapped persons .....	NIA
Tangible Personal Property Sold by a Nonprofit Organization associated with a major league baseball team or a national touring professional golf association .....	NIA
Tangible Personal Property Sold by a Nonprofit Organization associated with a rodeo featuring primarily farm and ranch animals .....	NIA
Sales of Commodities under Futures Contracts Consigned to a Warehouse for Resale .....	NIA
Seeds, Seedlings, Roots, Bulbs, Cuttings and Other Propogative Material used to commercially produce agricultural, horticultural, viticultural or floricultural crops in Arizona.....	2,862,000
Machinery, Equipment and Certain Supplies Used to Assist the Physically or Developmentally Disabled or those Persons with Head Injuries .....	4,327,000
Tangible Personal Property Shipped or Delivered Directly to a Foreign Country for use in that Country .....	16,636,000
Sales of Natural Gas or Liquefied Petroleum Gas used to Propel a Motor Vehicle .....	7,029,000
Paper Machine Clothing Used or Consumed in Paper Manufacturing .....	NIA
Machinery, Equipment, Utility Product, Materials and Other Tangible Personal Property Used to Construct a Qualified Environmental Technology Facility.....	NIA
Sales of Coal, Petroleum, Coke, Natural Gas, Virgin Fuel Oil and Electricity to an Environmental Technology Facility.....	1,000,000
Sales of Liquid, Solid or Gaseous Chemicals Used in	

\* No information available

## Transaction Privilege Tax

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Manufacturing, Processing, Fabricating, Mining, Refining, Metallurgical Operations or Research and Development.....	1,676,000
Sales of Food or Drink Consumed on the Premises of a Jail, Prison,.....	3,582,000
Motor Vehicles and any Tangible Personal Property or Repair that Becomes a Part of the Motor Vehicles sold to a Licensed Motor Operator that Lease or Rent the Property .....	9,406,000
Livestock, Poultry, Feed and Supplies for Use or Consumption in the Businesses of Farming, Ranching and Feeding Livestock and Poultry.....	NIA
Livestock, Poultry feed, Salts, Vitamins for Livestock or Poultry Consumption.....	17,035,000
Sale or Purchase of Implants Used as Growth Promotants and Injectable Medicine .....	45,000
Sales of Motor Vehicles at Auction to Nonresidents of this State for Use Outside of this State .....	6,060,000
Personal Hygiene Products Which are Furnished to and to be Consumed by Hotel Occupant .....	NIA
Sales or Purchases of Alternative Fuel to a Used Oil Fuel Burner .....	NIA*
Printed, Photographic, Electronic or Digital Media Materials for use in Publicly Funded Libraries.....	\$125,000
Tangible Personal Property Consisting of Food, Beverages and Condiments Sold to or Purchased by a Commercial Airline.....	59,000
Sale of New Alternative Fuel Vehicles and Conversion Equipment .....	NIA
Sale of Spirituous, Vinous or Malt Liquor by a Liquor Wholesaler .....	NIA
Property to be Incorporated as Part of Environmental Response or Remediation Activities.....	NIA
Sale of Arizona centennial medallions by the historical advisory commission .....	NIA
Application services designed to assess or test student learning .....	NIA
Tangible Personal Property by a Nonprofit that Produces, Organizes or Promotes Cultural or Civic Related Festivals .....	NIA
Machinery or Equipment used directly in Manufacturing, Processing, Fabricating, Job Printing, Refining or Metallurgical Operations.....	49,716,000
Sale of Machinery or Equipment Used in Mining and in Drilling for or Extracting Oil or Gas from the Earth.....	31,354,000
Certain Equipment used in the Telecommunications Industry .....	NIA
Machinery, Equipment or Transmission Lines used directly in Producing or Transmitting Electrical Power .....	20,335,000
Neat Animals, Horses, Asses, Sheep, Swine or Goats used or to be used as breeding or production stock .....	NIA
Pipes or Valves Four Inches in Diameter Used to Transport Oil, Natural Gas, Artificial Gas, Water or Coal Slurry .....	7,795,000
Certain Aircraft, Navigational and Communication Instruments .....	5,458,000
Machinery, Tools, Equipment Used in Repairing, Remodeling or Maintaining Aircraft, Aircraft Engines or Aircraft Component Parts .....	NIA
Railroad Rolling Stock, Rails, Ties and Signal Control Equipment Used to Transport Persons or Property for hire.....	NIA
Buses or Other Urban Mass Transit Vehicles Used to Transport Persons for hire or pursuant to a governmentally adopted and controlled urban mass transportation program.....	NIA
Certain Groundwater Measuring Devices and their installation.....	NIA
New Machinery and Equipment Used for Commercial Production of Agricultural, Horticultural, Viticultural and Floricultural Crops.....	NIA
Machinery or Equipment used in Research and Development .....	NIA
Machinery and Equipment Purchased by or on Behalf of Owners of a Soundstage Complex .....	NIA
Tangible Personal Property Used by any Direct Broadcast Satellite Television or Data Transmission Service or Facility.....	NIA

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\* No information available.

## Transaction Privilege Tax

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Sales of Services by Direct Broadcast Satellite Television Services .....	NIA
Clean Rooms Used for Manufacturing, Processing	
Fabrication or Research and Development .....	2,051,000
Gross Income from Installation, Assembly, Repair or Maintenance Clean Rooms.....	NIA
Machinery and Equipment Used in the Feeding of Poultry or Production	
and Packaging of Eggs.....	NIA*
Machinery and Equipment used to Meet Land, Water and Air Quality Standards.....	NIA
Machinery and Equipment used by Agriculture to Prevent, Monitor,	
Control or Reduce Pollution .....	NIA
Digital Television Machinery and Equipment Purchases for Compliance	
with the Telecommunications Act of 1996 .....	NIA
Machinery and Equipment sold or rented to a Healthy Forest Certified Business .....	\$165,000
Machinery, Equipment and Tangible Personal Property used directly in Motion	
Picture Production by a Motion Picture Production Company .....	NIA
Portion of Sales Price of Luxury Automobiles that Reflects the	
Federal Luxury Excise Tax .....	NIA
Portion of Sales Price of Use Fuel that Reflects the Federal Luxury Excise Tax.....	NIA
Gross Income from Machinery, Equipment and Materials used Directly	
to Construct a Qualified Environmental Technology Facility .....	NIA
Sales of Overhead Materials or Other Tangible Personal Property to a	
Manufacturer, Modifier, Assembler or Repairer if Performing a Contract	
between the United States Government and the Manufacturer.....	NIA
Sales of Tangible Personal Property made to the United States Government	
Not Deducted under A.R.S. §42-5061L.....	NIA
Gross Income from Motor Vehicle Manufacturer's Cash Rebates if	
Assigned to the Retailer.....	8,024,000
Gross Income derived from the Waste Tire Disposal Fee .....	NIA
Sales of Solar Energy Devices.....	14,009,000
Sales of Wireless Telecommunication Equipment as an Inducement to	
Enter into or Continue a Contract for Telecommunication Services or	
Sales Commissions Received.....	NIA
Ambulances or Ambulance Services .....	NIA
Public Transportation Services for Dial-A-Ride Programs and Special Needs	
Transportation Services .....	NIA
Gross Proceeds for Transporting Freight or Property by an Exclusively Arizona	
Railroad for Portions of Single Shipments Involving Other Railroads.....	NIA
Gross Proceeds for Arranging Transportation as a Convenience or Service to a	
Customer if the Business is not Otherwise Engaged in the Transportation Business .....	NIA
Gross Proceeds of Sales or Gross Income Derived from Transporting For Hire	
Persons, Freight or Property by a Railroad Pursuant to a	
Contract with Another Railroad.....	NIA
Gross Proceeds of Sales or Gross Income Derived from Transporting Fertilizer by a	
Railroad from a Point in this State to Another Point in this State.....	NIA
Sales of Electricity to a Distributor.....	NIA
Sales of Alternative Fuel to a Used Oil Fuel Burner .....	NIA
Sales of Electric Services to a Retail Electric Customer Who Is Located	
Outside This State for Delivery and Use Outside the State .....	NIA
Revenues Received by a Municipally Owned Utility in the form of Fees Charged	
to Persons Constructing Residential, Commercial or Industrial Developments .....	NIA*
Revenues Received By Any Person Owning a Utility System in the Form of Reimbursement	
or Contribution Compensation for Property and Equipment Installed to Provide	

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\* No information available.

## Transaction Privilege Tax

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Utility Access to, on or across the land of an actual utility consumer .....	NIA
Interstate Sales of Electricity, Natural Gas & Water .....	NIA
Interstate Telecommunication Services .....	NIA
Sales of Intrastate Telecommunications Services by a Cable Television System or by a Microwave Television Transmission System .....	NIA
Sales of internet access services.....	NIA
End User Common Line Charges and Carrier Access Charges Established by Federal Communications Regulations .....	NIA
Sales of Direct Broadcast Satellite Television Services .....	NIA
Manufacturing or Publishing Books .....	NIA
Gross Income of Publications Derived from Advertising included in Services Sales to a Person who Distributes Printing, Engraving, Embossing or Copying Without Consideration In Connection With the Publication of a Newspaper or Magazine.....	NIA
Sales of Job Printing, Engraving, Embossing, and Copying for Use Outside the State if the Materials are Shipped or Delivered Out of the State .....	NIA
Sales of Postage and Freight.....	\$769,000
Sales of Job Printing, Engraving, Embossing or Copying to a Motion Picture Production Company .....	NIA
Leasing or Renting Four or Fewer Rooms of an Owner Occupied Residence Bed and Breakfast with less than 50% Average Annual Occupancy .....	NIA
Leasing Films, Tapes or Slides Used by Theaters or Movies or Used By Television Stations or Radio Stations .....	NIA
Operating Coin Operated Washing, Drying and Dry Cleaning Machines.....	NIA
Operating Coin Operated Car Washing Machines.....	NIA
Leasing or Renting Personal Property for Incorporation into a Qualified Environmental Technology Facility.....	NIA
Leasing or Renting Aircraft or Training Equipment by a Non-Profit School Offering Aviation and Aerospace Degrees .....	NIA
Leasing or Renting Photographs, Transparencies or Other Creative Works used by this State on Internet Web Sites, in Magazines or Other Publications that Encourage Tourism .....	NIA
Amounts Received by a Motor Vehicle Dealer for the First Month of a Lease Payment if the Lease is Transferred to a Third Party.....	2,048,000
Freight Charges Relating Nonmetalliferous Mineral Products .....	NIA
Tuition and Fees Paid to Universities & Community Colleges .....	NIA
Private or Group Instructional Activities and Membership and Initiation Fees for Health or Fitness Clubs or Private Recreational Establishments with Memberships Greater than 28 Days.....	2,483,000
Events Sponsored by the Arizona Coliseum & Exposition Board.....	NIA
Musical, Dramatic or Dance groups or a Botanical Garden, Museum or Zoo that Qualifies as a Nonprofit Charitable Organization.....	NIA*
Sales of Admissions to Intercollegiate Football Contests.....	NIA
Fees and Assessments Received by a Homeowners Organization .....	NIA
Arranging an Amusement Activity as a Service to a Person's Customers .....	NIA
Sales By a Congressionally Chartered Veterans Organization of Food or Drink.....	NIA
Sales By Churches, Fraternal Benefit Societies and Other Nonprofit Organizations Which Do Not Regularly Engage or Continue in the Restaurant Business for the purpose of fund raising.....	NIA
Restaurant Sales to Qualifying Hospitals .....	NIA
Restaurant Sales to a School District.....	\$1,261,000
Wages & Salaries for Labor Employed in Construction.....	226,712,000
Sale Price of Land.....	9,746,000
Contracting in a Military Reuse Zone for a Manufacturer, Assembler or Fabricator of Aviation or Aerospace Products .....	NIA
Gross Proceeds from Contracts to Construct a Qualified Environmental Technology Facility .....	NIA

\* No information available.

## Transaction Privilege Tax

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Gross Proceeds of Sales from a Contract to Provide Response to a Release or Suspected Release of a Hazardous Substance .....	NIA
Gross Proceeds of Sales from a Contract to Install, Assemble, Repair or Maintain Machinery that does not become permanently attached. ....	NIA
Income from Contracts for Construction of Facilities for Raising Egg Producing Poultry, or the Production and Packaging of Eggs.....	NIA
Income from Contracts for Construction Work to Prevent, Monitor, Control or Reduce Pollution in the Agriculture Industry .....	NIA
Income from Contracts for Construction of a Launch Site .....	NIA
Income from Contracts for Construction of a Domestic Violence Shelter .....	NIA
Gross Proceeds from Contracts to Perform Post-Construction Treatment of Real Property for Termite and General Pest Control .....	NIA
Gross Proceeds from Contracts to Construct Certain State University Research Infrastructure Projects .....	NIA
Gross Proceeds from Construction Contract for Healthy Forest Business .....	287,000
Gross Proceeds from a Contract to Construct any Building or Structure Associated with Motion Picture Production .....	NIA
Gross Proceeds from Development or Impact Fees.....	2,172,000
Gross Proceeds from Direct Costs for Architectural or Engineering Services .....	3,772,000
Tangible Personal Property Not Exceeding \$200 Purchased By An Individual at Retail Outside the Continental United States – USE TAX ONLY .....	NIA
Purchases Made by a Residential Care Institution that is Operated in Conjunction with Licensed Nursing Care Institutions – USE TAX ONLY .....	NIA
Tangible Personal Property Purchased by a Nonprofit Charitable Organization from the Parent or Affiliate Organization located Out of State- USE TAX ONLY .....	NIA
 Motor Vehicles Removed From Inventory and Provided to Charitable or Educational Institutions or State Universities or their Affiliated Organization- USE TAX ONLY .....	 NIA*
 Tangible Personal Property which Directly Enters into or becomes an Ingredient or Part of Cards Used as Prescription Plan Identification Cards - USE TAX ONLY .....	 NIA
<b>Total Exemptions</b> .....	<b>\$9,609,545,000</b>
 <b>TOTAL QUANTIFIABLE TRANSACTION PRIVILEGE AND USE TAX EXPENDITURES</b> <sup>4</sup>	<b>\$10,034,020,000</b>
 Value of Exemptions from the Proposition 301-Education Tax.....	\$1,204,082,000
Value of Exemptions from the Temporary Tax .....	\$2,006,804,000

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\* No information available.

<sup>4</sup> These expenditures represent foregone revenues to the state general fund, counties and incorporated cities/towns.

# USE TAX

## DESCRIPTION

The use tax is assessed on items purchased in other states and brought into Arizona for storage, use, or consumption, and for which no tax (or tax at a lesser rate) has been paid in another state. The use tax serves to protect Arizona retailers from out-of-state competition by attempting to ensure that in-state and out-of-state purchases are taxed at an equal rate.

Beginning in June 2010, the use tax rose from 5.6% to 6.6%, with the extra 1.0% being dedicated exclusively to public primary and secondary education, health and human services, and public safety. This tax increase lasts for 36 consecutive months and is not subject to the regular use tax distribution. This tax increase was approved by voters on May 18, 2010 and is commonly known as Proposition 100 [please see the *Transaction Privilege Tax (TPT)* section of this book for additional information].

In June 2001, the use tax rate had previously risen from 5.0% to 5.6%, with the extra 0.6% being dedicated to education. This tax increase was also approved by voters and is commonly known as Proposition 301.

## DISTRIBUTION

Use tax revenues are virtually all deposited in the General Fund, except that 20% of use tax revenues collected from the sale of electricity are deposited in the distribution base.

<u>Fiscal Year</u>	<u>State General Fund</u>	<u>Fiscal Year</u>	<u>State General Fund</u>
FY 2012	\$263,724,399	FY 2002	\$162,022,998
FY 2011	\$229,250,912	FY 2001	\$196,147,647
FY 2010	\$271,763,845	FY 2000	\$175,730,649
FY 2009	\$292,698,574	FY 1999	\$147,642,017
FY 2008	\$340,535,252	FY 1998	\$136,473,801
FY 2007	\$303,010,863	FY 1997	\$119,600,758
FY 2006	\$306,198,808	FY 1996	\$113,964,912
FY 2005	\$259,615,656	FY 1995	\$104,480,933
FY 2004	\$232,216,222	FY 1994	\$97,492,637
FY 2003	\$189,684,520	FY 1993	\$84,424,541

SOURCE: Department of Revenue (DOR), Annual Reports.

## WHO PAYS THE TAX

### Individuals and Businesses

The tax is paid by persons who make retail purchases of tangible personal property outside this state and store, use, or consume the item in Arizona. If a sales tax has already been paid on the item in another state, the Arizona use tax does not apply. The use tax is due, for example, when an Arizona resident purchases goods over the Internet from an out-of-state retailer and has the item delivered to this state (*see the Internet Taxation section in the TPT section of this book*). In practice, the use tax is primarily paid by businesses. Individuals are also liable for the use tax but rarely pay it, because individuals are often unaware of the tax or are unwilling to “voluntarily” report a taxable transaction [A.R.S. § 42-5155].

### Tribal Members and Businesses

Purchases made on the reservation by Indian tribal members are not subject to the use tax. This exclusion applies to affiliated Indian members who have been adopted into the tribe and who have attained full and unrestricted membership privileges in that tribe.

## Use Tax

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Purchases made on the reservation by non-Indian or non-affiliated Indians are subject to the use tax if the property will be stored, used, or consumed in Arizona.

Purchases made by Indian tribal members off the reservation are subject to the use tax. Sales of tangible personal property to an Indian tribal member, however, are not subject to the use tax if the solicitation, delivery and payment of the goods take place on the reservation.

There are no specific statutory references related to the imposition of Arizona state use tax on tribal members. Thus, to facilitate the administration of state use tax on Indian reservations, DOR has adopted use tax rulings based on the decisions in several court cases. The most recent ruling, which is reflected in the description above, was issued in April 1995 and is referred to as TPR 95-11.

### TAX BASE AND RATE

The tax base is the sales price of tangible personal property purchased at retail in another state and brought to Arizona for storage, use, or consumption. Statute mentions a few special cases in which the use tax is also applicable, including tangible personal property provided under the conditions of a warranty or service contract, motor vehicles removed from inventory, and motor vehicles used by motor vehicle manufacturers [A.R.S. § 42-5155 – 5158].

As with the retail sales tax, the law provides a number of exemptions from the use tax. The effect of these exemptions is to reduce the size of the use tax base [A.R.S. § 42-5155].

The use tax rate is 6.6%, the same as the TPT rate for retail sales. However, if the item has already been taxed in another state at a rate less than 6.6%, the use tax rate is reduced by the amount of the tax already imposed by the other state [A.R.S. § 42-5155 and § 42-5159].

### PAYMENT SCHEDULE

Use taxes are due to DOR on the 20th day of the month after the month in which the tax accrues. For example, for taxable sales made in January, the tax payment is due to DOR by February 20 [A.R.S. § 42-5162].

Tax payments are delinquent if not postmarked on or before the 25th day of the month or received by DOR on or before the next-to-last business day of the month [A.R.S. § 42-5162].

DOR may allow taxpayers whose estimated annual use tax liability is between \$500 and \$1,250 to make quarterly tax payments. Also, DOR may permit taxpayers with an estimated annual tax liability of less than \$500 to make an annual payment. If good cause is shown, DOR can allow a 2-month extension for filing the tax return [A.R.S. § 42-5162].

### IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006. The estimated initial dollar impact of these changes is summarized by fiscal year in *Table 2* below.

<b>ANNUAL INCREMENTAL DOLLAR IMPACT OF TAX LAW AND REVENUE CHANGES <sup>1/</sup></b>		
<b><u>Session/Chapter</u></b>	<b><u>Description</u></b>	<b><u>Revenue Impact</u></b>
<u>FY 2013</u> L 12, Ch 323	Repeal of Use Tax Declaration Requirement on Income Tax Return	\$ (1,800,000)
<u>FY 2012</u> L 11, Ch 128	Use Tax Declaration Requirement on Income Tax Return	\$ 1,800,000

<sup>1/</sup> Excluding Proposition 301 revenue.

## Use Tax

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The following tax law changes apply only to the use tax. Tax law changes that apply to both the use tax and the transaction privilege tax are included in the TPT section of the Tax Handbook.

There were no changes enacted to this tax in 2006, 2007, 2009, and 2010.

### 2012 TAX LAWS

**Laws 2012, Chapter 323** repealed the use tax declaration requirement on the individual income tax return enacted by Laws 2011, Chapter 128. Chapter 323 did not repeal, however, the individual's requirement to pay use tax on out-of-state purchases. The act is estimated to reduce use tax revenues by \$(1.8) million in FY 2013. (Effective retroactively from January 1, 2012)

### 2011 TAX LAWS

**Laws 2011, Chapter 128** required the state individual income tax return to include a specific statement of the taxpayer's use tax liability. Any person who stores, uses, or consumes tangible personal property subject to the use tax for non-business purposes is required to declare the annual amount of the use tax due, if not collected by a retailer, on his individual income tax form. Chapter 128 was estimated to increase use tax collections by \$1.8 million in FY 2012. (Effective July 20, 2011)

### 2008 TAX LAWS

**Laws 2008, Chapter 60** established a use tax exception for the purchase of solar energy devices from a retailer that is registered with DOR as a solar energy retailer or as a solar energy contractor. The fiscal impact of this legislation cannot be determined. (Effective December 31, 2006)

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# SEVERANCE TAX ON METALLIFEROUS MINERALS

## DESCRIPTION

The severance tax on metalliferous minerals (copper or other metals) is levied on the production or extraction from the earth of minerals. The tax rate is 2.5%, and it is applied to 50% of the difference between the gross value of production and the production costs.

## DISTRIBUTION

Eighty Percent of metalliferous minerals tax revenue is designated as distribution base, and is distributed as described in the Transaction Privilege Tax (TPT) section of this book. The remaining 20% is designated for the General Fund. Of the distribution base monies, 34.49% is allocated to the General Fund, 40.51% is designated to the counties, and 25% goes to the cities [A.R.S. § 42-5205].

**Table 1**

### TAX COLLECTIONS AND DISTRIBUTION

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Cities</u>	<u>Counties</u>	<u>Total</u>
FY 2012	\$19,311,779	\$8,115,557	\$13,150,448	\$40,577,783
FY 2011	\$19,149,246	\$8,047,254	\$13,039,770	\$40,236,270
FY 2010	\$13,848,584	\$5,819,711	\$9,430,259	\$29,098,554
FY 2009	\$8,666,537	\$3,642,014	\$5,901,520	\$18,210,071
FY 2008	\$20,822,267	\$8,750,323	\$14,179,023	\$43,751,613
FY 2007	\$20,725,843	\$8,709,801	\$14,113,362	\$43,549,006
FY 2006	\$14,486,992	\$6,087,995	\$9,864,986	\$30,439,973
FY 2005	\$7,804,650	\$3,279,819	\$5,314,617	\$16,399,086
FY 2004	\$3,112,796	\$1,308,118	\$2,119,674	\$6,540,588
FY 2003	\$539,399	\$224,889	\$361,945	\$1,126,233
FY 2002	\$(49,954)	\$(21,400)	\$(35,237)	\$(106,591)
FY 2001 <sup>1/</sup>	\$56	\$1,609,331	\$2,607,994	\$4,217,380
FY 2000	\$3,554,565	\$3,237,959	\$5,247,042	\$12,039,566
FY 1999	\$8,914,656	\$3,746,283	\$6,070,478	\$18,731,417
FY 1998	\$12,884,325	\$5,414,492	\$8,773,643	\$27,072,460
FY 1997	\$12,875,213	\$5,410,663	\$8,767,438	\$27,053,314
FY 1996	\$19,540,585	\$8,211,710	\$13,306,254	\$41,058,549
FY 1995	\$17,901,380	\$7,522,853	\$12,190,030	\$37,614,263
FY 1994	\$11,618,342	\$4,690,868	\$7,145,130	\$23,454,340
FY 1993	\$13,804,934	\$5,573,698	\$8,489,856	\$27,868,488

<sup>1/</sup> Note Laws 1999, 1<sup>st</sup> Special Session, Chapter 5.

SOURCE: Department of Revenue, Annual Reports.

## WHO PAYS THE TAX

The tax is paid by “severers”, persons engaged in the business of mining metalliferous minerals from the earth [A.R.S. § 42-5202 and § 42-5201].

## **Severance Tax on Metalliferous Minerals**

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### **TAX BASE AND RATE**

The severance tax on metalliferous minerals is levied at the rate of 2.5% on a tax base that is 50% of the difference between the gross value of production and the production costs [A.R.S. § 42-5202 and § 42-5204].

Metalliferous minerals are defined as copper, gold, silver, or other metals or ores that are mined in this state [A.R.S. § 42-5201].

The tax does not apply to metalliferous products sold at retail [A.R.S. § 42-5203]. These items are taxed by TPT.

### **PAYMENT SCHEDULE**

Tax payments for this tax are due on the same schedule as TPT [A.R.S. § 42-5205].

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax from 2006 through 2012.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# JET FUEL EXCISE AND USE TAX

## DESCRIPTION

The jet fuel excise tax is a tax levied on the retail sale of jet fuel. The jet fuel use tax is a tax levied on the storage, use, or consumption in the state of jet fuel purchased from a retailer [A.R.S. § 42-5352].

## DISTRIBUTION

Forty percent of the excise tax revenue collected is designated as distribution base, and is distributed as described in the Transaction Privilege Tax (TPT) section of this book. 60% of the excise tax revenue, and 100% of the use tax revenue, is credited directly to the state General Fund [A.R.S. § 42-5353]. *Tables 1 and 2* below provide a history of jet fuel excise tax and use tax distributions since the taxes became effective on October 31, 1991.

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Cities</u>	<u>Counties</u>	<u>Total</u>
FY 2012	\$2,811,537	\$380,987	\$617,353	\$3,809,877
FY 2011	\$3,819,798	\$517,616	\$838,745	\$5,176,159
FY 2010	\$3,291,706	\$446,054	\$722,789	\$4,460,549
FY 2009	\$2,982,561	\$404,163	\$654,906	\$4,041,630
FY 2008	\$3,421,347	\$462,874	\$752,020	\$4,636,291
FY 2007	\$3,584,305	\$485,704	\$787,036	\$4,857,045
FY 2006	\$4,471,848	\$605,974	\$981,921	\$6,059,743
FY 2005	\$3,941,095	\$534,053	\$865,378	\$5,340,526
FY 2004	\$3,833,833	\$519,518	\$841,826	\$5,195,177
FY 2003	\$4,308,588	\$583,851	\$946,073	\$5,838,512
FY 2002	\$4,167,728	\$564,764	\$915,143	\$5,647,635
FY 2001	\$4,333,585	\$587,239	\$951,561	\$5,872,385
FY 2000	\$3,838,375	\$519,727	\$842,165	\$5,200,267
FY 1999	\$3,645,555	\$494,004	\$800,485	\$4,940,044
FY 1998	\$3,767,232	\$510,493	\$827,203	\$5,104,928
FY 1997	\$3,411,961	\$462,351	\$749,193	\$4,623,505
FY 1996	\$3,135,681	\$424,912	\$688,527	\$4,249,120
FY 1995	\$3,462,468	\$469,194	\$760,282	\$4,691,944
FY 1994	\$3,889,868	\$520,258	\$792,457	\$5,202,583
FY 1993	\$5,194,309	\$694,724	\$1,058,203	\$6,947,236

SOURCE: Department of Revenue (DOR), Annual Reports.

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Fiscal Year</u>	<u>General Fund</u>
FY 2012	\$731,896	FY 2002	\$728,989
FY 2011	\$320,137	FY 2001	\$740,281
FY 2010	\$828,265	FY 2000	\$835,615
FY 2009	\$679,816	FY 1999	\$458,118
FY 2008	\$1,045,498	FY 1998	\$394,789
FY 2007	\$906,377	FY 1997	\$532,451
FY 2006	\$724,106	FY 1996	\$613,252
FY 2005	\$890,252	FY 1995	\$421,116
FY 2004	\$724,543	FY 1994	\$490,721
FY 2003	\$501,537	FY 1993	\$725,335

SOURCE: DOR, Annual Reports.

## **Jet Fuel Excise and Use Tax**

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### **WHO PAYS THE TAX**

The excise tax is paid by every person engaging or continuing in the retail sale of jet fuel. The use tax is levied on the storage, use, or consumption in Arizona of jet fuel purchased from a retailer in any case in which the excise tax has not been paid to the state [A.R.S. § 42-5352].

### **TAX BASE AND RATE**

The tax rate is 3.05¢ per gallon on the first 10 million gallons of jet fuel per filer. The tax on amounts over 10 million gallons was reduced from 3.05¢ per gallon to 2.05¢ per gallon in FY 1993, to 1.05¢ per gallon in FY 1994, and is not subject to tax in FY 1995 and thereafter [A.R.S. § 42-5352].

The jet fuel excise tax does not apply to jet fuel that is sold in Arizona to commercial airlines and used on flights that originate in the state and whose first outbound destination is outside of the United States [A.R.S. § 42-5354].

### **PAYMENT SCHEDULE**

Taxes are collected and due in the same manner as for TPT.

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in the period from 2006 to 2012.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# RENTAL OCCUPANCY TAX

## DESCRIPTION

The rental occupancy tax is imposed on tenants of real property whose lease was entered into prior to December 1, 1967. It is intended to be a substitute for the Transaction Privilege Tax (TPT) on rentals of real property where the landlord cannot pass the tax on to tenants in the form of a rent increase because of the long-standing fixed nature of the lease price. The tax rate is 3% of the tenant's rent.

Laws 2006, Chapter 354 eliminated the rental occupancy tax, effective November 1, 2006. Monies collected after FY 2007 represent activity prior to the elimination of the tax (audits, amended returns, etc.)

## DISTRIBUTION

Revenues from the rental occupancy tax have been distributed between the state, the counties, and the cities.

- Two-thirds of the tax revenues collected are designated as Distribution Base and is distributed as described in the TPT section of this book. The Department of Revenue (DOR) shall determine each county's share of the Distribution Base on the basis of occupancy in each county.
- One-third of the tax revenues are deposited in the General Fund [A.R.S. § 42-5409].

**Table 1**

### TAX COLLECTIONS AND DISTRIBUTION

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Cities</u>	<u>Counties</u>	<u>Total</u>
FY 2012	\$(44)	\$(13)	\$(21)	\$(78) <sup>1/</sup>
FY 2011	\$717	\$214	\$346	\$1,277 <sup>1/</sup>
FY 2010	\$954	\$285	\$461	\$1,700 <sup>1/</sup>
FY 2009	\$1,714	\$511	\$829	\$3,054 <sup>1/</sup>
FY 2008	\$(44,875)	\$(13,377)	\$(21,733)	\$(79,985) <sup>1/</sup>
FY 2007	\$17,704	\$5,285	\$8,564	\$31,553
FY 2006	\$58,139	\$17,356	\$28,123	\$103,618
FY 2005	\$40,554	\$12,107	\$19,618	\$72,279
FY 2004	\$70,857	\$21,062	\$34,128	\$126,047
FY 2003	\$24,120	\$7,138	\$11,566	\$42,824
FY 2002	\$100,837	\$29,840	\$48,352	\$179,029
FY 2001	\$82,743	\$24,485	\$39,675	\$146,903
FY 2000	\$63,092	\$18,670	\$30,252	\$112,014
FY 1999	\$66,455	\$19,665	\$31,865	\$117,985
FY 1998	\$71,158	\$21,056	\$34,120	\$126,334
FY 1997	\$55,632	\$16,462	\$26,675	\$98,769
FY 1996	\$59,739	\$17,677	\$28,644	\$106,060
FY 1995	\$55,917	\$16,547	\$26,812	\$99,276
FY 1994	\$56,919	\$16,372	\$24,938	\$98,229
FY 1993	\$49,874	\$14,346	\$21,851	\$86,071

<sup>1/</sup> Laws 2006, Chapter 354 eliminated the rental occupancy tax, effective November 1, 2006. These amounts represent activity prior to the elimination of the tax.

SOURCE: DOR, Annual Reports.

## WHO PAYS THE TAX

The tax is paid by landlords who collect the tax from the tenant together with the rental payment or by any tenant from whom no tax has been collected by the landlord [A.R.S. § 42-5406].

## Rental Occupancy Tax

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### TAX BASE AND RATE

The rental occupancy tax is levied at a rate of 3% on tenants of preexisting leases for the privilege of occupancy [A.R.S. § 42-5404]. A preexisting lease is defined as any written lease or rental agreement entered into prior to December 1, 1967 [A.R.S. § 42-5401].

*Exceptions to Preexisting Lease.* The following are exempt from the rental occupancy tax:

- Any bilateral amendment to a lease or rental agreement entered into after December 1, 1967 that lengthens the term of the lease or changes the size of the premises leased.
- A lease or rental agreement for the following businesses: hotels, guest houses, dude ranches, resorts, rooming houses, apartment houses, office buildings, automobile storage garages, parking lots, and tourist camps [A.R.S. § 42-5401].

*Other Exemptions from this tax:*

- Occupancy by any tenant who is exempt under the Constitution or laws of the United States or Arizona.
- Occupancy under a lease entered into prior to December 1, 1967 which the Constitution or laws of the United States or Arizona would prohibit from taxing if the landlord were the tenant.
- Leasing or renting of property when such property is used by the lessee as a principal or permanent place of residence [A.R.S. § 42-5405].

### PAYMENT SCHEDULE

On or before the last day of each month, the landlord shall pay taxes on rents received during the previous calendar month. An extension may be granted for good cause, but not beyond the last day of the second month following the regular due date [A.R.S. § 42-5407].

### IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

Laws 2006, Chapter 354 eliminated the rental occupancy tax, effective November 1, 2006.

#### 2006 TAX LAWS

**Laws 2006, Chapter 354** eliminated the rental occupancy tax. The state revenue impact is estimated to be \$(60,000) in FY 2007 and \$(72,000) per year in subsequent fiscal years (Effective November 1, 2006.)

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# SEVERANCE TAX ON TIMBER

## DESCRIPTION

The severance tax on timber is levied on the production of timber products. Timber products include poles, saw logs, pulpwood, and firewood.

Laws 2006, Chapter 354 eliminated the severance on timber products, effective November 1, 2006.

## DISTRIBUTION

Eighty Percent of timber severance tax revenue is designated as distribution base and is distributed as described in the Transaction Privilege Tax (TPT) section of this book. The remaining 20% is designated for the General Fund. Of the distribution base monies, 34.49% is allocated to the General Fund, 40.51% is designated to the counties, and 25% goes to the cities [A.R.S. § 42-5205].

**Table 1**

### TAX COLLECTIONS AND DISTRIBUTION

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Cities</u>	<u>Counties</u>	<u>Total</u>
FY 2012	\$13	\$5	\$8	\$26 <sup>1/</sup>
FY 2011	\$349	\$147	\$238	\$734 <sup>1/</sup>
FY 2010	\$1,078	\$453	\$734	\$2,265 <sup>1/</sup>
FY 2009	\$(121)	\$(51)	\$(83)	\$(255) <sup>1/</sup>
FY 2008	\$2,259	\$949	\$1,538	\$4,746
FY 2007	\$5,371	\$2,257	\$3,658	\$11,286
FY 2006	\$15,769	\$6,627	\$10,738	\$33,134
FY 2005	\$19,346	\$8,130	\$13,166	\$40,642
FY 2004	\$5,098	\$2,143	\$3,471	\$10,711
FY 2003	\$2,455	\$1,032	\$1,672	\$5,159
FY 2002	\$6,561	\$2,757	\$4,467	\$13,785
FY 2001	\$521	\$219	\$355	\$1,095
FY 2000	\$6,150	\$2,584	\$4,188	\$12,922
FY 1999	\$19,160	\$8,053	\$13,047	\$40,260
FY 1998	\$24,812	\$10,426	\$16,894	\$52,132
FY 1997	\$19,781	\$8,312	\$13,470	\$41,563
FY 1996	\$21,720	\$9,127	\$14,791	\$45,638
FY 1995	\$124,045	\$52,129	\$84,469	\$260,643
FY 1994	\$131,612	\$53,138	\$80,939	\$265,689
FY 1993	\$209,243	\$84,481	\$128,681	\$422,405

<sup>1/</sup> Laws 2006, Chapter 354 eliminated the severance on timber products, effective November 1, 2006. These amounts represent activity prior to the elimination of the tax. A negative amount represents a refund of previously collected tax revenues.

SOURCE: Department of Revenue, Annual Reports.

## WHO PAYS THE TAX

The tax is paid by individuals engaged in the business of producing timber products [A.R.S. § 42-5202].

## TAX BASE AND RATE

This tax is imposed on timbering activities that result in timber products, such as poles, saw logs, pulpwood, or firewood. An exemption is provided for timber products sold at retail [A.R.S. § 42-5203]. The tax rate is:

## **Severance Tax on Timber**

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- \$2.13 per 1,000 board feet for timber products derived from ponderosa pine.
- \$1.51 per 1,000 board feet for timber products derived from all species except ponderosa pine.

### **TAX REFUNDS AND/OR TAX CREDITS**

None.

### **PAYMENT SCHEDULE**

The due dates for the severance tax on timber are the same as for the TPT [A.R.S. § 42-5014].

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

Laws 2006, Chapter 354 eliminated the severance tax on timber products, effective November 1, 2006.

### **2006 TAX LAWS**

**Laws 2006, Chapter 354** eliminated the severance tax on timber products. The state revenue impact was estimated to be \$(15,000) in FY 2007 and \$(18,000) per year in subsequent fiscal years. (Effective November 1, 2006)

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# **INCOME TAXES**

# INDIVIDUAL INCOME TAX

## DESCRIPTION

The individual income tax is levied on the personal income of full-time residents and pro-rated for part-time residents of Arizona. Taxation of income by local entities is preempted by the state as long as the Urban Revenue Sharing Fund is maintained. The starting point for Arizona individual income tax is the federal adjusted gross income. Arizona uses a graduated rate structure, which currently ranges between 2.59% and 4.54% of Arizona taxable income depending on the taxpayer's income level.

The individual income tax is an important revenue source for the state, representing 37.6% of total General Fund base revenue. A portion of individual income tax collections (along with corporate income tax collections) is shared with incorporated cities and towns within the state.

The individual income tax is comprised of 4 components: (1) withholding, (2) estimated tax payments, (3) final payments, and (4) refunds. Generally, withholding payments are from tax on wage and salary based income, and estimated payments from non-wage earnings. Final payments and refunds represent the underpayment and overpayment of tax, respectively, settled between taxpayers and the state after tax returns have been filed.

## DISTRIBUTION

Table 1 below provides historical individual income tax collections for the last 20 years. Individual income tax receipts are deposited into the General Fund, after sufficient amounts have been deposited into the tax refund account to meet the requirements for tax refunds [A.R.S. § 42-1116].

<b>Table 1</b>			
<b>INDIVIDUAL INCOME TAX COLLECTIONS</b>			
<u>Fiscal Year</u>	<u>General Fund</u>	<u>Fiscal Year</u>	<u>General Fund</u>
FY 2012	\$3,086,137,360	FY 2002	\$2,086,648,727
FY 2011	\$2,863,657,980	FY 2001	\$2,300,751,988
FY 2010	\$2,416,296,308	FY 2000	\$2,289,328,921
FY 2009	\$2,567,963,783	FY 1999	\$2,097,629,461
FY 2008	\$3,406,450,738	FY 1998	\$1,862,514,798
FY 2007	\$3,747,386,937	FY 1997	\$1,668,414,355
FY 2006	\$3,689,373,375	FY 1996	\$1,494,282,274
FY 2005	\$2,973,716,271	FY 1995	\$1,479,588,252
FY 2004	\$2,306,175,168	FY 1994	\$1,405,482,556
FY 2003	\$2,097,754,868	FY 1993	\$1,367,641,116

SOURCE: Department of Revenue annual reports – amounts are net of refunds and charge-offs. A portion of individual income tax collections is shared with incorporated cities and towns - see Table 2 and Table 3 below.

### Urban Revenue Sharing

The Urban Revenue Sharing Fund (URS), which was established based on a ballot initiative approved by voters in 1972, provides that a percentage of income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and towns within the state. The amount that is currently distributed to cities and towns is 15% of net income tax collections from 2 years prior. Table 2 below shows an estimate of the FY 2013 URS distributions by city. The estimate is calculated based on actual FY 2011 net income tax collections and population as reported in the 2010 Census.

# Individual Income Tax

<b>Table 2</b>					
<b>FY 2013 URBAN REVENUE SHARING DISTRIBUTION BY CITY (ESTIMATE)</b>					
<u>Cities by County</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Cities by County</u>	<u>Amount</u>	<u>Percent of Total</u>
<b>APACHE</b>			Queen Creek	\$2,692,327	0.52%
Eagar	\$498,919	0.10%	Scottsdale	\$22,202,171	4.32%
St. Johns	\$355,423	0.07%	Surprise	\$12,002,357	2.34%
Springerville	\$200,283	0.04%	Tempe	\$16,516,838	3.22%
<b>COCHISE</b>			Tolleson	\$668,460	0.13%
Benson	\$521,389	0.10%	Wickenburg	\$649,872	0.13%
Bisbee	\$569,391	0.11%	Youngtown	\$628,730	0.12%
Douglas	\$1,774,866	0.35%	<b>MOHAVE</b>		
Huachuca City	\$189,252	0.04%	Bullhead City	\$4,038,337	0.79%
Sierra Vista	\$4,482,411	0.87%	Colorado City	\$492,383	0.10%
Tombstone	\$153,199	0.03%	Kingman	\$2,866,668	0.56%
Willcox	\$383,713	0.07%	Lake Havasu City	\$5,364,737	1.04%
<b>COCONINO</b>			<b>NAVAJO</b>		
Flagstaff	\$6,727,497	1.31%	Holbrook	\$516,078	0.10%
Fredonia	\$153,199	0.03%	Pinetop-Lakeside	\$437,333	0.09%
Page	\$740,157	0.14%	Show Low	\$1,088,737	0.21%
Tusayan	\$153,199	0.03%	Snowflake	\$570,923	0.11%
Williams	\$321,208	0.06%	Taylor	\$419,971	0.08%
<b>GILA</b>			Winslow	\$986,094	0.19%
Globe	\$769,265	0.15%	<b>PIMA</b>		
Hayden	\$153,199	0.03%	Marana	\$3,570,670	0.70%
Miami	\$187,618	0.04%	Oro Valley	\$4,188,574	0.82%
Payson	\$1,562,736	0.30%	Sahuarita	\$2,579,776	0.50%
Star Valley	\$235,927	0.05%	South Tucson	\$577,255	0.11%
Winkelman	\$153,199	0.03%	Tucson	\$53,120,980	10.34%
<b>GRAHAM</b>			<b>PINAL</b>		
Pima	\$243,791	0.05%	Apache Junction	\$3,660,445	0.71%
Safford	\$977,004	0.19%	Casa Grande	\$4,960,699	0.97%
Thatcher	\$496,877	0.10%	Coolidge	\$1,207,722	0.24%
<b>GREENLEE</b>			Eloy	\$1,698,573	0.33%
Clifton	\$338,162	0.07%	Florence	\$2,608,067	0.51%
Duncan	\$153,199	0.03%	Kearny	\$199,159	0.04%
<b>LA PAZ</b>			Mammoth	\$153,199	0.03%
Parker	\$314,876	0.06%	Maricopa	\$4,440,945	0.86%
Quartzsite	\$375,543	0.07%	Superior	\$289,751	0.06%
<b>MARICOPA</b>			<b>SANTA CRUZ</b>		
Avondale	\$7,786,412	1.52%	Nogales	\$2,128,144	0.41%
Buckeye	\$5,196,116	1.01%	Patagonia	\$153,199	0.03%
Carefree	\$343,473	0.07%	<b>YAVAPAI</b>		
Cave Creek	\$512,197	0.10%	Camp Verde	\$1,110,492	0.22%
Chandler	\$24,115,938	4.70%	Chino Valley	\$1,104,772	0.22%
El Mirage	\$3,247,521	0.63%	Clarkdale	\$418,439	0.08%
Fountain Hills	\$2,296,868	0.45%	Cottonwood	\$1,150,528	0.22%
Gila Bend	\$196,300	0.04%	Dewey-Humboldt	\$397,706	0.08%
Gilbert	\$21,289,919	4.15%	Jerome	\$153,199	0.03%
Glendale	\$23,155,684	4.51%	Prescott	\$4,069,283	0.79%
Goodyear	\$6,666,728	1.30%	Prescott Valley	\$3,965,005	0.77%
Guadalupe	\$564,080	0.11%	Sedona	\$1,024,496	0.20%
Litchfield Park	\$559,280	0.11%	<b>YUMA</b>		
Mesa	\$44,840,551	8.73%	San Luis	\$2,604,901	0.51%
Paradise Valley	\$1,309,344	0.25%	Somerton	\$1,459,173	0.28%
Peoria	\$15,735,112	3.06%	Wellton	\$294,347	0.06%
Phoenix	\$147,646,656	28.75%	Yuma	\$9,504,901	1.85%
			<b>TOTAL</b>	<b>\$513,584,100</b>	<b>100.00%</b>

## Individual Income Tax

Table 3 below shows the URS distribution percentages in effect since the establishment of this revenue sharing program.

URBAN REVENUE SHARING PERCENTAGE		
Distribution Year	Collection Year	
<u>Fiscal Year</u>	<u>Fiscal Year</u>	<u>Percentage</u>
1974 – 1992	1972 – 1990	15.0%
1993	1991	12.8%
1994	1992	12.8%
1995	1993	12.8%
1996	1994	12.8%
1997	1995	13.6%
1998	1996	15.0%
1999	1997	15.0%
2000	1998	15.8%
2001	1999	15.0%
2002	2000	15.0%
2003	2001	14.8%
2004	2002	14.8%
2005-2013	2003-2011	15.0%

SOURCE: Department of Revenue.

This distribution is based on the last U.S. decennial census, a special census, or revised population figures approved by the Department of Economic Security (DES) [A.R.S. § 42-5033.01]. Pursuant to Laws 2008, Chapter 290, a city or town is entitled to receive at least an amount equal to what a city or town with a population of 1,500 or more receives from the Urban Revenue Sharing Fund. Table 4 below provides historical urban revenue sharing distributions [A.R.S. § 43-206].

DISTRIBUTION OF INDIVIDUAL AND CORPORATE INCOME TAX				
<u>Fiscal Year</u>	<u>Total Collections</u> <sup>1/</sup>	<u>State General Fund</u>	<u>Urban Revenue Sharing</u>	<u>Voluntary Contribution Funds</u> <sup>2/</sup>
FY 2012	\$3,736,966,085	\$3,305,485,676	\$424,423,440	\$7,056,969
FY 2011	\$3,430,873,524	\$2,949,887,110	\$474,006,520	\$6,979,894
FY 2010	\$2,836,495,645	\$2,200,844,986	\$628,644,630	\$7,006,029
FY 2009	\$3,167,705,050	\$2,432,366,069	\$727,677,400 <sup>3/</sup>	\$7,661,581
FY 2008	\$4,198,991,106	\$3,506,425,271	\$684,538,927	\$8,026,908
FY 2007 <sup>4/</sup>	\$4,648,252,998	\$4,089,906,556	\$551,230,661	\$7,115,781
FY 2006 <sup>4/</sup>	\$4,520,688,826	\$4,089,641,855	\$425,228,927	\$5,818,044
FY 2005 <sup>4/</sup>	\$3,549,619,113	\$3,170,987,163	\$373,072,578	\$5,559,372
FY 2004	\$2,839,690,345	\$2,469,794,357	\$365,065,158	\$4,830,830
FY 2003	\$2,491,768,256	\$2,056,591,466	\$430,559,053	\$4,617,737
FY 2002	\$2,436,926,281	\$2,011,052,550	\$421,876,573	\$3,997,158
FY 2001	\$2,845,061,464	\$2,445,472,944	\$396,452,640	\$3,135,880
FY 2000	\$2,815,064,125	\$2,434,799,495	\$377,710,988	\$2,553,642
FY 1999	\$2,643,737,477	\$2,302,706,944	\$340,310,656	\$719,877
FY 1998	\$2,390,575,871	\$2,098,733,397	\$291,243,578	\$598,896
FY 1997	\$2,269,304,787	\$2,010,937,159	\$257,800,548	\$567,080
FY 1996	\$1,942,321,758	\$1,723,080,577	\$218,543,272	\$697,909
FY 1995	\$1,896,299,526	\$1,689,985,202	\$205,607,690	\$706,634
FY 1994	\$1,708,098,853	\$1,521,964,032	\$185,405,279	\$729,542
FY 1993	\$1,606,910,521	\$1,422,638,002	\$183,667,152	\$605,367

<sup>1/</sup> Includes corporate income tax.  
<sup>2/</sup> Represents taxpayer contributions of their refunds to various entities through the tax “check-off” boxes.  
<sup>3/</sup> Laws 2006, Ch. 351 appropriated a total of \$727.6 million for FY 2009 (see 2009 Tax Handbook, page 33 for more details).  
<sup>4/</sup> Includes Ladewig refunds and attorney payments of 131.5 million in FY 2005, \$48.7 million in FY 2006, and \$80.7 million in FY 2007.

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### Voluntary Contribution Funds

Laws 1984, Chapter 76 provided for taxpayers to designate an amount of their income tax refund as a voluntary contribution to the Arizona Game, Non-Game, Fish and Endangered Species Fund. Laws 1985, Chapter 59 established a permanent check-off provision on the individual income tax return, which was also expanded to include contributions to the Child Abuse Prevention Fund.

Arizona statutes were amended in subsequent years to also include contributions to the Arizona Assistance for Education Fund, Domestic Violence Shelter Fund, Neighbors Helping Neighbors Fund, Special Olympics Fund, Citizens Clean Elections Fund, and National Guard Relief Fund. Laws 2006, Chapter 102 further expanded the list of voluntary contribution funds to also include the newly created Veterans' Donation Fund. In addition to these voluntary contribution funds, taxpayers were also given the option to give all or part of their refund to a political party. *Table 4* above shows the total amount of refunds designated annually to voluntary contribution funds and political parties since the program started in 1984 [A.R.S. § 43-611 to 620].

### WHO PAYS THE TAX

#### Individuals

Residents or part-year residents of the state and non-residents who derived income from sources within the state must pay individual income tax [A.R.S. § 43-102]. Any individual whose permanent home is in the state is considered a resident. Every person who spends more than 9 months of the taxable year in Arizona is presumed a resident unless competent evidence can show the individual is in the state for a temporary or transitory purpose. Any resident who moved into or out of Arizona with the intent to establish or relinquish residency is considered to be a part-year resident [A.R.S. § 43-104].

#### Businesses

Businesses other than regular corporations must also pay the individual income tax [A.R.S. § 43-102A]. A business that is subject to the individual income tax is often referred to as a "pass-through entity" since its income passes or flows through the business to the individual owners or members of that business. In other words, the business itself is not a tax-paying entity. Instead, the individual owners or members of that business include their pro rata share of the business net income (or loss) on their personal tax return.

In Arizona, a pass-through entity is either operating as a sole proprietorship, partnership, limited liability company (LLC), or a Subchapter S Corporation. A brief overview of the different business structures is shown in *Table 5* below.

<b>Table 5</b>				
<b>COMPARISON OF BUSINESS STRUCTURES</b>				
	<b><u>Sole Proprietorship</u></b>	<b><u>Partnership</u></b>	<b><u>Limited Liability Company (LLC)</u></b>	<b><u>S Corporation</u></b>
<b><u>Control</u></b>	• Owner	• General Partners	• Members	• Shareholders
<b><u>Owner Restrictions</u></b>	• Only one owner is permitted.	• Partners own the partnership.	• Members own LLC. • Minimum of 1 member required.	• Shareholders are owners. • Ownership limited to a maximum of 75 U.S. residents.
<b><u>Filing Requirements</u></b>	• Fictitious Name Certificate • Trade Name • Business License	• Consent of Statutory Agent	• Articles of Organization • Consent of Statutory Agent	• Articles of Incorporation • Certificate of Disclosure • Consent of Statutory Agent • Annual Report

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	<u>Sole Proprietorship</u>	<u>Partnership</u>	<u>Limited Liability Company (LLC)</u>	<u>S Corporation</u>
<u>Liability</u>	<ul style="list-style-type: none"> <li>• Owner is personally liable.</li> </ul>	<ul style="list-style-type: none"> <li>• General Partners are liable.</li> <li>• Limited partners are liable to the extent of their investments.</li> </ul>	<ul style="list-style-type: none"> <li>• All members are protected.</li> </ul>	<ul style="list-style-type: none"> <li>• All shareholders are protected.</li> </ul>
<u>Officers</u>	<ul style="list-style-type: none"> <li>• No</li> </ul>	<ul style="list-style-type: none"> <li>• No</li> </ul>	<ul style="list-style-type: none"> <li>• No, unless designated by management.</li> </ul>	<ul style="list-style-type: none"> <li>• Yes</li> </ul>
<u>Controlling Documents</u>	<ul style="list-style-type: none"> <li>• Business Plan</li> </ul>	<ul style="list-style-type: none"> <li>• Partnership Agreement</li> </ul>	<ul style="list-style-type: none"> <li>• Operating Agreement</li> </ul>	<ul style="list-style-type: none"> <li>• Articles of Incorporation</li> </ul>
<u>Income Tax Treatment</u>	<ul style="list-style-type: none"> <li>• Owner subject to individual income tax.</li> <li>• Tax items reported on Schedule C.</li> </ul>	<ul style="list-style-type: none"> <li>• Partners subject to individual income tax.</li> <li>• Partners taxed for their share of profits.</li> </ul>	<ul style="list-style-type: none"> <li>• Members subject to individual income tax.</li> <li>• Members taxed for their share of profits.</li> <li>• However, LLC may choose to be taxed at entity level.</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholders subject to individual income tax.</li> <li>• Shareholders taxed for their share of profits.</li> </ul>

SOURCE: Arizona Corporation Commission.

### Estates and Trusts

Fiduciaries of estates and trusts are also subject to the individual income tax [A.R.S. § 43-102A]. Generally, a trust is a separate legal and taxable entity consisting of property that is held and administered by a fiduciary trustee for the benefit of another. An estate, for the purpose of tax law, is the collective real and personal property that a person possesses at the time of death and that is transferred to the heirs subject to payment of debts and claims. An estate is a temporary entity administered by a fiduciary executor and dissolved upon the completion of the probate process. For more details, see Title 43, Chapter 13 of Arizona Revised Statutes.

### Government

The United States, the state, counties, cities, towns, school districts, or other political subdivisions of the state or federal government are excluded from the definition of a taxpayer [A.R.S. § 43-104].

### Tribal Members

The income of an Indian tribal member is not subject to Arizona state income tax if he or she is: (1) living and working on the reservation, and (2) deriving income from reservation sources only. This exclusion applies to affiliated Indian members who have been adopted into the tribe and who have attained full and unrestricted membership privileges in that tribe.

Income of a non-affiliated tribal member or a non-Indian derived from reservation or non-reservation sources is subject to income tax in the same manner as all other Arizona residents.

There are no specific statutory references related to the imposition of Arizona state income tax on tribal members. Thus, to facilitate the administration of state income tax on Indian reservations, the Department of Revenue has adopted income tax rulings based on the decisions in several court cases. The most recent ruling, which is reflected in the description above, was issued in May 1996 and is referred to as ITR 96-4.

### **TAX BASE**

The tax is levied, paid, and collected each taxable year based on taxable income [A.R.S. § 43-1011]. The tax base starts with Arizona gross income, which is equivalent to the taxpayer's federal adjusted gross income, and is then

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modified by a list of additions and subtractions to income as listed under A.R.S. § 43-1021 and A.R.S. § 43-1022, respectively. This is further reduced by exemptions and standard or itemized deductions to arrive at Arizona taxable income.

### Capital Gains

Prior to TY 2013, capital gains from the sale of capital assets, such as stocks, bonds, and real estate, were not taxed separately under the state's income tax statutes, but were instead included in a taxpayer's Arizona gross income (or equivalently, federal adjusted gross income). Thus, income from net capital gains was subject to the same marginal tax rates as other income included under the definition of Arizona taxable income.

Beginning in TY 2013, Laws 2012, Chapter 343 reduces the individual income tax rate paid on long-term capital gains accrued from assets acquired after 2011. (Long-term capital gains are realized on assets held longer than 1 year.) The reduction in the regular rate under Chapter 343 is 10% in TY 2013, 20% in TY 2014, and 25% in TY 2015 and thereafter. Capital gains realized on assets purchased before 2012 are not affected by Chapter 343. Additionally, beginning in TY 2014, Laws 2010, 2<sup>nd</sup> Special Session, Chapter 1 eliminates individual income tax on capital gains derived from investment in small businesses with assets up to \$10 million. The historical amounts of net capital gains subject to income tax, as reported by Arizona taxpayers to the Internal Revenue Service (IRS), are shown in *Table 6* below.

**Table 6**

**NET CAPITAL GAINS REPORTED BY ARIZONA TAXPAYERS TO THE IRS  
(Millions of Dollars)**

<u>Tax Year</u>	<u>Net Capital Gains</u> <sup>1/</sup>	<u>Tax Year</u>	<u>Net Capital Gains</u> <sup>1/</sup>
2010	\$4,276.2	1999	\$8,163.1
2009	\$3,242.3	1998	\$7,045.1
2008	\$6,606.2	1997	\$5,409.1
2007	\$14,853.7	1996	\$4,051.2
2006	\$15,214.8	1995	\$2,461.2
2005	\$14,784.3	1994	\$1,879.7
2004	\$8,732.1	1993	\$1,812.0
2003	\$4,580.4	1992	\$1,488.1
2002	\$3,603.7	1991	\$1,341.7
2001	\$4,420.8	1990	\$1,488.8
2000	\$8,412.9	1989	\$1,782.2

<sup>1/</sup> Note that this column refers to net capital gains subject to income tax as opposed to income tax collections attributable to net capital gains.

SOURCE: IRS, Statistics of Income (SOI).

## EXEMPTIONS

Organizations that are exempt from federal income tax under Section 501 of the Internal Revenue Code are also exempt from state income tax. In addition, the following organizations are exempt from state income tax [A.R.S. § 43-1201]:

- (1) Labor, agricultural, and horticultural organizations except for cooperative organizations.
- (2) Fraternal beneficiary societies, orders, or organizations that both: (a) operate under the lodge system or for the exclusive benefit of the members of a fraternity, and (b) provide for the payment of life, sick, accident, or other benefits to their members or their dependents.
- (3) Cemetery companies that are owned and operated exclusively for the benefit of their members or are not operated for profit.
- (4) Corporations that are organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children and animals.
- (5) Business leagues, chambers of commerce, real estate boards, and boards of trade that are not organized for profit.

## Individual Income Tax

- (6) Civic leagues or organizations that are not organized for profit.
- (7) Clubs that are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes.
- (8) Corporations that are organized for the exclusive purpose of holding title to property, collecting income from such property, and turning over the entire net income to an organization which itself is exempt from income tax.
- (9) Voluntary employees' beneficiary organizations that provide for the payment of life, sick, accident or other benefits to their members or their dependents, if both of the following apply: (a) no part of their net earnings inures to the benefit of any private shareholder or individual, and (b) 85% or more of the income consists of monies collected from members and contributions by the employer of the members.
- (10) Teachers' or public employees' retirement fund organizations that are of a purely local character, if both of the following apply: (a) no part of their net earnings inures to the benefit of any private shareholder or individual, and (b) the income consists solely of monies received from public taxation, assessments on the salaries of members, and income from investments.
- (11) Religious or apostolic organizations or corporations, if such organizations or corporations have a common treasury or community treasury.
- (12) Voluntary employees' beneficiary organizations that provide for the payment of life, sick, accident or other benefits to their members, their dependents or designated beneficiaries, if both of the following apply: (a) admission to membership is limited to individuals who are officers or employees of the United States Government, and (b) no part of the net earnings inures to the benefit of any private shareholder or individual.
- (13) Corporations classified as diversified management companies under Section 5 of the federal Investment Company Act of 1940.
- (14) Insurance companies that are subject to the insurance premium tax.
- (15) Mutual ditch, irrigation or water companies or similar nonprofit organizations if 85% or more of their income consists of amounts collected from members for the sole purpose of meeting losses and expenses.
- (16) Workers' compensation pools established pursuant to A.R.S. § 23-961.01.

### TAX RATE

*Rates and Brackets.* The current rate structure, based on Arizona taxable income, is as follows [A.R.S. § 43-1011]:

<b>Table 7</b>									
<b>CURRENT TAX RATE SCHEDULE</b>									
<b>Single <sup>1/</sup></b>			<b>Married <sup>3/</sup></b>						
<b>Arizona Taxable Income</b>			<b>Rate <sup>2/</sup></b>		<b>Arizona Taxable Income</b>			<b>Rate <sup>2/</sup></b>	
\$0	-	\$10,000		2.59%	\$0	-	\$20,000		2.59%
\$10,001	-	25,000	\$259 plus	2.88%	\$20,001	-	\$50,000	\$518 plus	2.88%
\$25,001	-	50,000	\$691 plus	3.36%	\$50,001	-	\$100,000	\$1,382 plus	3.36%
\$50,001	-	150,000	\$1,531 plus	4.24%	\$100,001	-	\$300,000	\$3,062 plus	4.24%
\$150,001	and over		\$5,771 plus	4.54%	\$300,001	and over		\$11,542 plus	4.54%

<sup>1/</sup> Or married filing separately.  
<sup>2/</sup> The marginal rates apply to income within the taxable income bracket. Beginning in TY 2013, capital gains will be taxed at a lower rate.  
<sup>3/</sup> Or unmarried head of household.

*Optional Tax Table.* The Department of Revenue developed an optional tax table prescribing tax liability amounts, based on filing status, in \$50 increments of Arizona taxable income. The table can be used if (1) an individual has been a resident for the entire taxable year, and (2) the Arizona taxable income for the year is less than \$50,000 regardless of filing status [A.R.S. § 43-1012].

## Individual Income Tax

Table 8

### HISTORICAL INDIVIDUAL INCOME TAX RATES <sup>1/</sup>

<u>Taxable Income</u> <sup>2/</sup>	<u>TY 1990</u>	<u>TY 1994</u>	<u>TY 1995</u>	<u>TY 1997</u>	<u>TY 1998</u>	<u>TY 1999</u>	<u>TY 2006</u>	<u>TY 2007</u>
\$0 - \$ 10,000	3.80%	3.25%	3.00%	2.90%	2.88%	2.87%	2.73%	2.59%
\$10,001 - 25,000	4.40%	4.00%	3.50%	3.30%	3.24%	3.20%	3.04%	2.88%
\$25,001 - 50,000	5.25%	5.05%	4.20%	3.90%	3.82%	3.74%	3.55%	3.36%
\$50,001 - 150,000	6.50%	6.40%	5.20%	4.90%	4.74%	4.72%	4.48%	4.24%
\$150,001 & over	7.00%	6.90%	5.60%	5.17%	5.10%	5.04%	4.79%	4.54%

<sup>1/</sup> For marginal rates prior to 1990, see page 90 of the 1990 Tax Handbook.

<sup>2/</sup> These brackets applied to single or married filing separately filers. For married joint filers or head of households, the bracket amounts are doubled. In 1990, the brackets were altered into the present form (see Laws 1990, 3rd Special Session, Chapter 3).

### TAX CREDITS

A tax credit is a dollar-for-dollar reduction of a taxpayer's individual income tax liability. A credit is different from a subtraction, exemption, or deduction, which reduces the amount of income that will be taxed. For more details, see the *Tax Computation* section.

A tax credit is either refundable or non-refundable. Unlike refundable credits, non-refundable credits can never exceed a taxpayer's tax liability. However, many of the non-refundable tax credits allow the unused amounts to be carried forward to future years. As shown in *Table 9* below, only the following credits are refundable under current statutes:

Table 9

### REFUNDABLE INCOME TAX CREDITS

<b>Name of Credit</b>	<b>Type of Credit</b>
Property Tax Credit	Individual
Low-Income Credit for Increased Excised Taxes Paid	Individual
Research and Development (R&D) Credit <sup>1/</sup>	Individual and Corporate
Renewable Energy Investment Credit <sup>2/</sup>	Individual and Corporate
Qualified Facility Credit <sup>3/</sup>	Individual and Corporate

Notes:

<sup>1/</sup> Credit is only available to businesses that employ less than 150 full-time employees. Refundable portion of R&D credit is subject to an aggregate cap of \$5 million annually.

<sup>2/</sup> Credit is subject to an aggregate cap of \$70 million annually, which it shares with the qualified facility credit.

<sup>3/</sup> Credit is subject to an aggregate cap of \$70 million annually, which it shares with the renewable energy investment credit. Credit is effective beginning in TY 2013 (Laws 2012, Chapter 343).

The value of tax credits used and carried forward through calendar year 2011 is summarized by the Arizona Department of Revenue (DOR) summary report attached at the end of this section.

Laws 2002, Chapter 238 established the Arizona Joint Legislative Income Tax Credit Review Committee. The Committee is required to determine the purpose of income tax credits, develop performance standards for evaluating the credits, and evaluate the benefits to the state. The Committee reviews each tax credit every 5 years according to a rotating schedule [A.R.S. § 43-221].

Title 43, Chapter 10, Article 5 of the Arizona Revised Statutes lists all the individual income tax credits currently available to Arizona taxpayers. A brief description of each tax credit currently in statutes is provided below. *Appendix C* in the Tax Handbook includes a list of all individual and corporate tax credits with statutory ending dates. *Appendix B* provides a complete list and detailed description of the various school tax credits currently available to individual and corporate taxpayers, as well as insurance companies.

*Agricultural Pollution Control Equipment.* A taxpayer involved in the commercial production of livestock or agricultural crops may claim a tax credit for expenses incurred to purchase tangible personal property used in the business in order to control or prevent pollution. The credit is 25% of the cost of the property up to a maximum of

## Individual Income Tax

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\$25,000. This non-refundable credit is allowed to be carried forward no more than 5 consecutive years [A.R.S. § 43-1081.01].

*Agricultural Water Conservation System.* A tax credit can be claimed for 75% of the qualifying expenses in purchasing and installing an agricultural water conservation system. This credit is in lieu of itemized deductions for such expenses, in which case, the taxpayer must add the credit back to Arizona gross income when computing taxable income. This non-refundable tax credit is allowed to be carried forward for no more than 5 years [A.R.S. § 43-1084].

*Arizona National Guard Employees.* A tax credit of \$1,000 per employee is allowed for businesses that employ Arizona National Guard members who are called to active duty. This non-refundable tax credit, which is effective from January 1, 2006, is allowed to be carried forward for no more than 5 years [A.R.S. § 43-1079.01].

*Charitable Organizations and Contributions.* A credit can be claimed for cash contributions to charitable organizations that provide assistance to low-income residents, chronically ill or physically disabled children, provided that the charity does not provide, pay for, promote, or financially support abortions or any entity that provides abortions. The maximum credit is \$200 for taxpayers filing as single or head of household and \$400 for those filing as married couples. The credit is only available to taxpayers that itemize their deductions. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [A.R.S. § 43-1088].

*Clean Elections Fund Tax Reduction.* An individual that files a state income tax return can choose to designate a \$5 voluntary contribution per taxpayer to the Clean Elections Fund by marking an optional check-off box on the first page of the tax form. A taxpayer that checks this box receives a \$5 reduction of their tax payments and at the same time DOR is required to transfer an equal amount to the fund. The total amount attributed to the Clean Elections Fund check-off box in FY 2011 was \$6.1 million. The credit became effective January 1, 1998 [A.R.S. § 16-954A]. Laws 2012, Chapter 257 repeals the Clean Elections fund tax reduction as of August 2, 2012.

*Clean Elections Fund Tax Credit.* Under this credit, a taxpayer that makes a direct donation to the Clean Elections Fund receives a dollar-for-dollar credit not to exceed 20% of the tax amount on the return or \$670 in taxable year 2011, whichever is higher. DOR is required to provide a check-off box for this credit on the first page of the tax form. This credit became effective January 1, 1998 [A.R.S. § 16-954B]. Laws 2012, Chapter 257 repeals the Clean Elections fund tax credit as of August 2, 2012.

*Construction Materials.* A tax credit can be claimed for 5% of the purchase price of new construction materials used to build a new facility or expand an existing one. The facility must be predominantly used for manufacturing, refining, mining, metallurgical operations, or research and development and the total cost of construction must exceed \$5 million. Also, construction must have begun on or after January 1, 1994 and have been completed by December 31, 1999. This non-refundable tax credit is allowed to be carried forward for no more than 5 years [A.R.S. § 43-1082].

*Defense Contractor.* A defense contractor certified by the Arizona Commerce Authority may qualify for a tax credit due to: (1) net employment increases under defense related contracts, or (2) net employment increases from transferring employment from exclusively defense related activities to exclusively private commercial activities, or (3) taxes paid on Class 1 property if there was new defense related employment during the taxable year. This non-refundable tax credit is allowed to be carried forward until 2012 [A.R.S. § 43-1077 and 43-1078].

*Environmental Technology Facility.* A taxpayer may claim a credit for expenses incurred in constructing a qualified environmental technology facility as described in A.R.S. § 42-1514.02. The credit is equal to 10% of construction costs including land acquisition, improvements, building improvements, machinery and equipment. The credit may not exceed 75% of the tax liability for the taxable year. This credit is in lieu of the credit given for the same recycling equipment. Certain recapture provisions apply to this credit. This non-refundable tax credit is allowed to be carried forward for no more than 15 years [A.R.S. § 43-1080].

*Facility Credit.* A business that expands or locates a qualified facility in the state may claim a credit for qualifying investment and employment. The credit is 10% of the lesser of: (1) the taxpayer's total capital investment in the qualified facility or (2) \$200,000 for each net new employee at the qualified facility. To be eligible for the credit, a business is required to devote at least 80% of its property and payroll at the facility to manufacturing, research, or a

## Individual Income Tax

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national or regional headquarter. There are also certain minimum requirements with respect to wage and health insurance coverage for new employees at qualified facilities (A.R.S. § 41-1512).

The credit is refundable but no single taxpayer can claim more than \$30 million in credits per calendar year. The credit must be taken in equal installments over 5 taxable years. The qualified facility credit program is subject to an aggregate annual cap of \$70 million, which it shares with the renewable energy program (A.R.S. § 43-1083.01) enacted in 2009. The credit is available through TY 2019 [A.R.S. § 43-1083.03].

*Family Income Credit.* Residents are allowed a \$40 non-refundable tax credit for each personal or dependent exemption claimed, subject to certain income limitations. This credit cannot be carried forward to offset future years' income tax liability [A.R.S. § 43-1073].

*Health Insurance Plans.* From tax year 2012 through tax year 2014, an income tax credit is available to businesses that provide qualifying health insurance plans to each enrolled employee. The credit is equal to \$360 for every employee that enrolls in a health insurance plan offered by the business. To qualify, the business must offer High Deductible Health Insurance Plans with catastrophic coverage under a Health Savings Account. In order to receive the credit, businesses must have between 2 and 50 employees, must not have provided health insurance within 90 days of offering the plan, and must offer the plan to every employee for at least 1 year. Unused credits can be carried forward 3 years [A.R.S. § 43-1087.01].

*Healthy Forest Enterprise.* A qualified business that is certified by the Arizona Commerce Authority as a healthy forest enterprise is allowed to claim a tax credit for net increases in qualified employment positions. To qualify for the credit, a business enterprise must meet several conditions with respect to the amount of employees hired, and the residency status, job duties, wages, and fringe benefits of those employees. The maximum amount of the credit per qualified employment position is \$500 in the first year, \$1,000 in the second year, and \$1,500 in the third year of continuous employment. The net increase in the number of qualified employment positions is not allowed to exceed 200 per taxpayer each year. The tax credit is effective from January 1, 2005 to December 31, 2024. (Laws 2012, Chapter 331 extended the credit by 10 years, from 2014 to 2024.) The credit is non-refundable and is allowed to be carried forward for no more than 5 years [A.R.S. § 43-1076].

*Healthy Forest - Ecological Restoration Workforce Training.* A business certified by Arizona Commerce Authority as a Healthy Forest Enterprise may claim a credit for expenses incurred in training new employees in ecological restoration. The credit amount is the net cost of training and certifying new employees in qualified employment positions. The credit is limited to \$3,000 per employee in each of the first 3 years of qualified employment. The net increase in the number of qualified employment positions is not allowed to exceed 200 per taxpayer each year. The credit is effective from January 1, 2012 to December 31, 2024. The credit is non-refundable and is allowed to be carried forward for no more than 5 years [A.R.S. § 43-1076.01].

*Low-Income Credit for Increased Excise Taxes Paid.* For taxpayers filing as married couple or as head of household and whose federal adjusted gross income is \$25,000 or less, a credit of \$25 is granted per person or \$100 per household. For taxpayers filing as single or as married person filing separately, the income requirement is \$12,500 or less. This refundable credit is considered a mitigation of the 0.6% sales tax increase resulting from Proposition 301 passed in November 2000. This law became effective January 1, 2001 [A.R.S. § 43-1072.01].

*Military Family Relief Fund Tax Credit.* A credit may be claimed for cash contributions to the Military Family Relief Fund established by Laws 2007, Chapter 258. The maximum credit is \$200 for taxpayers filing as single or head of household and \$400 for those filing as married couples. The credit is not allowed to exceed the taxpayer's tax liability. The total dollar value of the credit, which is available for tax years 2008 through 2018, is capped at \$1,000,000 per taxable year [A.R.S. § 43-1086]. Laws 2012, Chapter 281 extended the expiration of the credit from 2012 to 2018.

*Military Reuse Zones.* Businesses that are primarily engaged in manufacturing, assembling or fabricating aviation or aerospace products, and are located in a military reuse zone can claim a tax credit for net employment increases within the military reuse zone. This credit is in lieu of any other tax credit obtained by a qualified defense contractor for the same employees. This non-refundable tax credit is allowed to be carried forward for no more than 5 years [A.R.S. § 43-1079].

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*Motion Picture Productions and Infrastructure Projects.* These credits, effective between taxable years 2006 and 2010, were available to businesses that produced motion pictures in Arizona. Motion picture productions with qualified expenses of \$250,000 to \$1 million in a 12-month period were eligible for a tax credit equal to 20% of production costs, while productions with qualified expenses exceeding \$1 million were credited for 30% of production costs. The total amount of income tax credits approved for all qualifying productions and investments could not exceed \$30 million in 2006, \$40 million in 2007, \$50 million in 2008, \$60 million in 2009, and \$70 million in 2010. The income tax credits were claimed for expenses incurred in the production of commercial advertisements, and music videos, with 5% of the income tax credit set aside for these productions. In addition, income tax credits could be claimed for expenses incurred for the construction of soundstages and associated support and augmentation facilities. Tax credits for soundstage investments were capped at \$5 million per year in 2008, 2009, and 2010. Tax credits for associated support and augmentation facilities were capped at \$7 million in 2009 (if at least one soundstage project was certified in 2008) and \$9 million in 2010 (if one or more soundstage projects were certified in 2008 or 2009). The tax credits could be sold or transferred, in whole or in part, to other taxpayers. The law required taxpayers claiming the credits to meet various reporting requirements and for film companies to recruit Arizona residents to hold 25% of full-time positions in 2006, 35% in 2007, and 50% in 2008 and after [A.R.S. § 43-1075 and § 43-1075.01].

*New Employment Tax Credit.* A \$3,000 annual tax credit may be claimed for each net new qualifying job added by an employer in the state. To qualify for the credit, new employment positions must be full-time, pay at least the median wage, and offer health insurance paid by the employer (at least 65% of the premium). Credits can be claimed for 3 years. A business cannot claim the new credit unless it adds at least 25 net new jobs in a year in an urban area (5 in a rural area) and makes a capital investment of at least \$5 million (\$1 million in a rural area). The credit is subject to a statewide aggregate cap of 10,000 jobs in TY 2012 (\$30 million) and grows by an additional 10,000 jobs in both TY 2013 (\$60 million) and TY 2014 (\$90 million) [A.R.S. § 43-1074]. Beginning in TY 2013, Laws 2012, Chapter 343 eliminates the requirement (provided by Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1) that no employer can claim more than 400 jobs in the first year of credit use, 800 jobs in the second year, and 1,200 jobs in the third year. The cap applies to credits claimed against insurance premium, individual income, and corporate income taxes. The credit cannot be claimed against employees that are also claimed under the Military Reuse Zone Tax Credit (A.R.S. § 20-224.03 and A.R.S. § 41-1525).

*Pollution Control Equipment.* A taxpayer may claim a tax credit for 10% of the cost to purchase real or personal property used to control or prevent pollution. Amounts that qualify for this credit must be included in the taxpayer's adjusted basis for the property. This credit is in lieu of the recycling equipment credit. The maximum credit is \$500,000. This non-refundable tax credit is allowed to be carried forward for no more than 5 years [A.R.S. § 43-1081].

*Public School Extra Curricular Activity Fees.* A credit may be claimed for contributions to extracurricular activities and character education programs at public schools. The maximum credit is \$200 for taxpayers filing as single or head of household and \$400 for those filing as married couples. (Prior to Laws 2005, Chapter 334, the maximum credit for married couples was \$250.) This credit is in lieu of any federal or state deduction for such contributions. A 5-year carry forward of the credit is allowed [A.R.S. § 43-1089.01].

*Property Taxes.* A full-year resident can claim a refundable credit for property taxes or rent paid on property if all of the following apply [A.R.S. § 43-1072]:

- 65 years or older or receiving SSI Title 16 monies from the Social Security Administration.
- Paid either property taxes or rent during the taxable year.
- If the person lived alone, his income from all sources was below \$3,751, or if he lived with others, the combined household income was below \$5,501.

The amount of the credit allowed under this provision is prescribed in A.R.S. § 43-1072B.

*Renewable Energy Investment.* A credit is allowed on new renewable energy capital investments in manufacturing or company headquarters for up to 10% of the taxpayer's total capital investment. The credit is refundable, with the combined total of individual and corporate income tax credits capped at \$70.0 million annually. Recipients must receive their credit in 5 equal portions over 5 consecutive tax years. The renewable energy investment credit is subject to an aggregate annual cap of \$70 million, which it shares with qualified facility credit program (A.R.S. § 43-1083.03) enacted by Laws 2012, Chapter 343.

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To be eligible to receive the credit, a company must create new jobs and make new capital investment as follows:

- Renewable energy manufacturing operations must create at least 1.5 full-time employment positions for each \$500,000 increment of capital investment.
- Renewable energy headquarter operations must create at least 1 full-time employment position for each \$200,000 increment of capital investment.

The credit is dependent upon the taxpayer paying 51% of new full-time employees a rate exceeding 125% of the median annual wage in the state and paying 80% or more of the premium for all full-time employees' health insurance. The taxpayer must also stay in operation within the state for 5 years after receiving post-approval for the credit or face recapture of any credits received. The tax credit is available for tax years 2010 through 2019 [A.R.S. § 43-1083.01]. Laws 2012, Chapter 343 extended the credit from 2014 to 2019. For additional information on renewable energy incentives, see *Appendix A*.

*Renewable Energy Production.* A credit is allowed on the production of electricity using renewable energy. To be eligible for the credit, a taxpayer must hold title to a qualified energy generator that first produces electricity between January 1, 2011 and December 31, 2020. The new credit allows a qualified producer of renewable energy to receive an individual or corporate income tax credit of up to \$2 million per year on the electricity they produce for up to 10 years, beginning January 1, 2011. The renewable energy credit has an annual cap of \$20 million for total individual and corporate income tax credits. A 5-year carry forward of the credit is allowed [A.R.S. § 43-1083.02]. For additional information on renewable energy incentives, see *Appendix A*.

*Research and Development (R&D).* A taxpayer may take a credit of 20% of qualified research expenses over a "base amount" (defined in the Internal Revenue Code) for expenses up to \$2.5 million (\$500,000 credit), plus 11% of expenses over \$2.5 million. Laws 2008, Chapter 290 expands the tax credit in tax years 2010 through 2017 by allowing for a larger percentage of qualified R&D expenses to be used to offset an individual's tax liability (for more details, refer to the 2008 tax law changes under *Impact of Tax Law and Revenue Changes*). Laws 2010, Chapter 312 changes the credit from being nonrefundable to refundable for those companies that employ less than 150 full-time employees. Specifically, the act provides that such taxpayers receive a refund equal to 75% of the amount by which the credit exceeds their liability. The refundable aspect of the credit has an annual cap of \$5 million cumulatively for the individual and corporate income tax and is effective retroactively from January 1, 2010. If in any year less than \$5 million of credits are filed collectively by all taxpayers, any unused amount rolls over to the next year (for more details, refer to the 2010 tax law changes under *Impact of Tax Law and Revenue Changes*). Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 expands the tax credit, beginning in FY 2013, by increasing the credit calculation by 10% for university-related research. The credit is subject to an aggregate cap of \$10 million per year. A 15-year carry forward of the credit is allowed [A.R.S. § 43-1074.01].

*School Site Donation Credit.* A credit is allowed in the amount of 30% of the value of real property and improvements donated by a taxpayer to a school district or a charter school. This credit became available January 1, 2001. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [A.R.S. § 43-1089.02].

*School Tuition Organizations (STO-1).* A credit may be claimed for donations to a non-governmental primary or secondary school tuition organization (STO) that allocates at least 90% of its annual revenue to educational scholarships or tuition grants. The maximum credit is \$500 for taxpayers filing as single or head of household and \$1,000 for married couples. Laws 2010, Chapter 293 provides that the maximum amount of the credit be adjusted for inflation each year and prohibits taxpayers from swapping donations with others for the benefit of their dependents. Laws 2010, Chapter 188 allows a donation made between the close of the tax year and the individual income tax filing deadline to be applied to either the current or preceding tax year for the purpose of claiming the individual income tax credit (for more details, refer to the 2010 tax law changes under *Impact of Tax Law and Revenue Changes*). A 5-year carry forward of the credit is allowed [A.R.S. § 43-1089]. See *Appendix B* in the Tax Handbook for a comparison of private school tax credits.

*School Tuition Organizations (STO-2).* Laws 2012, Chapter 4 created a new tax credit for cash contributions to school tuition organizations (STO). The maximum credit is \$500 for taxpayers filing as single or head of household and \$1,000 for married couples. The new credit, which is effective retroactively from January 1, 2012, is only available if the tax-filer has already claimed the maximum amount under the existing STO tax credit program for individuals (see *A.R.S. § 43-1089 above*). The Department of Revenue is required to adjust the maximum credit amount for inflation each year. Scholarship monies generated by the new credit are available only to students who

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either: (1) attended public school full-time for at least 90 days in the prior year and transferred to private school, (2) are the dependent of a member of the armed forces, (3) are entering Kindergarten, or (4) received a STO scholarship in the prior year under 1 of the first 3 criteria [A.R.S. § 43-1089.03]. See *Appendix B* in the Tax Handbook for a comparison of private school tax credits.

*Small Business (“Angel”) Investment Credit.* This credit is provided to investors that make investments in targeted small businesses certified by the Arizona Commerce Authority (ACA). A qualified (“angel”) investor must be either an individual, or a limited liability company, sub-chapter S corporation, or partnership. C corporations are not eligible for the credit. The credit is equal to 30% of the qualified investment unless the investment is made in a rural or bioscience company, in which case the credit is 35%. The credit must be claimed in equal installments over 3 years. Credit is nonrefundable and unused amounts can be carried forward up to 3 years.

The angel investment credit is limited to a total of \$20 million over the life of the program, from July 1, 2006 through June 30, 2016. Taxpayers are allowed to claim authorized credits on their tax returns through TY 2019. For an individual investor, the credit is applied to investment amounts of up to \$250,000 per calendar year in one or more qualified small businesses. Investment amounts in excess of \$250,000 do not generate tax credits. To receive qualified angel investments, a business is neither allowed to engage in activities involving human cloning or embryonic stem cell research, nor have assets exceeding \$10 million. Once a qualified business has received a total of \$2 million in qualified investments, it is no longer allowed to receive credit-eligible angel investments [A.R.S. § 43-1074.02].

*Solar Energy Devices for Commercial and Industrial Purposes.* A taxpayer can claim a credit equal to 10% of the installed cost of a solar energy device used in their trade or business. The credit cannot exceed \$25,000 for the same building in the same year or \$50,000 in total in any year. The credit is available between tax years 2006 and 2018. This income tax credit may be claimed by a taxpayer purchasing a solar energy device, or a taxpayer that finances the purchase of a qualifying device. The credit also may be transferred to a third party that manufactures or installs a qualifying device. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [A.R.S. § 43-1085]. For additional information on renewable energy incentives, see *Appendix A*.

*Solar Energy Devices for Residential Purposes.* A taxpayer may claim 25% of the purchase price for a qualified solar energy device installed in the taxpayer’s residence located in Arizona. The maximum credit is \$1,000 per year and \$1,000 in aggregate for the same residence. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [A.R.S. § 43-1083]. For additional information on renewable energy incentives, see *Appendix A*.

*Solar Hot Water Heater Stub-Outs and Electric Vehicle Recharge Outlets.* A taxpayer may take a credit up to \$75 for installing solar hot water plumbing stub-outs or electric vehicle recharge outlets in home dwellings built by the taxpayer. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years. This law became effective January 1, 1998 [A.R.S. § 43-1090]. For additional information on renewable energy incentives, see *Appendix A*.

*Solar Liquid Fuel.* A taxpayer may take a tax credit for research and development, production, and delivery system costs associated with solar liquid fuel for TY 2011 through TY 2026. Between TY 2011 and TY 2021, a taxpayer may take a credit for increased research and development related to solar liquid fuel of 40% of qualified research expenses within the state over a “base amount” (defined in the Internal Revenue Code). Between TY 2016 through TY 2026, a taxpayer may take a credit for production of solar liquid fuel equal to: 1) \$0.11 per 100,000 british thermal units (BTUs) of fuel produced in the state during the tax year for the production of solar liquid fuel in commercial quantities; and 2) 30% of the cost of converting or modifying an existing motor vehicle fuel service station for the retail sale of solar liquid fuel to customers. The latter portion of the credit is limited to \$20,000 per taxable year per service station [A.R.S. § 43-1085.01]. Taxpayers who use the research and development tax credit are prohibited from also taking a tax credit against the same research and development if it is associated with solar liquid fuel. For additional information on renewable energy incentives, see *Appendix A*.

*TANF Employment.* A credit that is allowed for net increases in qualified employment of recipients of temporary assistance for needy families (TANF) residing in Arizona. The credit is in lieu of any wage expense deduction taken for tax purposes. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [A.R.S. § 43-1087].

## **Individual Income Tax**

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*Taxes Paid to Other States.* Subject to certain conditions, residents are allowed a credit for income taxes paid to another state or country [A.R.S. § 43-1071].

*Water Conservation Systems.* The credit is for the installation of water conservation systems to encourage the re-use of “graywater,” or waste water for irrigation purposes. The credit is equal to 25% of the cost of the water conservation system up to a maximum of \$1,000. The maximum aggregate amount that can be claimed in a taxable year is \$250,000. This non-refundable tax credit, which is effective for tax years 2007 through 2011, is allowed to be carried forward for no more than 5 consecutive years [A.R.S. § 43-1090.01].

# Individual Income Tax

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## TAX COMPUTATION

The amount of individual income tax due (or owed) for individuals, partnerships, and fiduciaries are computed as follows:

### **Individuals:**

<u>Arizona Gross Income</u>	Equivalent to taxpayer's federal adjusted gross income. Includes a taxpayer's capital gain or loss.
<i>Plus</i>	
<u>Additions to Income</u>	See A.R.S. § 43-1021 for amounts not taxed under federal income tax laws, but subject to Arizona income tax.
<i>Minus</i>	
<u>Subtractions from Income</u>	See A.R.S. § 43-1022 for amounts taxed under federal income tax laws, but not subject to Arizona income tax.
<i>Minus</i>	
<u>Exemptions</u>	See A.R.S. § 43-1023 for exemptions: (1) \$1,500 for blind taxpayer and/or spouse (2) \$2,300 for taxpayer and/or spouse who is age 65 or over, (3) \$2,300 for each dependent, (4) \$2,300 for stillborn child, and (5) \$10,000 for qualifying parents and ancestors of parents.
<i>Equals</i>	
<u>Arizona Adjusted Gross Income</u>	
<i>Minus</i>	
<u>Standard or Itemized Deductions</u>	See A.R.S. § 43-1041 and 43-1042: Standard deduction is \$4,703 for single or married filing separately and \$9,406 for married filing jointly or unmarried head of household. Itemized deductions are the same as on the federal income tax return. Beginning in tax year 2005, the standard deduction is adjusted for inflation each year.
<i>Minus</i>	
<u>Personal Exemptions</u>	See A.R.S. § 43-1043: (1) single or married filing separately - \$2,100 (2) married filing jointly - \$4,200 (3) unmarried head of household - \$4,200 (4) a married couple filing a joint return and claiming at least one dependent - \$6,300.
<i>Equals</i>	
<u>Taxable Income</u>	
<i>Multiply By</i>	
<u>Tax Rates</u>	See <i>Tax Rate</i> Section.
<i>Equals</i>	
<u>Tax Liability</u>	
<i>Minus</i>	
<u>Tax Credits</u>	See <i>Tax Credits</i> Section.
<i>Minus</i>	
<u>Tax Payments</u>	Withholding, estimated, and extension payments made to the Department of Revenue.
<i>Equals</i>	
<u>Tax Due</u>	This can also be an overpayment; in which case, taxpayer will be entitled to tax refund.

## Individual Income Tax

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### **Partnerships:**

Arizona Gross Income  
*Add*

Equivalent to federal ordinary business and rental income for the year, excluding (1) items requiring a separate computation under A.R.S. § 43-1412, paragraph 1 through 17 and (2) the federal provisions relating to interest on investment indebtedness.

Addition to Income  
*Minus*

See A.R.S. § 43-1021 for amounts not taxed under federal income tax laws, but subject to Arizona income tax.

Subtractions from Income  
*Equals*

See A.R.S. § 43-1022 for amounts taxed under federal income tax laws, but not subject to Arizona income tax.

Arizona Taxable Income  
*Calculate*

This is mainly for filing and reporting purposes. The taxable income of a partnership is passed through to individuals in the partnership who are then taxed through the individual income tax on their distributed portion of the income.

Apportionment Ratio

Only for multi-state partnerships to determine Arizona's share of income and deductions. Uses a 3-part apportionment formula of property, payroll and sales. See A.R.S. § 43-1131 through A.R.S. § 43-1150.

### **Fiduciaries:**

Arizona Gross Income  
*Add*

Equivalent to federal taxable income of estates or trusts (A.R.S. § 43-1301). Income is taxable based on the residence of the decedent for an estate and the residence of the fiduciary or the beneficiary for a trust. See A.R.S. § 43-1312.

Additions to Income  
*Minus*

See A.R.S. § 43-1331 for a list of additions which also include those items listed for individuals under A.R.S. § 43-1021.

Subtractions from Income  
*Equals*

See A.R.S. § 43-1332 for a list of subtractions which also include those items listed for individuals under A.R.S. § 43-1022.

Arizona Taxable Income  
*Multiply By*

Individual Tax Rates  
*Equals*

See *Tax Rate* Section.

Tax Liability  
*Minus*

Individual Tax Credits  
*Minus*

See *Tax Credits* Section.

Tax Payments  
*Equals*

Tax Due

## Individual Income Tax

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### PAYMENT SCHEDULE

*Withholding.* To simplify payment of the individual income tax, a portion of the tax is paid through a system of withholding. Under Arizona law, a percentage of taxable wages is deducted and withheld by the employer for state income tax purposes at the time wages are paid [A.R.S. § 43-401].

Withholding of state income tax is determined based on withholding tables established by the Department of Revenue. Under this withholding table, an employee's state withholding is calculated as a percentage of their gross taxable wages. The withholding percentages effective as of January 1, 2012 are as follows: 0.8%, 1.3%, 1.8%, 2.7%, 3.6%, 4.2%, or 5.1% of gross taxable wages. Additionally, employees can also choose to have their employer withhold an extra amount from each paycheck.

Employers have the option to not withhold income tax during the month of December. If an employer elects to not withhold tax in December, he is required to notify the Department of Revenue and his employees of this decision.

An individual income taxpayer may authorize his employer to reduce his withholding amount in order to make contributions to a school tuition organization, charitable organization or public school.

*Exclusions.* Certain types of employment are exempt from the withholding requirements (see A.R.S. § 43-403 for a complete list).

*Disposition.* Employers who deduct withholding from their employees' wages are required to transfer the withholding collections to DOR. If an employer's withholding collections exceeded an average of \$1,500 per quarter over the 4 preceding calendar quarters, the employer must forward withholding collections to the state in accordance with the federal payment schedule. For employers whose withholding collections did not exceed an average of \$1,500 per quarter over the 4 preceding calendar quarters, the withholding collections for the previous calendar quarter must be transferred to DOR on or before April 30, July 31, October 31, and January 31.

*Estimated Tax Payments.* A taxpayer whose Arizona gross income was greater than \$75,000 (or \$150,000 if the taxpayer filed a joint return) in the preceding taxable year or can reasonably expect to exceed \$75,000 (or \$150,000 if the taxpayer files a joint return) in the current year, must make estimated payments, if estimated withholding for the tax year does not equal 90% of the tax liability for the current year or 100% of the liability for the preceding year [A.R.S. § 43-581].

The estimated amount shall be paid in 4 installments on or before the due dates established for federal filing and reasonably reflect the taxpayer's Arizona income tax liability. The total of annual estimated tax payments and withholding tax must be at least 90% of the tax liability for the current year or 100% of tax liability for the preceding year.

If a taxpayer does not pay the required estimated tax payments, DOR will assess a penalty not exceeding 10% of the unpaid tax plus interest on the unpaid balance.

*Voluntary Payments.* All other taxpayers may voluntarily make estimated tax payments during the tax year.

*Payment of Balance.* The taxpayer is required to pay the balance of the tax due on April 15 after the close of the calendar year or, if return is based on a fiscal year, on the 15th day of the fourth month following the close of the fiscal year. An income tax return is required to be filed with DOR along with the tax payment [A.R.S. § 43-501].

*Extensions.* If requested, the department will grant a taxpayer an automatic 6-month filing extension [A.R.S. § 42-1107]. Note, however, that a filing extension does not extend the taxpayer's time to pay his income tax. The taxpayer is still required to pay at least 90% of his tax liability by the original due date of the return. The department charges interest from the original due date to the date of payment. The department also imposes penalties as explained below.

*Extension Underpayment Penalty.* When applying for an extension, at least 90% of the tax liability must be paid by the original due date or the taxpayer is subject to a penalty of 0.5% of the unpaid balance for each 30 days or fraction thereof. This penalty cannot exceed 25% of the unpaid tax [A.R.S. § 42-1125].

## **Individual Income Tax**

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*Late Filing Penalty.* This penalty is 4.5% of the tax required to be shown on the return for each month or fraction thereof the return is late. The penalty cannot exceed 25% of the unpaid tax [A.R.S. § 42-1125].

*Late Payment Penalty.* This penalty is 0.5% of the amount shown as tax for each month or fraction thereof for which the failure to pay tax continues. This penalty cannot exceed a total of 10% of the tax [A.R.S. § 42-1125].

### **TAX EXPENDITURES**

DOR is required by law to prepare an annual report to the Governor and the Legislature detailing the estimated cost in lost revenues from the provision of tax expenditures [A.R.S. §42-1005]. Tax expenditures are provisions within the law, such as exemptions, exclusions, deductions and credits that are designed to encourage certain kinds of activity or to aid taxpayers in certain categories. Tax expenditures result in a loss of tax revenues for both state and local governments.

The most current individual income tax expenditure data is for tax year 2006. The state collected over \$3.8 billion in resident individual income taxes that year. However, according to DOR, the state allowed exclusions, exemptions, deductions, and credits worth as much as \$2.17 billion in the same year. This tax expenditure estimate, which was derived from DOR's Individual Income Tax Simulation Model, represents foregone revenues to the state General Fund and to the Urban Revenue Sharing Fund. *Table 11* below, which was reproduced from DOR's report *The Revenue Impact of Arizona's Tax Expenditures FY 2007/08*, lists all individual income tax expenditures by category.

## Individual Income Tax

Table 11

### FY 2007 INDIVIDUAL INCOME TAX EXPENDITURES

	<u>Tax Year 2006</u>
<b>FEDERAL SUBTRACTIONS FROM INCOME:</b>	
Archer MSA	\$29,000
Certain business expenses of reservists, performing artists, etc.	323,000
Health savings account deduction	634,000
Moving expenses	1,266,000
One-half of self-employment tax	9,729,000
Self-employed SEP and SIMPLE deduction	10,864,000
Self-employed health insurance deduction	8,589,000
Penalty on early withdrawal of savings	155,000
Alimony paid	6,516,000
Individual Retirement Account for Qualifying Individuals	7,373,000
Student Loan Interest Deduction	3,164,000
Tuition and fees deduction	3,752,000
Jury Duty Pay	17,000
Domestic Production Activities	4,240,000
Educator Expenses	537,000
Tuition and Fees	24,000
Other adjustments	<u>1,899,000</u>
<b>Total Value of Federal Subtractions from Income</b>	<b>\$55,883,000</b>
<b>EXEMPTIONS:</b>	
Personal Exemptions	\$221,678,000
Preferential Personal Exemption for Unmarried Head of Household	13,094,000
Preferential Personal Exemption for Married Filers with One or More Dependents	27,800,000
Age 65 or over Exemptions	34,241,000
Dependent Exemptions	92,747,000
Blind Exemptions	222,000
Qualifying Parent or Ancestor Exemption	<u>1,754,000</u>
<b>Total Value of Exemptions</b>	<b>\$351,322,000</b>
<b>SUBTRACTIONS FROM INCOME:</b>	
Interest on U.S. Obligations	\$10,166,000
Exclusion for Federal, State, and Local Pensions	8,170,000
Exempt State Lottery Winnings	298,000
Social Security or Railroad Retirement Benefits Included on Federal Form 1040	87,027,000
Bonus Depreciation Adjustment	43,652,000
Certain Wages of Native Americans	18,343,000
Income Tax Refunds from Other States	533,000
Deposits and Employee Contributions into Medical Savings Accounts	29,000
Constructing Energy Efficient Residences	3,141,000
Active Duty Military Pay	381,000
Other Subtractions	<u>13,125,000</u>
<b>Total Value of Subtractions</b>	<b>\$187,242,000</b>
<b>DEDUCTIONS:</b>	
Standard Deduction	\$158,469,000
Preferential Standard Deduction for Unmarried Head of Household	18,281,000
<i>Itemized Deductions:</i>	
Medical and Dental Expenses	115,785,000
Additional Medical Allowed on Arizona Return	82,090,000
<i>Taxes Paid:</i>	
State and Local Income Taxes	153,644,000
Real Estate Taxes	55,307,000
Personal Property and Other Taxes	<u>14,097,000</u>
<b>Total Value of Taxes Paid Deduction</b>	<b>\$219,941,000</b>

## Individual Income Tax

<i>Interest Expense:</i>	
Home Mortgage Interest and Points	320,648,000
Mortgage Interest not on Form 1098	2,794,000
Points not on Form 1098	1,878,000
Deductible Investment Interest	<u>16,712,000</u>
Total Value of Interest Expense	\$341,626,000
<i>Charitable Contributions:</i>	
Cash Contributions	83,872,000
Contributions Other Than Cash	26,890,000
Carryover From Prior Year	<u>5,397,000</u>
Total Value of Charitable Contributions	\$115,988,000
Casualty or Theft Losses	644,000
Job Expenses and most Other Miscellaneous Deductions	44,954,000
Nonlimited Miscellaneous Deductions	<u>23,056,000</u>
<b>Total Value of Itemized Deductions</b>	<b>\$674,974,000</b>
<b>Total Value of Standard and Itemized Deductions</b>	<b>\$1,103,805,000</b>
<b>CREDITS:</b> <sup>1/</sup>	
Family Tax Credit	\$4,777,000
Property Tax Credit	4,777,000
Clean Elections Fund Credit	816,000
Credit for Increased Excise Taxes Paid	28,751,000
Credit for Taxes Paid to Other States or Countries	124,937,000
Enterprise Zone Credit	1,629,000
Research and Development Credit	4,186,000
Motion Picture Production and Infrastructure Credit	0
Recycling Equipment Credit	0
Healthy Forest Enterprise Credit	0
Defense Contracting Credit	0
Military Reuse Zone Credit	0
Employing National Guard Credit	NR
Environmental Technology Credit	0
Pollution Control Device Credit	14,000
Agricultural Pollution Control Equipment Credit	NR
Solar Energy Device Credit	2,044,000
Agricultural Water Conservation System Credit	1,874,000
Commercial and Industrial Solar Credit	18,000
Neighborhood Electric Vehicle Credit	68,000
Employment of TANF Recipients Credit	0
Contributions to Charities Providing Assistance to Working Poor Credit	7,940,000
Private School Tuition Organization Credit	51,012,000
Public School Extra Curricular Activity Fee Credit	43,230,000
School Site Donation Credit	7,813,000
Solar Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets Credit	<u>1,000</u>
<b>Total Value of Credits</b>	<b>\$286,282,000</b>
<b>TOTAL VALUE OF INDIVIDUAL INCOME TAX EXPENDITURES</b>	<b>\$2,166,308,000</b>

<sup>1/</sup> Note that updated tax credit information after 2006 is available and can be found at the end of the *Individual Income Tax* section.

<sup>2/</sup> NR indicates that the information is not releasable due to Arizona confidentiality laws.

SOURCE: Department of Revenue Report – *The Revenue Impact of Arizona's Tax Expenditures FY 2007/08*.

## Individual Income Tax

### IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006. The estimated initial dollar impact of these changes is summarized by fiscal year in *Table 12* below.

<b>Table 12</b>		
<b>ANNUAL INCREMENTAL DOLLAR IMPACT OF TAX LAW AND REVENUE CHANGES</b>		
<b><u>Session/Chapter</u></b>	<b><u>Description</u></b>	<b><u>Revenue Impact</u></b>
<b><u>FY 2018</u></b>		
L 12, Ch 343	Qualified Facility Credit	<u>1/</u>
<b><u>FY 2017</u></b>		
L 12, Ch 343	Qualified Facility Credit	<u>1/</u>
<b><u>FY 2016</u></b>		
L 12, Ch 343	25% Long-Term Capital Gains Reduction (3-Year Phase-in)	\$(16,000,000)
L 12, Ch 343	Qualified Facility Credit	<u>1/</u>
L 12, Ch 343	Elimination of Individual Company Cap for New Employment Tax Credit	<u>2/</u>
Subtotal FY 2016		\$(16,000,000)
<b><u>FY 2015</u></b>		
L 12, Ch 343	25% Long-Term Capital Gains Reduction (3-Year Phase-in)	\$(23,000,000)
L 12, Ch 343	Qualified Facility Credit	<u>1/</u>
L 12, Ch 343	Elimination of Individual Company Cap for New Employment Tax Credit	<u>2/</u>
L 11, 2 <sup>nd</sup> SS, Ch 1	Eliminate Small-Business Generated Capital Gains Tax	(11,600,000)
L 11, 2 <sup>nd</sup> SS, Ch 1	Increased Eligibility for "Angel" Investment	<u>(500,000)</u>
Subtotal FY 2015		\$(35,100,000)
<b><u>FY 2014</u></b>		
L 12, Ch 343	25% Long-Term Capital Gains Reduction (3-Year Phase-in)	\$(17,500,000)
L 12, Ch 343	10% Deduction of Federal Bonus Depreciation	(4,200,000) <u>3/</u>
L 12, Ch 343	Qualified Facility Credit	<u>1/</u>
L 12, Ch 343	Elimination of Individual Company Cap for New Employment Tax Credit	<u>2/</u>
Subtotal FY 2014		\$(21,700,000)
<b><u>FY 2013</u></b>		
L 12, Ch 4	New STO Tax Credit	\$(4,000,000)
L 12, Ch 257	Elimination of Clean Elections Tax Credit	12,800,000
L 12, Ch 331	Healthy Forest Restoration Tax Credit	(110,000)
L 12, Ch 351	Long-Term Care Insurance Deduction	(4,100,000)
L 11, Ch 287	Health Insurance Plan Credit	<u>4/</u>
L 11, 2 <sup>nd</sup> SS, Ch 1	Increase University-related R&D Credit	<u>5/</u>
Subtotal FY 2013		\$4,590,000
<b><u>FY 2012</u></b>		
L 10, Ch 312	Renewable Energy Production Credit	<u>6/</u>
L 11, Ch 4	Internal Revenue Code Conformity	\$3,100,000
L 11, 2 <sup>nd</sup> SS, Ch 1	New Employment Tax Credit	<u>7/</u>
L 11, 2 <sup>nd</sup> SS, Ch 1	Increased Eligibility for "Angel" Investment	<u>(4,000,000)</u>
Subtotal FY 2012		\$(900,000)
<b><u>FY 2011</u></b>		
L 10, Ch 176	Internal Revenue Code Conformity	Minimal
L 10, 6 <sup>th</sup> SS, Ch 3	Nonresidents Prorate Standard Deductions	\$22,000,000

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L 10, Ch 188	STO Donation Applied to Current or Previous Tax Year	(2,500,000)
L 10, Ch 293	Maximum STO Donation Inflation Adjusted	(600,000)
L 10, Ch 312	Refundable R&D Credit	(5,000,000) <sup>8/</sup>
L 09, Ch 96	Renewable Energy Investment Credit	<sup>9/</sup>
L 09, Ch 80	Contributions to Charitable Organizations	(900,000)
Subtotal FY 2011		\$13,000,000
<u>FY 2010</u>		
L 09, Ch 2	Internal Revenue Code Conformity	\$(4,000,000)
L 09, Ch 80	Contributions to Charitable Organizations	(5,000,000)
Subtotal FY 2010		\$(9,000,000)
<u>FY 2009</u>		
L 08, Ch 94	Internal Revenue Code Conformity	\$(970,000)
L 07, Ch 258	College Savings Plan	(2,500,000)
L 07, Ch 258	Military Relief Fund Credit	(1,000,000)
Subtotal FY 2009		\$(4,470,000)
<u>FY 2008</u>		
L 07, Ch 1	Internal Revenue Code Conformity	\$(1,300,000)
L 06, Ch 342	Active Duty Military Pay Exemption	(12,200,000) <sup>10/</sup>
L 06, Ch 354	Income Tax Rate Reduction – 5% (tax year 2007)	(177,900,000)
L 06, Ch 357	Internal Revenue Code Conformity	1,100,000
Subtotal FY 2008		\$(190,300,000)
<u>FY 2007</u>		
L 06, Ch 333	Solar Energy Device Credit	\$(500,000)
L 06, Ch 354	Income Tax Rate Reduction – 5% (tax year 2006)	(156,100,000)
L 06, Ch 357	Internal Revenue Code Conformity	(700,000)
Subtotal FY 2007		\$(157,300,000)
<p><sup>1/</sup> Impact is estimated at \$(4.0) million between corporate and individual income taxpayers, beginning in FY 2014. Impact grows by another \$(4.0) million each year through FY 2018. The impact of the credit is displayed in the Corporate Income Tax section of the Tax Handbook for display purposes.</p> <p><sup>2/</sup> Impact is estimated at \$(1.8) million between corporate and individual income taxpayers, beginning in FY 2014. Impact grows by another \$(1.8) million each year through FY 2016. The impact of the credit is displayed in the Corporate Income Tax section of the Tax Handbook for display purposes.</p> <p><sup>3/</sup> One-time impact unless Congress extends this provision at the federal level.</p> <p><sup>4/</sup> Impact is unknown.</p> <p><sup>5/</sup> Impact is \$(4.0) million annually between corporate and individual income taxpayers, beginning in FY 2013. The impact of the credit is displayed entirely in the Corporate Income Tax section of the Tax Handbook for display purposes.</p> <p><sup>6/</sup> Credit usage is estimated at \$(5.0) million annually between corporate and individual income taxpayers, beginning in FY 2011 (the statutory cap is \$(70.0) million). The impact of the credit is displayed entirely in the Corporate Income Tax section of the Tax Handbook for display purposes.</p> <p><sup>7/</sup> Impact is estimated at \$(6.7) million between corporate and individual income taxpayers, beginning in FY 2012. The impact of the 3-year credit is displayed entirely in the Corporate Income Tax section of the Tax Handbook for display purposes.</p> <p><sup>8/</sup> Credit is capped at \$(5.0) million annually between corporate and individual income taxpayers, beginning in FY 2011. The impact of the credit is displayed entirely in the Individual Income Tax section for display purposes.</p> <p><sup>9/</sup> Credit usage is estimated at \$(10.0) million annually between corporate and individual income taxpayers, beginning in FY 2012 (the statutory cap is \$(20.0) million). The impact of the credit is displayed in the Corporate Income Tax section of the Tax Handbook for display purposes.</p> <p><sup>10/</sup> Laws 2005, Chapter 303 provided a one-time exemption from state income tax for active duty military pay for tax year 2006. Laws 2006, Chapter 342 made the exemption permanent.</p>		

## 2012 TAX LAWS

**Laws 2012, Chapter 3** was the annual correction bill that made technical, conforming, and clarification changes to the Arizona Revised Statutes. (Contained various effective dates)

## Individual Income Tax

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**Laws 2012, Chapter 4** created a new individual income tax credit of up to \$500 for single persons and \$1,000 for married couples for contributions to a School Tuition Organization (STO). The credit is only available if the filer has already claimed the maximum credit allowed under the existing STO tax credit program for individuals (A.R.S. § 43-1089). The Department of Revenue is required to adjust the maximum credit amount for inflation each year. Scholarship monies generated by the new credit are available only to students who either: (1) attended public school full-time for at least 90 days in the prior year and transferred to private school, (2) are the dependent of a member of the armed forces, (3) are entering Kindergarten, or (4) received a STO scholarship in the prior year under 1 of the first 3 criteria. The act is estimated to result in an individual income tax revenue loss of \$(4.0) million, beginning in FY 2013. (Effective retroactively from January 1, 2012)

**Laws 2012, Chapter 35** removed the statutory requirement that a space be provided for voluntary tax donations (check-off boxes) on the first page of the individual income tax return form. (Effective beginning in Tax Year 2012)

**Laws 2012, Chapter 38** was the annual conformity bill that updated the definition of the Internal Revenue Code (IRC) to include all IRC provisions that were in effect as of January 1, 2012. (Effective retroactively from January 1, 2012)

**Laws 2012, Chapter 71** increased the threshold at which tax exempt organizations are required to file a state income tax return, from \$25,000 in gross income to \$50,000 in gross receipts. The fiscal impact of the act is unknown. (Effective August 2, 2012)

**Laws 2012, Chapter 77** provided that taxpayers can voluntarily contribute any amount of their individual income tax refund (as opposed to the full amount only required under prior law) for state aid to public schools. (Effective August 2, 2012)

**Laws 2012, Chapter 143** removed the expiration date of December 31, 2012 for the program allowing Arizona residents to subtract contributions to college savings plans under Section 529 of the Internal Revenue Code from Arizona taxable income. (Effective August 2, 2012)

**Laws 2012, Chapter 170** conformed Arizona Revised Statutes to the provisions of Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1, which created the Arizona Commerce Authority. (Effective August 2, 2012)

**Laws 2012, Chapter 178** removed certain criteria for income tax subtractions taken for crop donations and increased the cap on the subtraction amount to the wholesale market price or the most recent sale price, whichever is greater. The fiscal impact of the act is unknown. (Effective retroactively from January 1, 2012)

**Laws 2012, Chapter 257** eliminated the Clean Elections Fund Tax Reduction (A.R.S. § 16-954A) and Clean Elections Fund Tax Credit (A.R.S. § 16-954B) approved by voters in 1998 under Proposition 200. The eliminated provisions previously allowed individual income tax filers to: (1) mark an optional check-off box that would reduce the taxpayer's liability by \$5, and transfer \$5 of the taxes paid to the Clean Elections Fund (for a total net General Fund impact of \$10) and (2) make a voluntary donation to the Clean Elections Fund and receive a credit not to exceed 20% of liability or \$670 per individual, whichever was greater. The elimination of the Clean Elections check-off box and tax credit is estimated to increase General Fund revenues by \$12.8 million in FY 2013. (Effective August 2, 2012)

**Laws 2012, Chapter 271** removed the requirement that charitable organizations declare if they promote or provide referrals for abortion for purposes of the Working Poor Tax Credit (A.R.S. § 43-1088). (Effective August 2, 2012)

**Laws 2012, Chapter 281** extended the expiration of the credit for donations to the Military Family Relief Fund from December 31, 2012 to December 31, 2018. (Effective August 2, 2012)

**Laws 2012, Chapter 323** repealed the use tax declaration requirement on the individual income tax return enacted by Laws 2011, Chapter 128. Chapter 323 did not repeal, however, the individual's requirement to pay use tax on out-of-state purchases. The act is estimated to reduce General Fund revenues by \$(1.8) million in FY 2013. (Effective retroactively from January 1, 2012)

**Laws 2012, Chapter 331** extended existing tax incentives under the Healthy Forest program from 2014 through 2024. Additionally, Chapter 331 also eased program qualification requirements and established new tax incentives

## **Individual Income Tax**

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for certified Healthy Forest Enterprises. Among the new incentives is an individual and corporate income tax credit for ecological restoration workforce training. The new credit is estimated to reduce General Fund revenues by \$(110,000) in FY 2013. The fiscal impact of other incentives included in the act is unknown. (Effective retroactively from January 1, 2012)

**Laws 2012, Chapter 343** reduces individual income taxes paid on long-term capital gains derived from assets purchased after 2011. The act includes several other income (both individual and corporate) and property tax reductions as well. The fiscal impact of Chapter 343 is phased in over several years, beginning in FY 2014. *Table I3*, on the following page shows the fiscal impact by tax provision and year. The act's individual income tax provisions are summarized below.

### Reduction of Long-Term Capital Gains

Chapter 343 reduces the individual income tax rate on long-term capital gains accrued from assets acquired after 2011. Long-term capital gains are realized on assets held longer than 1 year. The reduction in the regular rate is 10% in TY 2013, 20% in TY 2014, and 25% in TY 2015 and subsequent years. Capital gains realized on assets purchased before 2012 will not be reduced.

The provision is estimated to reduce individual income taxes by \$(17.5) million in FY 2014, \$(40.5) million in FY 2015, \$(56.5) million in FY 2016, \$(61.4) million in FY 2017, \$(65.6) million in FY 2018, and \$(69.3) million in FY 2019. The revenue loss is expected to increase in the ensuing years as increasingly more assets acquired after 2011 are sold.

### Deduction of Federal Bonus Depreciation

Under current federal law, businesses that place qualified property in service in 2012 are eligible for 50% bonus depreciation. Under prior state law, bonus depreciation was not allowed for state income tax purposes since Arizona did not conform to this provision of federal law. Chapter 343 amends current statute by allowing a state income tax deduction equal to 10% of the bonus depreciation claimed on federal returns for assets placed in service in 2012. The act is expected to result in a one-time individual income tax reduction of \$(4.2) million in FY 2014. The fiscal impact of this provision after FY 2014 will depend on whether the federal government extends bonus depreciation. The 50% bonus depreciation currently provided to businesses will expire at the end of 2012.

### Qualified Facility Income Tax Credit

Beginning in TY 2013, the act establishes a new individual and corporate income tax credit for businesses that expand or locate qualified facilities in the state. The credit is 10% of the lesser of: (1) the capital investment in the facility or (2) \$200,000 for each net new employee at the facility. To be eligible for the credit, a business is required to devote at least 80% of its property and payroll at the facility to manufacturing, research, or a national or regional headquarters. There are also certain minimum requirements with respect to wage and health insurance coverage for new employees at the facilities.

The credit is refundable but no single taxpayer can claim more than \$30 million in credits per calendar year. The credit must be taken in equal installments over 5 taxable years. The qualified facility credit program is subject to an aggregate annual cap of \$70 million, which it shares with the renewable energy credit program enacted in 2009. The qualified facility income tax credit is estimated to reduce income tax revenues by \$(4.0) million in FY 2014, \$(8.0) million in FY 2015, \$(12.0) million in FY 2016, \$(16.0) million in FY 2017, and \$(20.0) million in FY 2018.

### Elimination of the Individual Employer Cap for the \$3,000 New Job Tax Credit

Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 established a 3-year \$3,000 annual tax credit for each net new qualifying job added by an employer in the state. The act provided an aggregate credit cap of 10,000 net new jobs per year. However, no employer could claim more than 400 net new employees per year. Chapter 343 eliminates the individual company credit cap of 400 new employees, beginning in TY 2013. The General Fund revenue loss is estimated to be \$(1.8) million in FY 2014, \$(3.6) million in FY 2015, and \$(5.4) million in FY 2016.

**Laws 2012, Chapter 351** provided a deduction from taxable income for long-term care insurance premiums paid by individuals who do not itemize their deductions. (Filers who itemize their deductions can already claim this expense as a deduction.) This provision is estimated to reduce General Fund revenues by \$(4.1) million in FY 2013. Additionally, the act also allows tax filers to deduct from their taxable income an amount equal to their annual deposits into long-term health care savings accounts, a provision estimated to reduce General Fund revenues by an additional \$(52,000) in FY 2014. (Contains various effective dates)

**Table 13**

**General Fund Impact of Tax Provisions in Laws 2012, Chapter 343  
(\$ in Millions)**

<b>Description (Effective Date)</b>	<b>Tax</b>	<b>FY 14</b>	<b>FY 15</b>	<b>FY 16</b>	<b>FY 17</b>	<b>FY 18</b>	<b>FY 19</b>
Phases in (over 3 years) a 25% reduction of long-term capital gains on assets purchased after CY 2011 (TY 2013) <sup>1/</sup>	Individual Income	(17.5)	(40.5)	(56.5)	(61.4)	(65.6)	(69.3)
Extends the net operating loss (NOL) carry forward from 5 years to 20 years (TY 2012)	Corporate Income	0.0	0.0	0.0	0.0	0.0	(12.2)
Amends calculation of the index used to determine the annual business personal property exemption amount (TY 2013)	Property	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Provides income tax deduction equal to 10% of federal bonus depreciation for assets placed in service in CY 2012 (TY 2013) <sup>2/</sup>	Individual Income	(4.2)					
Creates a new income tax credit for capital investments in new or expanded manufacturing facilities, commercial headquarters, or research facilities (TY 2013) <sup>3/</sup>	Individual & Corporate Income	(4.0)	(8.0)	(12.0)	(16.0)	(20.0)	(20.0)
Eliminates individual company cap of 400 credit-eligible new employees for purposes of claiming the \$3,000 job tax credit (TY 2013)	Individual & Corporate Income	(1.8)	(3.6)	(5.4)	(5.4)	(5.4)	(5.4)
<b>Total General Fund Impact <sup>4/</sup></b>		<b>\$ (28.4)</b>	<b>\$ (53.0)</b>	<b>\$ (74.8)</b>	<b>\$ (83.7)</b>	<b>\$ (91.9)</b>	<b>\$(107.8)</b>
Revenue Impact <sup>5/</sup>		\$ (27.5)	\$ (52.1)	\$ (73.9)	\$ (82.8)	\$ (91.0)	\$(106.9)
Spending Impact <sup>5/</sup>		\$ 0.9	\$ 0.9	\$ 0.9	\$ 0.9	\$ 0.9	\$0.9

Notes:

<sup>1/</sup> Reduction, which is 10% in FY 2014, 20% in FY 2015, and 25% in FY 2016 and thereafter, applies to long-term capital gains.

<sup>2/</sup> Revenue impact after FY 2014 will depend upon whether federal bonus depreciation is extended.

<sup>3/</sup> Estimate assumes new capital investments totaling \$200 million each year. Credit must be claimed in equal installments over 5 years.

<sup>4/</sup> Does not include an estimate of "dynamic" revenue impacts.

<sup>5/</sup> Property tax provisions affect state spending. All other provisions affect revenue.

## 2011 TAX LAWS

**Laws 2011, Chapter 4** modified the definition of the Internal Revenue Code (IRC) for tax year 2011 to the federal IRC in effect on January 1, 2011. This includes changes adopted by Congress in the Temporary Extension Act of 2010; Hiring Incentives to Restore Employment Act; Patient Protection and Affordable Care Act; Healthcare and Education Reconciliation Act of 2010; Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010; The Dodd-Frank Wall Street Reform and Consumer Protection Act; Small Business Jobs Act of 2010; Claims Resolution Act of 2010; The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010; and The Regulated Investment Company Modernization Act of 2010. The conformity provision of Chapter 4 is estimated to increase General Fund revenues from the individual income tax by \$3.1 million in FY 2012.

**Laws 2011, Chapter 55** modifies the Charitable Organizations and Contributions tax credit by excluding charities that provide, pay for, promote, or financially support abortions or any entity that provides abortions.

**Laws 2011, Chapter 128** requires the state individual income tax return to include a specific statement of the taxpayer's use tax liability. Any person who stores, uses, or consumes tangible personal property subject to the use tax for non-business purposes is required to declare the annual amount of the use tax due, if not collected by a retailer, on his individual income tax form.

**Laws 2011, Chapter 287** creates a Health Savings Account Tax Credit available from tax year 2012 through tax year 2014. The income tax credit is available to businesses that provide qualifying health insurance plans to each enrolled employee. The credit is equal to \$360 for every employee that enrolls in a health insurance plan offered by the business. To qualify, the business must offer High Deductible Health Insurance Plans with catastrophic coverage under a Health Savings Account. In order to receive the credit, businesses must have between 2 and 50 employees, must not have provided health insurance within 90 days of offering the plan, and must offer the plan to each employee for at least 1 year. Unused credits can be carried forward 3 years.

**Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1** eliminates individual income tax on capital gains accruing from small business investment, expands eligibility for the Small Business Investment Credit, establishes a New Employment Tax Credit, and increases the R&D Tax Credit.

Beginning in TY 2014, capital gains on income derived from investment in small businesses with assets up to \$10 million will not be taxed. The cost of this provision is estimated to be \$(11.6) million in FY 2015.

Expansion of the Small Business Investment Credit increases eligibility by extending the life of the credit to FY 2016 and expanding the definition of eligible businesses to include companies with assets up to \$10 million, as opposed to the previous asset cap of \$2 million. The estimated cost is \$(4.0) million per year from FY 2012 – FY 2014 and \$(4.5) million in FY 2015.

The bill also creates the New Employment Tax Credit, which provides a \$3,000 annual tax credit for each net new qualifying job added by an employer in the state. To qualify for the credit new employment positions must be full-time, pay at least the median wage, and offer health insurance paid by the employer (at least 65% of the premium). Credits can be claimed for 3 years. A business cannot claim the new credit unless it adds at least 25 net new jobs in a year in an urban area (5 in a rural area) and makes capital investments of at least \$5 million (\$1 million in a rural area). No employer can claim more than 400 jobs in the first year of credit use, 800 jobs in the second year, and 1,200 jobs in the third year. The bill provides a statewide aggregate credit cap of 10,000 jobs in FY 2013 (\$30 million) and grows by an additional 10,000 jobs in both FY 2014 (\$60 million) and FY 2015 (\$90 million). The cap applies to credits claimed against insurance premium, individual income, and corporate income taxes. JLBC estimates the cost of the bill to be \$(6.7) million in FY 2012, increasing to \$(47.7) million by FY 2015.

Furthermore, the bill increases the R&D Tax Credit by 10% for university-related investment beginning in FY 2013. The cost of the legislation was partially offset by the expiration of the Enterprise Zone Tax Credit, which sunsets at the end of FY 2011. The bill also diverts a portion of General Fund individual income tax to the ACA's Arizona Competes Fund and operating fund. Between the 2 funds, \$31.5 million would be diverted from the General Fund in FY 2012.

A summary of all the Chapter 1 fiscal impact provisions is displayed in the Corporate Income Tax section of the Tax Handbook (*2011 Tax Laws*).

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### 2010 TAX LAWS

**Laws 2010, 6<sup>th</sup> Special Session, Chapter 3** requires that nonresident individual income taxpayers prorate their standard deduction based on the ratio of their Arizona Gross Income to their Federal Adjusted Gross Income. The act is estimated to increase General Fund revenues by \$22.0 million in FY 2011.

**Laws 2010, Chapter 176** conforms Arizona Revised Statutes to the federal Internal Revenue Code in effect as of January 1, 2010 (as well as provisions enacted retroactively for previous tax years) with the exception for the following federal provisions:

- Suspension of Tax on Unemployment Compensation – excludes up to \$2,400 of unemployment compensation from federal gross income in tax year 2009.
- New Car Deduction – provides an income tax deduction for sales taxes paid in 2009 on the purchase of a new vehicle.
- Net Operating Loss Carryback for Small Business – provides a 5-year carryback of 2008 net operating losses for businesses with \$15 million or less in gross receipts.
- Net Operating Loss Carryback for All Businesses – provides a 5-year carryback of 2008 or 2009 net operating losses for all businesses.
- Delay of Tax on Cancellation of Debt Income – allows businesses with cancellation of debt income in 2009 and 2010 to defer payment of tax for 5 years.
- 2010 Contributions Related to Haiti Earthquake – allows cash contributions made in the first 2 months of calendar year 2010 for the relief of Haiti earthquake victims to be treated as if they were made in 2009 for income tax purposes.

According to estimates provided by DOR, full conformity would have resulted in a General Fund revenue loss of \$(138.5) million in FY 2010 and \$(30.3) million in FY 2011. With these exclusions, the bill's estimated impact is expected to be minimal.

**Laws 2010, Chapter 188** allows a donation made to a school tuition organization between the close of the tax year and the individual income tax filing deadline to be applied to either the current or preceding tax year for the purpose of claiming the individual income tax credit. This act is estimated to result in a General Fund revenue decrease of \$(2.5) million in FY 2011.

**Laws 2010, Chapter 289** establishes a new individual and corporate income tax credit for research and development (R&D), production, and delivery system costs associated with solar liquid fuel for TY 2011 through TY 2026. Between TY 2011 and TY 2021, a taxpayer may take a credit for increased research and development related to solar liquid fuel of 40% of qualified research expenses within the state over a "base amount" (defined in the Internal Revenue Code). Between TY 2016 through TY 2026, a taxpayer may take a credit for production of solar liquid fuel equal to: 1) \$0.11 per 100,000 british thermal units (BTUs) of fuel produced in the state during the tax year for the production of solar liquid fuel in commercial quantities; and 2) 30% of the cost of converting or modifying an existing motor vehicle fuel service station for the retail sale of solar liquid fuel to customers. The latter portion of the credit is limited to \$20,000 per taxable year per service station. Taxpayers who use the research and development tax credit are prohibited from also taking a tax credit against the same research and development if it is associated with solar liquid fuel.

**Laws 2010, Chapter 293** provides that the maximum amount of the individual income tax credit for donations to school tuition organizations be adjusted for inflation each year. The act, which also prohibits taxpayers from swapping donations with others for the benefit of their dependents, is estimated to reduce General Fund revenues by \$(0.6) million in FY 2011.

**Laws 2010, Chapter 294** extends the expiration of the tax credit that applies to solar energy devices used for commercial and industrial purposes from December 31, 2012 to December 31, 2018.

**Laws 2010, Chapter 303** amends the individual and corporate income tax credit for renewable energy investment by capping the amount of the credit to the post-approval amount determined by the ACA and requires that the ACA must also give pre-approval and post-approval to all credits. The act also eliminates the distribution of the credit on a first-come, first-serve basis and limits the total of the credits allowed to all owners of a business to an amount that would have been allowed for a sole owner of the business. Finally, the act allows any excess refund to be treated as

## Individual Income Tax

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a tax deficiency and allows recapture of the tax refund if it is determined that the taxpayer has committed fraud or relocated outside the state within 5 years of first receiving the credit.

**Laws 2010, Chapter 312** changes the individual and corporate income tax credit for Research and Development (R&D) from being nonrefundable to refundable for those companies that employ less than 150 full-time employees. Specifically, the act provides that such taxpayers receive a refund equal to 75% of the amount by which the credit exceeds their liability. The credit has an annual cap of \$5 million cumulatively for the individual and corporate income tax and is effective retroactively from January 1, 2010. If in any year less than \$5 million of credits are filed collectively by all taxpayers, any unused amount rolls over to the next year. The refundable credit is expected to reduce General Fund revenues generated by the individual and corporate income tax by \$(5.0) million in FY 2011. The cumulative \$(5.0) million reduction is shown as an individual income tax reduction in *Table 8* for display purposes.

In addition to the modified R&D credit that is effective retroactively from tax year 2010, Chapter 312 also establishes a new renewable energy production tax credit that will become effective in tax year 2012. The new credit allows a qualified producer of renewable energy to receive an individual and corporate income tax credit of up to \$2 million per year on the electricity they produce for up to 10 years, beginning January 1, 2011. The renewable energy credit has an annual cap of \$20 million for total individual and corporate income tax credits. The credit is expected to reduce General Fund revenues generated by the individual and corporate income tax by \$(20.0) million in FY 2012. The cumulative \$(20.0) million reduction is shown as a corporate income tax reduction for display purposes (see *Corporate Income Tax* section).

**Laws 2010, Chapter 332** changes the Public School Extra Curricular Activity Fees tax credit to define “Public School” as a school that is part of a school district, a joint technical education district, or a charter school.

### 2009 TAX LAWS

**Laws 2009, 1<sup>st</sup> Special Session, Chapter 3** established a state and county tax amnesty program, which ran from May 1, 2009 through June 1, 2009. The program allowed DOR to abate or waive all or part of penalties and to impose reduced interest payments for tax liabilities for all qualifying taxpayers. To qualify for the program, a taxpayer must have filed a return, and paid any balance due by June 1, 2009. The one-month amnesty program generated a total of \$31.8 million, including \$16.7 million in corporate income taxes, \$2.1 million in individual income taxes, and \$13.0 million in sales tax revenue. After accounting for sales taxes collected on the behalf of counties, and revenue sharing to cities and counties, a total of \$27.3 million was deposited into the state’s General Fund. The one-time revenue impact of the tax amnesty program has not been included in the tax law changes table at the beginning of this section.

**Laws 2009, Chapter 2** modified the definition of the Internal Revenue Code (IRC) for tax year 2009 to the federal IRC in effect on January 1, 2009. This included changes adopted by Congress in the Economic and Stimulus Act of 2008, the Heartland, Habitat, Harvest and Horticulture Act of 2008, the Heroes Earnings Assistance and Relief Tax Act of 2008, the Housing Assistance Tax Act of 2008, the Emergency Economic Stabilization Act of 2008, the Fostering Connections to Success and Increasing Adoptions Act of 2008, and the Worker Retiree, and Employer Recovery Act of 2008. The conformity provisions of Chapter 2 were estimated to reduce individual income tax collections by \$(4.0) million in FY 2010 and \$(880,000) in FY 2011, and increase collections by \$9.34 million in FY 2012.

Chapter 2 also made adjustments to Arizona withholding rates, and decouples the state’s withholding rates from federal withholding. The state withholding rate changes were adopted to offset the federal withholding reductions under the American Recovery and Reinvestment Act of 2009.

The new state withholding rates (expressed as a percentage of federal withholding) under Chapter 2 are shown in the table below.

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<u>Arizona Withholding Rates and Effective Dates</u>		
<u>1/1/05 to 4/30/09</u>	<u>5/1/09 to 12/31/09</u>	<u>1/1/10 to 6/30/10</u>
0.0%	0.0%	0.0%
10.0%	11.5%	10.7%
19.0%	21.9%	20.3%
23.0%	26.5%	24.5%
25.0%	28.8%	26.7%
31.0%	35.7%	33.1%
37.0%	42.6%	39.5%

Chapter 2 effectively decoupled Arizona's withholding rates from federal withholding as of July 1, 2010. Instead, state withholding amounts will be determined based on withholding tables established by the Department of Revenue, which the department is required to submit to the Joint Legislative Budget Committee by March 15, 2010. (Emergency measure became effective April 9, 2009)

**Laws 2009, Chapter 32** repealed the current income tax review schedule and created a new automatic schedule based on the current 5-year review schedule. (Effective September 30, 2009)

**Laws 2009, Chapter 80** eliminated the requirement for a taxpayer to establish a baseline year to qualify for the tax credit for cash contributions to charitable organizations that provide assistance to the working poor. Chapter 80 expanded the credit to also include contributions to organizations that serve chronically ill or physically disabled children. The act is estimated to reduce individual income tax revenues by \$(5.0) million in FY 2010, \$(5.9) million in FY 2011, and \$(7.0) million in FY 2012. (Effective retroactively from January 1, 2009)

**Laws 2009, Chapter 96** provided income and property tax incentives for qualifying renewable energy companies that build headquarter or manufacturing facilities in the state from tax year 2010 to 2014. An income tax credit is allowed for up to 10% of the capital investment, with an aggregate ceiling, including individual and corporate income tax credits, of \$70 million annually. The credit is refundable and must be received in 5 equal portions over a period of 5 consecutive tax years. Qualifying properties will also receive a class 6 property designation, which reduces the assessment ratio to 5% instead of the class 1 assessment ratio of 22% (declining to 20% over the next 2 years). The class 6 property designation remains in effect for 10 or 15 years, depending on the level of wages paid to employees of the facility in relation to the median wage of the state. The credit is expected to reduce General Fund revenues generated by the individual and corporate income tax by \$(5.0) million in FY 2011. The cumulative \$(5.0) million reduction is shown as a corporate income tax reduction for display purposes (see *Corporate Income Tax* section).

**Laws 2009, Chapter 167** provided that individual income taxpayers be allowed to authorize their employers to reduce their withholding tax amounts in order to make contributions to a school tuition organization, charitable organization or public school. (Effective January 1, 2010)

### 2008 TAX LAWS

**Laws 2008, Chapter 94** modified the definition of the Internal Revenue Code (IRC) for tax year 2008 to the federal IRC in effect on January 1, 2008. This included changes adopted by Congress in the Small Business and Work Opportunity Tax Act of 2007, the Energy Independence and Security Act of 2007, Prevent Taxation of payment to Virginia Tech Victims and Families of 2007, Mortgage Forgiveness Debt Relief Act of 2007 and the Tax Technical Corrections Act of 2007. The conformity provisions of Chapter 94 were estimated to reduce individual income tax collections by \$(970,000) in FY 2009, \$(830,000) in FY 2010, and \$(280,000) in FY 2011.

**Laws 2008, Chapter 220** clarified for both residents and nonresidents the definition of "entire income" as adjusted gross income for the purpose of determining the credit for income taxes paid to other states. (Effective retroactively from January 1, 2008)

**Laws 2008, Chapter 290** contained several budget reconciliation provisions related to revenues that were necessary to implement the FY 2009 budget. One of the provisions established a minimum distribution amount for all cities and towns that equals at least the amount a city or town with a population of 1,500 or more persons would receive from the Urban Revenue Sharing Fund. Another provision contained in the measure increases the amounts of the

## Individual Income Tax

corporate and individual income research and development (R&D) tax credits that are allowed to be claimed. The R&D credit is calculated based on the amount of qualified research expenses that exceeds a base amount (which is defined in the Internal Revenue Code). The changes to the R&D credit contained in Chapter 290 are summarized in the table below.

<b>Tax Year</b>	<b>If Qualified Expenses exceed Base Amount by \$2.5 million or less, R&amp;D Credit is equal to:</b>	<b>If Qualified Expenses exceed Base Amount by more than \$2.5 million, R&amp;D Credit is equal to:</b>
2009 (current law)	20% of excess amount	\$500,000 + 11% of excess amount over and above \$2.5 million
2010	22% of excess amount	\$550,000 + 13% of excess amount over and above \$2.5 million
2011 – 2017	24% of excess amount	\$600,000 + 15% of excess amount over and above \$2.5 million
2018 – and beyond	20% of excess amount	\$500,000 + 11% of excess amount over and above \$2.5 million

As noted in the table above, the changes to the R&D credit under Chapter 290 will occur in 3 stages. The first increase of the credit is implemented in tax year 2010, followed by a second increase in tax years 2011 to 2017. Beginning in tax year 2018, the credit will revert to the amounts allowed under current law. The act is estimated to reduce corporate and individual income taxes by a total of \$(5.7) million in FY 2011 and \$(11.2) million in FY 2012.

### 2007 TAX LAWS

**Laws 2007, Chapter 1** was an emergency measure that established a standard procedure regarding income tax filing and payment deadlines. Specifically, the measure stipulated that when the original deadline for filing and paying income tax falls on a Saturday, Sunday, or legal holiday, the deadline is automatically moved to the next business day. (Contains an emergency clause)

The filing and payment deadline for both federal and state income tax is April 15. At the federal level, if the deadline falls on a Saturday, Sunday or legal holiday, the due date is extended to the next business day. “Legal holiday” under the Internal Revenue Code (IRC) means a legal holiday as observed in the District of Columbia. The April 15 filing deadline for 2007 fell on a Sunday and the next business day was Monday, April 16. However, since the District of Columbia observed the Emancipation Day (legal holiday) on April 16, the federal deadline for 2007 was moved to Tuesday, April 17. Under Chapter 1, Arizona’s filing and payment due date for 2007 was also extended to April 17.

Chapter 1 conformed the Arizona statutory definition of the Internal Revenue Code (IRC): (1) for tax year 2007 to the United States IRC in effect as of January 1, 2007, and (2) for tax year 2006 to all IRC provisions passed with retroactive federal effective dates between December 31, 2005 and December 31, 2006. This included changes adopted by Congress in the Tax Increase Prevention and Reconciliation Act of 2005, the Pension Protection Act of 2006, and the Tax Relief and Health Care Act of 2006. The conformity provisions of Chapter 1 were estimated to reduce individual income tax collections by \$(1.3) million in FY 2008, and \$(980,000) in FY 2009, resulting in an incremental increase in FY 2009 of \$320,000.

**Laws 2007, Chapter 112** provided that an individual who is both a resident of Arizona and a statutory resident of another state is allowed to claim an Arizona income tax credit for income taxes paid to the other state (for more details, see A.R.S. §43-1071). Laws 1999, Chapter 250 authorized such taxpayers to claim the credit for tax years 1989 through 2001. Since Laws 2007, Chapter 112 is retroactive from January 1, 2002, the measure extended the provisions enacted by Laws 1999, Chapter 250. Any refunds resulting from Laws 2007, Chapter 112 must be filed no later than December 31, 2011. According to DOR, the fiscal impact of the bill is expected to be small.

**Laws 2007, Chapter 160** provided a statutory definition of “final determination” for the purpose of adjusting Arizona gross income due to changes in federal taxable income. Under Arizona law, if a taxpayer’s federal taxable income is altered by the IRS or changes as a result of a renegotiation of a contract with the federal government, the taxpayer is required to either file the final determination of the change with the Arizona Department of Revenue

## **Individual Income Tax**

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(DOR) or file an amended return within 90 days. Prior to Laws 2007, Chapter 160, there was no definition of “final determination” in statutes. (Effective retroactively from January 1, 2007)

**Laws 2007, Chapter 180** broadened the solar energy income tax credit by permitting it to be transferred to third party organizations that have installed or manufactured a solar energy device. Previously, the tax credit was available only to taxpayers installing solar energy devices or to entities that financed the purchase of a qualifying device. (Effective retroactively from January 1, 2006)

**Laws 2007, Chapter 225** provided several changes to the Motion Picture Production Tax Incentive Program established by Laws 2005, Chapter 317. The maximum credit allowed each year by the original legislation remains unchanged. Beginning with the 2008 income tax credit allocation, 5% must be set aside for commercial advertisements and music video productions. A company that is certified to receive income tax credits for commercials and music videos must spend a minimum of \$250,000 in production costs within 12 months. Motion picture production companies must spend at least \$250,000 on each qualifying motion picture production in order to be eligible for the income tax credits. Previously, a company could become eligible by incurring \$250,000 in costs for one or more motion picture productions. Motion picture productions with qualified expenses of \$250,000 to \$1 million in a 12-month period now may receive a tax credit equal to 20% of production costs (increased from 10%); production expenses from \$1 million to \$3 million may be credited for 30% of production costs (increased from 15%), while productions spending more than \$3 million in the state also may claim a credit equal to 30% of production costs (increased from 20%). The maximum credit for any single motion picture production, previously capped at \$5 million, is increased to \$7 million in 2008, \$8 million in 2009, and \$9 million in 2010. Beginning October 31, 2007 through December 31, 2010, the Arizona Department of Commerce (ADOC) was required to certify motion picture infrastructure projects, including soundstages and support and augmentation facilities, for income tax credits. The maximum credit amount is 15% of the total base investment. Tax credits for soundstage investments are capped at \$5 million per year in 2008, 2009 and 2010. Tax credits for associated support and augmentation facilities are capped at \$7 million in 2009 (if at least one soundstage project was certified in 2008) and \$9 million in 2010 (if one or more soundstage projects were certified in 2008 or 2009). (Various effective dates)

**Laws 2007, Chapter 258** created an income tax subtraction for contributions to qualified 529 college savings plans and an income tax credit for donations to the Military Family Relief Fund.

### 529 College Savings Plan Income Tax Subtraction

The bill allows, for tax years 2008 through 2012, an individual income tax subtraction for contributions by Arizona residents to any college savings plan (whether operated in Arizona or elsewhere in the U.S.) established under Section 529 of the Internal Revenue Code. A 529 plan is an education savings plan operated by a state or educational institution designed to help families set aside funds for future college costs. The income tax subtraction is limited to \$750 for taxpayers filing as single or head of household and to \$1,500 for married couples. There currently is no deduction allowed for a 529 plan at the federal level.

Under federal tax code, earnings generated from contributions to 529 Plans are allowed to grow tax-free. The same tax advantage applies to state income tax since federal adjusted gross income is the starting point for determining Arizona income tax liability. Thus, besides the already favorable tax treatment of 529 Plans described above, Laws 2007, Chapter 258 provides an additional exemption not available at the federal level. Beginning in FY 2009, the act is estimated to reduce General Fund revenues by \$2.5 million.

### Military Family Relief Fund Tax Credit

The bill allows, for tax years 2008 through 2012, an individual income tax credit for cash contributions by individuals to the Military Family Relief Fund. The fund, which is also established by Laws 2007, Chapter 258, consists of private donations, grants, bequests, and other monies that are administered by the Arizona Department of Veterans' Services for the purpose of providing financial assistance to family members of Arizona military personnel injured or killed during their service. The maximum credit is \$200 for taxpayers filing as single or head of household and \$400 for married couples. The credit is not allowed to exceed the taxpayer's tax liability. While the Fund may receive donations in any amount, only the first \$1,000,000 in donations in any calendar year qualify for the credit. Beginning in FY 2009, the act is estimated to reduce General Fund revenues by \$1.0 million.

## Individual Income Tax

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### 2006 TAX LAWS

**Laws 2006, Chapter 102** allowed a taxpayer to voluntarily designate an amount to donate from his refund to the Veterans' Donation Fund. The fund is used to provide health care and education to veterans as well as provide for the maintenance of the State Veteran's Home, memorials, and cemeteries. (Effective January 1, 2007)

**Laws 2006, Chapter 222** modified the certification of motion picture production costs and the qualification for motion picture production tax incentives that were enacted in Laws 2005, Chapter 317. In addition to making several technical changes to the legislation passed in 2005, Chapter 222 authorized the ADOC to begin accepting tax credit applications beginning October 31 for the following year if ADOC has pre-approved the maximum calendar year credit for the current year. (Effective retroactively from January 1, 2006)

**Laws 2006, Chapter 262** provided that an estate is allowed to subtract the amount of federal estate taxes paid when computing its Arizona taxable income. (Effective retroactively from January 1, 2006)

**Laws 2006, Chapter 333** required the ADOC to establish a solar energy income tax credit program, established solar energy tax credits for commercial and industrial projects, removed the \$5,000 tax exemption limitation for retail and prime contracting classifications under the transaction privilege tax, and prohibited solar energy systems from being added to property value. The income tax credit portion of this credit was capped at \$1.0 million per calendar year, which was expected to reduce corporate and individual income tax revenue by approximately \$(500,000) each in FY 2007. The elimination of the sales tax cap was expected to result in an additional \$(0.5) million revenue loss. The total estimated impact of provisions of this legislation for FY 2007 was \$(1.5) million. (Effective retroactively from January 1, 2006)

**Laws 2006, Chapter 342** made permanent the state income tax exemption of military income for active duty members of the U.S. Armed Forces that was established by Laws 2005, Chapter 303 for the 2006 tax year. In addition, the act expanded the exemption to also include military income for active service in the National Guard or the Reserves. This bill was estimated to reduce General Fund revenues by \$(12.2) million in FY 2008. (Effective January 1, 2007)

**Laws 2006, Chapter 351** appropriated \$850,000 from the General Fund in FY 2007 to supplement the URS distribution for towns with a population of less than 1,500. In lieu of the statutory URS distribution to cities and towns, the act appropriated \$717.1 million in FY 2009 to hold cities and towns harmless from the individual income tax rate reductions implemented in FY 2007 (*see Laws 2006, Chapter 354*). In addition, Chapter 351 session law also appropriated \$10.5 million in FY 2009 to repay cities and towns for the reduced (14.8%) distribution percentage in FY 2003 and FY 2004. Thus, Laws 2006, Chapter 351 authorized a total URS distribution amount of \$727.6 million for FY 2009.

**Laws 2006, Chapter 354** reduced individual income tax rates by 5% for tax year 2006 and 10% for tax year 2007. (*See Property Tax section for other changes.*) (Contains various effective dates). These rate reductions were estimated to reduce General Fund revenues by \$(156.1) million in FY 2007, and an additional \$(177.9) million in FY 2008.

**Laws 2006, Chapter 357** conformed the Arizona statutory definition of the Internal Revenue Code (IRC) for tax year 2006 to the United States IRC in effect as of January 1, 2006, excluding those provisions where Arizona did not previously conform to federal tax law changes (bonus depreciation and business expensing).

The federal government enacted 3 tax bills during 2005: the Energy Tax Incentives Act; the Katrina Emergency Tax Relief Act; and the Gulf Opportunity Zone Act. The conformity bill was estimated to reduce FY 2007 individual and corporate income tax revenues by \$(700,000) each, for a total of \$(1.4) million.

**Laws 2006, Chapter 358** provided that the education grant under the newly established Displaced Pupils Choice Grant Program does not count as income for purposes of state income tax. (Effective September 21, 2006)

**Laws 2006, Chapter 387** extended the Enterprise Zone Program until June 30, 2011, and modified some of its qualification requirements. The fiscal impact of this bill is unknown. (Effective retroactively from July 1, 2006)

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

**ARIZONA INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR**

		2011	2010	2009	2008	2007	2006	2005	2004	2003
Agricultural Pollution Control Equipment	# of claims credit available credit used carry forward	Data Not Available	Data Not Available	3 \$16,569 \$13,306 \$3,263	5 \$14,331 \$14,087 \$244	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable
Agricultural Preservation District	# of claims credit available credit refunded carry forward							0 \$0 \$0	0 \$0 \$0	0 \$0 \$0
Agricultural Water Conservation	# of claims credit available credit used carry forward	Data Not Available	Data Not Available	139 \$6,356,874 \$1,008,226 \$4,510,204	136 \$8,562,113 \$1,486,292 \$6,328,967	137 \$8,912,273 \$1,853,588 \$6,333,995	138 \$8,880,517 \$1,873,866 \$6,202,735	137 \$8,868,257 \$1,905,338 \$6,409,360	141 \$10,366,257 \$2,784,783 \$6,855,589	154 \$9,170,688 \$1,611,457 \$7,273,813
Alternative Fuel Delivery System	# of claims credit available credit used carry forward								0 \$0 \$0 \$0	0 \$0 \$0 \$0
Alternative Fuel Vehicles	# of claims credit available credit used carry forward								26 \$251,238 \$34,972 \$0	50 \$407,905 \$60,504 \$347,401
Clean Elections	# of claims credit available credit used carry forward	Data Not Available	24,908 \$712,628 \$644,314	26,088 \$691,600 \$633,415	33,966 \$830,123 \$773,000	34,358 \$875,909 \$815,625	33,046 \$831,486 \$817,591	31,075 \$811,007 \$801,435	32,338 \$748,343 \$739,774	32,042 \$746,749 \$727,224
Commerical & Industrial Solar Energy Credit	# of claims credit available credit used carry forward	10 \$93,427 \$30,386 \$63,041	45 \$445,577 \$253,921 \$191,656	83 \$549,543 \$325,054 \$224,489	54 \$428,724 \$279,874 \$148,850	15 \$75,549 \$54,558 \$20,991	5 \$27,507 \$18,086 \$9,421			
Construction Materials	# of claims credit available credit used carry forward								Data Not Releasable	Data Not Releasable
Contributions To Charities Providing Help To Working Poor	# of claims credit available credit used carry forward	Data Not Available	58,941 \$16,177,493 \$16,078,026	50,149 \$13,663,624 \$13,043,507	36,568 \$11,077,991 \$11,059,408	18,280 \$5,877,831 \$5,860,953	29,202 \$7,988,039 \$7,939,507	25,587 \$6,637,500 \$6,589,000	20,736 \$3,884,600 \$3,851,700	17,467 \$3,283,100 \$3,259,400
Defense Contracting	# of claims credit available credit used carry forward	Data Not Available		0 \$0 \$0 \$0	0 \$0 \$0 \$0	0 \$0 \$0 \$0	0 \$0 \$0 \$0	0 \$0 \$0 \$0	0 \$0 \$0 \$0	0 \$0 \$0 \$0
Donations to the Military Family Relief Fund	# of claims credit available credit used carry forward	3,007 \$996,695 \$996,695	3,052 \$995,849 \$995,849	3,185 \$998,331 \$998,331	3,070 \$982,575 \$982,575					

**ARIZONA INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR**

		2011	2010	2009	2008	2007	2006	2005	2004	2003
Employing National Guard Members	# of claims credit available credit used carry forward	Data Not Available	Data Not Available	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable			
Employment of TANF Recipients	# of claims credit available credit used carry forward	Data Not Available	Data Not Available	0 \$0 \$0 \$0	Data Not Releasable	5 \$24,606 \$12,666 \$11,940	0 \$0 \$0 \$0	Data Not Releasable	0 \$0 \$0 \$0	Data Not Releasable
Enterprise Zone	# of claims credit available credit used carry forward	Data Not Available	Data Not Available	98 \$1,258,831 \$1,190,630 \$586,953	138 \$1,751,048 \$892,784 \$850,776	151 \$1,632,256 \$1,003,582 \$593,280	197 \$2,158,246 \$1,642,905 \$397,705	193 \$2,296,501 \$1,458,081 \$713,499	165 \$2,204,199 \$1,339,705 \$738,055	202 \$2,981,234 \$1,713,943 \$1,190,859
Environmental Technology	# of claims credit available credit used carry forward	Data Not Available	Data Not Available	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	0 \$0 \$0 \$0	0 \$0 \$0 \$0	0 \$0 \$0 \$0
Family Tax Credit	# of claims credit available credit used carry forward	Data Not Available	516,513 \$44,548,440 \$5,594,106	515,867 \$44,711,520 \$5,270,319	501,013 \$42,060,538 \$5,811,534	518,820 \$42,706,477 \$6,784,150	472,266 \$39,733,177 \$7,166,327	439,056 \$36,737,292 \$7,661,867	425,484 \$35,617,953 \$7,709,270	417,451 \$35,068,208 \$7,445,937
Healthy Forest Enterprises	# of claims credit available credit used carry forward	Data Not Available	Data Not Available	0 \$0 \$0 \$0	0 \$0 \$0 \$0	0 \$0 \$0 \$0	0 \$0 \$0 \$0			
Income Taxes Paid To Other States or Countries	# of claims credit available credit used carry forward	Data Not Available	36,535 \$84,093,029 \$84,093,029	30,125 \$75,216,168 \$75,216,168	31,103 \$78,837,292 \$78,837,292	27,706 \$105,315,257 \$105,315,257	34,880 \$124,937,274 \$124,937,274	34,664 \$119,416,310 \$119,416,310	29,956 \$80,229,015 \$80,229,015	25,722 \$62,484,651 \$62,484,651
Increased Excise Taxes Paid	# of claims credit available credit used carry forward	Data Not Available	656,524 \$35,278,230 \$35,278,230	664,675 \$35,928,030 \$35,928,030	605,599 \$32,308,185 \$32,308,185	579,464 \$30,444,007 \$30,444,007	536,940 \$28,751,332 \$28,751,332	546,678 \$29,358,243 \$29,358,243	555,762 \$29,924,907 \$29,924,907	548,831 \$29,581,905 \$29,581,905
Investment in Qualified Small Business	# of claims credit available credit used carry forward	Data Not Available	177 \$2,518,322 \$728,400 \$1,789,922	203 \$1,795,620 \$576,066 \$1,219,703	127 \$867,061 \$411,281 \$455,890	84 \$415,766 \$296,115 \$119,736				
Military Reuse Zone	# of claims credit available credit used carry forward	Data Not Available	Data Not Available	0 \$0 \$0 \$0	0 \$0 \$0 \$0	0 \$0 \$0 \$0	0 \$0 \$0 \$0	0 \$0 \$0 \$0	0 \$0 \$0 \$0	0 \$0 \$0 \$0
Motion Picture Production and Infrastructure	# of claims credit available credit used carry forward	Data Not Available	Data Not Releasable	5 \$81,932 \$77,267 \$4,665	9 \$273,567 \$267,771 \$5,796	4 \$153,184 \$128,165 \$25,019	0 \$0 \$0 \$0			

**ARIZONA INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR**

		2011	2010	2009	2008	2007	2006	2005	2004	2003
Neighborhood Electric Vehicle	# of claims						80	395	832	1,279
	credit available						\$237,622	\$1,866,584	\$4,014,888	\$6,472,767
	credit used						\$67,977	\$809,199	\$1,184,437	\$1,593,351
	carry forward						\$0	\$1,057,385	\$2,831,527	\$4,879,416
New Employment Credit	# of claims	Data Not Available								
	credit available	Data Not Available								
	credit used	Data Not Available								
	carry forward	Data Not Available								
Pollution Control Device	# of claims	Data Not Available	Data Not Available	Data Not Releasable	5	10	14	23	28	9
	credit available	Data Not Available	Data Not Available	Data Not Releasable	\$18,492	\$30,247	\$31,327	\$79,082	\$40,676	\$32,062
	credit used	Data Not Available	Data Not Available	Data Not Releasable	\$5,731	\$7,962	\$14,412	\$71,574	\$16,385	\$31,239
	carry forward	Data Not Available	Data Not Available	Data Not Releasable	\$12,756	\$22,767	\$16,860	\$7,508	\$24,291	\$823
Private School Tuition Organization	# of claims	19,624	62,940	73,430	78,434	76,065	73,617	69,239	63,830	58,122
	credit available	\$12,820,790	\$43,183,534	\$50,879,153	\$55,260,728	\$54,304,968	\$51,012,326	\$42,196,206	\$31,846,494	\$29,445,596
	credit used	\$12,820,790	\$43,183,534	\$50,879,153	\$55,260,728	\$54,304,968	\$51,012,326	\$42,196,206	\$31,846,494	\$29,445,596
	carry forward									
Property Tax	# of claims	Data Not Available	17,526	17,366	15,675	16,810	13,247	13,943	14,786	15,028
	credit available	Data Not Available	\$6,750,770	\$6,606,391	\$5,722,697	\$5,979,296	\$4,776,863	\$4,977,070	\$5,242,685	\$5,301,879
	credit used	Data Not Available	\$6,750,770	\$6,606,391	\$5,722,697	\$5,979,296	\$4,776,863	\$4,977,070	\$5,242,685	\$5,301,879
	carry forward	Data Not Available								
Public School Extra Curricular Activity	# of claims	250,210	250,004	239,031	233,450	214,356	218,664	215,369	213,987	201,407
	credit available	\$48,443,537	\$43,718,717	\$42,657,087	\$45,164,366	\$44,069,896	\$43,230,433	\$35,416,279	\$30,958,872	\$27,753,764
	credit used	\$48,443,537	\$43,718,717	\$42,657,087	\$45,164,366	\$44,069,896	\$43,230,433	\$35,416,279	\$30,958,872	\$27,753,764
	carry forward									
Recycling Equipment	# of claims	Data Not Available	Data Not Available	0	0	0	0	0		4
	credit available	Data Not Available	Data Not Available	\$0	\$0	\$0	\$0	\$0	Data Not Releasable	\$3,891
	credit used	Data Not Available	Data Not Available	\$0	\$0	\$0	\$0	\$0	Data Not Releasable	\$2,380
	carry forward	Data Not Available	Data Not Available	\$0	\$0	\$0	\$0	\$0	Data Not Releasable	\$1,511
Renewable Energy Industry-Investment and Employment	# of claims	Data Not Available	0							
	credit available	Data Not Available	\$0							
	credit used	Data Not Available	\$0							
	carry forward	Data Not Available	\$0							
Renewable Energy Production	# of claims	Data Not Available								
	credit available	Data Not Available								
	credit used	Data Not Available								
	carry forward	Data Not Available								
Research & Development	# of claims	Data Not Available	Data Not Available	306	308	260	270	199	166	136
	credit available	Data Not Available	Data Not Available	\$11,178,788	\$10,973,331	\$8,871,579	\$9,868,595	\$8,451,756	\$5,885,652	\$4,020,068
	credit used	Data Not Available	Data Not Available	\$4,388,344	\$4,714,103	\$3,377,197	\$4,185,619	\$3,362,915	\$1,654,296	\$1,189,536
	CREDIT REFUNDED	Data Not Available	Data Not Available	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	ltd carry forward	Data Not Available	Data Not Available	\$379,678	\$421,856	\$525,144	\$752,596	\$854,668	\$1,096,963	\$1,143,176
	unltd carry forward	Data Not Available	Data Not Available	\$6,410,766	\$5,837,372	\$4,969,238	\$4,930,380	\$4,234,173	\$3,134,393	\$1,687,356
School Site Donation	# of claims	Data Not Available	Data Not Available	23	55	72	89	80	100	45
	credit available	Data Not Available	Data Not Available	\$1,003,782	\$2,010,294	\$6,255,914	\$10,553,076	\$8,889,390	\$5,671,414	\$2,924,583
	credit used	Data Not Available	Data Not Available	\$76,226	\$321,623	\$2,819,579	\$7,812,958	\$6,029,585	\$3,513,793	\$2,048,930
	carry forward	Data Not Available	Data Not Available	\$357,500	\$1,639,328	\$3,217,277	\$2,534,946	\$2,859,896	\$2,157,621	\$716,187

**ARIZONA INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR**

		2011	2010	2009	2008	2007	2006	2005	2004	2003
Solar Energy	# of claims			8,449	5,124	2,560	4,241	3,729	3,049	2,687
	credit available	Data Not Available	Data Not Available	\$6,268,971	\$3,211,537	\$1,604,336	\$2,575,111	\$1,945,208	\$1,485,693	\$1,315,181
	credit used			\$4,983,151	\$2,511,451	\$1,218,593	\$2,062,822	\$1,588,034	\$1,211,632	\$1,050,632
	carry forward			\$1,285,485	\$699,705	\$385,384	\$511,408	\$356,337	\$274,061	\$251,310
Solar Hot Water Plumbing Stub Outs & Electric Vehicle Recharge	# of claims			16	11	0	6	22	17	
	credit available	Data Not Available	Data Not Available	\$2,850	\$1,053	\$0	\$525	\$18,538	\$15,220	Data Not Releasable
	credit used			\$1,568	\$930	\$0	\$525	\$9,687	\$5,677	
	carry forward			\$1,282	\$123	\$0	\$0	\$8,851	\$9,543	
Solar Liquid Fuel Research & Development	# of claims									
	credit available	Data Not Available								
	credit used									
	carry forward									
Technology Training REFUNDABLE	# of claims							0	0	0
	credit available							\$0	\$0	\$0
	credit refunded							\$0	\$0	\$0
	carry forward									
Underground Storage Tanks	# of claims								0	0
	credit available								\$0	\$0
	credit used								\$0	\$0
	carry forward									
Vehicle Refueling Apparatus & Infrastructure NONREFUNDABLE	# of claims									5
	credit available								Data Not Releasable	\$13,872
	credit used									\$8,960
	carry forward									\$4,912
Water Conservation Systems Credit	# of claims	114	185	212	213	61				
	credit available	\$53,273	\$93,962	\$121,952	\$77,575	\$42,238				
	credit used	\$46,197	\$82,869	\$104,876	\$70,026	\$36,227				
	carry forward	\$7,076	\$11,093	\$17,076	\$7,549	\$6,011				
<b>TOTAL</b>	# of claims	272,965	1,627,350	1,629,459	1,545,066	1,489,221	1,416,905	1,380,396	1,361,409	1,320,650
	credit available	\$62,407,722	\$278,516,551	\$300,007,208	\$300,449,278	\$317,596,987	\$335,602,456	\$307,966,875	\$248,573,173	\$221,151,444
	credit used	\$62,337,605	\$237,401,765	\$243,984,886	\$246,896,628	\$264,384,065	\$286,314,425	\$261,668,558	\$202,257,681	\$175,325,108
	credit refunded	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	carry forward	\$70,117	\$1,992,671	\$14,630,122	\$16,002,113	\$15,709,355	\$14,608,853	\$15,695,298	\$16,079,498	\$16,483,109
	ltd carry forward	\$0	\$0	\$379,678	\$421,856	\$525,144	\$752,596	\$854,668	\$1,096,963	\$1,143,176

Notes:

1. Shaded areas indicate that the credit was not in effect during the tax year.
2. "Data Not Available" indicates that the credit data was not available at the time of publication.
3. "Data Not Releasable" indicates that the credit information cannot be released due to confidentiality restrictions.
4. "Total" includes credits for which information was "not releasable" individually.
5. DATA IN *ITALICS* ARE PRELIMINARY.

# CORPORATE INCOME TAX

## DESCRIPTION

The corporate income tax is levied on corporations that engage in business within Arizona. The tax rate currently is 6.968% of taxable income. A multi-state company must allocate a portion of its income to Arizona based on its Arizona property, payroll, and sales.

The corporate income tax is an important revenue source for the state, representing 7.8% of total General Fund base revenue. However, Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 will reduce the tax rate over a period of 4 years beginning in Tax Year 2014. A portion of corporate income tax collections (along with individual income tax collections) is shared with incorporated cities and towns within the state.

## COLLECTIONS

Table 1 below provides historical corporate income tax collections for the last 20 years. Corporate income tax receipts are deposited into the General Fund, after sufficient amounts have been deposited into the tax refund account to meet the requirements for tax refunds [A.R.S. § 42-1116].

<b>Table 1</b>			
<b>CORPORATE INCOME TAX COLLECTIONS</b>			
<u>Fiscal Year</u>	<u>State General Fund</u>	<u>Fiscal Year</u>	<u>State General Fund</u>
FY 2012	\$643,771,845	FY 2002	\$346,280,400
FY 2011	\$560,235,683	FY 2001	\$541,173,600
FY 2010	\$413,193,307	FY 2000	\$523,180,000
FY 2009	\$592,157,255	FY 1999	\$545,389,000
FY 2008	\$784,510,885	FY 1998	\$535,295,300
FY 2007	\$986,169,564	FY 1997	\$600,890,500
FY 2006	\$874,219,473	FY 1996	\$448,039,400
FY 2005	\$701,859,285	FY 1995	\$419,690,900
FY 2004	\$494,044,869	FY 1994	\$331,395,000
FY 2003	\$389,406,300	FY 1993	\$263,242,400

SOURCE: Department of Revenue annual reports - amounts are net of refunds and charge-offs. A portion of corporate income tax collections is shared with incorporated cities and towns – see Table 2 in Individual Income Tax section.

## DISTRIBUTION

Based on an initiative measure approved by the voters in 1972, an Urban Revenue Sharing Fund was established. The initiative provided that a percentage of income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and towns within the state. Currently, 15% of net income tax revenues from 2 years prior is distributed to cities and towns. This distribution is based on the last U.S. decennial census, a special census, or revised population figures approved by the Department of Economic Security (DES). Table 3 (Distribution of Individual and Corporate Income Tax) in the Individual Income Tax section provides historical urban revenue sharing distributions [A.R.S. § 42-206].

## WHO PAYS THE TAX

Any corporation, excluding exempt organizations, having Arizona taxable income is subject to the corporate income tax [A.R.S. § 43-1111].

Exempt organizations include those exempt from federal income tax under section 501 of the Internal Revenue Code (generally "non-profit" organizations), as well as a specific list of exempt organizations included in state statute [A.R.S. § 43-1201].

## **Corporate Income Tax**

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The income of a corporation owned by an Indian tribe or tribal member is not subject to Arizona's corporate income tax if its income is derived from businesses located on the reservation. Income from a corporation not owned by a tribe or tribal member, regardless of whether it is located on a reservation, is subject to the state corporate income tax. Corporations owned by tribes or tribal members that derive their income from non-reservation sources are subject to the income tax in the same manner as all other corporations with income in Arizona.

There are no specific statutory references related to the imposition of Arizona state income tax on tribal members or corporations. Thus, to facilitate the administration of state income tax on Indian reservations, the Department of Revenue (DOR) has adopted income tax rulings based on the decisions in several court cases.

Small business corporations which make a "subchapter S" election for a taxable year under the Internal Revenue Code are not subject to the corporate income tax. The income of these corporations is generally passed through to each shareholder, who is then taxed under the state's individual income tax [A.R.S. § 43-1126].

The United States, the state, counties, towns, school districts, or other political subdivisions of the state or federal government are excluded from the definition of a taxpayer, and are exempt from the corporate income tax [A.R.S. § 43-104].

### **EXEMPTIONS**

Organizations that are exempt from federal income tax under Section 501 of the Internal Revenue Code are also exempt from state income tax. In addition, the following organizations are exempt from state income tax [A.R.S. § 43-1201]:

- (1) Labor, agricultural, and horticultural organizations except for cooperative organizations.
- (2) Fraternal beneficiary societies, orders, or organizations that both: (a) operate under the lodge system or for the exclusive benefit of the members of a fraternity, and (b) provide for the payment of life, sick, accident, or other benefits to their members or their dependents.
- (3) Cemetery companies that are owned and operated exclusively for the benefit of their members or are not operated for profit.
- (4) Corporations that are organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children and animals.
- (5) Business leagues, chambers of commerce, real estate boards, and boards of trade that are not organized for profit.
- (6) Civic leagues or organizations that are not organized for profit.
- (7) Clubs that are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes.
- (8) Corporations that are organized for the exclusive purpose of holding title to property, collecting income from such property, and turning over the entire net income to an organization which itself is exempt from income tax.
- (9) Voluntary employees' beneficiary organizations that provide for the payment of life, sick, accident or other benefits to their members or their dependents, if both of the following apply: (a) no part of their net earnings inures to the benefit of any private shareholder or individual, and (b) 85% or more of the income consists of monies collected from members and contributions by the employer of the members.
- (10) Teachers' or public employees' retirement fund organizations that are of a purely local character, if both of the following apply: (a) no part of their net earnings inures to the benefit of any private shareholder or individual, and (b) the income consists solely of monies received from public taxation, assessments on the salaries of members, and income from investments.
- (11) Religious or apostolic organizations or corporations, if such organizations or corporations have a common treasury or community treasury.
- (12) Voluntary employees' beneficiary organizations that provide for the payment of life, sick, accident or other benefits to their members, their dependents or designated beneficiaries, if both of the following apply: (a) admission to membership is limited to individuals who are officers or employees of the United States Government, and (b) no part of the net earnings inures to the benefit of any private shareholder or individual.
- (13) Corporations classified as diversified management companies under Section 5 of the federal Investment Company Act of 1940.
- (14) Insurance companies that are subject to the insurance premium tax.

## Corporate Income Tax

- (15) Mutual ditch, irrigation or water companies or similar nonprofit organizations if 85% or more of their income consists of amounts collected from members for the sole purpose of meeting losses and expenses.
- (16) Workers' compensation pools established pursuant to A.R.S. § 23-961.01

### TAX BASE AND RATE

The tax base for the corporate income tax is defined as "Arizona taxable income", which is further defined as the "Arizona gross income" (equal to a corporation's federal taxable income), adjusted by a series of additions and subtractions as specified in Title 43, Article 3 of the Arizona Revised Statutes (A.R.S. § 43-1121 - A.R.S. § 43-1130.01) [A.R.S. § 43-1101].

The tax rate for corporate income tax is 6.968% of a corporation's net Arizona taxable income or \$50, whichever is greater [A.R.S. § 43-1111]. The 6.968% flat tax rate has been in effect since January 1, 2001. The \$50 minimum tax was effective beginning January 1, 1988.

<u>Taxable Income</u>	<u>TY 1965</u>	<u>TY 1967</u>	<u>TY 1974</u> <sup>2/</sup>	<u>TY 1990</u>	<u>TY 1994</u>	<u>TY 1998</u>	<u>TY 2000</u>	<u>TY 2001</u>
\$ 0 - 1,000	1.30%	2.00%	2.50%	9.30%	9.00%	8.00%	7.968%	6.968%
\$ 1,001 - 2,000	2.60%	3.00%	4.00%	9.30%	9.00%	8.00%	7.968%	6.968%
\$ 2,001 - 3,000	3.30%	4.00%	5.00%	9.30%	9.00%	8.00%	7.968%	6.968%
\$ 3,001 - 4,000	4.00%	5.00%	6.50%	9.30%	9.00%	8.00%	7.968%	6.968%
\$ 4,001 - 5,000	4.60%	6.00%	8.00%	9.30%	9.00%	8.00%	7.968%	6.968%
\$ 5,001 - 6,000	5.90%	7.00%	9.00%	9.30%	9.00%	8.00%	7.968%	6.968%
\$ 6,001 & over	6.60%	8.00%	10.50%	9.30%	9.00%	8.00%	7.968%	6.968%

<sup>1/</sup> For tax rates prior to 1965, see page 119 of the 1990 Tax Handbook.  
<sup>2/</sup> From January 1, 1986 through December 31, 1987, corporate net capital gains were taxed at a 6.4% flat rate.

Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 will reduce the tax rate to 4.9% over a period of 4 years beginning in Tax Year 2014. *Table 3* below displays these future rates.

<u>Tax Year</u>	
TY 2014	6.5%
TY 2015	6.0%
TY 2016	5.5%
TY 2017	4.9%

<sup>1/</sup> As enacted by Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1.  
<sup>2/</sup> Years represent a flat rate for all income levels.

If a corporation incurred net operating losses (NOL) in prior taxable years, it is allowed to apply these losses against current Arizona income. (A net operating loss is incurred when a corporation's allowable deductions exceed its taxable income within the same taxable year.) Pursuant to Laws 2012, Chapter 343, the net operating loss incurred in one taxable year is allowed to be carried forward to offset taxable income in each of the next 20 taxable years, beginning in TY 2012. Prior to Chapter 343, a corporation's net operating loss was only allowed to be carried forward to the next 5 taxable years.

Corporations which have income from both within the state and outside of the state are required to allocate their Arizona taxable income according to the type of income as follows: [A.R.S. § 43-1132] *Business income*. Allocated to Arizona based on the proportion of the taxpayer's property, payroll, and sales occurring within the state. Prior to enactment of Laws 2005, Chapter 289, business income was multiplied by a weighted average of the 3 factors to determine Arizona taxable income, with a 50% weight on sales that occurred in Arizona and a 25%

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weight on both the property and payroll within Arizona. With the enactment of Laws 2005, Chapter 289, Arizona added an additional apportionment formula that put even greater emphasis on sales. The enhanced sales factor formula was phased in over 3 years, with the sales factor reaching 80% in January 2009. With an 80% weight on sales occurring in Arizona, property and payroll account for 10% each in the apportionment formula [A.R.S. § 43-1139 - A.R.S. § 43-1145].

Corporations may choose between the 50% and 80% sales factor formulas. For example, a business with 2% of its sales and 5% of its property and payroll in Arizona would benefit from the 80% sales factor. In calculating the proportion of its multi-state income to Arizona, the 2% sales factor would receive an 80% weight and the 5% property, and payroll factors would receive a 10% weight. After applying the weights, 2.6% of the business' multi-state income would be applied to Arizona. Under the 50/25/25% formula, alternatively, the business would have to apply 3.5% of its income to Arizona.

Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 further modifies the optional computation made available by Laws 2005, Chapter 289 by increasing the sales factor weight to 85% in 2014, 90% in 2015, 95% in 2016, and 100% in 2017 and after. The sales factor is determined differently based on the type of good or service being sold:

- *Sale of tangible personal property.* Allocated to Arizona if the property is delivered or shipped to a purchaser within the state [A.R.S. § 43-1146].
- *Sale of other than tangible personal property.* Allocated to Arizona if the income producing activity is performed within the state, or, if the activity is performed both inside and outside of the state, if the greater proportion of the activity is performed within the state. Laws 2012, Chapter 2 provides an option for corporations that sell more than 85% of their services to consumers outside of Arizona to use the location of the buyer in calculating the sales factor. Chapter 2 phases in this provision between TY 2014 and TY 2017. Beginning in TY 2014, the location of sales accounts for 85% of the sales factor. This increases by 5% each year until TY 2017 when the location of sales accounts for 100% of the sales factor [A.R.S. § 43-1147].
- *Nonbusiness income.* Includes rents and royalties from real property or tangible personal property, capital gains, interest and dividends, and patent and copyright royalties. Income is generally allocated to Arizona to the extent the property is utilized or located in the state, or if the taxpayer's commercial location is in the state [A.R.S. § 43-1134 - A.R.S. § 43-1138].

If the allocation and apportionment provisions do not fairly represent the extent of the taxpayer's business activity in the state, the taxpayer may petition for, or the DOR may require, an alternative method of allocation [A.R.S. § 43-1148].

### TAX REFUNDS AND/OR TAX CREDITS

Tax credits are either refundable or non-refundable. Unlike refundable credits, non-refundable credits can never exceed a taxpayer's tax liability. However, many of the non-refundable tax credits allow the unused amounts to be carried forward to future years. As shown in *Table 4* below, only the following credits are refundable under current statutes:

<b>Table 4</b>	
<b>REFUNDABLE INCOME TAX CREDITS</b>	
<b>Name of Credit</b>	<b>Type of Credit</b>
Research and Development (R&D) Credit <sup>1/</sup>	Individual and Corporate
Renewable Energy Investment Credit <sup>2/</sup>	Individual and Corporate
Qualified Facility Credit <sup>3/</sup>	Individual and Corporate

Notes:

<sup>1/</sup> Credit is only available to businesses that employ less than 150 full-time employees. Refundable portion of R&D credit is subject to an aggregate cap of \$5 million annually.

<sup>2/</sup> Credit is subject to an aggregate cap of \$70 million annually, which it shares with the qualified facility credit.

<sup>3/</sup> Credit is subject to an aggregate cap of \$70 million annually, which it shares with the renewable energy investment credit. Credit is effective beginning in TY 2013 (Laws 2012, Chapter 343).

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Laws 2002, Chapter 238 established the Arizona Joint Legislative Income Tax Credit Review Committee. The Committee is required to determine the purpose of income tax credits, develop performance standards for evaluating the credits, and evaluate the benefits to the state. The Committee reviews each tax credit every 5 years according to a rotating schedule [A.R.S. § 43-221].

Corporate income tax credits available to taxpayers that reduce their liability or make them eligible for refunds are described below. The value of tax credits used and carried forward through calendar year 2010 (the latest year available) is summarized by the Arizona Department of Revenue summary report attached at the end of this section.

Title 43, Chapter 11, Article 6 of the Arizona Revised Statutes lists all the corporate income tax credits currently available to Arizona taxpayers. A brief description of each tax credit currently in statutes is provided below. *Appendix C* in the Tax Handbook lists all individual and corporate tax credits with statutory ending dates. *Appendix B* provides a complete list and detailed description of the various school tax credits currently available to individual and corporate taxpayers, as well as insurance companies.

*Agricultural Pollution Control Equipment.* A tax credit is allowed for taxpayers engaged in agriculture to reclaim 25% of the cost of real property or equipment, not to exceed \$25,000 in a taxable year, that is used to control, prevent, monitor or reduce air, water or land pollution. The credit can be carried forward for 5 years [A.R.S. § 43-1170.01].

*Agricultural Water Conservation System.* A tax credit can be claimed for 75% of the qualifying expenses in purchasing and installing an agricultural water conservation system. This credit is in lieu of itemized deductions for such expenses, in which case, the taxpayer must add the credit back into Arizona gross income in computing taxable income. This non-refundable tax credit can be carried forward for no more than 5 years [A.R.S. § 43-1172].

*Arizona National Guard Employees.* A tax credit of \$1,000 per employee is allowed for businesses that employ Arizona National Guard members who are called to active duty [A.R.S § 43-1167.01].

*Construction Materials.* A non-refundable credit is allowed for new construction materials incorporated into a qualifying facility located entirely in Arizona. Construction must have begun on or after January 1, 1994 and be completed on or before December 31, 1999. The credit is 5% of the purchase price for materials used to construct buildings costing more than \$5 million that are predominately used for manufacturing, mining, refining, satellite/data transmission, and R&D [A.R.S § 43-1171].

*Coal Consumed in Generating Electric Power.* The credit is for 30% of the amount paid by the seller or purchaser as transaction privilege tax or use tax on coal sold to the taxpayer to be consumed in generating electrical power within the state. The credit can be carried forward for 5 years [A.R.S. § 43-1178].

*Defense Contractor Employment.* The credit applies to defense contractors certified by the Arizona Commerce Authority (ACA). The non-refundable credit is for net increases in employment due to full-time equivalent (FTE) positions being transferred from exclusively defense-related activities to exclusively private commercial activities. A tax credit is also allowed for a portion of property taxes paid on class 3 (commercial or industrial) property. For each FTE net employment increase, \$2,500 is credited in the first year, \$2,000 in year 2, \$1,500 in year 3, \$1,000 in year 4 and \$500 in year 5. Property tax credits depend on the number of FTE Positions created (see below) [A.R.S § 43-1165].

*Defense Contractor Property Taxes.* The credit for property tax paid is: 40% if more than 900 FTE Positions are created; 30% for 601 to 900 positions; 20% for 301 to 600 positions; and, 10% for up to 300 positions. The credits can be carried forward for 5 years [A.R.S. § 43-1166].

*Enterprise Zones.* To qualify, at least 35% of the full time equivalent employees claimed must reside in an enterprise zone. For non-retail businesses, the credit is equal to 25% of the taxable wages paid to a qualified FTE employee in the first year of employment, 33% in the second year of continuous employment, and 50% in the third year, not to exceed \$500, \$1,000, and \$1,500 respectively. The credit may not be taken for more than 200 employees [A.R.S. § 43-1161]. These credits sunset at the end of FY 2011.

*Environmental Technology Facility Construction Costs.* A non-refundable credit is allowed for expenses incurred in constructing a qualifying facility involved in recycled materials or renewable energy. The credit is equal to 10% of

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the amount spent to construct the facility, including land acquisition, improvements, building improvements, machinery and equipment, but not to exceed 75% of the tax liability for the taxable year. The credits can be carried forward for 15 years [A.R.S. § 43-1169].

*Facility Credit.* A business that expands or locates a qualified facility in the state may claim a credit for qualifying investment and employment. The credit is 10% of the lesser of: (1) the taxpayer's total capital investment in the qualified facility or (2) \$200,000 for each net new employee at the qualified facility. To be eligible for the credit, a business is required to devote at least 80% of its property and payroll at the facility to manufacturing, research, or a national or regional headquarter. There are also certain minimum requirements with respect to wage and health insurance coverage for new employees at qualified facilities (A.R.S. § 41-1512).

The credit is refundable but no single taxpayer can claim more than \$30 million in credits per calendar year. The credit must be taken in equal installments over 5 taxable years. The qualified facility credit program is subject to an aggregate annual cap of \$70 million, which it shares with the renewable energy program (A.R.S. § 43-1164.01) enacted in 2009. The credit is available through TY 2019 [A.R.S. § 43-1164.04].

*Health Insurance Plans.* From tax year 2012 through tax year 2014, an income tax credit is available to businesses that provide qualifying health insurance plans to each enrolled employee. The credit is equal to \$360 for every employee that enrolls in a health insurance plan offered by the business. To qualify, the business must offer High Deductible Health Insurance Plans with catastrophic coverage under a Health Savings Account. In order to receive the credit, businesses must have between 2 and 50 employees, must not have provided health insurance within 90 days of offering the plan, and must offer the plan to every employee for at least 1 year. Unused credits can be carried forward 3 years.

*Healthy Forests.* To qualify, a business must be engaged in harvesting, transportation or initial processing of forest products, including biomass. Products must contain at least 50% biomass, and at least half of the biomass must be from Arizona sources. The business must have at least 3 permanent full-time employees and must be engaged in enhancing forest health, watersheds or public safety. The credit is equal to 25% of the taxable wages paid to a qualified FTE employee in the first year of employment, 33% in the second year of continuous employment, and 50% in the third year, not to exceed \$500, \$1,000, and \$1,500 respectively. The credit, which is effective from January 1, 2005 to December 31, 2024, may not be taken for more than 200 employees and may be carried forward for 5 years [A.R.S. § 43-1162]. Laws 2012, Chapter 331 extended the credit from January 1, 2014 to December 31, 2024.

*Healthy Forest - Ecological Restoration Workforce Training.* A business certified by Arizona Commerce Authority as a Healthy Forest Enterprise may claim a credit for expenses incurred in training new employees in ecological restoration. The credit amount is the net cost of training and certifying new employees in qualified employment positions. The credit is limited to \$3,000 per employee in each of the first 3 years of qualified employment. The net increase in the number of qualified employment positions is not allowed to exceed 200 per taxpayer each year. The credit is effective from January 1, 2012 to December 31, 2024. The credit is non-refundable and is allowed to be carried forward for no more than 5 years [A.R.S. § 43-1162.01].

*Motion Picture Productions.* An income tax credit is available to businesses that produce motion pictures in Arizona. Motion picture productions with qualified expenses of \$250,000 to \$1 million in a 12-month period may receive a tax credit equal to 20% of production costs, while productions with qualified expenses exceeding \$1 million may be credited for 30% of production costs. The total amount of income tax credits approved for all qualifying productions and investments may not exceed \$30 million in 2006, \$40 million in 2007, \$50 million in 2008, \$60 million in 2009, and \$70 million in 2010. The income tax credits may be claimed for expenses incurred in the production of commercial advertisements, and music videos, with 5% of the income tax credit available to be set aside for these productions. Income tax credits also may be claimed for expenses incurred for the construction of soundstages and associated support and augmentation facilities. Tax credits for soundstage investments are capped at \$5 million per year in 2008, 2009 and 2010. Tax credits for associated support and augmentation facilities are capped at \$7 million in 2009 (if at least one soundstage project was certified in 2008) and \$9 million in 2010 (if one or more soundstage projects were certified in 2008 or 2009). The tax credits may be sold or transferred, in whole or in part, to other taxpayers. The law requires taxpayers claiming the credits to meet various reporting requirements and for film companies to recruit Arizona residents to hold 25% of full-time positions in 2006, 35% in 2007, and 50% in 2008 and after. These credits are available for tax years 2006 through 2010 [A.R.S. § 43-1163].

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*Military Reuse Zones.* A non-refundable credit is allowed for net full-time equivalent (FTE) employment increases in a military re-use zone. The employees must be engaged in aviation or aerospace manufacturing or services. Credits also are allowed for dislocated civilian military base employees. For net FTE increases, a credit is allowed for each newly created position of \$500 to \$3,000, depending on whether or not the employee is a dislocated military base employee, and the number of years of employment (1-5 years). The credits can be carried forward for 5 years [A.R.S. § 43-1167].

*New Employment Tax Credit.* A \$3,000 annual tax credit may be claimed for each net new qualifying job added by an employer in the state. To qualify for the credit, new employment positions must be full-time, pay at least the median wage, and offer health insurance paid by the employer (at least 65% of the premium). Credits can be claimed for 3 years. A business cannot claim the new credit unless it adds at least 25 net new jobs in a year in an urban area (5 in a rural area) and makes a capital investment of at least \$5 million (\$1 million in a rural area). No employer can claim more than 400 jobs in the first year of credit use, 800 jobs in the second year, and 1,200 jobs in the third year. The credit is subject to a statewide aggregate cap of 10,000 jobs in TY 2012 (\$30 million) and grows by an additional 10,000 jobs in both TY 2013 (\$60 million) and TY 2014 (\$90 million) [A.R.S. § 43-1161]. Beginning in TY 2013, Laws 2012, Chapter 343 eliminates the requirement (provided by Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1) that no employer can claim more than 400 jobs in the first year of credit use, 800 jobs in the second year, and 1,200 jobs in the third year. The cap applies to credits claimed against insurance premium, individual income, and corporate income taxes. The credit cannot be claimed against employees that are also claimed under the Military Reuse Zone Tax Credit (A.R.S. § 20-224.03 and A.R.S. § 41-1525).

*Pollution Control Equipment.* The credit is allowed for purchases of real or personal property used to control or prevent pollution. The qualifying facilities must be built or purchased to comply with U.S. Environmental Protection Agency or Arizona Department of Environmental quality regulations. The credit amount is equal to the lesser of 10% of the purchase price or \$500,000 in a taxable year. It was capped at \$750,000 in 1995 and 1996. The credits can be carried forward for 5 years [A.R.S. § 43-1170].

*Renewable Energy Investment.* A credit is allowed on new renewable energy capital investments in manufacturing or company headquarters for up to 10% of the taxpayer's total capital investment. The credit is refundable, with the combined total of individual and corporate income tax credits capped at \$70.0 million annually, which it shares with the qualified facility credit (A.R.S. § 43-1164.04). The renewable energy investment credit is subject to an aggregate annual cap of \$70 million, which it shares with qualified facility credit program (A.R.S. § 43-1164.04) enacted by Laws 2012, Chapter 343.

To be eligible to receive the credit, a company must create new jobs and make new capital investment as follows:

- Renewable energy manufacturing operations must create at least 1.5 full-time employment positions for each \$500,000 increment of capital investment.
- Renewable energy headquarter operations must create at least 1 full-time employment position for each \$200,000 increment of capital investment.

The credit is dependent upon the taxpayer paying 51% of new full-time employees a rate exceeding 125% of the median annual wage in the state and paying 80% or more of the premium for all full-time employees' health insurance. The taxpayer must also stay in operation within the state for 5 years after receiving post-approval for the credit or face recapture of any credits received. The tax credit is only available for tax years 2010 to 2019 [A.R.S. § 43-1164.01]. Laws 2012, Chapter 343 extended the credit from 2014 to 2019. For additional information on renewable energy incentives, see *Appendix A*.

*Renewable Energy Production.* A credit is allowed on the production of electricity using renewable energy. To be eligible for the credit, a taxpayer must hold title to a qualified energy generator that first produces electricity between January 1, 2011 and December 31, 2020. The new credit allows a qualified producer of renewable energy to receive an individual or corporate income tax credit of up to \$2 million per year on the electricity they produce for up to 10 years, beginning January 1, 2011. The renewable energy credit has an annual cap of \$20 million for total individual and corporate income tax credits. A 5-year carry forward of the credit is allowed [A.R.S. § 43-1164.03]. For additional information on renewable energy incentives, see *Appendix A*.

*Research and Development (R&D).* A taxpayer may take a credit of 20% of qualified research expenses over a "base amount" (defined in the Internal Revenue Code) for expenses up to \$2.5 million (\$500,000 credit), plus 11% of expenses over \$2.5 million. Laws 2008, Chapter 290 expands the tax credit in tax years 2010 through 2017 by

## Corporate Income Tax

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allowing for a larger percentage of qualified R&D expenses to be used to offset an individual's tax liability (for more details, refer to the 2008 tax law changes under *Impact of Tax Law and Revenue Changes*). Laws 2010, Chapter 312 changes the credit from being nonrefundable to refundable for those companies that employ less than 150 full-time employees. Specifically, the act provides that such taxpayers receive a refund equal to 75% of the amount by which the credit exceeds their liability. The refundable aspect of the credit has an annual cap of \$5 million cumulatively for the individual and corporate income tax and is effective retroactively from January 1, 2010. If in any year less than \$5 million of credits are filed collectively by all taxpayers, any unused amount rolls over to the next year (for more details, refer to the 2010 tax law changes under *Impact of Tax Law and Revenue Changes*). Laws 2010, 2<sup>nd</sup> Special Session, Chapter 1 expands the tax credit, beginning in FY 2013, by increasing the credit calculation by 10% for university-related research. The credit is subject to an aggregate cap of \$10 million per year. A 15-year carry forward of the credit is allowed [A.R.S. § 43-1074.01].

*School Site Donation.* The credit is allowed for donations of real property and improvements to a school district or charter school as a school construction site. The credit is for 30% of the value of real property and improvements donated and can be carried forward for 5 years [A.R.S. § 43-1181].

*School Tuition.* A taxpayer may claim an income tax credit, up to the full amount of the donation, for contributions made to a school tuition organization that provides education scholarships and tuition grants either to children of low-income families (A.R.S. § 43-1183) or to disabled children or children in foster care (A.R.S. § 43-1184). If the taxpayer is an insurer, the credit may be applied against their insurance premium tax liability. The full amount of the low-income tax credit approved by DOR pursuant to A.R.S. § 43-1183 for both corporate income tax credits and insurance premium tax credits is capped at \$10 million per year, with the cap increasing by 20% per year beginning in FY 2008. The full amount of the disabled children and foster care tax credit approved by DOR pursuant to A.R.S. § 43-1184 is capped at \$5 million per year. A taxpayer may carry forward the unused portion of either tax credit for 5 years. A taxpayer shall not claim a tax credit under both A.R.S. § 43-1183 and A.R.S. § 43-1184 for the same contribution. [A.R.S. § 43-1183 and A.R.S. § 43-1184]. See *Appendix B* in the Tax Handbook for a comparison of private school tax credits.

*Solar Energy Devices for Commercial and Industrial Purposes.* A taxpayer can claim a credit equal to 10% of the installed cost of a solar energy device used in their trade or business. The credit cannot exceed \$25,000 for the same building in the same year or \$50,000 in total in any year. The credit is available between tax years 2006 and 2018. This income tax credit may be claimed by a taxpayer purchasing a solar energy device, or a taxpayer that finances the purchase of a qualifying device. The credit also may be transferred to a third party that manufactures or installs a qualifying device. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [A.R.S. § 43-1164]. For additional information on renewable energy incentives, see *Appendix A*.

*Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets Installed in Houses Constructed by Taxpayer.* An income tax credit of up to \$75 is available for each installation of a qualifying device for each separate house or dwelling unit. The credit may be transferred to the purchaser of the house or dwelling [A.R.S. § 43-1176]. For additional information on renewable energy incentives, see *Appendix A*.

*Solar Liquid Fuel.* A taxpayer may take a tax credit for R&D, production, and delivery system costs associated with solar liquid fuel for TY 2011 through TY 2026. Between TY 2011 and TY 2021, a taxpayer may take a credit for increased R&D related to solar liquid fuel of 40% of qualified research expenses within the state over a "base amount" (defined in the Internal Revenue Code). Between TY 2016 through TY 2026, a taxpayer may take a credit for production of solar liquid fuel equal to: 1) \$0.11 per 100,000 british thermal units (BTUs) of fuel produced in the state during the tax year for the production of solar liquid fuel in commercial quantities; and 2) 30% of the cost of converting or modifying an existing motor vehicle fuel service station for the retail sale of solar liquid fuel to customers. The latter portion of the credit is limited to \$20,000 per taxable year per service station. Taxpayers who use the R&D tax credit are prohibited from also taking a tax credit against the same R&D if it is associated with solar liquid fuel [A.R.S. § 43-1164.02]. For additional information on renewable energy incentives, see *Appendix A*.

## Corporate Income Tax

*Temporary Assistance for Needy Families Employment.* For net increases in employment, a credit for each newly created position of 25% of the taxable wages paid in the first year of employment, 33% in the second year of continuous employment, and 50% in the third year, not to exceed \$500, \$1,000, and \$1,500 respectively [A.R.S. § 43-1175].

*Water Conservation Systems.* The credit is for the installation of water conservation system plumbing stub-outs to encourage the reuse of “graywater,” or waste water. It provides a tax credit of up to \$200 per installation, with a 5-year carry-forward period, and caps the total amount of tax credit issued at \$500,000 per year. The credit will be available for 5 years, beginning in 2007 [A.R.S. § 43-1182].

### PAYMENT SCHEDULE

A corporation that anticipates an Arizona income tax liability over \$1,000 is required to pay estimated tax payments during the year. Generally, the estimated payments must equal the lesser of 90% of the tax liability for the current year, or 100% of the tax liability for the prior year. Large corporations (defined as having federal tax liability of \$1 million or more for any 1 of the preceding 3 years) are required to pay estimated payments of 90% of the current year tax liability. Estimated payments are required in 4 installments based on the Internal Revenue Code. A taxpayer that does not make required estimated payments, or underpays the required payment, is subject to a penalty [A.R.S. § 43-582].

The balance of the tax, after accounting for taxpayer's estimated payments, is due by April 15 following the close of the calendar year; or, the 15<sup>th</sup> day of the 4<sup>th</sup> month following the close of the fiscal year, if the taxpayer files a tax return on a fiscal year basis [A.R.S. § 43-501].

An extension may be granted if 90% of the tax liability is paid by the original due date and the extension request is received by the original due date. No extension may be granted beyond 6 months from the original due date [A.R.S. § 42-1107].

### IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006. The estimated initial dollar impact of these changes is summarized by fiscal year in *Table 5* below.

<b><u>Session/Chapter</u></b>	<b><u>Description</u></b>	<b><u>Revenue Impact</u></b>
<b><u>FY 2019</u></b>		
L 12, Ch 343	Extend Net Operating Loss Carry Forward	<u>\$(12,200,000)</u>
Subtotal FY 2019		<u>\$(12,200,000)</u>
<b><u>FY 2018</u></b>		
L 11, 2 <sup>nd</sup> SS, Ch 1	Phase Corporate Tax Rate to 4.9%	<u>\$(86,100,000)</u>
L 11, 2 <sup>nd</sup> SS, Ch 1	Phase-in 100% Sales Factor	<u>(16,200,000)</u>
L 12, Ch 343	Qualified Facility Tax Credit	<u>(4,000,000)</u>
Subtotal FY 2018		<u>\$(106,300,000)</u>
<b><u>FY 2017</u></b>		
L 11, 2 <sup>nd</sup> SS, Ch 1	Phase Corporate Tax Rate to 4.9%	<u>\$(67,500,000)</u>
L 11, 2 <sup>nd</sup> SS, Ch 1	Phase-in 100% Sales Factor	<u>(20,500,000)</u>
L 12, Ch 2	Service-Provider Corporate Sales Factor Phase-In	<u>(500,000)</u>
L 12, Ch 343	Qualified Facility Tax Credit	<u>(4,000,000)</u>
Subtotal FY 2017		<u>\$(92,500,000)</u>

## Corporate Income Tax

<u>FY 2016</u>		
L 11, 2 <sup>nd</sup> SS, Ch 1	Phase Corporate Tax Rate to 4.9%	\$(62,200,000)
L 11, 2 <sup>nd</sup> SS, Ch 1	Phase-in 100% Sales Factor	(22,700,000)
L 12, Ch 2	Service-Provider Corporate Sales Factor Phase-In	(400,000)
L 12, Ch 343	Eliminate Employer Cap for Employment Credit	(1,800,000) <sup>1/</sup>
L 12, Ch 343	Qualified Facility Tax Credit	<u>(4,000,000)</u>
Subtotal FY 2016		\$(91,100,000)
<u>FY 2015</u>		
L 11, 2 <sup>nd</sup> SS, Ch 1	Phase Corporate Tax Rate to 4.9%	\$(53,800,000)
L 11, 2 <sup>nd</sup> SS, Ch 1	Phase-in 100% Sales Factor	(24,600,000)
L 11, 2 <sup>nd</sup> SS, Ch 1	New Employment Tax Credit	(17,900,000) <sup>3/</sup>
L 12, Ch 2	Service-Provider Corporate Sales Factor Phase-In	(500,000)
L 12, Ch 343	Eliminate Employer Cap for Employment Credit	(1,800,000) <sup>1/</sup>
L 12, Ch 343	Qualified Facility Tax Credit	<u>(4,000,000)</u>
Subtotal FY 2015		\$(102,600,000)
<u>FY 2014</u>		
L 11, 2 <sup>nd</sup> SS, Ch 1	New Employment Tax Credit	\$(16,400,000) <sup>3/</sup>
L 12, Ch 2	Service-Provider Corporate Sales Factor	(3,000,000)
L 12, Ch 343	Eliminate Employer Cap for Employment Credit	(1,800,000) <sup>1/</sup>
L 12, Ch 343	Qualified Facility Tax Credit	<u>(4,000,000)<sup>2/</sup></u>
Subtotal FY 2014		\$(25,200,000)
<u>FY 2013</u>		
L 11, Ch 287	Health Insurance Plan Credit	- - <sup>4/</sup>
L 11, 2 <sup>nd</sup> SS, Ch 1	Increase University-related R&D Credit	\$(4,000,000) <sup>5/</sup>
L 11, 2 <sup>nd</sup> SS, Ch 1	New Employment Tax Credit	(6,700,000) <sup>3/</sup>
L 10, Ch 312	Renewable Energy Production Credit	<u>(10,000,000)</u>
Subtotal FY 2013		\$(20,700,000)
<u>FY 2012</u>		
L 10, Ch 312	Renewable Energy Production Credit	\$(10,000,000) <sup>6/</sup>
L 11, Ch 4	Internal Revenue Code Conformity	6,100,000
L 11, 2 <sup>nd</sup> SS, Ch 1	New Employment Tax Credit	<u>(6,700,000)<sup>3/</sup></u>
Subtotal FY 2012		\$(10,600,000)
<u>FY 2011</u>		
L 10, Ch 176	Internal Revenue Code Conformity	Minimal
L 10, Ch 312	Refundable R&D Credit	- - <sup>7/</sup>
L 09, Ch 96	Renewable Energy Investment Credit	<u>(5,000,000)<sup>8/</sup></u>
Subtotal FY 2011		\$(5,000,000)
<u>FY 2010</u>		
L 09, Ch 2	Internal Revenue Code Conformity	\$(4,410,000)
L 09, 2 <sup>nd</sup> SS, Ch 1	Corporate Income Tax School Tuition Credit	<u>(5,000,000)</u>
Subtotal FY 2010		\$(9,410,000)
<u>FY 2009</u>		
L 08, Ch 94	Internal Revenue Code Conformity	\$(80,000)
<u>FY 2008</u>		
L 07, Ch 1	Internal Revenue Code Conformity	\$ (300,000)
L 07, Ch 317	Motion Picture Tax Incentives	(1,200,000)
L 07, Ch 357	Internal Revenue Code Conformity	(100,000)
L 06, Ch 325	Corporate Income Tax School Tuition Credit	<u>(2,000,000)</u>
Subtotal FY 2008		\$(3,600,000)

## Corporate Income Tax

<u>FY 2007</u>		
L 06, Ch 14/325	Corporate Income Tax School Tuition Credit	\$(10,000,000)
L 06, Ch 333	Solar Energy Devices – Commercial Applications	(500,000)
L 06, Ch 357	Internal Revenue Code Conformity	<u>(700,000)</u>
	Subtotal FY 2007	\$(11,200,000)
<hr/>		
<u>1/</u>	Impact is estimated at \$(1.8) million between corporate and individual income taxpayers, beginning in FY 2014. Impact grows by another \$(1.8) million each year through FY 2016. The impact of the credit is displayed in the Corporate Income Tax section of the Tax Handbook for display purposes.	
<u>2/</u>	Impact is estimated at \$(4.0) million between corporate and individual income taxpayers, beginning in FY 2014. Impact grows by another \$(4.0) million each year through FY 2018. The impact of the credit is displayed in the Corporate Income Tax section of the Tax Handbook for display purposes.	
<u>3/</u>	Impact is estimated at \$(6.7) million between corporate and individual income taxpayers, beginning in FY 2012. The impact grows to \$(47.7) million by FY 2015. The impact of the 3-year credit is displayed entirely in the Corporate Income Tax section for display purposes.	
<u>4/</u>	Impact is unknown.	
<u>5/</u>	Impact is \$(4.0) million annually between corporate and individual income taxpayers, beginning in FY 2013. The impact of the credit is displayed entirely in the Corporate Income Tax section for display purposes.	
<u>6/</u>	Credit usage is estimated at \$(10.0) million between corporate and individual income taxpayers in FY 2012 (the statutory cap is \$(20.0) million). The impact of the credit is displayed entirely in the Corporate Income Tax section for display purposes. The tax credit value is expected to grow to \$(20.0) million in FY 2013.	
<u>7/</u>	Credit is capped at \$(5.0) million annually between corporate and individual income taxpayers beginning in FY 2011. The impact of the credit is displayed in the Individual Income Tax section of the Tax Handbook for display purposes.	
<u>8/</u>	Credit usage is estimated at \$(5.0) million annually between corporate and individual income taxpayers beginning in FY 2011 (the statutory cap is \$(70.0) million). The impact of the credit is displayed entirely in the Corporate Income Tax section for display purposes.	

### 2012 TAX LAWS

**Laws 2012, Chapter 2** allows multi-state service-providing companies to reduce their Arizona corporate income tax liability through a change in the calculation of the sales factor. Currently, services sales are determined to be in-state if more of the costs of producing the services occur within Arizona than in any other state. If any other state has a higher share of production costs, all sales were considered out-of-state. Thus, for services, the sales factor would be either 100% of sales or 0%.

The law provides an option for corporations that sell more than 85% of their services to consumers outside of Arizona to use the location of the buyer in calculating the sales factor, which is how the sales factor for goods is calculated. This would mean that only sales to buyers in Arizona would be included in the calculation of taxable income.

The change in the calculation of the sales factor is phased in between TY 2014 and TY 2017. The General Fund revenue reduction is estimated to be \$(3.0) million in FY 2014, \$(3.5) million in FY 2015, \$(3.9) million in FY 2016, and \$(4.4) million in FY 2017.

**Laws 2012, Chapter 3** was the annual correction bill that made technical, conforming, and clarification changes to the Arizona Revised Statutes. (Contained various effective dates)

**Laws 2012, Chapter 170** conformed Arizona Revised Statutes to the provisions of Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1, which created the Arizona Commerce Authority. (Effective August 2, 2012)

**Laws 2012, Chapter 331** extended existing tax incentives under the Healthy Forest program from 2014 through 2024. Additionally, Chapter 331 also eased program qualification requirements and established new tax incentives for certified Healthy Forest Enterprises. Among the new incentives is an individual and corporate income tax credit for ecological restoration workforce training. The new credit is estimated to reduce General Fund revenues by \$(110,000) in FY 2013. The fiscal impact of other incentives included in the act is unknown. (Effective retroactively from January 1, 2012)

**Laws 2012, Chapter 343** reduces individual income taxes paid on long-term capital gains derived from assets purchased after 2011. The act includes several other income (both individual and corporate) and property tax reductions as well. The fiscal impact of Chapter 343 is phased in over several years, beginning in FY 2014. The *Individual Income Tax section* of the Tax Handbook (*2012 Tax Law Changes*) shows the fiscal impact by tax provision and year. The act's corporate income tax provisions are summarized below.

## Corporate Income Tax

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### Extension of Net Operating Loss Carry Forward

Chapter 343 increases the net operating loss (NOL) carry forward period for corporations operating in Arizona from 5 years to 20 years, beginning in TY 2012. The Department of Revenue estimates that the provision will reduce corporate income taxes by \$(5.6) million to \$(18.9) million annually, beginning in FY 2019. The revenue loss is assumed to be the mid-point of that range, or \$(12.2) million, beginning in FY 2019.

### Qualified Facility Income Tax Credit

Beginning in TY 2013, the act establishes a new individual and corporate income tax credit for businesses that expand or locate qualified facilities in the state. The credit is 10% of the lesser of: (1) the capital investment in the facility or (2) \$200,000 for each net new employee at the facility. To be eligible for the credit, a business is required to devote at least 80% of its property and payroll at the facility to manufacturing, research, or a national or regional headquarter. There are also certain minimum requirements with respect to wage and health insurance coverage for new employees at the facilities.

The credit is refundable but no single taxpayer can claim more than \$30 million in credits per calendar year. The credit must be taken in equal installments over 5 taxable years. The qualified facility credit program is subject to an aggregate annual cap of \$70 million, which it shares with the renewable energy program enacted in 2009. The qualified facility income tax credit is estimated to reduce income tax revenues by \$(4.0) million in FY 2014, \$(8.0) million in FY 2015, \$(12.0) million in FY 2016, \$(16.0) million in FY 2017, and \$(20.0) million in FY 2018.

### Elimination of the Individual Employer Cap for the \$3,000 New Job Tax Credit

Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 established a 3-year \$3,000 annual tax credit for each net new qualifying job added by an employer in the state. The act provided an aggregate credit cap of 10,000 net new jobs per year. However, no employer could claim more than 400 net new employees per year. Chapter 343 eliminates the individual company credit cap of 400 new employees, beginning in TY 2013. The General Fund revenue loss is estimated to be \$(1.8) million in FY 2014, \$(3.6) million in FY 2015, and \$(5.4) million in FY 2016.

## **2011 TAX LAWS**

**Laws 2011, Chapter 4** modified the definition of the Internal Revenue Code (IRC) for tax year 2011 to the federal IRC in effect on January 1, 2011. This includes changes adopted by Congress in the Temporary Extension Act of 2010; Hiring Incentives to Restore Employment Act; Patient Protection and Affordable Care Act; Healthcare and Education Reconciliation Act of 2010; Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010; The Dodd-Frank Wall Street Reform and Consumer Protection Act; Small Business Jobs Act of 2010; Claims Resolution Act of 2010; The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010; and The Regulated Investment Company Modernization Act of 2010. The conformity provisions of Chapter 4 were estimated to increase General Fund revenues from the corporate income tax by \$6.1 million in FY 2012.

**Laws 2011, Chapter 287** creates a Health Savings Account Tax Credit available from tax year 2012 to tax year 2014. The income tax credit is available to businesses that provide qualifying health insurance plans to each enrolled employee. The credit is equal to \$360 for every employee that enrolls in a health insurance plan offered by the business. To qualify, the business must offer High Deductible Health Insurance Plans with catastrophic coverage under a Health Savings Account. In order to receive the credit, businesses must have between 2 and 50 employees, must not have provided health insurance within 90 days of offering the plan, and must offer the plan to each employee for at least 1 year. Unused credits can be carried forward 3 years.

**Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1** phases down the corporate income tax rate from 6.968% to 4.9% over 4 years and increases the optional corporate sales factor from 80% to 100% over 4 years, both beginning in FY 2014. The bill also increases the R&D Tax Credit, and establishes a New Employment Tax Credit.

The phase-down of the corporate income tax rate, from 6.968% to 4.9% over 4 years beginning in FY 2014, is estimated to result in a revenue loss of \$(53.8) million in FY 2015 and grow to \$(269.6) million in FY 2018, when the rate reduction is fully implemented.

The phase-in of the optional 100% sales factor, beginning in 2014, is expected to reduce corporate income tax collections by \$(24.6) million in FY 2015 and \$(84.0) million in FY 2018, when the provision is fully implemented, including the cost of the phase-down of the corporate tax rate beginning in TY 2014, which was discussed in the paragraph above. Without the tax rate provision, the phase-in of the single sales factor would reduce revenues by \$(26.3) million in FY 2015 and grow to \$(119.5) million in FY 2018.

## Corporate Income Tax

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The New Employment Tax Credit provides a \$3,000 annual tax credit for each net new qualifying job added by an employer in the state. To qualify for the credit new employment positions must be full-time, pay at least the median wage, and offer health insurance paid by the employer (at least 65% of the premium). Credits can be claimed for 3 years. A business cannot claim the new credit unless it adds at least 25 net new jobs in a year in an urban area (5 in a rural area) and makes capital investment of at least \$5 million (\$1 million in a rural area). No employer can claim more than 400 jobs in the first year of credit use, 800 jobs in the second year, and 1,200 jobs in the third year. The bill provides a statewide aggregate credit cap of 10,000 jobs in FY 2013 (\$30 million) and grows by an additional 10,000 jobs in both FY 2014 (\$60 million) and FY 2015 (\$90 million). The cost of the bill is estimated to be \$(6.7) million in FY 2012, increasing to \$(47.7) million by FY 2015. The cap applies to credits claimed against insurance premium, individual income, and corporate income taxes. The credit cannot be claimed against employees that are also claimed under the Military Reuse Zone Tax Credit.

Furthermore, the bill increases the R&D Tax Credit by 10% for university-related investment beginning in FY 2013. The cost of the legislation was partially offset by the expiration of the Enterprise Zone Tax Credit, which sunsets at the end of FY 2011.

A summary of all the Chapter 1 fiscal impact provisions is displayed on the next page.

### 2010 TAX LAWS

**Laws 2010, Chapter 176** conforms Arizona Revised Statutes to the federal Internal Revenue Code in effect as of January 1, 2010 (as well as provisions enacted retroactively for previous tax years) with the exception for the following federal provisions:

- Suspension of Tax on Unemployment Compensation – excludes up to \$2,400 of unemployment compensation from federal gross income in tax year 2009.
- New Car Deduction – provides an income tax deduction for sales taxes paid in 2009 on the purchase of a new vehicle.
- Net Operating Loss Carryback for Small Business – provides a 5-year carryback of 2008 net operating losses for businesses with \$15 million or less in gross receipts.
- Net Operating Loss Carryback for All Businesses – provides a 5-year carryback of 2008 or 2009 net operating losses for all businesses.
- Delay of Tax on Cancellation of Debt Income – allows businesses with cancellation of debt income in 2009 and 2010 to defer payment of tax for 5 years.
- 2010 Contributions Related to Haiti Earthquake – allows cash contributions made in the first 2 months of calendar year 2010 for the relief of Haiti earthquake victims to be treated as if they were made in 2009 for income tax purposes.

According to estimates provided by DOR, full conformity would have resulted in a General Fund revenue loss of \$(138.5) million in FY 2010 and \$(30.3) million in FY 2011. With these exclusions, the bill's estimated impact is expected to be minimal.

**Laws 2010, Chapter 289** establishes a new individual and corporate income tax credit for R&D, production, and delivery system costs associated with solar liquid fuel for TY 2011 through TY 2026. Between TY 2011 and TY 2021, a taxpayer may take a credit for increased R&D related to solar liquid fuel of 40% of qualified research expenses within the state over a "base amount" (defined in the Internal Revenue Code). Between TY 2016 through TY 2026, a taxpayer may take a credit for production of solar liquid fuel equal to: 1) \$0.11 per 100,000 british thermal units (BTUs) of fuel produced in the state during the tax year for the production of solar liquid fuel in commercial quantities; and 2) 30% of the cost of converting or modifying an existing motor vehicle fuel service station for the retail sale of solar liquid fuel to customers. The latter portion of the credit is limited to \$20,000 per taxable year per service station. Taxpayers who use the R&D tax credit are prohibited from also taking a tax credit against the same R&D if it is associated with solar liquid fuel.

**Laws 2010, Chapter 292** reorganizes current statutory provisions and adds additional provisions for regulating school tuition organizations (STOs) that receive corporate donations.

Table 6

**General Fund Impact of Tax Provisions in Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 (“Jobs Bill”) 1/2/**  
**(\$ in Millions)**

Description of Provision	Tax	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18
Phases down Class 1 (commercial) property assessment ratio from 20% to 18% over 4 years, beginning in TY 2013	Property <u>3/</u>			(3.4)	(7.2)	(11.6)	(16.5)	(17.4)
Reduces Class 2 (agricultural) property assessment ratio from 16% to 15% in TY 2016	Property <u>3/</u>						(2.4)	(2.7)
Reduce Homeowner Rebate costs by limiting to primary residence & requiring affidavits	Property <u>3/</u>		39.0	39.0	39.0	39.0	39.0	39.0
Increases Homeowner Rebate % to offset Class 3 tax shift due to Class 1 & 2 assessment ratio reductions, beginning in FY 2014	Property <u>3/</u>			(15.6)	(34.1)	(55.7)	(93.0)	(100.5)
Reimburses County Assessor' Costs for Implementation of Homeowner Rebate changes, beginning in FY 2013	Other <u>4/</u>		(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Changes personal property exemption inflation factor to cost employment index	Property <u>3/</u>		-	-	-	-	-	-
Increases depreciation of business personal property, beginning in TY 2012	Property <u>3/</u>	-	(4.8)	(4.8)	(4.8)	(4.8)	(4.8)	(4.8)
Increases small businesses eligibility for 30% "Angel" investment credit from \$2m to \$10m in assets	Individual Income	(4.0)	(4.0)	(4.0)	(4.5)	-	-	-
Eliminates capital gains on income derived from small businesses, beginning in TY 2014	Individual Income	-	-	-	(11.6)	(12.3)	(12.9)	(13.6)
Phases down corporate tax rate from 6.968% to 4.9% over 4 years, beginning in TY 2014	Corporate Income	-	-	-	(53.8)	(116.0)	(183.5)	(269.6)
Phases in corporate sales factor from 80% to 100% over 4 years, beginning in TY 2014	Corporate Income	-	-	-	(24.6)	(47.3)	(67.8)	(84.0)
Increases university-related R&D credit by 10%, beginning in TY 2012	Corporate & Individual Income	-	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
Creates annual \$3,000 3-year new job credit with conditions	Corporate / Individual Income & Insurance Premium	(6.7)	(13.4)	(29.8)	(47.7)	(52.7)	(53.7)	(50.9)
Eliminates Enterprise Zone Program	Corporate / Individual Income & Property	4.0	4.0	4.0	4.0	4.0	4.0	4.0
<b>SUBTOTAL</b>		<b>(\$6.7)</b>	<b>\$14.8</b>	<b>(\$20.6)</b>	<b>(\$151.3)</b>	<b>(\$263.4)</b>	<b>(\$397.6)</b>	<b>(\$506.5)</b>
Diverts withholding tax to Arizona Commerce Authority, beginning in FY 2012	Individual Income <u>5/6/</u>	(31.5)	(31.5)	(31.5)	(31.5)	(31.5)	(31.5)	(31.5)
<b>Total General Fund Impact</b>		<b>(\$38.2)</b>	<b>(\$16.7)</b>	<b>(\$52.1)</b>	<b>(\$182.8)</b>	<b>(\$294.9)</b>	<b>(\$429.1)</b>	<b>(\$538.0)</b>

Notes:

1/ Cost to General Fund appears as a negative and savings appears as a positive.

2/ Property tax changes are estimated after truth-in-taxation adjustments.

3/ Impact will be displayed as a change in state expenditures due to change in funding requirements for K-12 Basic State Aid and Additional State Aid.

4/ This is a non-tax provision that requires the Legislature to reimburse counties for their costs of administering the new Homeowner's Rebate affidavit process.

5/ Plus \$3.5 million of lottery proceeds previously designated for Department of Commerce.

6/ Displayed as expenditure in Appropriations Report Tables.

**Laws 2010, Chapter 294** extends the expiration of the tax credit that applies to solar energy devices used for commercial and industrial purposes from December 31, 2012 to December 31, 2018.

**Laws 2010, Chapter 303** amends the individual and corporate income tax credit for renewable energy investment by capping the amount of the credit to the post-approval amount determined by the ADOC and requires that the ADOC must also give pre-approval and post-approval to all credits. The act also eliminates the distribution of the credit on a first-come, first-serve basis and limits the total of the credits allowed to all owners of a business to an amount that would have been allowed for a sole owner of the business. Finally, the act allows any excess refund to be treated as a tax deficiency and allows recapture of the tax refund if it is determined that the taxpayer has committed fraud or relocated outside the state within 5 years of first receiving the credit.

**Laws 2010, Chapter 312** changes the individual and corporate income tax credit for Research and Development (R&D) from being nonrefundable to refundable for those companies that employ less than 150 full-time employees. Specifically, the act provides that such taxpayers receive a refund equal to 75% of the amount by which the credit exceeds their liability. The credit has an annual cap of \$5 million cumulatively for the individual and corporate income tax and is effective retroactively from January 1, 2010. If in any year less than \$5 million of credits are filed collectively by all taxpayers, any unused amount rolls over to the next year. The refundable credit is expected to reduce General Fund revenues generated by the individual and corporate income tax by \$(5.0) million in FY 2011. The cumulative \$(5.0) million reduction is shown as an individual income tax reduction as opposed to a corporate income tax reduction for display purposes. In addition to the modified R&D credit that is effective retroactively from tax year 2010, Chapter 312 also establishes a new renewable energy production tax credit that will become effective in tax year 2012. The new credit allows a qualified producer of renewable energy to receive an individual and corporate income tax credit of up to \$2 million per year on the electricity they produce for up to 10 years, beginning January 1, 2011. The renewable energy credit has an annual cap of \$20 million for total individual and corporate income tax credits. The credit is expected to reduce General Fund revenues generated by the individual and corporate income tax by \$(20.0) million in FY 2012. The cumulative \$(20.0) million reduction is shown as a corporate income tax reduction as opposed to an individual income tax reduction for display purposes.

## **2009 TAX LAWS**

**Laws 2009, 2<sup>nd</sup> Special Session, Chapter 1** provides a credit, up to the full amount of the donation, for contributions made to a STO that provides education scholarships to disabled children or children in foster care. Previously, contributions made to a STO were only for education scholarships and tuition grants to children of low-income families. If the taxpayer is an insurer, the credit may be applied against their insurance premium tax liability. The full amount of tax credit approved by DOR is capped at \$5 million per year. A taxpayer may carry forward the unused portion of the tax credit for 5 years. A taxpayer shall not claim a tax credit under both A.R.S. § 43-1183 and A.R.S. § 43-1184 for the same contribution.

**Laws 2009, 1<sup>st</sup> Special Session, Chapter 3** established a state and county tax amnesty program, which ran from May 1, 2009 through June 1, 2009. The program allowed DOR to abate or waive all or part of penalties and to impose reduced interest payments for tax liabilities for all qualifying taxpayers. To qualify for the program, a taxpayer must have filed a return and paid any balance due by June 1, 2009. The one-month amnesty program generated a total of \$31.8 million, including \$16.7 million in corporate income taxes, \$2.1 million in individual income taxes, and \$13.0 million in sales tax revenue. After accounting for sales taxes collected on the behalf of counties, and revenue sharing to cities and counties, a total of \$27.3 million was deposited into the state's General Fund. The one-time revenue impact of the tax amnesty program has not been included in the tax law changes table at the beginning of this section.

**Laws 2009, Chapter 2** modifies the definition of the Internal Revenue Code (IRC) for tax year 2009 to the federal IRC in effect on January 1, 2009. This includes changes adopted by Congress in the Economic and Stimulus Act of 2008, the Heartland, Habitat, Harvest and Horticulture Act of 2008, the Heroes Earnings Assistance and Relief Tax Act of 2008, the Housing Assistance Tax Act of 2008, the Emergency Economic Stabilization Act of 2008, the Fostering Connections to Success and Increasing Adoptions Act of 2008, and the Worker Retiree, and Employer Recovery Act of 2008. The conformity provisions of Chapter 2 were estimated to reduce corporate income tax collections by \$(4.41) million in FY 2010, \$(100,000) in FY 2011, and \$(1.42) million in FY 2012.

## Corporate Income Tax

**Laws 2009, Chapter 96** provides income and property tax incentives for qualifying renewable energy companies that build headquarter or manufacturing facilities in the state from tax year 2010 to 2014. An income tax credit is allowed for up to 10% of the capital investment, with an aggregate ceiling, including individual and corporate income tax credits, of \$70 million annually. The credit is refundable and must be received in 5 equal portions over a period of 5 consecutive tax years. Qualifying properties will also receive a class 6 property designation, which reduces the assessment ratio to 5% instead of the class 1 assessment ratio of 22% (declining to 20% over the next 2 years). The class 6 property designation remains in effect for 10 or 15 years, depending on the level of wages paid to employees of the facility in relation to the median wage of the state. The credit is expected to reduce General Fund revenues generated by the individual and corporate income tax by \$(5.0) million in FY 2011. The cumulative \$(5.0) million reduction is shown as a corporate income tax reduction for display purposes.

**Laws 2009, Chapter 168** allows insurers to take a tax credit against their insurance premium tax liability for donations to Student Tuition Organizations (STO). Previously, the credit was only allowed for corporate income taxes. Also, the law eliminates the sunset date of June 30, 2011 for the credit. The credit was capped at \$10 million in FY 2007, increasing by 20% in each successive year. There is no fiscal impact as a result of this law as the inclusion of insurance premium tax liability did not alter the cap for the credit.

STO contributions are used to fund scholarships or grants for students of low-income families. The students must have transferred from a public school in the previous year to a qualified private school, enrolled in a private school kindergarten program or received a grant scholarship from the STO program in the previous year.

### 2008 TAX LAWS

**Laws 2008, Chapter 94** modified the definition of the Internal Revenue Code (IRC) for tax year 2008 to the federal IRC in effect on January 1, 2008. This includes changes adopted by Congress in the Small Business and Work Opportunity Tax Act of 2007, the Energy Independence and Security Act of 2007, Prevent Taxation of Payment to Virginia Tech Victims and Families of 2007, Mortgage Forgiveness Debt Relief Act of 2007 and the Tax Technical Corrections Act of 2007. The conformity provisions of Chapter 94 were estimated to reduce individual income tax collections by \$(80,000) in FY 2009, \$(170,000) in FY 2010, and \$(160,000) in FY 2011.

**Laws 2008, Chapter 290** contained several budget reconciliation provisions related to revenues that were necessary to implement the FY 2009 budget. One of the provisions established a minimum distribution amount for all cities and towns that equals at least the amount a city or town with a population of 1,500 or more persons would receive from the Urban Revenue Sharing Fund. Another provision contained in the measure increase the amounts of the corporate and individual income R&D tax credits that are allowed to be claimed. The R&D credit is calculated based on the amount of qualified research expenses that exceeds a base amount (which is defined in the Internal Revenue Code). The changes to the R&D credit contained in Chapter 290 are summarized in the table below.

<b>Tax Year</b>	<b>If Qualified Research Expenses exceed Base Amount by \$2.5 million or less, R&amp;D Credit =</b>	<b>If Qualified Expenses exceed Base Amount by more than \$2.5 million, R&amp;D Credit =</b>
2009 (current law)	20% of excess amount	\$500,000 + 11% of excess amount over and above \$2.5 million
2010	22% of excess amount	\$550,000 + 13% of excess amount over and above \$2.5 million
2011 – 2017	24% of excess amount	\$600,000 + 15% of excess amount over and above \$2.5 million
2018 – and beyond	20% of excess amount	\$500,000 + 11% of excess amount over and above \$2.5 million

As noted in the table above, the changes to the R&D credit under Chapter 290 will occur in 3 stages. The first increase of the credit is implemented in tax year 2010, followed by a second increase in tax years 2011 to 2017. Beginning in tax year 2018, the credit will revert to the amounts allowed under current law. The act is estimated to reduce corporate and individual income taxes by a total of \$(5.7) million in FY 2011 and \$(11.2) million in FY 2012.

## Corporate Income Tax

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### 2007 TAX LAWS

**Laws 2007, Chapter 1** contained an emergency measure that establishes a standard procedure regarding income tax filing and payment deadlines. Specifically, the measure stipulates that when the original deadline for filing and paying income tax falls on a Saturday, Sunday, or legal holiday, the deadline is automatically moved to the next business day.

The filing and payment deadline for both federal and state income tax is April 15. At the federal level, if the deadline falls on a Saturday, Sunday or legal holiday, the due date is extended to the next business day. "Legal holiday" under the Internal Revenue Code (IRC) means a legal holiday as observed in the District of Columbia. The April 15 filing deadline for 2007 fell on a Sunday and the next business day was Monday, April 16. However, since the District of Columbia observed the Emancipation Day (legal holiday) on April 16, the federal deadline for 2007 was moved to Tuesday, April 17. Under Chapter 1, Arizona's filing and payment due date for 2007 was also extended to April 17.

Chapter 1 conforms the Arizona statutory definition of the Internal Revenue Code (IRC): (1) for tax year 2007 to the United States IRC in effect as of January 1, 2007, and (2) for tax year 2006 to all IRC provisions passed with retroactive federal effective dates between December 31, 2005 and December 31, 2006. This includes changes adopted by Congress in the Tax Increase Prevention and Reconciliation Act of 2005, the Pension Protection Act of 2006, and the Tax Relief and Health Care Act of 2006. The conformity provisions of Chapter 1 are estimated to reduce corporate income tax collections by \$(300,000) FY 2008, and to increase corporate income tax collections by \$60,000 in FY 2009, resulting in an incremental increase for FY 2009 above FY 2008 of \$360,000. (Effective April 4, 2007)

**Laws 2007, Chapter 180** broadened the solar energy income tax credit by permitting it to be transferred to third party organizations that have installed or manufactured a solar energy device. Previously, the tax credit was available only to taxpayers installing solar energy devices or to entities that financed the purchase of a qualifying device. (Effective retroactively from January 1, 2006)

**Laws 2007, Chapter 225** made several changes to the Motion Picture Production Tax Incentive Program established by Laws 2005, Chapter 317. The maximum credit allowed each year by the original legislation remains unchanged. Beginning with the 2008 income tax credit allocation, 5% must be set aside for commercial advertisements and music video productions. A company that is certified to receive income tax credits for commercials and music videos must spend a minimum of \$250,000 in production costs within 12 months. Motion picture production companies must spend at least \$250,000 on each qualifying motion picture production in order to be eligible for the income tax credits. Previously, a company could become eligible by incurring \$250,000 in costs for one or more motion picture productions. Motion picture productions with qualified expenses of \$250,000 to \$1 million in a 12-month period now may receive a tax credit equal to 20% of production costs (increased from 10%); production expenses from \$1 million to \$3 million may be credited for 30% of production costs (increased from 15%), while productions spending more than \$3 million in the state also may claim a credit equal to 30% of production costs (increased from 20%). The maximum credit for any single motion picture production, previously capped at \$5 million, is increased to \$7 million in 2008, \$8 million in 2009, and \$9 million in 2010. Beginning October 31, 2007 through December 31, 2010, ADOC is required to certify motion picture infrastructure projects, including soundstages and support and augmentation facilities, for income tax credits. The maximum credit amount is 15% of the total base investment. Tax credits for soundstage investments are capped at \$5 million per year in 2008, 2009 and 2010. Tax credits for associated support and augmentation facilities are capped at \$7 million in 2009 (if at least one soundstage project was certified in 2008) and \$9 million in 2010 (if one or more soundstage projects were certified in 2008 or 2009). (Various effective dates)

### 2006 TAX LAWS

**Laws 2006, Chapter 14** established a corporate income tax credit for contributions made to a school tuition organization that provides education scholarships and tuition grants to children of low-income families. Chapter 14 established a cap on this credit of \$5 million per year. A taxpayer may carry forward the unused portion of the tax credit for 5 years.

**Laws 2006, Chapter 325** increased the School Tuition Tax Credit cap to \$10 million per year, and provides that the cap will increase by 20% annually beginning in FY 2008. (Effective September 21, 2006)

## Corporate Income Tax

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**Laws 2006, Chapter 222** modified the certification of motion picture production costs and the qualification for motion picture production tax incentives that were enacted in Laws 2005, Chapter 317. In addition to making several technical changes to the legislation passed in 2005, Chapter 222 authorized the ADOC to begin accepting tax credit applications beginning October 31 for the following year if the ADOC has pre-approved the maximum calendar year credit for the current year. (Effective retroactively from January 1, 2006)

**Laws 2006, Chapter 333** required the ADOA to establish a solar energy income tax credit program, establishes solar energy tax credits for commercial and industrial projects, removes the \$5,000 tax exemption limitation for retail and prime contracting classifications under the transaction privilege tax (TPT), and prohibits solar energy systems from being added to property value. The income tax credit portion of this credit is capped at \$1.0 million per calendar year, which is expected to reduce corporate and individual income tax revenue by approximately \$(500,000) each in FY 2007. The elimination of the sales tax cap is expected to result in an additional \$(0.5) million revenue loss. The total estimated impact of provisions of this legislation for FY 2007 is \$(1.5) million. (Effective retroactively from January 1, 2006)

**Laws 2006, Chapter 357** conformed the Arizona statutory definition of the Internal Revenue Code (IRC) for tax year 2006 to the United States IRC in effect as of January 1, 2006, excluding those provisions where Arizona did not previously conform to federal tax law changes (bonus depreciation and business expensing).

The federal government enacted 3 tax bills during 2005: the Energy Tax Incentives Act; the Katrina Emergency Tax Relief Act; and the Gulf Opportunity Zone Act. The conformity bill is estimated to reduce FY 2007 individual and corporate income tax revenues by \$(700,000) each, for a total of \$(1.4) million. (Effective September 21, 2006)

**Laws 2006, Chapter 387** extended the Enterprise Zone Program until June 30, 2011, and modifies some of its qualification requirements. The fiscal impact of this bill is unknown. (Effective retroactively from July 1, 2006)

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

**ARIZONA CORPORATE INCOME TAX CREDITS CLAIMED BY TAX YEAR**

		2010	2009	2008	2007	2006	2005	2004	2003	2002
Agricultural Pollution Control Equipment	# of claims credit available credit used carry forward	0 \$0 \$0 \$0	0 \$0 \$0 \$0	0 \$0 \$0 \$0	0 \$0 \$0 \$0	Data Not Releasable	0 \$0 \$0 \$0	Data Not Releasable	Data Not Releasable	Data Not Releasable
Agricultural Preservation District	# of claims credit available credit used						0 \$0 \$0	0 \$0 \$0	0 \$0 \$0	0 \$0 \$0
<b>REFUNDABLE</b>	credit refunded						\$0	\$0	\$0	\$0
Agricultural Water Conservation	# of claims credit available credit used carry forward						0 \$0 \$0 \$0	Data Not Releasable	Data Not Releasable	Data Not Releasable
Alternative Fuel Delivery System	# of claims credit available credit used carry forward							Data Not Releasable	Data Not Releasable	3 \$457,906 \$1,039 \$456,867
<b>NONREFUNDABLE</b>										
Alternative Fuel Vehicles	# of claims credit available credit used carry forward							3 \$659,570 \$2,837 \$0	5 \$645,555 \$1,726 \$643,829	7 \$678,479 \$32,924 \$645,555
<b>NONREFUNDABLE</b>										
Clean Elections	# of claims credit available credit used carry forward	228 \$1,856 \$1,856	228 \$1,241 \$1,241	329 \$22,558 \$22,558	227 \$2,615 \$2,615	122 \$684 \$684	102 \$2,019 \$2,019	93 \$597 \$597	111 \$1,778 \$1,773	102 \$646 \$646
Commerical & Industrial Solar Energy Credit	# of claims credit available credit used carry forward	10 \$169,824 \$104,528 \$65,296	8 \$152,692 \$87,118 \$65,574	7 \$85,550 \$74,899 \$10,651	Data Not Releasable	Data Not Releasable				
Consolidated Filer	# of claims credit available credit used credit refunded carry forward					52 \$31,647,046 \$0 \$31,647,046 \$0	28 \$36,327,939 \$4,680,893 \$0 \$31,647,046	32 \$38,635,451 \$2,307,512 \$0 \$36,327,939	34 \$40,959,575 \$2,299,299 \$0 \$38,660,276	32 \$43,168,347 \$2,208,772 \$0 \$40,959,575
<b>REFUNDABLE</b>										
Construction Materials	# of claims credit available credit used carry forward							Data Not Releasable	Data Not Releasable	3 \$426,692 \$100 \$426,592
Contributions to School Tuition Organizations	# of claims credit available credit used carry forward	57 \$9,493,522 \$6,929,494 \$2,564,028	69 \$10,776,757 \$8,873,043 \$1,903,714	71 \$9,180,214 \$6,147,240 \$3,032,974	62 \$11,625,278 \$10,823,475 \$801,803	57 \$10,625,940 \$10,369,546 \$256,394	5 \$530,000 \$526,260 \$3,740			
Contributions to School Tuition Organizations for Disabled/ Displaced Students	# of claims credit available credit used carry forward	Data Not Releasable	Data Not Releasable							

**ARIZONA CORPORATE INCOME TAX CREDITS CLAIMED BY TAX YEAR**

		2010	2009	2008	2007	2006	2005	2004	2003	2002
Defense Contracting	# of claims	0								
	credit available	\$0	Data Not							
	credit used	\$0	Releasable							
	carry forward	\$0								
Donation of Motor Vehicles To Work Program	# of claims									0
	credit available									\$0
	credit used									\$0
	carry forward									\$0
Employing National Guard Members	# of claims	6	6	5		3				
	credit available	\$15,900	\$14,900	\$9,000	Data Not	\$5,000				
	credit used	\$15,900	\$7,000	\$3,100	Releasable	\$5,000				
	carry forward	\$0	\$7,900	\$5,900		\$0				
Employment of TANF Recipients	# of claims	6	12	9	12	10	13	14	9	8
	credit available	\$90,533	\$132,312	\$60,870	\$53,978	\$54,562	\$124,397	\$491,175	\$472,478	\$184,997
	credit used	\$31,289	\$43,178	\$29,006	\$45,064	\$40,804	\$99,575	\$485,190	\$466,392	\$173,600
	carry forward	\$59,244	\$89,134	\$31,864	\$8,914	\$13,758	\$24,822	\$5,985	\$6,086	\$11,397
Enterprise Zone	# of claims		94	105	103	104	120	119	125	131
	credit available	Data Not	\$12,686,989	\$11,850,204	\$10,277,023	\$11,349,158	\$11,682,526	\$12,647,800	\$14,461,392	\$15,373,144
	credit used	Available	\$6,144,599	\$7,089,948	\$6,910,484	\$9,114,221	\$7,887,054	\$7,647,392	\$6,685,976	\$6,509,295
	carry forward		\$6,430,349	\$4,666,379	\$3,245,015	\$2,232,712	\$3,302,819	\$4,345,843	\$7,719,484	\$8,652,741
Environmental Technology Facility	# of claims			3						
	credit available	Data Not	Data Not	\$38,719,232	Data Not					
	credit used	Releasable	Releasable	Data Not	Releasable	Releasable	Releasable	Releasable	Releasable	Releasable
	carry forward			Releasable						
Healthy Forest Enterprises	# of claims	0				0	0			
	credit available	\$0	Data Not	Data Not	Data Not	\$0	\$0			
	credit used	\$0	Releasable	Releasable	Releasable	\$0	\$0			
	carry forward	\$0				\$0	\$0			
Military Reuse Zone	# of claims									3
	credit available	Data Not	Data Not	Data Not	Data Not	Data Not	Data Not	Data Not	Data Not	\$90,389
	credit used	Releasable	Releasable	Releasable	Releasable	Releasable	Releasable	Releasable	Releasable	\$41,050
	carry forward									\$49,339
Motion Picture Production and Infrastructure	# of claims	9	5	11	7					
	credit available	\$8,430,673	\$1,811,033	\$7,551,568	\$6,802,746	Data Not				
	credit used	\$7,499,298	\$1,343,532	\$7,377,180	\$1,189,442	Releasable				
	carry forward	\$931,375	\$467,501	\$174,388	\$5,613,304					
Neighborhood Electric Vehicles	# of claims						4	10	13	17
	credit available					Data Not	\$680,915	\$791,263	\$820,049	\$903,497
	credit used					Releasable	\$3,041	\$11,380	\$29,085	\$60,175
	carry forward						\$677,874	\$779,883	\$790,964	\$843,322

**ARIZONA CORPORATE INCOME TAX CREDITS CLAIMED BY TAX YEAR**

		2010	2009	2008	2007	2006	2005	2004	2003	2002
Pollution Control Device	# of claims	15	15	17	15	20	24	24	30	31
	credit available	\$5,706,043	\$5,809,439	\$4,998,385	\$4,285,128	\$5,746,154	\$8,470,200	\$7,373,129	\$8,642,942	\$8,239,252
	credit used	\$2,510,980	\$1,715,381	\$1,418,256	\$2,295,135	\$1,997,280	\$2,119,047	\$1,206,299	\$2,464,946	\$2,460,289
	carry forward	\$2,673,160	\$3,681,020	\$3,570,094	\$1,893,073	\$3,592,073	\$5,718,685	\$5,841,857	\$5,824,164	\$5,776,562
Recycling Equipment	# of claims								4	4
	credit available						Data Not Releasable	Data Not Releasable	\$192,332	\$197,477
	credit used								\$3,426	\$5,145
	carry forward								\$188,906	\$192,332
Renewable Energy Industry - Investment and Employment	# of claims	0								
	credit available	\$0								
	credit used	\$0								
	carry forward	\$0								
Research & Development	# of claims	215	238	242	241	238	220	216	190	169
	credit available	\$355,236,276	\$381,006,615	\$374,948,817	\$286,392,768	\$274,019,477	\$217,244,106	\$133,143,853	\$94,773,457	\$53,869,538
	credit used	\$52,554,681	\$33,467,538	\$49,556,734	\$57,488,106	\$54,523,686	\$48,771,967	\$36,956,148	\$32,266,955	\$12,499,682
	CREDIT REFUNDED	\$3,762,735	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	ltd carry forward	\$265,764,436	\$328,329,339	\$495,678,926	\$502,503,092	\$513,658,763	\$529,463,347	\$538,986,014	\$941,904,054	\$530,287,282
	carry forward	\$231,835,755	\$295,190,087	\$321,933,617	\$274,004,214	\$224,360,113	\$164,644,006	\$103,587,881	\$45,518,160	
School Site Donation	# of claims				0	6	5	3		
	credit available	Data Not Releasable	Data Not Releasable	Data Not Releasable	\$0	\$2,756,579	\$1,273,681	\$616,473	Data Not Releasable	Data Not Releasable
	credit used				\$0	\$2,755,447	\$1,272,504	\$616,473		
	carry forward				\$0	\$1,132	\$1,177	\$0		
Solar Hot Water Plumbing Stub Outs & Electric Vehicle Recharge	# of claims	0	0	0	0	0	0	0	0	0
	credit available	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	credit used	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	carry forward	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Taxes Paid for Coal Consumed In Generating Electrical Power	# of claims	4	4		4	3	3	3	3	3
	credit available	\$7,302,889	\$6,296,204	Data Not Releasable	\$3,947,803	\$3,245,536	\$3,051,885	\$3,038,101	\$3,145,343	\$3,064,674
	credit used	\$2,182,237	\$658,252		\$1,057,873	\$929,098	\$843,909	\$908,990	\$1,229,020	\$1,504,851
	carry forward	\$4,777,067	\$5,281,480		\$2,529,562	\$1,956,070	\$1,870,939	\$1,799,254	\$1,744,443	\$1,559,823
Technology Training	# of claims									4
	credit available						\$46,356	\$39,963	\$33,426	\$41,083
	credit used						\$46,356	\$36,268	\$33,006	\$30,000
<b>REFUNDABLE</b>	credit refunded						\$0	\$3,695	\$420	\$11,083
Underground Storage Tanks	# of claims								0	
	credit available							\$0	\$0	Data Not Releasable
	credit used							\$0	\$0	
	carry forward									
Vehicle Refueling Apparatus & Infrastructure	# of claims									
	credit available							Data Not Releasable	Data Not Releasable	Data Not Releasable
	credit used									
<b>NONREFUNDABLE</b>	carry forward									

**ARIZONA CORPORATE INCOME TAX CREDITS CLAIMED BY TAX YEAR**

		2010	2009	2008	2007	2006	2005	2004	2003	2002
Water	# of claims	0	0	0						
Conservation	credit available	\$0	\$0	\$0	Data Not					
Plumbing Stub	credit used	\$0	\$0	\$0	Releasable					
Outs	carry forward	\$0	\$0	\$0						
<b>TOTAL</b>	# of claims	557	689	812	681	625	533	534	544	535
	credit available	\$393,133,373	\$438,825,046	\$454,007,175	\$352,045,810	\$372,857,627	\$319,905,624	\$264,458,222	\$233,980,450	\$203,735,662
	credit used	\$72,725,691	\$54,484,520	\$83,485,241	\$93,071,398	\$88,031,166	\$66,261,620	\$50,650,393	\$46,247,386	\$29,744,745
	credit refunded	\$3,762,735	\$0	\$0	\$0	\$31,647,046	\$0	\$3,695	\$420	\$11,083
	carry forward	\$248,665,454	\$331,035,385	\$366,234,256	\$303,167,513	\$256,714,198	\$239,732,365	\$210,419,214	\$166,385,821	\$655,815,573
	ltd carry forward	\$265,764,436	\$328,329,339	\$495,678,926	\$502,503,092	\$513,658,763	\$526,463,347	\$538,986,014	\$541,904,054	\$0

Notes:

1. Shaded areas indicate that the credit was not in effect during the tax year.
2. "Data Not Available" indicates that the credit data was not available at the time of publication.
3. "Data Not Releasable" indicates that the credit information cannot be released due to confidentiality restrictions.
4. "Total" includes credits for which information was "not releasable" individually.
5. DATA IN *ITALICS* ARE PRELIMINARY.
6. "ltd carry forward" refers to pre-2003 research & development carry forward, for which use is restricted.

# **APPENDIX A**

# Appendix A

## RENEWABLE ENERGY TAX INCENTIVES

### DESCRIPTION

The state has numerous Individual and Corporate Income tax credits as well as Transaction Privilege Tax credits for renewable energy production, manufacturing, and installation. The state also allows for property tax incentives and sales or use tax exemptions for the purchase of certain renewable energy equipment.

### INDIVIDUAL AND CORPORATE TAX CREDITS

A tax credit is a dollar-for-dollar reduction of a taxpayer's income tax liability. A credit is different from a subtraction, exemption, or deduction, which reduces the amount of income that will be taxed.

A tax credit is either refundable or non-refundable. Unlike refundable credits, non-refundable credits can never exceed a taxpayer's tax liability. However, many of the non-refundable tax credits allow the unused amounts to be carried forward to future years.

Current statutes include the following tax credits which are sorted by whether they relate to the investment in, or production of, renewable energy, or whether they pertain to the installation of a renewable energy device:

#### **Investment and Production:**

*Renewable Energy Investment.* An individual and corporate credit is allowed on new renewable energy capital investments in manufacturing or company headquarters, for up to 10% of the taxpayer's total capital investment. The credit is refundable, with the combined total of individual and corporate income tax credits capped at \$70.0 million annually. Recipients must receive their credit in 5 equal portions over 5 consecutive tax years. While the annual cap is set at \$70 million (cap shared with the Qualified Facility Income Tax Credit), the projected FY 2011 impact was estimated to be \$5 million. Actual FY 2011 credit usage data is not yet available.

To be eligible to receive the credit, a company must create new jobs and make new capital investment as follows:

- Renewable energy manufacturing operations must create at least 1.5 full-time employment positions for each \$500,000 increment of capital investment.
- Renewable energy headquarter operations must create at least 1 full-time employment position for each \$200,000 increment of capital investment.

The credit is dependent upon the taxpayer paying 51% of new full-time employees at a rate exceeding 125% of the median annual wage in the state and paying 80% or more of the premium for all full-time employees' health insurance. The taxpayer must also stay in operation within the state for 5 years after receiving post-approval for the credit or face recapture of any credits received. The tax credit is available for tax years 2010 to 2019 [Laws 2012, Chapter 343; Laws 2010, Chapter 303; Laws 2009, Chapter 96; A.R.S. § 43-1083.01].

*Renewable Energy Production.* An individual and corporate credit is allowed on the production of electricity using renewable energy. To be eligible for the credit, a taxpayer must hold title to a qualified energy generator that first produces electricity between January 1, 2011 and December 31, 2020. The new credit allows a qualified producer of renewable energy to receive a tax credit of up to \$2 million per year on the electricity they produce for up to 10 years, beginning January 1, 2011. The renewable energy credit has an annual cap of \$20 million for total individual and corporate income tax credits. Credit use is estimated to be \$10 million in FY 2012 and grow to \$20 million in FY 2013. A 5-year carry forward of the credit is allowed [Laws 2010, Chapter 312; A.R.S. § 43-1083.02 and A.R.S. § 43-1164.03].

*Solar Liquid Fuel.* Taxpayers may take individual and corporate tax credits for research and development, production, and delivery system costs associated with solar liquid fuel for TY 2011 through TY 2026. Between TY 2011 and TY 2021, a taxpayer may take a credit for increased research and development related to solar liquid fuel

## Renewable Energy Incentives

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of 40% of qualified research expenses within the state over a "base amount" (defined in the Internal Revenue Code). Between TY 2016 and TY 2026, a taxpayer may take a credit for production of solar liquid fuel equal to: 1) \$0.11 per 100,000 British Thermal Units (BTUs) of fuel produced in the state during the tax year for the production of solar liquid fuel in commercial quantities; and 2) 30% of the cost of converting or modifying an existing motor vehicle fuel service station for the retail sale of solar liquid fuel to customers. The latter portion of the credit is limited to \$20,000 per taxable year per service station. Taxpayers who use the research and development tax credit are prohibited from also taking a tax credit against the same research and development if it is associated with solar liquid fuel [Laws 2010, Chapter 289; A.R.S. § 43-1085.01, and A.R.S. § 43-1164.02]. Given the new state of this technology, the initial usage has been estimated at \$0.

### **Installation:**

*Commercial and Industrial Solar Energy Devices.* Taxpayers can claim individual and corporate credits equal to 10% of the installed cost of a solar energy device used in their trade or business. The credit cannot exceed \$25,000 for the same building in the same year, or \$50,000 in total in any year. The credit is available between tax years 2006 and 2018. This income tax credit may be claimed by a taxpayer purchasing a solar energy device, or a taxpayer that finances the purchase of a qualifying device. The credit also may be transferred to a third party that manufactures or installs a qualifying device. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [Laws 2010, Chapter 294; Laws 2007, Chapter 180; Laws 2006, Chapter 333; A.R.S. § 41-1510.01; A.R.S. § 43-1085, and A.R.S. § 43-1164].

*Residential Solar Energy Devices.* A taxpayer may claim 25% of the purchase price for a qualified solar energy device installed in the taxpayer's residence located in Arizona. The maximum credit is \$1,000 per year and \$1,000 in aggregate for the same residence. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [Laws 1998, Chapter 1; Laws 1997, Chapter 218; Laws 1994, Chapter 117; A.R.S. § 43-1083].

*Solar Hot Water Heater Stub-Outs and Electric Vehicle Recharge Outlets.* A taxpayer may take a credit up to \$75 for installing solar hot water plumbing stub-outs or electric vehicle recharge outlets in home dwellings built by the taxpayer. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years. This law became effective January 1, 1998 [Laws 1997, Chapter 218; A.R.S. § 43-1090, and A.R.S. § 43-1176].

Table 1 on the following page provides a summary of the main provisions of the above-mentioned tax credits.

## **PROPERTY, SALES, AND USE TAX EXEMPTIONS**

*Installation of Solar Devices by Registered Contractors.* Solar devices that are installed by a registered contractor are exempt from Income and Transaction Privilege Taxes for December 31, 1996 - January 1, 2017. [Laws 2011, Chapter 294; Laws 2000, Chapter 214; A.R.S. § 42-5075].

*Renewable Energy Investment.* Qualifying renewable energy companies that build headquarters or manufacturing facilities in state will receive a class 6 property designation, which reduces the assessment ratio to 5% instead of the class 1 assessment ratio of 20%. Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 phases down the class 1 assessment ratio from 20% to 18% over 4 years, beginning in tax year 2013. The class 6 property designation remains in effect for 10 or 15 years, depending upon the level of wages paid to employees of the facility in relation to the median wage of the state [Laws 2009, Chapter 96; A.R.S. § 42-12006].

*Solar Energy Devices for Commercial and Industrial Purposes.* Solar energy systems that are utilized for commercial purposes are prohibited from being added to a property's value for the purposes of property tax assessments or from being counted as part of the Transaction Privilege Tax or Use Tax base. [Laws 2011, Chapter 294; Laws 2008, Chapter 60; Laws 2006, Chapter 333; A.R.S. § 42-5061; A.R.S. § 42-5075; A.R.S. § 42-5159, and A.R.S. § 42-11054].

Table 2 on the following page shows the estimated dollar impact of renewable energy tax credits and exemptions and provides the year of the estimate.

## Renewable Energy Incentives

Table 1

### SUMMARY OF MAIN TAX CREDIT PROVISIONS

<u>Tax Credit</u>	<u>Renewable Energy Investment</u>	<u>Renewable Energy Production</u>	<u>Solar Liquid Fuel</u>	<u>Commercial and Industrial Solar Energy Devices</u>	<u>Residential Solar Energy Devices</u>
Value of Credit	10% of Total Capital Investment	1¢ per Kilowatt Hour for the first 200,000 megawatt hours of biomass or wind energy and 1¢ - 4¢ for every kilowatt hour of solar energy	11¢ per 100,000 BTUs of fuel produced; 30% of the cost of converting or modifying an existing motor vehicle fuel station for retail sale; 40% of qualified research expenses	10% of the installed cost of a solar device used in the business	25% of the purchase price for a solar energy device
Aggregate Credit Cap (Annually)	\$70 million	\$20 million	None	None	None
Estimated Cost (Annually)	\$5.0 million <sup>1/</sup>	\$10.0 million <sup>1/2/</sup>	Not Available	\$200,000	\$2.5 million
Qualifications	\$500,000 in capital investment per 1.5 full-time positions for manufacturing and \$200,000 in capital investment per 1 new full-time position	Energy must be produced from a qualified generator that did not first produce energy before January 1, 2011 or after December 31, 2020	Fuel and research must be solar liquid fuel related	Qualified solar device that is utilized for business purposes	Qualified solar device for residential use

Table 2

### ESTIMATED IMPACT OF TAX CREDITS AND EXEMPTIONS

<u>Description</u>	<u>Year of Estimate</u>	<u>Revenue Impact</u>
<u>Credits</u>		
Renewable Energy Investment	CY 2009	\$ (5,000,000) <sup>1/</sup>
Renewable Energy Production	CY 2010	(10,000,000) <sup>1/2/</sup>
Solar Energy Devices of Commercial and Industrial Purposes	CY 2009	<u>(200,000)</u>
<b>Subtotal</b>		<b>\$(15,200,000)</b>
<u>Exemptions</u>		
Installation of Solar Energy Devices by Registered Contractors	CY 2000	\$ (102,000) <sup>1/</sup>
Solar Energy Devices for Commercial and Industrial Purposes (TPT Exemption)	FY 2011	<u>(14,000,000)</u>
<b>Subtotal</b>		<b>\$ (14,102,000)</b>

<sup>1/</sup> Based solely on an estimate. No actual usage data is available.

<sup>2/</sup> Estimated to grow to \$(20.0) million in FY 2013.

# **APPENDIX B**

## Appendix B

### COMPARISON OF PUBLIC AND PRIVATE SCHOOL TAX CREDITS

**Table A: Statutes, Caps & Data** <sup>1/</sup>

Type	Category	Statute		Cap	# of STOs (that received donations)	Donations			Scholarships	
		STO	Tax Credit			\$	#	Average	#	Average
Individual	Public School Extracurricular	NA	ARS § 43-1089.01	\$200 single/ \$400 married filing jointly	--	\$48.4 M	250,210	\$194	--	--
	Private School STO-1	ARS § 43-1601 through 43-1605	ARS § 43-1089	\$500 single/ \$1,000 married filing jointly <sup>2/</sup>	53	\$43.2 M	62,941	\$686	26,433	\$1,791
	Private School STO-2 <sup>3/</sup>	ARS § 43-1601 through 43-1605	ARS § 43-1089.03	\$500 single/ \$1,000 married filing jointly <sup>2/</sup>	NA	NA	NA	NA	NA	NA
Corporate & Insurance Premium	"Low-Income" STO	ARS § 43-1501 through 1507 (except 1505)	ARS § 43-1183 & 20-224.06	\$17.3 M <sup>4/</sup>	11	\$11.1 M	98	\$121,658	4,215	\$2,212
	"Displaced/Disabled" STO	ARS § 43-1501 through 1507 (except 1504)	ARS § 43-1184 & 20-224.07	\$5.0 M	5	\$1.7 M	15	\$112,725	166	\$4,389

<sup>1/</sup> All data are for Tax Year 2010 (latest available), except Public School Extracurricular data, which are for TY 2011.

<sup>2/</sup> Adjusted annually for inflation starting in TY 2011.

<sup>3/</sup> The "Private School STO-2" was established by Laws 2012 Chapter 4. There are no prior data to report

<sup>4/</sup> Increases 20% annually pursuant to A.R.S. § 43-1183.C1.

Note:

"Empowerment Scholarship Accounts" (ESA's) authorized by ARS § 15-2402 are not included in this analysis, as they are funded with appropriated state monies rather than contributions that qualify an individual or corporation for a state tax credit. Under Laws 2012, Chapter 360, a student may qualify for an ESA by meeting two criteria: 1) they have a disability, attend a "D" or "F" school, are the child of an active duty member of the armed forces, are/were a ward of the court, or previously received an ESA; and 2) in the prior year must have met one of the following: attended public school full time for at least the first 100 days, had an ESA, or received a "Displaced or Disabled" Scholarship pursuant to ARS 43-1505. ESA's are funded with 90% of the "Base Support Level" funding that each recipient otherwise would have received pursuant to A.R.S. § 15-943 if they remained in public school. ADE may retain up to 5% of the "90% of BSL" funding for program administration, but is required to transfer one-fifth of that amount to the State Treasurer to cover related Treasurer costs. (The State Treasurer establishes and maintains a separate ESA for each program participant using monies transferred from ADE.) In FY 2012 (the program's first year), approximately 130 students received \$1.5 M in total ESA funding.

**Table B: Program Restrictions**

Type	Category	Donors	Recipients	Use of Funds <sup>1/</sup>	Earmarking	
<b>Individual</b>	Public School Extracurricular	Individual income tax filers	Public schools	Extracurricular activities and character education	Can designate a specific student, school club, or use	Funds can only be used for activities that supplement the school's education program. Extracurricular activities include: band uniforms, equipment or uniforms for varsity athletics, 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. A character education program is a program defined in A.R.S. § 15-719.
	Private School STO-1	Individual income tax filers	Private school students	Private school scholarships	Taxpayer may recommend recipient; may not recommend funds for own dependent or another's dependent in a donation swap	The tax credit is not allowed if the taxpayer designates the taxpayer's contribution to the school tuition organization for the direct benefit of any dependent of the taxpayer or if the taxpayer designates a student beneficiary as a condition of the taxpayer's contribution to the school tuition organization. A taxpayer may not claim a tax credit if the taxpayer agrees to swap donations with another taxpayer to benefit either taxpayer's own dependent. A STO cannot award, restrict or reserve scholarships solely on the basis of a donor's recommendation. If a STO scholarship exceeds a school's total cost of educating the recipient, the school must return the excess portion to the STO.
	Private School STO-2	Individual income tax filers	Private school students	Private school scholarships	Taxpayer may recommend recipient; may not recommend funds for own dependent or another's dependent in a donation swap	The tax credit is allowed only after the taxpayer has used the maximum tax credit available under "Private STO-1." All restrictions for "Private STO-1" also apply to "Private STO-2." In addition, "Private STO-2" scholarships may only be awarded to public school transfers, kindergarteners, preschool disabled students, military dependents, or pupils who received a corporate STO or "Private STO-2" scholarship in the prior year. A STO shall give priority to students and siblings of students on a waiting list for scholarships if the STO maintains a waiting list. If a STO scholarship exceeds a school's total cost of educating the recipient, the school must return the excess to the STO.
<b>Corporate and Insurance Premium</b>	"Low-Income" STO	Corporations & Insurers	Private school students from "low income" households	Private school scholarships	Not allowed	<ol style="list-style-type: none"> <li>Family income cannot exceed 185% of the income limit required to qualify a child for reduced price lunches under the national school lunch and child nutrition acts (maximum annual income of \$75,467 for a family of four for 2010).</li> <li>The student receiving the scholarship must meet one of the following: <ol style="list-style-type: none"> <li>Attended a public primary or secondary school as a full-time student or attended a public program for preschool disabled pupils for at least ninety days or one full semester of the prior fiscal year.</li> <li>Enroll in a private school kindergarten or preschool disabled program.</li> <li>Be a military dependent.</li> <li>Received an individual or corporate STO scholarship in the prior year and continues to attend a qualified private school.</li> </ol> </li> <li>The total scholarship amount per pupil from each STO increases each year by \$100. In Calendar Year 2012, a STO can not issue a scholarship in an amount that exceeds: <ol style="list-style-type: none"> <li>\$4,800 for students in kindergarten through grade 8</li> <li>\$6,100 for students in grades 9 through 12.</li> </ol> </li> </ol>
	"Displaced/ Disabled" STO	Corporations & Insurers	Private school students with disabilities or foster care history	Private school scholarships	Not allowed	<ol style="list-style-type: none"> <li>The student must have been either placed in foster care at any time before graduating from high school or obtaining GED, or have been indentified at any time as having a disability under federal or state law.</li> <li>The student receiving the scholarship must meet one of the following: <ol style="list-style-type: none"> <li>Received a grant or scholarship under the former Arizona Department of Education "displaced or disabled" scholarship program in the 2008/2009 academic year</li> <li>Attended a public primary or secondary school as a full-time student or attended a public program for preschool disabled pupils for at least ninety days or one full semester of the prior fiscal year.</li> <li>Enroll in a private school kindergarten or preschool disabled program.</li> <li>Be a military dependent.</li> <li>Received a corporate STO "displaced or disabled" scholarship in the prior year and continues to attend a qualified private school.</li> </ol> </li> <li>The amount of the scholarship shall not exceed the lesser of the cost of tuition or 90% of the amount of state aid that would have been computed for the student to attend public school.</li> </ol>

1/ All STOs must allocate at least 90% of their tax credit-related revenues for scholarships or grants, so can spend a maximum of 10% of those revenues on program administration.

# **APPENDIX C**

## Appendix C

### LIST OF TAX CREDITS WITH STATUTORY ENDING DATES

INCOME TAX CREDITS WITH STATUTORY ENDING DATES		
Name of Credit	Type of Credit	Ending Date
Facility Credit	Individual/Corporate	December 31, 2019
Health Insurance Plans	Individual/Corporate	December 31, 2014
Healthy Forest Enterprise & Healthy Forest Restoration Workforce Training	Individual/Corporate	December 31, 2024
Military Family Relief Fund	Individual	December 31, 2018
Renewable Energy Investment	Individual/Corporate	December 31, 2019
Renewable Energy Production	Individual/Corporate	December 31, 2020 <sup>1/</sup>
Small Business ("Angel") Investment	Individual	December 31, 2019 <sup>2/</sup>
Solar Energy Devices for Commercial and Industrial Purposes	Individual/Corporate	December 31, 2018
Solar Liquid Fuel	Individual/Corporate	December 31, 2021

<sup>1/</sup> Credit has no specified ending date. Statute provides, however, that credits can be claimed for 10 consecutive years beginning with the calendar year in which the taxpayer holds title to a qualified energy generator that first produces electricity between January 1, 2011 and December 31, 2020. Thus, the no new credits can be generated after December 31, 2020.

<sup>2/</sup> Credit authorization is only allowed through June 30, 2016. Thus, no new credits can be generated after this date.

# **PROPERTY TAXES**

# PROPERTY TAX

## DESCRIPTION

Arizona has 2 distinct types of property taxes: primary and secondary. Primary property taxes are levied to pay for the maintenance and operation of a taxing jurisdiction. Secondary property taxes are levied to pay for bond indebtedness, voter-approved budget overrides, and special districts such as fire or sanitary districts. Although the state property tax was repealed in 1996, primary property tax collections in certain districts are still deposited in the state General Fund. The monies deposited into the state General Fund are from taxes levied on property not located within any school district, so-called unorganized districts [A.R.S. § 15-991.01], and on property in certain school districts ineligible for state aid, sometimes referred to as minimum qualifying tax rate (MQTR) districts [A.R.S. § 15-992]. (For more details, see *Tax Rate* section.)

Property is listed in 2 categories: real property and personal property. Real property includes land, buildings, and improvements to land. Personal property includes property used for commercial, industrial, and agricultural purposes, such as office furniture, business equipment, and tools. In addition, most mobile homes in Arizona are taxed as personal property.

Assessment duties are divided between the Department of Revenue (DOR) and the 15 county assessors. Generally, geographically dispersed and complex properties, such as mines, utilities, airlines, and railroads, commonly referred to as “centrally valued property,” are valued by DOR. All other properties are valued by the county assessors and are, therefore, referred to as “locally assessed property.” (For more details, see *Tax Base* section.)

Property in Arizona is classified for assessment purposes into 9 legal classes, with sub-classifications in many of those classes. The classification is based on the current use of the property by its owner, such as commercial, agricultural, or residential. Each legal class has an assessment ratio, which is specified by statute. The assessment ratio, which currently ranges from 1% to 20%, is used to calculate the assessed value of a property. (For more details, see *Tax Rate* section.)

## DISTRIBUTION

As mentioned previously, revenues from unorganized and MQTR districts are deposited in the state General Fund. Otherwise, every taxing jurisdiction simply collects what it levies. (Please see *Tax Rate* section for more discussion.) Property tax collected and deposited in the General Fund is shown in *Table 1* below.

**Table 1**

**STATE GENERAL FUND PROPERTY TAX COLLECTIONS**

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Fiscal Year</u>	<u>General Fund</u>
FY 2012	\$15,887,896	FY 2002	\$29,153,274
FY 2011	\$20,333,501	FY 2001	\$32,942,815
FY 2010	\$20,269,632	FY 2000	\$34,682,874
FY 2009	\$18,244,500	FY 1999	\$36,121,502
FY 2008	\$20,041,338	FY 1998	\$38,136,020
FY 2007	\$24,486,025	FY 1997	\$51,211,398
FY 2006	\$24,998,760	FY 1996	\$188,296,312
FY 2005	\$25,245,622	FY 1995	\$178,657,831
FY 2004	\$33,266,987	FY 1994	\$186,193,174
FY 2003	\$19,433,856	FY 1993	\$203,240,399

SOURCE: Department of Revenue and State Treasurer’s Office.

Property tax in Arizona is primarily a local revenue source as the state General Fund currently receives less than 0.5% of all taxes levied in the state. *Table 2* below shows the distribution of property taxes among local taxing jurisdictions.

## Property Tax

Table 2

### PRIMARY AND SECONDARY COMBINED PROPERTY TAX LEVIES

<u>Jurisdiction</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>
State <sup>1/</sup>	\$278,394,257	\$275,380,386	\$271,930,388	\$20,315,435	\$20,427,985
Counties	\$1,327,378,045	\$1,396,381,579	\$1,386,720,719	\$1,314,798,367	\$1,219,491,080
Cities & Towns	\$566,020,186	\$649,572,472	\$703,271,182	\$669,894,083	\$585,007,416
School Districts	\$3,370,964,408	\$3,539,427,827	\$3,692,220,213	\$3,627,361,076	\$3,453,659,941
Special Districts	\$412,750,679	\$446,530,321	\$461,902,914	\$454,657,720	\$383,556,449
Community Colleges	\$739,199,445	\$735,390,630	\$723,932,428	\$700,812,944	\$637,813,033
<b>TOTAL</b>	<b>\$6,694,707,020</b>	<b>\$7,042,683,215</b>	<b>\$7,239,977,844</b>	<b>\$6,787,839,625</b>	<b>\$6,299,956,904</b>

1/ Although the state equalization assistance property tax is technically a school district tax (see A.R.S. § 15-994), ATRA lists it as a state tax for reporting purposes since the tax levy reduces Basic State Aid to schools by an equal amount. Pursuant to Laws 2006, Chapter 354, the state equalization tax was not levied in FY 2007, FY 2008 and FY 2009. Thus, all property tax revenues collected by the state in the period between FY 2007 and FY 2009 were from unorganized and MQTR districts (for more details, see *Tax Rate* section.)

SOURCE: Arizona Tax Research Association (ATRA).

### WHO PAYS THE TAX

The owner of record, or the person who is the purchaser under a deed of trust or an agreement of sale, is liable for the payment of the tax [A.R.S. § 42-15101].

#### Tribal Members

The Arizona Constitution provides that a property owned by an Indian tribal member is exempted from taxation if such property is located within an Indian reservation, or has been acquired under an act of Congress [Article 20, Section 5]. Laws 2005, Chapter 276 provides that property outside an Indian reservation that is owned by an Indian tribe or tribally designated housing authority, is exempted from taxation if such property provides low income rental housing for Indian tribal members [A.R.S. § 42-11131].

### TAX BASE

Article 9, Section 18 of the Arizona Constitution provides for the limitation of increases in property values from year to year. To implement the constitutional provision, the Legislature also adopted a set of statutes under which 2 separate tax bases are used to determine property taxes: full cash value (FCV) for secondary property tax purposes, and limited property value (LPV) for primary property tax purposes.

*Full Cash Value.* A property's full cash value is the value determined as prescribed by statute. If no statutory method is prescribed, full cash value is synonymous with market value, as determined by standard appraisal methods. There are no restrictions or limitations on full cash value growth. For this reason, full cash value is also referred to as unlimited value [A.R.S. § 42-11001].

Although property values in Arizona are based on market value as represented by sales price, Arizona statutes set sales ratio standards at 81% of nominal sales price for commercial and industrial properties, and 82% for residential and other properties. These standards allow for the exclusion of personal property items included in sales, financing incentives, time on the market, and reasonable mass appraisal errors [A.R.S. § 42-11054(C)].

The Legislature has also mandated that specific types of property be appraised on a basis other than market value. These property types are agricultural, shopping centers, certain golf courses, and most centrally valued properties, such as electric and gas utilities [A.R.S. §§ 42-13101 through 42-13206].

*Limited Property Value.* A parcel's limited property value is the value determined as provided by the Arizona Constitution [Article 9, Section 18]. Arizona Revised Statutes further define the constitutional provision by providing 2 specific methods by which a parcel's limited property value can be increased from year to year [A.R.S. § 42-13302]. These methods are commonly referred to as "Rule A" and "Rule B."

## Property Tax

- *Rule A* - For an existing property that has not been physically modified since the previous year's tax roll, the limited property value is the greater of (1) the previous year's limited property value increased by 10%, or (2) 25% of the difference between the current year's full cash value and the previous year's limited property value. The limited property value cannot exceed the full cash value [A.R.S. § 42-13301].
- *Rule B* - For a new property added to the current year's tax roll or for an existing property that has been physically modified, split, subdivided, consolidated, or erroneously omitted since the previous year's tax roll, the limited property value is established at a level or percentage that is commensurate to the relationship of LPV to FCV of other properties of the same or similar use or classification [A.R.S. § 42-13302].

The limit on increases in property values applies to real property and improvements. Properties exempted from the valuation limitation are: (1) personal property other than permanently affixed mobile homes and (2) most centrally valued property, such as electric and gas utilities [A.R.S. § 42-13304].

*Net Assessed Valuation.* Although the limited property value constitutes the tax base for primary property taxes, the actual amount to which primary tax rates are applied is less than that. This amount, referred to as primary net assessed valuation (NAV), is obtained by multiplying a parcel's limited property value by its assessment ratio. The assessment ratio depends on the legal classification of the property as shown in *Table 3*. Likewise, secondary NAV is determined by multiplying a property's full cash value by its assessment ratio. *Table 4* below shows the total statewide primary and secondary NAV in the last few years.

The actual tax liability is calculated by multiplying the tax rate by the assessed value of the property divided by 100. (Pursuant to A.R.S. § 42-17151, the tax rate is determined per \$100 NAV.) This means that the property tax liability depends on 3 factors: (1) the full cash value as determined by the county assessor or the Department of Revenue, (2) the assessment ratio contingent upon property usage, and (3) the tax rate as set by the taxing jurisdiction (see *Tax Rate* section).

**Table 3**

### PROPERTY TAX CLASSES AND TAX YEAR 2012 ASSESSMENT RATIOS

<u>Class</u>	<u>Assessment Ratio</u>	<u>Property Usage</u>
1	20%	Properties of mining, utility, and telecommunication companies, standing timber, airport fuel delivery, producing oil and gas property, pipeline property, shopping centers, golf courses, manufacturers, and most other commercial property. [A.R.S. § 42-12001]. Note that Laws 2011, 2 <sup>nd</sup> Special Session Chapter 1 reduces the assessment ratio to 19.5% in tax year 2013, 19.0% in tax year 2014, 18.5% in tax year 2015, and 18.0% in tax year 2016, when fully implemented.
2	16%	Agricultural property, properties of nonprofit organizations, and vacant land. [A.R.S. § 42-12002]. Note that Laws 2011, 2 <sup>nd</sup> Special Session Chapter 1 reduces the assessment ratio to 15% in tax year 2016.
3	10%	Residential property not used for profit. [A.R.S. § 42-12003].
4	10%	Leased or rented residential property and residential common areas. [A.R.S. § 42-12004].
5	15%	Airlines, railroad, and private car company property. [A.R.S. § 42-12005].
6	5%	Noncommercial historic property, property located in a foreign trade, military reuse, or enterprise zone, property of a qualified environmental technology manufacturing facility. [A.R.S. § 42-12006].
7	20% or 1%	Property that meets the criteria for Class 1 property and also the criteria for commercial historic property. [A.R.S. § 42-12007].
8	10% or 1%	Property that meets the criteria for Class 4 property and also the criteria for commercial historic property. [A.R.S. § 42-12008].
9	1%	Improvements on federal, state, county, and municipal property. [A.R.S. § 42-12009].

## Property Tax

Table 4

### STATEWIDE PRIMARY AND SECONDARY NET ASSESSED VALUATION

<u>Tax Year</u>	<u>Primary Net Assessed Valuation</u>	<u>Secondary Net Assessed Valuation</u>
2012	\$55,852,336,047	\$56,283,023,907
2011	\$60,900,480,130	\$61,700,292,915
2010	\$71,371,917,611	\$75,643,290,656
2009	\$74,775,994,183	\$86,504,734,898
2008	\$67,518,882,239	\$86,090,579,647

SOURCE: Arizona Tax Research Association (ATRA) and Department of Revenue (DOR).

*Real Property versus Personal Property.* Real property is generally synonymous with real estate and includes land, buildings, and improvements to land. Personal property is property other than real estate and includes items such as manufactured housing, office furniture, business equipment, and tools. Personal property is usually movable and not permanently attached to real estate.

*Centrally Valued Property.* As noted previously, certain property is subject to valuation by the Department of Revenue (DOR). Such property, commonly referred to as “centrally valued property,” is listed below.

- Mines, mills, and smelters [A.R.S. § 42-14051].
- Oil, gas, and geothermal properties [A.R.S. § 42-14101].
- Gas, water, electric, and sewer and wastewater utilities [A.R.S. § 42-14151].
- Pipelines [A.R.S. § 42-14201].
- Airline companies [A.R.S. § 42-14251].
- Private car companies [A.R.S. § 42-14301].
- Railroad companies [A.R.S. § 42-14351].
- Telecommunications companies [A.R.S. § 42-14401].
- Airport fuel delivery companies [A.R.S. § 42-14501].

*Equalization of Valuations.* The Department of Revenue is authorized by statute to examine property valuations for inequities between or within counties and classifications and to issue equalization orders to ensure that all property in the state is valued for tax purposes at its full cash value [A.R.S. § 42-13251]. To this end, DOR conducts sales ratio studies to determine whether properties are valued fairly or not [A.R.S. § 42-13005]. County assessors affected by an equalization order may appeal to the State Board of Tax Appeals [A.R.S. § 42-16159].

## EXEMPTIONS

All property in Arizona is subject to taxation unless exempted by law. The exemptions are provided in Article 9, Sections 2, 2.1, and 2.2 of the Arizona Constitution, and are summarized in *Table 5* below. Arizona Revised Statutes further define the property tax exemptions provided by the Arizona Constitution. As a general rule, under Arizona law, property classification is based on the use of the property by the owner, whereas property exemption is provided based on the ownership of the property. All exemptions currently listed in statutes are displayed in *Table 6* below.

## Property Tax

Table 5

### PROPERTY TAX EXEMPTIONS AUTHORIZED BY THE ARIZONA CONSTITUTION

<u>Article</u>	<u>Section</u>	<u>Exemption</u>
9	2	Federal, state, county, and municipal properties
	2	Property owned by non-profit educational, charitable, and religious organizations
	2	Public debts (i.e., bonds of Arizona, its counties, municipalities, or other subdivisions)
	2	Household goods owned by the user and used solely for non-commercial purposes
	2	Inventory of materials, parts, and products owned by a retailer or wholesaler for resale purposes
	2	The first \$50,000 of full cash value for business and agricultural personal property <sup>1/</sup>
	2	Property of cemeteries
	2	Property of widows
	2.1	Property of widowers
	2.2	Property of disabled persons

<sup>1/</sup> Pursuant to A.R.S. § 42-11127(B), the maximum amount of the exemption is increased each year to account for inflation. For tax year 2012, the maximum amount of the exemption is \$68,079. Laws 2012, Chapter 343 changes the calculation of the exemption amount, beginning in tax year 2013. Under Chapter 343, the exemption amount is calculated based on the percentage increase in the Employment Cost Index in the 2 most recent years rather than only the most recent year. Additionally, the exemption amount is recalculated as if this provision had been continuously in effect since 1997. Chapter 343 is expected to increase the exemption amount to an estimated \$125,700 in tax year 2013.

Table 6

### PROPERTY TAX EXEMPTIONS FURTHER DEFINED BY ARIZONA REVISED STATUTES

<u>Title</u>	<u>Section</u>	<u>Exemption</u>
42	11102	Government property
	11103	Government bonded indebtedness
	11104	Education and library property
	11105	Health care property
	11106	Apartments for elderly or handicapped residents
	11107	Institutions for relief of indigent or afflicted
	11108	Grounds and buildings owned by agricultural societies
	11109	Religious property
	11110	Cemeteries
	11111	Property of widows, widowers, and disabled persons
	11112	Observatories
	11113	Land and buildings owned by animal control and humane societies
	11114	Property held for conveyance as parkland
	11115	Property held to preserve or protect scientific resources
	11116	Property of arts and science organizations
	11117	Property of volunteer fire departments
	11118	Social welfare and quasi-governmental service property
	11119	Property of volunteer roadway cleanup and beautification organizations
	11120	Property of veterans' organizations
	11121	Property of charitable community service organizations
	11122	Trading commodities
11123	Animal and poultry feed	
11124	Possessory interests for educational or charitable activities	
11125	Inventory, materials, and products	
11126	Production livestock and animals	
11127	Personal property	
11128	Personal property in transit	
11129	Property of fraternal societies	

## Property Tax

11130	Property of public library organizations
11131	Property providing low income rental housing for Indians
11132	Property of religious or charitable associations or institutions leased to an educational institution
11133	Low income housing projects.

As noted earlier, Article 20, Section 5 of the Arizona Constitution provides that property owned by Indians, when such property is located within an Indian reservation or has been acquired under an act of Congress, is exempted from taxation.

### TAX RATE

The tax rates for primary and secondary property taxes are determined by each individual taxing jurisdiction. According to DOR, there were 3,249 taxing authorities statewide in FY 2009 (latest available figure), of which 410 were primary taxing authorities and 2,839 secondary taxing authorities (under DOR's tabulation, each bond that has been approved is counted as a secondary taxing authority). The tax rates among the taxing jurisdictions in the state tend to vary considerably, as reflected in the total average tax rate by county shown in *Table 7* below. (Note that a taxing authority is required by statute to determine the tax rate, rounded to 4 decimal places, on each \$100 dollars of net assessed value (NAV) [A.R.S. § 42-17151]).

<u>County</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>	<u>FY 2005</u>
Apache	\$6.01	\$6.51	\$6.94	\$7.05	\$7.69	\$6.87	\$7.47	\$7.12
Cochise	\$10.40	\$10.48	\$10.89	\$10.93	\$12.16	\$11.37	\$12.40	\$12.92
Coconino	\$8.20	\$7.54	\$6.68	\$7.29	\$7.37	\$8.22	\$8.76	\$8.73
Gila	\$12.38	\$11.03	\$10.41	\$11.08	\$11.44	\$11.99	\$12.93	\$13.10
Graham	\$7.20	\$7.88	\$9.19	\$9.11	\$9.41	\$10.04	\$10.33	\$10.49
Greenlee	\$4.60	\$4.06	\$2.86	\$2.74	\$3.90	\$4.18	\$4.93	\$6.52
Maricopa	\$10.68	\$9.19	\$8.68	\$8.64	\$9.35	\$10.50	\$10.98	\$11.27
Mohave	\$9.83	\$8.57	\$8.54	\$7.98	\$8.65	\$9.11	\$9.94	\$10.49
Navajo	\$8.60	\$8.21	\$8.71	\$8.31	\$8.66	\$9.10	\$9.15	\$8.87
Pima	\$13.59	\$12.86	\$12.54	\$12.87	\$13.82	\$14.61	\$15.52	\$15.73
Pinal	\$14.29	\$13.11	\$11.97	\$12.55	\$14.49	\$15.08	\$15.77	\$15.62
Santa Cruz	\$11.53	\$11.31	\$11.80	\$11.66	\$12.23	\$12.23	\$12.86	\$12.99
Yavapai	\$9.19	\$7.98	\$7.61	\$7.49	\$8.62	\$9.00	\$ 9.81	\$9.99
Yuma	\$11.55	\$9.84	\$10.13	\$11.00	\$12.35	\$12.67	\$13.70	\$13.10
La Paz	\$9.25	\$8.50	\$8.83	\$8.64	\$9.37	\$10.50	\$11.87	\$11.42
<b>State of Arizona</b>	<b>\$10.94</b>	<b>\$9.67</b>	<b>\$9.20</b>	<b>\$9.23</b>	<b>\$10.04</b>	<b>\$10.99</b>	<b>\$11.56</b>	<b>\$11.81</b>

SOURCE: Department of Revenue (DOR)

Unlike local government entities, the state does not levy property taxes due to the repeal of the state property tax in 1996 [Laws 1996, 7<sup>th</sup> Special Session, Chapter 2]. However, primary property taxes that are levied and collected in certain districts are transmitted by the counties to the state in order to aid in school financial assistance.

The monies deposited into the state General Fund are from taxes levied on property not located within any school district, so-called unorganized districts [A.R.S. § 15-991.01], and on property in certain school districts ineligible for state aid, sometimes referred to as minimum qualifying tax rate (MQTR) districts [A.R.S. § 15-992]. The tax rates in such districts are based on the qualifying tax rate (QTR) used in the basic state aid funding formula, which is adjusted each year to comply with the truth-in-taxation provisions in statute. In addition, the basic state aid formula also includes a state-mandated "county equalization" tax collected by the counties [A.R.S. § 15-994]. This tax was renamed as the "State Equalization Assistance Property Tax" by Laws 2006, Chapter 354, which also set that rate at zero for FY 2007 through FY 2009. The K-12 tax rates (after truth-in-taxation rate adjustments) used in the Basic State Aid formula are shown in *Table 8* below.

## Property Tax

Table 8

<b>K-12 TAX RATES PER \$100 NAV</b>			
<b>Fiscal Year</b>	<b>Qualifying Tax Rate (QTR)</b>		<b>State Equalization Rate</b>
	<b>Unified School Districts</b>	<b>Non-Unified School Districts</b>	<b>All School Districts <sup>1/</sup></b>
2013	\$3.9170	\$1.9585	\$0.4717
2012	\$3.5364	\$1.7682	\$0.4259
2011	\$2.9594	\$1.4797	\$0.3564
2010	\$2.7452	\$1.3726	\$0.3306
2009	\$2.9244	\$1.4622	\$0.0000
2008	\$3.2040	\$1.6020	\$0.0000
2007	\$3.4788	\$1.7394	\$0.0000
2006	\$3.6180	\$1.8090	\$0.4358
2005	\$3.7862	\$1.8931	\$0.4560
2004	\$3.9166	\$1.9583	\$0.4717

<sup>1/</sup> Laws 2006, Chapter 354 set the state equalization rate at \$0.0000 for FY 2007, FY 2008, and FY 2009 and renamed the “County Equalization Assistance for Education Property Tax” as the “State Equalization Assistance Property Tax.”

A.R.S. § 15-971. *Equalization Assistance (“Basic State Aid”)*. The purpose of the basic state aid formula is to establish a comparable funding amount per pupil in each school district. The funding formula consists of a local share and a state share. The local share represents the amount of budgeted expenditures financed by the district’s own property tax. The state share is simply the amount of spending not covered by the district’s property tax. This means that anything that causes the local share to decrease, such as a reduction in NAV or the QTR and/or State Equalization rate, will cause the state share (i.e., basic state aid) to increase by the same amount.

A.R.S. § 15-972. *Additional State Aid (“Homeowner’s Property Tax Rebate”)*. In return for reducing the tax year 2012 school district primary tax levy for owner-occupied residential properties (Class 3) by 40%, the state appropriates an amount equal to the tax rebate to the same districts. This aid, which is in addition to basic state aid, is limited to \$600 per parcel in tax year 2012.

Beginning in FY 2012, Laws 2010, 7<sup>th</sup> Special Session, Chapter 8 limits the Homeowner’s Rebate to the lesser of the QTR or the school district’s primary property tax rate. The tax rate levied by districts for primary property taxes is further reduced on individual parcels of residential property if the combined primary property tax levy exceeds 1% of the parcel’s limited property value (see *Tax Limitations* section).

Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 increases the Homeowner’s Rebate percentage for FY 2014 through FY 2018 by an amount to be determined by the Department of Revenue. The purpose of the rebate increase is to offset the property tax shift to homeowners that would otherwise occur as a result of the reduced assessment ratios for commercial (Class 1) and agricultural (Class 2) property under Chapter 1.

A.R.S. § 41-1276. *Truth in Taxation for Equalization Assistance*. Absent any tax rate changes, a property owner’s tax liability changes whenever the valuation of his property changes. The purpose of truth in taxation (TNT) is to prevent such a change in property tax liability by adjusting the tax rate commensurately. Prior to the enactment of TNT (Laws 1998, 2<sup>nd</sup> Regular Session, Chapter 153), the state received monies from a primary property tax rate of \$2.20 per \$100 NAV levied in unorganized districts, and up to \$2.20 per \$100 NAV in MQTR districts. The equalization tax rate was \$0.53 per \$100 NAV. However, starting in FY 2000, these tax rates have been adjusted each year to offset the statewide appreciation or depreciation of property, as reflected in *Table 8* above. Note that since these tax rates are used both for collecting property taxes and for disbursing basic state aid, the annual TNT rate adjustments affect both General Fund revenues and General Fund expenditures.

In addition to the K-12 property tax rates shown in *Table 8*, which help fund the Basic State Aid formula, school districts may establish property tax rates to fund “overrides,” bonds, and certain other miscellaneous costs:

## Property Tax

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### K-12 Budget Overrides

Voter-approved K-12 budget overrides allow school districts to spend more than would be permitted under statutory budget limits, such as the “Revenue Control Limit” (RCL) defined in A.R.S. § 15-947. The 3 types of K-12 budget overrides are 1) Maintenance and Operation (M&O) overrides, 2) K-3 overrides, and 2) capital overrides. M&O and K-12 overrides combined cannot exceed 15% of a school district’s RCL and capital overrides are separately capped at 10% of a district’s RCL. Revenues from M&O overrides may be spent on any M&O expenditure, whereas revenues from K-3 overrides and capital overrides must be spent only on K-3 enhancements or capital improvements, respectively. All 3 types of overrides may be approved for a maximum of 7 years and are funded with secondary property tax revenues.

### K-12 Bonding

A.R.S. §15-1021 authorizes school districts to issue voter-approved bonds for long-term capital needs, such as school construction and renovation. Article IX, Section 8.1 of the State Constitution caps a unified school district’s bonded indebtedness at 30% of its tax base, but A.R.S. §15-1021D further caps its “Class B” bonds (bonds issued after December 31, 1999) at 10% of its tax base. The corresponding constitutional (Article IX, Section 8) and statutory (A.R.S. §15-1021B) caps for non-unified school districts are 15% and 5%, respectively. The proceeds from K-12 bonds may only be used for expenditures listed in A.R.S. § 15-491A3&4. Bond debt service is funded with secondary property tax revenues.

### K-12 Miscellaneous Costs

School districts may also establish property tax rates to fund desegregation programs and other miscellaneous costs authorized in A.R.S. § 15-910. These rates do not require voter approval and are funded with primary, rather than secondary, property taxes.

## TAX LIMITATIONS

The following constitutional provisions limit property taxation in Arizona:

- Arizona Constitution, Article 9, Section 8. “*Local Debt Limits.*” The amount of General Obligation (GO) debt issued by a county, city, town, school district, or other municipal corporation is limited to 6% of the jurisdiction’s secondary net assessed valuation (NAV). The voters of a county, elementary or high school district may authorize additional debt for up to 15% of secondary NAV. (Pursuant Article IX, Section 8.1, unified school districts are allowed additional debt for up to 30% of secondary NAV.) The voters of a city or town may approve additional debt for up to 20% of secondary NAV for providing services such as water, artificial lights, sewers, and for the acquisition and development of land for open space preserves, parks, playgrounds, and recreational facilities. Proposition 104, which was approved by voters in November 2006, added the following list of items to be included within a city’s or town’s 20% debt limit: public safety, law enforcement, fire and emergency service facilities, and street and transportation facilities.
- Arizona Constitution, Article 9, Section 18. “*The 1% Cap.*” The total amount of taxes collected on *residential* property (Class 3) for primary purposes is not allowed to exceed 1% of the parcel’s limited property value. For this reason, the combined primary property taxes on a parcel of residential property exceeding this limit are reduced through an increase in additional state aid to schools [A.R.S. § 15-972].
- Arizona Constitution, Article 9, Section 18. “*Limited Property Valuation.*” This constitutional provision imposes a limitation on increases in the value of real property and mobile homes, as described in the *Tax Base* section.
- Arizona Constitution, Article 9, Section 18. “*The Senior Property Valuation Freeze.*” Arizona residents who meet the following requirements are eligible for a property valuation freeze on their home: (1) is 65 years of age or older, (2) the home is their primary residence, (3) has lived in their home for at least 2 years, and (4) their gross income does not exceed 400% of the supplemental security income benefit rate. If the homeowners meet these requirements, they can apply for a “property valuation protection option” from their county assessor. The county assessor then fixes the value of the home at the full cash value in effect during the year the application was filed. The value of the home will remain frozen for as long as the owner remains eligible for the protection option. To be eligible for the senior valuation protection option in 2012, the income cannot exceed \$33,504 for single owners and \$41,880 for two or more owners.
- Arizona Constitution, Article 9, Section 19. “*The 2% Levy Limit.*” A city, town, county or community college district is not allowed to levy primary property taxes on existing property in excess of a 2% increase from the maximum allowable amount in the preceding tax year unless approved in an override election, as prescribed by A.R.S. § 42-17201 through 42-17203. Proposition 101, which was approved by voters in November 2006,

## Property Tax

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changed the base year used to calculate the levy limits of cities, towns, counties, and community colleges from 1980 to 2005. By resetting the base year to 2005, Proposition 101 eliminated any unused taxing capacity of such taxing jurisdictions as of tax year 2005. Any unused taxing capacity accumulated after tax year 2005 is carried forward to subsequent years. (Note that the 2% levy limit does not apply to school districts.)

The following statutory provisions limit property taxation in Arizona:

- *Truth in Taxation Levy for Equalization Assistance to Schools.* The qualifying tax rate (QTR) and the state equalization tax rate, the 2 statutory K-12 tax rates used to determine basic state aid for school districts, are required to be adjusted each year to offset the statewide valuation increase or decrease of existing property. The statutory K-12 tax rates cannot exceed the truth-in-taxation (TNT) rates provided under this statute unless the Legislature overrides them by a two-thirds vote [A.R.S. § 41-1276].
- *Truth in Taxation Base Limit for School Expenditures outside the Budget Limit.* Each school district is required to determine a truth-in-taxation (TNT) base limit for expenditures (desegregation, dropout prevention, excess utilities, vocational education, and small school adjustments) not paid for by the statutory K-12 tax rates. Any school district that budgets an amount that exceeds its TNT base limit (or levies any amount for adjacent ways or liabilities in excess) is required to issue a special TNT notice that includes information on the resulting property tax increase [A.R.S. § 15-905.01].
- *Truth in Taxation Levy for Counties, Cities, and Towns.* Any county, city, or town that proposes a primary property tax levy, excluding amounts attributable to new construction, which exceeds the preceding year's levy, is required to issue a special TNT notice that includes information on the resulting property tax increase. The levy equals primary net assessed valuation of existing property divided by \$100 and multiplied by the primary tax rate. If such taxing jurisdiction fails to comply with the requirements under this statute, it is not allowed to levy an amount that exceeds the preceding year's levy, except for amounts attributable to new construction [A.R.S. § 42-17107].
- *Truth in Taxation Levy for Community Colleges.* Any community college district that proposes a primary property tax levy, excluding amounts attributable to new construction, which exceeds the preceding year's levy, is required to issue a special TNT notice that includes information on the resulting property tax increase. If a district fails to comply with the requirements under this statute, it is not allowed to levy an amount that exceeds the preceding year's levy, except for amounts attributable to new construction [A.R.S. § 15-1461.01].

Note that while a county, city, town, or community college district may exceed its TNT levy, it can never exceed its constitutional levy limit.

### TAX ADMINISTRATION

*Valuation Year versus Tax Year.* Under Arizona law, the valuation year for locally assessed real property and centrally valued property is the calendar year preceding the year in which the taxes are levied. In other words, the tax year lags the valuation year by 1 year. By contrast, for locally assessed personal property, the valuation year is the calendar year in which the taxes are levied [A.R.S. § 42-11001]. However, because of the payment schedule in Arizona (see *Payment Schedule* section below), real and personal property taxes are always collected in the fiscal year immediately following the tax year. For real property, this means that the valuation year precedes the tax year by 1 year and the fiscal year by 2 years. The relationship of the valuation year and tax year to FY 2013 is summarized in *Table 9* below.

## Property Tax

Table 9

### PROPERTY VALUATION AND TAXATION CALENDAR

<u>Type of Property</u>	<u>Valuation Year 2011 &amp; 2012</u> (When Tax Base Is Determined)	<u>Tax Year 2012</u> (When Tax Rate Is Determined)	<u>Fiscal Year 2013</u> (When Tax Is Due and Payable)
Locally Assessed Real Property (Old Construction)	January 1, 2011	August 20, 2012	October 1, 2012 and March 1, 2013
Locally Assessed Real Property (New Construction)	October 1, 2010 through September 30, 2011	August 20, 2012	October 1, 2012 and March 1, 2013
Locally Assessed Personal Property	January 1, 2012	August 20, 2012	October 1, 2012 and March 1, 2013
Centrally Valued Property	January 1, 2011	August 20, 2012	October 1, 2012 and March 1, 2013

As shown in the table above, the valuation date for existing property is always January 1 of the valuation year [A.R.S. § 42-11001]. For new construction, the valuation date is between October 1 in the year preceding the valuation year and September 30 of the valuation year [A.R.S. § 42-15105]. The property tax rates are always set on or before the third Monday in August of the tax year.

DOR values all centrally valued properties such as utilities, mines, airlines, and railroads [A.R.S. § 42-14002]. DOR must notify the property owners by June 15 of the initial full cash value established. The property owner then has until July 15 to file an application to appear before DOR and be heard concerning the full cash value determined. If the property owner is not satisfied with DOR's valuation, he can appeal to either the State Board of Equalization [A.R.S. § 42-16158] by October 1 or directly to the Superior Court [A.R.S. § 42-16204] by December 15.

The county assessors are responsible for the valuation of all properties not valued by the state. The assessor must notify the real property owners by March 1 of the initial values of existing properties for the *following* tax year [A.R.S. § 42-15101]. The taxpayer then has 60 days to appeal to the assessor [A.R.S. § 42-16051]. The assessor must rule on these appeals by August 15 [A.R.S. § 42-16055]. The property owner then has 25 days to appeal to the State Board of Equalization for property located in Maricopa or Pima County or the County Board of Supervisors for property located in other counties [A.R.S. § 42-16105]. The county or state board must rule on these appeals by October 15 [A.R.S. § 42-16108]. If the taxpayers are still unsatisfied with the result, they may directly appeal to the state tax court within 60 days after the mailing of the decision, or by December 15, whichever is later [A.R.S. § 42-16202].

For new construction, the assessor establishes the initial value by September 30 [A.R.S. § 42-15105]. The taxpayer has 25 days to appeal to the Board of Equalization, which must rule by November 15. The taxpayer then has 60 days to appeal to the tax court.

On or before February 10, each county assessor is required to provide the staff of JLBC and OSPB the property values used to compute the Truth in Taxation (TNT) Rates for Equalization Assistance [A.R.S. § 42-17052C].

*Collections.* The lieu taxes on private car companies and airline flight property are collected by the Department of Revenue [A.R.S. § 42-14308 and § 42-14255]. All other property taxes are collected by the county treasurers [A.R.S. § 42-18001]. Property taxes collected by the county treasurers must be apportioned to the taxing districts at the end of each month. Any property taxes apportioned to the state must be remitted to the State Treasurer by the 15<sup>th</sup> day of the following month [A.R.S. § 35-145].

### PAYMENT SCHEDULE

Normally, one-half of the tax on real and personal property is due and payable on October 1 of the tax year, unless the total amount of the tax due is \$100 or less, in which case the full amount of the tax is due and delinquent after November 1. The remaining one-half of the tax is due on March 1 of the year following the tax year and delinquent after May 1 [A.R.S. § 42-18052]. Both of these payments fall in the same fiscal year.

## Property Tax

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### IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006. As noted previously, due to the repeal of the state property tax in 1996 (Laws 1996, 7<sup>th</sup> Special Session, Chapter 2), the state no longer levies a property tax. For this reason, property tax legislation primarily affects the state General Fund through its impact on Arizona Department of Education (ADE) expenditures. Under the K-12 funding formula, the state must offset any loss of local property tax revenue by a commensurate increase in ADE state aid to schools.

#### 2012 TAX LAWS

**Laws 2012, Chapter 124** authorizes the Department of Revenue to audit county assessors' valuation of new construction. Additionally, the act directs the governing body of each county, city, town, community college district, and school district to fix and determine property tax rates based on property valuations determined on or before February 10 of each year. (Effective August 2, 2012)

**Laws 2012, Chapter 126** provides new requirements for the posting of an adopted budget by a county, city, town, community college district, or fire district, beginning in FY 2014. The act requires that the proposed budget of a district includes the total estimated amount of personnel compensation. Additionally, all unencumbered cash, both restricted and unrestricted, must be included in the proposed budget of the district. (Effective August 2, 2012)

**Laws 2012, Chapter 130** clarifies that no interest can be collected on property taxes paid in full by December 31, regardless of whether the statutory timeframe for doing so has elapsed. (Effective August 2, 2012)

**Laws 2012, Chapter 182** reduces the number of years that land must be in active production to qualify as agricultural property from 7 of the last 10 years to 3 of the last 5 years. In addition, the act requires the owner to file an affidavit of agricultural use to meet the classification requirement that a reasonable expectation of profit exists. The fiscal impact of Chapter 182 is unknown. (Effective August 2, 2012)

**Laws 2012, Chapter 197** expands the eligibility of property owners to use the Tax Court's small claims procedures and modifies the decision-making authority of the State Board of Equalization as it relates to property valuation and classification appeals. (Effective August 2, 2012)

**Laws 2012, Chapter 216** extends the timeframe to appeal the valuation or classification of personal property to the county assessor from 20 days to 30 days. (Effective August 2, 2012)

**Laws 2012, Chapter 220** expands the definition of agricultural real property to include land of at least 5 acres and improvements devoted to algaculture (controlled propagation, growth, and harvest of algae). The fiscal impact of Chapter 220 is unknown. (Effective August 2, 2012)

**Laws 2012, Chapter 324** requires that personal computers used in trade or business, including the operating system software necessary to operate the computers, be valued as personal property. Any other software (not designated as operating system software) is not to be valued as personal property. The fiscal impact of Chapter 324 is unknown. (Effective August 2, 2012)

**Laws 2012, Chapter 331** extends the Class 6 property classification for healthy forest enterprises to December 31, 2024. (Effective August 2, 2012)

**Laws 2012, Chapter 343** provides several changes to income and property taxes, beginning in FY 2014. In regards to property taxation, Chapter 343 changes the calculation of the business personal property exemption so that beginning in FY 2014, the amount will be based on the percentage increase in the Employment Cost Index in the 2 most recent years rather than only the most recent year. Additionally, the exemption amount will be recalculated as if this provision had been continuously in effect since 1997. This change is expected to initially raise the exemption amount from \$68,079 to an estimated \$125,700. The property tax provision in Chapter 343 is estimated to increase General Fund expenditures by \$0.9 million, beginning in FY 2014. A summary of all provisions in Chapter 343 and their related fiscal impacts is shown in the Individual Income Tax section of the Tax Handbook (see *2012 Tax Laws*).

## Property Tax

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**Laws 2012, Chapter 350** eliminates the affidavit requirement to qualify for Homeowner's Rebate provided by Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 (for more detail, see *2011 Tax Laws* below). In addition, Chapter 350 reduces the civil penalty assessed against owners whose property is reclassified from Class 3 to Class 4 from 200% to 100% of the amount of the rebate received. The fiscal impact of Chapter 350 is unknown. (Effective August 2, 2012)

### 2011 TAX LAWS

**Laws 2011, Chapter 8** provides that all land and improvements devoted to commercial breeding, raising, boarding, or training of equine be valued as agricultural property and assessed under Class 2. Additionally, the act expands the definition of agricultural property to include equine rescue facilities registered with the Arizona Department of Agriculture. Chapter 8 could have a potential General Fund cost of \$126,000, beginning in FY 2014. (Effective July 20, 2011)

**Laws 2011, Chapter 233** exempts provisional community college districts from the statutory requirements governing the establishment of a levy limit for counties, cities, towns, and community college districts that did not levy primary property taxes in the preceding year. The act requires the Property Tax Oversight Commission to set the levy limit for a provisional community college districts that did not levy a primary property tax in the prior year. Currently, there are only 2 provisional community college districts in the state: Gila County Community College District and Santa Cruz County Community College District. (Effective retroactively from May 16, 2010)

**Laws 2011, Chapter 342** allows the governing body of city or town with a population of between 25,000 and 40,000 to hold an election to authorize a budget override. The election must be held on or before November 6, 2012. If the secondary property tax levy is approved by voters, the levy must be in effect for at least 2 years, but not more than 7 years.

**Laws 2011, Chapter 344** increases Class B bonding capacity for school construction and other long-term capital needs from 10% to 20% of net assessed valuation for unified school districts and from 5% to 10% for other school districts for bonds approved by voters before April 15, 2011. Additionally, Chapter 344 allows school districts to seek voter approval to change spending plans for bonds already approved and extend from 6 to 10 years the time period to issue Class B Bonds authorized in 2009 and earlier.

**Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1** creates the Arizona Commerce Authority and provides several changes to income and property taxes, beginning in FY 2012. Below is a summary of the provisions that affect property taxes.

#### Elimination of Enterprise Zone Program

The Enterprise Zone program provides income tax credits and reduced property tax assessment ratios for employers located in certain designated areas within the state with high poverty and/or unemployment rates. Under Chapter 1, this program was allowed to sunset at the end of FY 2011, as scheduled under prior law. The repeal of the business property tax incentive is expected to save the General Fund an estimated \$0.5 million each year, beginning in FY 2012.

#### Reduction of Homeowner's Rebate Eligibility

Currently, the state subsidizes 40% of primary school district property taxes paid by homeowners, up to a maximum amount of \$600. Beginning in FY 2013, this provision reduces the General Fund cost of the rebate program by: (1) limiting the rebate to in-state residents and (2) requiring homeowners to submit an affidavit to their county assessor indicating that the home is their primary residence. Failure to submit the affidavit in a timely manner will result in the parcel being reclassified as rented or leased residential property, which does not qualify for the property tax rebate. This provision is expected to save the General Fund an estimated \$39.0 million annually, beginning in FY 2013.

#### Phase-Down of Class 1 (Commercial) Property Assessment Ratio

This provision of the act phases down the assessment ratio for Class 1 (commercial/industrial) property from 20% to 18% over 4 years, beginning in tax year 2013, as shown in the table below. The statewide NAV loss resulting from the Class 1 assessment reduction is expected to increase General Fund expenditures by \$3.4 million, beginning in FY 2014. When the assessment ratio reduction is fully implemented in FY 2017, the cost is estimated to be \$16.5 million.

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<b>Tax Year</b>	<b>Class 1</b>	<b>Class 1</b>
	<b>Assessment Ratio Under Current Law</b>	<b>Assessment Ratio Under Previous Law</b>
2013	19.5%	20.0%
2014	19.0%	20.0%
2015	18.5%	20.0%
2016	18.0%	20.0%

### Reduction of Class 2 (Agricultural) Property Assessment Ratio

This provision reduces the assessment ratio for Class 2 (agricultural/vacant land) property from 16% to 15% in FY 2017. The statewide NAV loss resulting from the Class 2 assessment reduction is expected to increase General Fund expenditures by \$2.4 million, beginning in FY 2017.

### Increase of Homeowner's Rebate Percentage

The Class 1 and Class 2 assessment ratio reductions under the act will result in a tax shift to Class 3 (owner-occupied residential) property owners. To hold homeowners harmless, the act increases the homeowner's rebate percentage from 40% to a higher percentage, as determined by the Department of Revenue in each year between FY 2014 and FY 2017. The higher rebate percentages are estimated to increase state costs for the rebate program by \$15.6 million in FY 2014, and grow to \$93.0 million (when fully implemented) in FY 2017.

### Increase of Business Personal Property Depreciation

Arizona law provides that business and agricultural personal property receive an additional allowance over and above the regular depreciation allowance. Beginning in FY 2013, Chapter 1 increases the amount of additional depreciation relative to prior law. The statewide NAV loss resulting from increased allowance of additional property depreciation is estimated to increase General Fund expenditures by \$4.8 million annually, beginning in FY 2013.

### Change of Business Personal Property Exemption Inflation Factor

The Arizona Constitution provides that personal property that is used for agricultural purposes, or in trade or business, be exempt from property taxation up to a maximum amount of \$50,000 in full cash value per taxpayer. This amount, however, is automatically adjusted for inflation each year, as measured by the Gross Domestic Product (GDP) Implicit Price Deflator. Beginning in FY 2013, this act replaces the GDP Implicit Price Deflator with the Employment Cost Index for purposes of calculating the inflation-adjusted exemption amount each year. This provision is expected to have a negligible impact on the General Fund over the next few years.

A summary of all the Chapter 1 fiscal impact provisions is displayed in the Corporate Income Tax section of the Tax Handbook (see *2011 Tax Laws*).

## **2010 TAX LAWS**

**Laws 2010, Chapter 158** exempted trap and skeet shooting clubs that provide training and hold competitions from taxation provided that the property is used for educational purposes and not used or held for profit. (Effective July 29, 2010)

**Laws 2010, Chapter 317** clarified that an accommodation school governing board cannot levy primary and secondary property taxes, and that the Property Tax Oversight Commission (PTOC) shall consider any amount of property tax levied by a county to support an accommodation school as part of the county's primary property tax levy. Additionally, the act also required PTOC to increase Pinal County's tax year 2009 maximum allowable levy limit by \$3,626,600. (Effective retroactively from July 1, 2010)

## **2009 TAX LAWS**

**Laws 2009, Chapter 87** provided that property leased to any non-profit charter school be classified for property tax purposes as class 9, with an assessment ratio of 1% of assessed value. (Effective September 30, 2009)

**Laws 2009, Chapter 96** provided income and property tax incentives for qualifying renewable energy companies that build headquarter or manufacturing facilities in the state from tax year 2010 to 2014. An income tax credit is

## Property Tax

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allowed for up to 10% of the capital investment, with an aggregate ceiling of \$70.0 million annually. The credit is refundable and must be received in 5 equal portions over a period of 5 consecutive tax years. Qualifying properties will also receive a class 6 property designation, which reduces the assessment ratio to 5% instead of the class 1 assessment ratio of 22% (declining to 20% over the next 2 years). The class 6 property designation remains in effect for 10 or 15 years, depending on the level of wages paid to employees of the facility in relation to the median wage of the state.

**Laws 2009, Chapter 101** modified the existing guidelines for the standard appraisal of solar energy devices. The act provides that energy efficient buildings components, renewable energy equipment, and combined heat and power systems add no value to property. (Effective September 30, 2009)

**Laws 2009, Chapter 118** established statutory levy limits for secondary property taxes levied by fire districts. The amount of the levy is limited to the lesser of: (1) 8% greater than the amount levied in the preceding year and (2) \$3.25 per \$100 net assessed valuation. For tax year 2010, fire districts were allowed to levy secondary property taxes that were 16% greater than the amount levied in tax year 2008.

**Laws 2009, Chapter 169** reduced the minimum value of personal property owned by telecommunications companies from 20% to 10% of cost. The act also requires the Department of Revenue to compute the depreciation of telecommunications property on a straight line basis. Chapter 169 is estimated to increase General Fund costs by as much as \$4.3 million, beginning in FY 2011. (Effective retroactively from January 1, 2009)

### 2008 TAX LAWS

**Laws 2008, Chapter 49** provided that up to 10 acres of land can be designated a homesite and assessed as Class 3 property. Additionally, if physical conditions or legal restrictions, including zoning, prevent a parcel from being subdivided, the act expanded the homesite designation to include up to 40 acres of land. Beginning in FY 2010, the act increases Arizona Department of Education (ADE) expenditures by an estimated \$0.6 million. (Effective January 1, 2009)

**Laws 2008, Chapter 65** clarified that interest begins to accrue on tax liens on the first day of the month following the purchase for both initial tax liens and subsequent tax liens. (Effective September 26, 2008)

**Laws 2008, Chapter 83** clarified that historic private burial sites and historic private cemeteries are exempt from property tax assessments. (Effective September 26, 2008)

**Laws 2008, Chapter 85** established financial mechanisms for a Flood Protection District to construct, reconstruct, replace, renovate, repair, or acquire a flood protection facility. The financial mechanisms include property assessments and the authority to issue improvement bonds. (Effective September 26, 2008)

**Laws 2008, Chapter 174** contained an emergency measure that allows a county board of supervisors to sell tax deeds of delinquent property held by the state to the owner of the adjoining property, under certain conditions. (Effective May 8, 2008)

**Laws 2008, Chapter 178** increased the maximum number of rooms (from 4 to 6) that an owner-occupied bed and breakfast establishment is allowed to operate to qualify for the Class 4 assessment ratio. The fiscal impact is unknown. (Effective September 26, 2008)

**Laws 2008, Chapter 252** clarified that property owned by a nonprofit charter school and used for educational purposes is exempt from property tax beginning on the date that the nonprofit organization acquired the property. (Effective September 26, 2008)

**Laws 2008, Chapter 306** extended the valuation method for "renewable energy equipment" from 2011 to 2040. Additionally, the act provided that for residential properties (Class 3 and 4) that produce energy primarily for on-site consumption using "renewable energy systems," such devices will not be considered to add value to the property. (Effective September 26, 2008)

## Property Tax

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### 2007 TAX LAWS

**Laws 2007, Chapter 37** increased the maximum per diem compensation from \$150 to \$300 for hearing officers employed by the State Board of Equalization. (Effective September 19, 2007)

**Laws 2007, Chapter 104** modified the appeals process for agricultural land classification and changed the valuation determination for land splits or consolidations resulting from a government action. (Effective September 19, 2007)

**Laws 2007, Chapter 117** prescribed the process for allocating the taxes due on a property that was split or consolidated after the tax roll was submitted to the county treasurer. (Effective September 19, 2007)

**Laws 2007, Chapter 193** changed the requirements and process regarding the sale of land held by the state under a tax lien. (Effective September 19, 2007)

**Laws 2007, Chapter 203** provided that the value of land used by an electric generation facility is to be determined by the Department of Revenue, as opposed to the county assessor, and that such value is the cost to the current owner as of December 31 of the preceding calendar year. The bill defined “electric generation facility” to include all land, buildings, and personal property used for generation of electric power. (Effective retroactively from January 1, 2007)

**Laws 2007, Chapter 258** reduced property taxes paid by businesses by: (1) modifying the accelerated depreciation schedule for personal property and (2) accelerating the assessment ratio reduction of Class 1 property originally enacted under Laws 2005, Chapter 302.

#### Accelerated Depreciation of Business Personal Property

The new accelerated depreciation schedule under Laws 2007, Chapter 258, which is shown in the table below, applies to personal property initially classified during or after tax year 2008. Beginning in FY 2009, this provision of the act is expected to increase Arizona Department of Education (ADE) expenditures by an estimated \$4.0 million.

<u>Year of Assessment</u>	<u>Percentage of Scheduled Depreciated Value Under Current Law</u>	<u>Percentage of Scheduled Depreciated Value Under Previous Law</u>
1 <sup>st</sup>	30%	35%
2 <sup>nd</sup>	46%	51%
3 <sup>rd</sup>	62%	67%
4 <sup>th</sup>	78%	83%
5 <sup>th</sup>	94%	100%
6 <sup>th</sup>	100%	100%

The term “scheduled depreciated value” refers to a personal property item’s value after normal depreciation but before applying additional (or “accelerated”) depreciation. For example, if DOR’s valuation table indicates that a \$2,000 personal computer has an economic life of 4 years and will depreciate by 50% in its first year of use, then the computer’s scheduled depreciated value in the first year of its assessment is \$1,000. Laws 2007, Chapter 258 accelerates the depreciation of the computer by reducing its full cash value to \$300 (30% of its scheduled depreciated value of \$1,000).

#### Acceleration of Class 1 Property Assessment Ratio Reduction

Laws 2005, Chapter 302 reduced the assessment ratio for Class 1 (commercial and industrial) property from 25% to 20% over 10 years. Laws 2007, Chapter 258 accelerates the scheduled Class 1 assessment ratio reduction by 4 years. Thus, the Class 1 assessment ratio phase-down will be completed in tax year 2011 as opposed to in tax year 2015, as shown in the table below. Beginning in FY 2009, this provision of the bill is expected to increase ADE expenditures by an estimated \$3.0 million.

## Property Tax

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<u>Tax Year</u>	Class 1	Class 1
	<u>Assessment Ratio Under Current Law</u>	<u>Assessment Ratio Under Previous Law</u>
2005	25.0%	25.0%
2006	24.5%	24.5%
2007	24.0%	24.0%
2008	23.0%	23.5%
2009	22.0%	23.0%
2010	21.0%	22.5%
2011	20.0%	22.0%
2012	20.0%	21.5%
2013	20.0%	21.0%
2014	20.0%	20.5%
2015	20.0%	20.0%

### 2006 TAX LAWS

**Proposition 101**, which was approved by voters in the November 2006 General Election, changed the base year used to calculate the levy limits of cities, towns, counties, and community colleges from 1980 to 2005. By resetting the base year to 2005, Proposition 101 eliminated any unused taxing capacity of such taxing jurisdictions as of tax year 2005. This measure was not expected to have any direct impact on the state General Fund.

**Laws 2006, Chapter 38** required the Department of Revenue to consider obsolescence in the valuation of telecommunications property. (Effective September 21, 2006)

**Laws 2006, Chapter 134** provided several changes to the procedures of county treasurers, including clarifying the legal interest rate the treasurer must pay on tax corrections, requiring electronic transmission of taxes for certain taxpayers and allowing personal property to be subject to abatement. (Effective September 21, 2006)

**Laws 2006, Chapter 143** made several clarifications and changes regarding property valuation and appeals. For example, the bill clarified that county assessors cannot change the property values used for the calculation of levy limits and tax rates after February 10 without the approval of the Property Tax Oversight Commission. In addition, the bill established an Elderly Assistance Fund in Maricopa County for the purpose of reducing the primary property tax rates of all taxpayers who live in an organized district and are approved for the senior property valuation freeze. (Effective September 21, 2006)

**Laws 2006, Chapter 170** required the county assessor to use the valuation or change in classification of a property for the next year's valuation if, upon judicial appeal, the property valuation is reduced. The assessor was already required by statute to use the reduced valuation or change in classification upon administrative appeal. (Effective September 21, 2006)

**Laws 2006, Chapter 285** required county assessors to include a separate statement as an addendum to the assessment notice informing property owners that if a property is used for residential rental purposes, the property must be listed as a class 4 and be registered with the county assessor or the owner may be subject to a penalty. (Effective September 21, 2006)

**Laws 2006, Chapter 322** allowed county assessors to enter into intergovernmental agreements with the Department of Revenue (DOR) for a coordinated and comprehensive review of information regarding identification of properties that may be misclassified as Class 3 (owner-occupied residential) instead of Class 4 (rental residential). The bill required DOR to monitor and review procedures and practices used by the county assessors for the verification of Class 3 properties and to issue a report of its findings to the Governor and Legislature by November 15 each year. (Effective September 21, 2006)

**Laws 2006, Chapter 323** provided a property tax exemption for permanent improvements constructed on property owned by and leased from an agricultural improvement district. The fiscal impact of this bill is unknown. (Effective September 21, 2006)

## Property Tax

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**Laws 2006, Chapter 327** clarified the exemption for non-profit property used for health care and provided that the exemption is retroactive from January 1, 2000. The bill was estimated to result in increased Arizona Department of Education (ADE) expenditures of \$60,000 in FY 2007. (Effective retroactively from January 1, 2000)

**Laws 2006, Chapter 332** increased the membership of the State Board of Equalization (SBOE) from 17 to 33 members. The bill also prohibits a member of SBOE, other than the chairperson, from having been employed by a county assessor, county attorney, the Department of Revenue, or the Attorney General's Office within the last 2 years. (Effective September 21, 2006)

**Laws 2006, Chapter 333** stipulated that solar energy devices are to be considered as adding no value to property. The amount of property tax revenue that will be foregone by state and local governments under this provision is unknown. The bill also contained provisions that will affect income tax and prime contracting tax revenues. (Effective retroactively from January 1, 2006)

**Laws 2006, Chapter 354** suspended the state equalization assistance for education property tax for tax years 2006 through 2008. It also changed the base year for computing levy limits for primary property taxes from 1980 to 2005. This eliminated any unused growth in levy limit taxing capacity that had accumulated since 1980. In addition, Chapter 354 eliminated the use of "special elections" that are scheduled at times other than the November general election to authorize secondary property taxes and required publicity pamphlets for bond elections to provide an estimate of the tax impact of the bond both per year and also over the life of the bond (versus only per year currently). The act renamed the county equalization assistance for education tax rate as the "state equalization assistance property tax rate." (Contained various effective dates) See Individual Income Tax section for other changes.

The provision that suspended the state equalization property tax for 3 years was expected to increase Arizona Department of Education (ADE) expenditures by \$215.2 million in FY 2007, \$226.0 million in FY 2008, and \$239.6 million in FY 2009.

**Laws 2006, Chapter 387** extended the Enterprise Zone Program until June 30, 2011 and modified some of its qualification requirements. The fiscal impact of this bill is unknown. (Effective retroactively from July 1, 2006)

**Laws 2006, Chapter 388** classified real and personal property and improvements used to produce bio-diesel fuel as Class 6 property, which qualifies for a 5% assessment ratio versus 25% for most commercial property. (Class 6 also includes properties such as noncommercial historic property, foreign trade zone property, and qualifying environmental remediation property.) The fiscal impact of this provision of the bill is unknown. (Effective January 1, 2007)

**Laws 2006, Chapter 391** established a public hearing committee process for property tax guidelines, tables and manuals drafted, amended, or modified by the Department of Revenue. (Effective January 1, 2007)

**Laws 2006, Chapter 392** exempted the following property from taxation: (1) property owned by a non-profit religious or charitable organization that is leased to a non-profit educational organization and is used for educational instruction in any grade or program through grade 12, and (2) rental property owned and operated by a non-profit organization that is used as an assisted living facility for low-income elderly residents. The fiscal impact of the 2 property tax exemptions is unknown. (Effective September 21, 2006)

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# **LUXURY TAXES AND LICENSES**

# LUXURY TAX ON CIGARETTES AND TOBACCO

## DESCRIPTION

The luxury tax on cigarettes and tobacco is imposed on cigarettes, cigars, cavendish, and chewing tobacco. A luxury tax is a tax levied on items that are normally considered a luxury rather than a necessity. The tax rate varies by product, with the rate for the largest revenue producer, cigarettes, set at \$2.00 per pack of 20. The majority of revenues from this tax are dedicated to health care programs.

## DISTRIBUTION

Revenues from the luxury tax on cigarettes and tobacco are distributed as follows:

### Tax on Cigarettes

Of the \$2.00 tax, 18¢ is distributed as part of the general tax rate for the following purposes:

- *Corrections Fund.* 2¢ of the 18¢ general tax rate per pack of 20 cigarettes is deposited in the Corrections Fund [A.R.S. § 42-3104].
- *General Fund.* The remaining 16¢ of the 18¢ general tax rate per pack of 20 cigarettes is deposited in the General Fund [A.R.S. § 42-3102].
- *State School Aid.* 19.44% of general cigarette tax collections is allocated to state school aid. The 16¢ General Fund distribution described above is presumed to contribute to the existing General Fund appropriation for state school aid [A.R.S. § 42-3103].

\$1.00 of the \$2.00 cigarette tax is dedicated to health care and distributed to the following funds and their subaccounts:

- *Tobacco Tax and Health Care Fund.* 40¢ is distributed to the following accounts of the Tobacco Tax and Health Care Fund [A.R.S. § 36-771, § 42-3251, § 42-3252, § 42-3302]. While the 40¢ tax was originally created by Proposition 200 in 1994, it was re-enacted by Proposition 200 in 2000. While the 40¢ tax was re-enacted, Proposition 200 in 2000 did not recreate the accounts. As a result, the distributions are governed by the 1994 ballot proposition and are as follows:
  - a. Medically Needy Account – 70% of revenues, to provide health care services for those who cannot afford these services [A.R.S. § 36-774]. Created by Proposition 200 in 1994.
  - b. Health Education Account – 23% of revenues, for the prevention and reduction of tobacco use [A.R.S. § 36-772]. Created by Proposition 200 in 1994.
  - c. Health Research Account – 5% of revenues, for research on preventing and treating tobacco-related disease and addiction [A.R.S. § 36-773]. Created by Proposition 200 in 1994.
  - d. Corrections Fund Adjustment Account – 2% of revenues, to compensate the Corrections Fund for decreases in general cigarette tax revenues resulting from the levy of the cigarette tax dedicated to health care [A.R.S. § 36-775]. The distribution, when combined with existing tobacco tax revenues to the Corrections Fund, cannot exceed the FY 1994 tobacco tax revenues to the Corrections Fund. Any revenues in excess of this amount are deposited into the General Fund. Created by Proposition 200 in 1994.
- *Tobacco Products Tax Fund.* Under the provisions of Proposition 303 in 2002, 60¢ is distributed to the following accounts of the Tobacco Products Tax Fund [A.R.S. § 36-770, § 42-3251.01, § 42-3302]. :
  - a. Proposition 204 Protection Account – 42% of revenues, to implement and fund the programs established by Proposition 204 in the 2000 General Election [A.R.S. § 36-778]. Created by Proposition 303.
  - b. Medically Needy Account – 27% of revenues, to provide health care services for those who cannot afford these services [A.R.S. § 36-774].
  - c. Emergency Health Services Account – 20% of revenues, to provide reimbursement of uncompensated care, primary care services, and trauma center readiness costs [A.R.S. § 36-776]. Created by Proposition 303.

## Luxury Tax on Cigarettes and Tobacco

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- d. Health Education Account – 2% of revenues, for the prevention and early detection of the 4 leading causes of death in Arizona [A.R.S. § 36-772]. Created by Proposition 303.
- e. Health Research Fund – 5% of revenues, for health research [A.R.S. § 36-275].
- f. Health Care Adjustment Account – 4% of revenues, to compensate the subaccounts of the Tobacco Tax and Health Care Fund for decreases in cigarette tax revenues resulting from the levy of this portion of the cigarette tax [A.R.S. § 36-777]. Created by Proposition 303.

Of the \$2.00 cigarette tax, Proposition 302 in 2006 dedicated 80¢ to childhood development and health, which is deposited into the following fund and its subaccounts:

- *Early Childhood Development and Health Fund.* Monies are distributed to the following accounts of the Early Childhood Development and Health Fund [A.R.S. § 42-3371, A.R.S. § 8-1181]:
  - a. Program Account – 90% of revenues, to improve the quality and availability of health and education programs for pre-kindergarten children and their families who otherwise have limited access to such services [A.R.S. § 8-1181, A.R.S. § 8-1171].
  - b. Administrative Costs Account – 10% of revenues, to cover the administrative costs of the Arizona Early Childhood Development and Health Board [A.R.S. § 8-1181].

Under the provisions of Proposition 201 in 2006, the remaining 2¢ of the \$2.00 tax is distributed for the following purpose:

- *Smoke-Free Arizona Fund.* Revenues are used to enforce the provisions of the Smoke-Free Arizona Act with any unexpended monies being deposited in the Tobacco Products Tax Fund to be used for education programs to reduce and eliminate tobacco use [A.R.S. § 42-3251.02, A.R.S. § 36-601.01].

### Tax on Tobacco, Cavendish, and Cigars

Apart from the \$2.00 cigarette tax, tobacco, cavendish, and cigars are taxed at different rates (*See Table 3*).

All of the general tax rate collections are distributed as follows :

- *Corrections Fund.* 50% of all general tax rate collections from the tax on tobacco products is deposited in the Corrections Fund [A.R.S. § 42-3104].
- *General Fund.* The remaining general tax rate collections from the tax on tobacco products is deposited in the General Fund [A.R.S. § 42-3102].

All monies collected from the 1994 Tobacco Tax and Health Care Tax, the 2002 Tobacco Product Tax, and the 2006 Early Childhood Development and Health Tax are distributed into their relevant funds. The 2006 Smoke Free Arizona Tax only applies to cigarettes.

## Luxury Tax on Cigarettes and Tobacco

Table 1

### CIGARETTE AND TOBACCO TAX COLLECTIONS AND DISTRIBUTION

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Corrections Fund</u>	<u>TTHCF</u> <sup>1/</sup>	<u>TPTF</u> <sup>2/</sup>	<u>ECDHF</u> <sup>3/</sup>	<u>SFAF</u> <sup>4/</sup>	<u>Total</u>
FY 2012	\$24,931,105	\$5,142,535	\$65,665,913	\$90,953,118	\$129,391,158	\$3,043,448	\$319,127,277
FY 2011	\$25,066,894	\$5,230,772	\$68,781,910	\$95,586,289	\$130,083,235	\$3,058,479	\$327,807,579
FY 2010	\$25,810,438	\$5,307,048	\$69,089,344	\$96,335,427	\$133,118,902	\$3,888,483	\$333,549,642
FY 2009	\$29,080,647	\$5,129,852	\$76,972,057	\$108,934,079	\$151,363,815	\$2,868,990	\$374,349,440
FY 2008	\$32,467,344	\$6,206,674	\$83,868,465	\$116,127,254	\$164,805,113	\$3,946,308	\$407,421,158
FY 2007	\$37,558,776	\$6,206,673	\$100,500,062	\$137,624,178	\$74,445,246	\$1,778,847	\$358,121,881
FY 2006	\$39,578,709	\$6,206,674	\$106,821,045	\$145,399,774			\$298,006,202
FY 2005	\$38,360,552	\$6,206,608	\$102,310,127	\$138,521,611			\$285,398,898
FY 2004	\$36,757,081	\$6,206,674	\$98,163,310	\$133,563,168			\$275,104,562
FY 2003	\$41,174,667	\$6,206,674	\$105,027,137	\$59,938,321			\$212,346,799
FY 2002	\$43,206,460	\$6,206,674	\$108,177,154				\$157,590,288
FY 2001	\$43,124,883	\$6,206,674	\$108,709,176				\$158,040,733
FY 2000	\$43,446,233	\$6,196,674	\$109,786,025				\$159,428,932
FY 1999	\$43,895,551	\$6,206,674	\$112,735,957				\$162,838,182
FY 1998	\$44,443,108	\$6,206,674	\$114,104,507				\$164,754,289
FY 1997	\$43,676,616	\$6,206,675	\$115,961,006				\$165,844,297
FY 1996	\$45,461,621	\$6,206,673	\$119,127,689				\$170,795,983
FY 1995	\$47,728,667	\$6,837,337	\$54,623,325				\$109,189,329
FY 1994	\$46,870,529	\$6,206,674					\$53,077,203
FY 1993	\$47,385,665	\$6,261,724					\$53,647,389

<sup>1/</sup> Tobacco Tax and Health Care Fund (Proposition 200 in 1994. The distribution was altered in Laws 2007, Chapter 150).

<sup>2/</sup> Tobacco Products Tax Fund (Proposition 303 in 2002).

<sup>3/</sup> Early Childhood Development and Health Fund (Proposition 302 in 2006).

<sup>4/</sup> Smoke-Free Arizona Fund (Proposition 201 in 2006).

SOURCE: Department of Revenue, Luxury Tax Section.

### WHO PAYS THE TAX

Licensed distributors of cigars and other tobacco products besides cigarettes submit tax payments together with a monthly return [A.R.S. § 42-3208]. Licensed distributors of cigarettes pay the tax through the purchase of tax stamps from the Department of Revenue.

Every pack of cigarettes sold in Arizona must bear a stamp as a method of providing proof that a retailer or distributor is in compliance with Arizona's luxury tax laws [A.R.S. § 42-3201 and § 42-3202]. There are 3 categories of stamps that are sold by the Department of Revenue to distributors, each with a different tax rate: Blue stamps are \$2.00 and include all cigarette taxes; Red stamps cost \$1.00 and include only the 40¢ and 60¢ health care taxes; and Green stamps cost \$0.00. Green and Red Stamps are used only on tribal reservations.

The 40¢ tax (per package of 20 cigarettes) and the 60¢ tax per package are direct taxes on the consumer and are to be collected and paid to the Department of Revenue by the distributors [A.R.S. § 42-3303]. The 18¢ general tax rate per package is considered to be a tax on the seller. Every pack of cigarettes sold, except for those sold on Tribal Reservations, bears a Blue stamp.

The type of stamp sold to distributors on Tribal Reservations varies depending on 2 factors: 1) whether the consumer is an enrolled member of the Indian Tribe or the consumer is a member of the general public; 2) whether the seller is a tribal member of the reservation in which it is conducting business or the seller is a non-tribal member licensed by the federal government to sell goods and services on the reservation.

Cigarette purchases by tribal members on their own reservations are exempt from state taxes, regardless of seller classification. These sales require a Green stamp. Statute gives Indian tribes the ability to levy their own tax on

## Luxury Tax on Cigarettes and Tobacco

tobacco sales. This provision allows the tribe to retain the funding collected from the optional tax and does not specify how the tribe should spend the revenues collected. If the tribe voluntarily elects to impose its own tax, a Red stamp purchase is required, with the purchase reimbursed to the tribe by the Department of Revenue.

Cigarette sales on Tribal Reservations to non-members require either a \$2.00 Blue or \$1.00 Red stamp, depending on the seller. Federally-licensed, non-tribal member sellers are required to purchase Blue stamps, meaning all \$2.00 in state taxes are applied to packs of cigarettes sold by these vendors. Tribal member sellers are required to purchase Red stamps, meaning only \$1.00 in state health care related cigarette taxes are included. If the tribe has elected to impose its own tobacco tax, the amount of the tax collected (up to \$1.00) is retained by the tribe and not deposited into the state health care accounts. Tribal member sellers are exempt from paying the 18¢ general, the 80¢ Early Childhood Development, and 2¢ Smoke-Free Arizona tax rates when selling to non-tribal members. A December 2006 Attorney General Legal Opinion determined that the Early Childhood Development and Smoke-Free Arizona taxes could be levied on tribal reservation cigarettes sold only by federally-licensed, non-tribal member sellers, in addition to the general cigarette tax rate. *Table 2* displays the stamp assignments by customer and seller classifications.

**Table 2**

### CIGARETTE STAMP ASSIGNMENTS

<u>Seller</u>	<u>Indian Tribe Member</u>	<u>All Other Consumers</u>
All Vendors not on a Reservation	\$2 Blue Stamp	\$2 Blue Stamp
Tribal Member Retailer	\$0 Green or \$1 Red Stamp <sup>1/</sup>	\$1 Red Stamp <sup>1/</sup>
Federally-Licensed Non-Tribal Seller	\$0 Green or \$1 Red Stamp <sup>1/</sup>	\$2 Blue Stamp

<sup>1/</sup> If the tribe has elected to impose its own tobacco tax, the amount of the tax collected (up to \$1.00) is retained by the tribe and not deposited into the state health care accounts.

If the tribe imposes its own tax on cigarettes, the taxes collected by the state for cigarette sales on reservations will be levied at a rate that is the difference between the rate the state would otherwise levy and what the tribe imposes [A.R.S. § 42-3302]. The offset applies only to the \$1.00 in taxes collected for each pack sold that are dedicated to the Tobacco Tax and Health Care Fund (40¢) and to the Tobacco Products Tax Fund (60¢) [A.R.S. § 42-3302]. To date, 5 reservations have not enacted a tribal tax on cigarettes and 14 reservations have enacted taxes that offset all or a part of the \$1.00 per pack of state cigarettes taxes dedicated to health care.

The tax treatment of other tobacco products is similar to the treatment of cigarettes described above, with the tax rates detailed below in *Table 3*.

### TAX BASE AND RATE

The tax base consists of the following products [A.R.S. § 42-3052]:

- Cigarettes.
- Tobacco. Includes smoking tobacco, snuff, fine cut chewing tobacco, cut and granulated tobacco, shorts and refuse of fine cut chewing tobacco, and refuse, scraps, clippings, cuttings, and sweepings of tobacco.
- Cavendish. Includes plug or twist tobacco.
- Small cigars. Not weighing more than 3 pounds per 1,000.
- Large cigars 5¢ or less. Weighing more than 3 pounds per 1,000 and retailing at 5¢ or less.
- Large cigars more than 5¢. Weighing more than 3 pounds per 1,000 and retailing at more than 5¢ each.

The tax rates are as follows [A.R.S. § 42-3052, § 42-3251, § 42-3251.01, § 42-3251.02, and § 42-3371]:

## Luxury Tax on Cigarettes and Tobacco

Table 3

### TOBACCO PRODUCT TAX RATES

<b>Item</b>	<b>General Tax Rate</b>	<b>1994 TTHCF <sup>1/</sup></b>	<b>2002 TPTF <sup>1/</sup></b>	<b>2006 ECDHF</b>	<b>2006 SFAF</b>	<b>Total Tax Rate</b>
Cigarettes (per pack of 20)	18¢	40¢	60¢	80¢	2¢	\$2.00
Tobacco per ounce	2¢	4.5¢	6.75¢	9¢	--	22.25¢
Cavendish per ounce	0.5¢	1.1¢	1.65¢	2.2¢	--	5.45¢
Small Cigars per 20	4¢	8.9¢	13.35¢	17.8¢	--	44.05¢
Large cigars 5¢ or less (per 3)	2¢	4.4¢	6.6¢	8.8¢	--	21.8¢
Large cigars more than 5¢	2¢	4.4¢	6.6¢	8.8¢	--	21.8¢

<sup>1/</sup> Tax Rates Dedicated to Health Care.

Tobacco powder or tobacco products used exclusively for agricultural or horticultural purposes and unfit for human consumption are exempt from this tax [A.R.S. § 42-3052].

### PAYMENT SCHEDULE

Licensed distributors of cigarettes pay the luxury tax on cigarettes when they purchase a stamp from the Department of Revenue [A.R.S. § 42-3202]. Licensed distributors of cigars or tobacco products other than cigarettes must pay the tax to the Department of Revenue monthly on or before the 20th day of the next month succeeding the month in which the tax accrues. Failure to pay the tax within 10 days of the due date will result in penalty and interest charges from the time the tax was due until paid [A.R.S. § 42-3208].

### IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in 2007, 2009, 2010, and 2012.

#### 2011 TAX LAWS

**Laws 2011, Chapter 255** allows for the creation of a Tobacco Revenue Use and Spending Commission on or before January 1, 2012 to evaluate if tobacco monies are being spent in accordance with statute.

#### 2008 TAX LAWS

**Laws 2008, Chapter 38** provided clarification regarding the proper method for stamping cigarette packages. This law allows cigarette packs that do not have an affixed stamp but have legible serial numbers, are part of an unopened pallet or carton that contains properly stamped packets, or are accounted for through records to be in compliance with the law so long as the distributor is found to be substantially in compliance with the other provisions of Chapter 42 of the Arizona Revised Statutes.

#### 2006 TAX LAWS

**Proposition 201**, passed by voters in the 2006 General Election, levied an additional tax on all cigarettes equivalent to 2¢ per pack of 20 cigarettes. The Proposition directed that revenue be deposited in the Smoke-Free Arizona Fund to be used by the Department of Health Services to enforce the Smoke-Free Arizona Act. Any unexpended monies from the Smoke-Free Arizona Fund are to be deposited in the Tobacco Products Tax Fund to be used for education programs to reduce and eliminate tobacco use. See *Table 1* for deposits into the Smoke-Free Arizona Fund since the implementation of this tax in December 2006. A subsequent Attorney General Opinion determined in December

## **Luxury Tax on Cigarettes and Tobacco**

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2006 that the 2¢ per pack tax could be levied on tribal reservation cigarettes sold only by federally-licensed, non-tribal member retailers, thereby exempting tribal member sellers from the tax.

**Proposition 203**, passed by voters in the 2006 General Election, levied an additional tax on all cigarettes and tobacco equal to twice the tax prescribed in A.R.S. § 42-3251, paragraphs 1 through 5. This additional tax is equal to 80¢ per pack of 20 cigarettes. The Proposition directed that the revenues be deposited into the Early Childhood Development and Health Fund and its 2 subaccounts for the purpose of improving the quality and availability of health and education programs for pre-kindergarten children and their families who otherwise have limited access to such services. The revenues also cover the administrative costs of the newly-established Arizona Early Childhood Development and Health Board. See *Table 1* for deposits into the Early Childhood Development and Health Fund since the implementation of this tax in December 2006. A subsequent Attorney General Opinion determined in December 2006 that the 80¢ per pack tax could be levied on tribal reservation cigarettes sold only by federally-licensed, non-tribal member retailers, thereby exempting tribal member sellers from the tax.

**Laws 2006, Chapter 278** strengthened administrative and enforcement provisions of tobacco tax laws. The act increased civil penalties and elevated the severity of criminal offenses for tobacco tax evasion and fraud. The act likewise expanded the procedures governing the seizure and forfeiture of untaxed tobacco products, adding new license and license renewal requirements as well as expanding cigarette distributor, manufacturer, and importer filing obligations and created requirements for maintaining storage and transaction records. The act also exempted the imposition of tobacco taxes on sales of tobacco products to the U.S. Veterans' Administration, U.S. military exchanges and commissaries, law enforcement agencies for use in criminal investigations, and common carriers engaged in foreign passenger service. (Effective September 30, 2006)

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# LUXURY TAX ON LIQUOR

## DESCRIPTION

The luxury tax on liquor is levied on wholesalers of spirituous, vinous, and malt liquors.

## DISTRIBUTION

Revenues from this tax are distributed among several funds, including:

*State School Aid.* 1.17% of spirituous liquor tax collections and 14% of tax collections from vinous liquor with a high alcohol content (over 24%) are allocated for state school aid. In practice, these monies are deposited in the General Fund, which in turn funds state school aid. [A.R.S. § 42-3103]

*Corrections Fund.* 20% of the monies collected from spirituous liquor and 50% of the monies collected from vinous and malt liquors are deposited in the Corrections Fund, effective through June 30, 2015 [A.R.S. § 42-3104].

*Wine Promotional Fund.* The statute establishing this fund was repealed by Laws 2005, Chapter 11 (effective August 12, 2005). Prior to that, the first \$100,000 of monies collected from vinous liquor with low alcohol content attributable to domestic farm wineries or an in-state producer was deposited into the Wine Promotional Fund.

*Drug Treatment and Education Fund.* 7% of the monies collected from spirituous liquor and 18% of the monies collected from vinous and malt liquors are deposited in the Drug Treatment and Education Fund of the Arizona Judiciary [A.R.S. § 42-3106A].

*Corrections Revolving Fund.* 3% of the monies collected from spirituous liquor and 7% of the monies collected from vinous and malt liquors are deposited in a revolving fund of the Department of Corrections [A.R.S. § 42-3106B].

*General Fund.* All remaining tax monies are deposited in the General Fund [A.R.S. § 42-3102].

## WHO PAYS THE TAX

The luxury tax on liquor is added to the sales price of liquor items and is paid by:

- Wholesalers who purchase malt liquors for resale within Arizona [A.R.S. § 42-3353A].
- Wholesalers who sell spirituous liquors within Arizona [A.R.S. § 42-3354 A].
- Every domestic farm winery or microbrewery that sells vinous or malt liquor at retail or to certain licensees. [A.R.S. § 42-3355].
- Wholesalers who purchase vinous liquors for resale within Arizona before January 1, 2007, and wholesalers who sell vinous liquors within Arizona beginning January 1, 2007 [A.R.S. § 42-3353B and § 42-3354B].

## TAX BASE AND RATE

The following is the tax base and rate for each liquor type [A.R.S. § 42-3052]. A proportionate rate is applied to each liquor type for greater or lesser quantities:

- *Spirituos liquor.* \$3 per gallon. Examples of spirituous liquor include whiskey and vodka.
- *Vinous Liquor with High Alcohol Content.* \$0.25 on each container of 8 ounces or less of vinous liquor having an alcohol content of greater than 24%. Containers exceeding 8 ounces are taxed at a rate of \$0.25 per 8 ounces. An example of vinous liquor at this alcohol content level is brandy. According to the Department of Revenue, no revenue has been collected from this tax in recent years.
- *Vinous Liquor with Low Alcohol Content.* \$0.84 per gallon on each container of vinous liquor with an alcohol content of 24% or less, except cider. An example of vinous liquor at this alcohol content level is white wine.
- *Malt Liquor.* \$0.16 on each gallon of malt liquor or cider. Examples of malt liquor are beer and cider.

## Luxury Tax on Liquor

Table 1

### TAX COLLECTIONS AND DISTRIBUTION

<u>Fiscal Year</u>	<u>General Fund</u> <sup>1/</sup>	<u>Corrections Fund</u>	<u>Wine Promotional Fund</u> <sup>2/</sup>	<u>Corrections Revolving Fund</u>	<u>Drug Treatment &amp; Education Fund</u>	<u>Total Collections</u>
FY 2012	\$31,425,990	\$24,635,454	\$0	\$3,512,658	\$8,805,069	\$68,379,171
FY 2011	\$28,532,514	\$23,221,811	\$0	\$3,307,459	\$8,303,445	\$63,365,229
FY 2010	\$29,541,822	\$23,918,010	\$0	\$3,407,130	\$8,551,873	\$65,418,835
FY 2009	\$28,797,539	\$23,587,644	\$0	\$3,358,868	\$8,434,654	\$64,178,705
FY 2008	\$28,562,812	\$23,976,492	\$29,003	\$3,411,936	\$8,576,309	\$64,556,552
FY 2007	\$28,277,919	\$23,273,991	\$35,965	\$3,313,708	\$8,323,288	\$63,188,906
FY 2006	\$27,192,240	\$22,636,747	\$38,481	\$3,221,929	\$8,096,444	\$61,147,360
FY 2005	\$26,085,548	\$22,068,568	\$34,667	\$3,139,770	\$7,894,513	\$59,223,067
FY 2004	\$24,543,937	\$20,938,588	\$27,995	\$2,978,318	\$7,490,976	\$55,979,814
FY 2003	\$23,412,284	\$20,419,376	\$25,497	\$2,902,721	\$7,306,966	\$54,066,844
FY 2002	\$22,863,127	\$19,836,567	\$23,391	\$2,820,269	\$7,098,014	\$52,641,368
FY 2001	\$22,443,910	\$19,294,778	\$21,278	\$2,743,924	\$6,903,464	\$51,407,354
FY 2000	\$21,989,911	\$19,274,703	\$21,197	\$2,739,633	\$6,897,717	\$50,923,161
FY 1999	\$20,874,947	\$18,176,293	\$14,595	\$2,583,453	\$6,502,823	\$48,152,111
FY 1998	\$19,986,517	\$17,435,389	\$9,306	\$2,477,227	\$6,235,814	\$46,144,253
FY 1997	\$23,663,919	\$17,051,956	\$9,542	\$1,242,158	\$3,124,761	\$45,092,336
FY 1996	\$27,791,380	\$16,947,743	\$10,233			\$44,749,356
FY 1995	\$26,311,189	\$15,714,326	\$8,299			\$42,033,814
FY 1994	\$26,462,911	\$15,792,486	\$7,536			\$42,262,933
FY 1993	\$25,684,226	\$15,166,158				\$40,850,384

<sup>1/</sup> Includes funds to be used for state school aid.

<sup>2/</sup> Monies collected for this fund were transferred quarterly by the Government Accounting Office to the Department of Commerce to pay back an outstanding loan the now defunct Wine Commission had taken from the Commerce Economic Development Fund. The statute establishing the Wine Promotion Fund was repealed by Laws 2005, Chapter 11.

SOURCE: Department of Revenue, Annual Reports.

### PAYMENT SCHEDULE

Wholesalers, domestic farm wineries, and domestic microbreweries must submit a return and pay the luxury tax on liquor to the Department of Revenue monthly on or before the 20th day of the month following the month in which the tax accrues. The tax must be paid within 10 days of the due date to avoid penalty and interest charges [A.R.S. § 42-3353 and § 42-3354].

### IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in 2007, 2009, 2010, 2011, and 2012.

### 2008 TAX LAWS

**Laws 2008, Chapter 60** amends A.R.S. § 4-205.08 to state that microbreweries will be responsible for paying the relevant luxury tax on the liquor that is produced. This law clarifies A.R.S. § 42-3355, which requires microbreweries to pay luxury tax.

## Luxury Tax on Liquor

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### 2006 TAX LAWS

**Laws 2006, Chapter 302** bifurcates domestic microbrewery and farm winery regulatory provisions in statute. The licensing conditions and requirements for domestic microbreweries and farm wineries were previously contained in the same section of statute, A.R.S. § 4-205.04. The act deleted all references to domestic microbreweries in that section and added A.R.S. § 4-205.08 to specifically address domestic microbreweries. Within A.R.S. § 4-205.08 the act also amends regulatory provisions to allow domestic microbreweries licensed in Arizona to sell and deliver beer to entities licensed in other states and licensed retailers in Arizona. The act also halves the minimum amount of beer a microbrewery must produce annually to possess a microbrewery license and doubled the maximum amount of beer a microbrewery may produce without having to apply for a producer's license.

**Laws 2006, Chapter 310** amended domestic farm winery regulations. The act eliminated the requirement that licensed domestic farm wineries produce wine containing 75% of grapes and other agricultural products grown in the state, allowing wineries to acquire agricultural ingredients from anywhere. The act reduced by almost half the annual amount of wine a domestic farm winery may produce without having to apply for a producer's license. The act also permits wineries that produce less than 20,000 gallons of wine a year to make sales and deliveries to retailers and consumers.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# ALCOHOLIC BEVERAGE LICENSE FEES

## DESCRIPTION

Alcoholic beverage license fees are charged to sellers and producers of these beverages. Fees are charged for original licenses, license renewals, and transfers of licenses. The number of original licenses granted per county is restricted according to county population. Fee amounts vary by type of fee and type of seller or producer (e.g., restaurant, hotel, microbrewery, etc.). The revenues from the license fees are distributed among several recipients.

## DISTRIBUTION

*Club Licenses and Applications.* The revenues derived from club licensing and applications are dedicated to the Department of Economic Security's Economic Security Capital Investments Fund [A.R.S. § 4-116].

*Special Event Licenses.* Collections are dedicated to the Department of Health Services for use in the evaluation and treatment of alcoholics [A.R.S. § 4-203.02A].

*Restaurant License.* 5% of Revenues collected from fees related to the issuance of a maximum of 15 restaurant licenses in any fiscal year through FY 2013 to licensees who do not meet the definition of a restaurant are to be deposited into the Driving Under the Influence Abatement Fund [A.R.S. § 4-213J] with the remainder being deposited into the General Fund [A.R.S. § 4-213E]. Monies collected from all other restaurant issuance fees and annual license fees are deposited as outlined in the *All Other Licenses* explanation.

*All Other Licenses.* Except for the above club, special event, and some restaurant license fees, two-thirds of license fees are deposited in the state General Fund. One-third of the license fees collected in counties with a population of 500,000 or less are to be paid monthly by the Director of Liquor Licenses and Control to the treasurer of those counties. For each county with a population of over 500,000, the director is to pay the county treasurer from the remaining one-third of license fees the amount of \$3,000 for each new license issued for premises in unincorporated areas of that county, up to a maximum of \$150,000. The remainder of the one-third of license fees collected in counties with a population of over 500,000 is deposited in the state General Fund [A.R.S. § 4-115].

## WHO PAYS THE TAX

The tax is paid by manufacturers, wholesalers, out-of-state producers, exporters, importers or rectifiers, retailers of alcoholic beverages, businesses authorized by local governments to sell liquor, and domestic farm wineries or microbreweries. All sellers of alcoholic beverages, including Indian tribal members on reservations, are required to pay the license fees [A.R.S. § 4-209].

## TAX BASE AND RATE

*License and Permits.* A flat fee is charged for an original license, annual and biannual license renewals, transfers of licenses, assignments of agents, and interim permits. Licenses can expire annually or biannually depending on the type of license renewal and whether the holder received any compliance penalties in the year prior to renewal. In addition, for each additional original license issued there will be levied a separate issuance fee equal to the license's fair market value which will be deposited in the state General Fund [A.R.S. § 4-209, A.R.S. § 4-203.01, .02, and .03, and A.R.S. § 42-206.01].

*Surcharges.* Certain licenses are assessed various surcharges as part of the annual license renewal fee. The revenues from these surcharges are dedicated to costs associated with audit and support staff activities, and costs associated with an enforcement program to investigate licensees who have been the subject of multiple complaints to the department [A.R.S. § 4-209J&K].

*Maximum Additional Licenses Per County.* With the exception of bar, beer and wine bar, liquor store and some restaurant licenses issued pursuant to A.R.S. § 4-213E, there is no maximum number of licenses that can be issued. Restaurant licenses that do not meet the definition of a restaurant and receive permission from the Department of Liquor Licenses and Control to continue to operate as a restaurant are limited to a maximum of 15 restaurant licenses in any fiscal year. In FY 2013 and beyond, no additional licensees will be granted permission to continue to operate under A.R.S. § 4-213E.

## Alcoholic Beverage License Fees

Beginning in FY 2010, the Department of Liquor Licenses and Control shall annually issue 1 bar, 1 beer and wine bar, and 1 liquor store license in each county for each 10,000 person increase over the population in that county as of July 1, 2010. However, the director may opt to waive the issuance of any new licenses in any county for 1 year if there has been no request made to the department for the issuance of a license of that series (A.R.S. § 4-206.01B).

### Exemptions:

- Drug stores selling spirituous liquors only upon prescription.
- Any confectionery candy with less than 5% by weight of alcohol.
- Manufacturers, wholesalers and retailers of ethyl alcohol used for scientific, chemical, mechanical, industrial, medicinal or other nonbeverage purposes.
- Individuals and establishments authorized by Congress to procure spirituous liquor or ethyl alcohol tax-free.
- Manufacturers of denatured alcohol produced under provisions established by acts of Congress [A.R.S. § 4-226].

Table 1

Fiscal Year	Total	Department of Health					Audit Surcharge	Enforcement Surcharge	Liquor Department <sup>1/</sup>
		General Fund	Economic Security	Department of Health Services	Counties	Surcharge			
FY 2012	\$5,990,305	\$4,533,288	\$45,550	\$57,850	\$427,877	\$164,220	\$761,520	-	
FY 2011	\$5,529,293	\$4,087,454	\$55,600	\$54,625	\$404,974	\$165,030	\$761,610	-	
FY 2010	\$6,342,872	\$4,839,073	\$52,200	\$50,600	\$504,649	\$161,670	\$734,680	-	
FY 2009	\$6,559,069	\$5,040,087	\$56,400	\$49,175	\$530,252	\$158,730	\$724,425	-	
FY 2008	\$6,333,680	\$4,871,121	\$49,600	\$45,775	\$483,938	\$162,186	\$721,060	-	
FY 2007	\$6,042,559	\$4,661,571	\$47,750	\$45,975	\$448,928	\$155,040	\$683,295	-	
FY 2006	\$5,903,308	\$4,431,909	\$49,275	\$51,250	\$446,672	\$152,580	\$673,290	\$98,332	
FY 2005	\$5,581,198	\$4,206,281	\$48,850	\$47,775	\$458,487	\$151,650	\$668,155		
FY 2004	\$5,473,828	\$4,219,995	\$49,100	\$44,500	\$369,358	\$147,180	\$643,695		
FY 2003	\$5,018,445	\$3,826,968	\$53,800	\$42,350	\$327,837	\$143,480	\$624,010		
FY 2002	\$4,746,146	\$3,776,390	\$54,850	\$40,100	\$333,901	\$97,380	\$443,525		
FY 2001	\$4,933,818	\$3,876,428	\$44,175	\$47,950	\$346,375	\$93,840	\$525,050		
FY 2000	\$4,278,445	\$3,323,418	\$50,975	\$41,050	\$347,272	\$93,080	\$422,650		
FY 1999	\$4,293,893	\$3,365,016	\$53,075	\$39,550	\$349,182	\$83,520	\$403,550		
FY 1998	\$4,453,507	\$3,698,779	\$53,050	\$38,500	\$358,598	\$88,880	\$215,700		
FY 1997	\$4,398,612	\$3,634,188	\$59,200	\$40,150	\$369,524	\$86,600	\$208,950		
FY 1996	\$3,222,863	\$3,222,863	\$58,675	\$38,425	\$311,742	\$82,920	\$198,650		
FY 1995	\$3,639,600	\$2,404,500	\$57,100	\$34,400	\$337,700				
FY 1994	\$3,426,400	\$2,577,500	\$54,900	\$36,100	\$343,100				
FY 1993	\$3,092,600	\$2,034,000	\$51,400	\$33,400	\$762,700				

<sup>1/</sup> See Laws 2005, Ch.284 – the Department of Liquor Licenses and Control may retain costs associated with the random selection of additional licensees.

Note: From FY 1993 – FY 1995 some license fees were distributed to the “Automated File and Retrieval Fund” and “Surcharge on Renewals.” These distributions no longer exist.

Note: 5% of the revenues generated from licensees that are permitted to continue operation as a restaurant pursuant to A.R.S. § 4-213E will be deposited into the Driving Under the Influence Abatement Fund beginning in FY 2009.

SOURCE: Department of Liquor Licenses and Control.

### Application Fees:

- Original license: \$100
- Transfer of license: \$100 [A.R.S. § 4-209A]

## Alcoholic Beverage License Fees

### Issuance fees for original licenses:

1.	In-state producers of spirituous liquors	\$1,500
2.	Out-of-state producer's, exporter's, importer's, or rectifier's license, except an out-of-state winery selling 50 or fewer cases of wine in a calendar year	200
3.	Domestic microbrewery license	300
4.	Wholesalers of spirituous liquors	1,500
5.	Local government, community colleges, or National Guard licenses	100
6.	On-sale retailers on all spirituous liquors and bar license	1,500
7.	On-sale retailers beer and wine bar license	1,500
8.	Railroads, airlines or boats, conveyance licenses	1,500
9.	Off-sale retailers on all spirituous liquors, liquor store license	1,500
10.	Off-sale retailers beer and wine store license	1,500
11.	Hotels and motels	1,500
12.	Restaurants	1,500
13.	Domestic farm winery	100
14.	Clubs	1,000
15.	Out-of-state winery selling 50 or fewer cases of wine in a calendar year	25

[A.R.S. § 4-209B]

### Annual License Fees:

1.	In-state producers of spirituous liquors	\$50
2.	Out-of-state producer's, exporter's, importer's, or rectifier's license, except an out-of-state winery selling 50 or fewer cases of wine in a calendar year	50
3.	Domestic microbrewery license	300
4.	Wholesalers of spirituous liquors	250
5.	Local government, community colleges, or National Guard licenses	100
6.	On-sale retailers on all spirituous liquors and bar license	150
7.	On-sale retailers beer and wine bar license	75
8.	Railroads, airlines or boats, conveyance licenses	225
9.	Off-sale retailers on all spirituous liquors, liquor store license	50
10.	Off-sale retailers beer and wine store license	50
11.	Hotels and motels	500
12.	Restaurants	500 <sup>1/</sup>
13.	Domestic farm winery	100
14.	Clubs	150
15.	Out-of-state winery selling 50 or fewer cases of wine in a calendar year	25

<sup>1/</sup> If the restaurant is continuing to operate under A.R.S. § 4-213E, an additional fee, to be determined by the Department of Liquor Licenses and Control will be levied. In FY 2013 and beyond, no additional licensees will be granted permission to continue to operate under A.R.S. 4-213E (*Please see 2006 Tax Laws section for additional information*)

Note: The Department of Liquor Licenses and Control may issue such licenses with staggered renewal dates. A license issued less than 6 months before the scheduled renewal date shall be charged only one-half of the annual license fee [A.R.S. § 4-209C].

Note: Establishments operating on a seasonal basis not exceeding 6 months in any year are subject to license fees equal to half the annual rate [A.R.S. § 4-209E].

Note: Any licenses that receive nonuse status are excluded from paying any municipal fee or tax attributed to the time that the license was held in nonuse status [A.R.S. § 4-203.05].

[A.R.S. § 4-209D]

## Alcoholic Beverage License Fees

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### *Transfer Fees for Spirituous Liquor Licenses:*

- |                               |       |
|-------------------------------|-------|
| (1) From Person to Person     | \$300 |
| (2) From Location to Location | \$100 |

[A.R.S. § 4-209F-G]

*Assignment Fees.* A \$100 fee is charged for a change of agent. For a holder of multiple licenses, the fee is \$100 for the first license and all remaining licenses transferred to the same agent shall be \$50 each, with a maximum fee of \$1,000 [A.R.S. § 4-209H].

**NOTE:** License transfers are not permitted for restaurants, hotels, motels, clubs or domestic farm wineries or microbreweries, except that clubs may transfer a license from location to location.

*Interim Permit Fees.* For original license pending or license transfer pending, the fee is \$100 [A.R.S. § 4-203.01].

*Other Licenses.* In addition, special event licenses are issued on a daily basis at a fee of \$25 per day. The domestic wine festival license fee is \$15 per event [A.R.S. § 4-203.02 and § 4-203.03].

### **PAYMENT SCHEDULE**

Original license fees, interim permit fees, and transfer fees are due upon application. Payments for annual license renewal are due in advance. A system of staggered renewal dates may be implemented by the department. Licenses that are not renewed on the due date are subject to a penalty of \$150 [A.R.S. § 4-209A].

The Department of Liquor Licenses and Control collects the tax [A.R.S. § 4-112].

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in 2007.

### **2012 TAX LAWS**

#### **Laws 2012, Chapter 336:**

- Allows the Liquor Board to eliminate its hearing if no recommendation is made by the appropriate governing body regarding the issuance of the license.
- Requires the director to cancel a hearing if the reason for a filed argument is clearly removed or satisfied.
- Increases, from 32 to 40 ounces, the permissible amount of beer to be served by an on-sale retailer or employee.
- Permits an on-sale retailer to sell or deliver an opened, original container of distilled spirits as outlined. Requires the department to review the effects of this provision and provide a report to the Governor, Legislature, and the Secretary of State by July 1, 2015.
- Allows a peace officer, while undercover on assignment, to consume small amounts of spirituous liquor while still possessing a firearm.
- Specifies that a bar, beer and wine bar, liquor store, beer and wine store, and domestic microbrewery licensee may dispense beer only in clean glass containers with a maximum capacity of one gallon for off-premises consumption, if the licensee fills the container at the tap at the time of sale and seals the container. This cannot be provided through a drive-through or walk-up service window.
- Allows the director to implement a 2-year license.
- Simplifies and describes the process for obtaining an interim permit.
- Authorizes the director to waive for one year, the requirement to issue a series of new licenses if no request has been made to the department to issue new licenses.
- Limits wine sampling to 1.5 ounces rather than 1 ounce.
- Adds community colleges and the National Guard to the list of government licenses that require a \$100 fee.

## **Alcoholic Beverage License Fees**

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- Permits biannual license renewal if the location was not issued any penalties during the year before renewal. Allows the director to adopt reasonable rules.
- Increases from 90 to 120 days the time a licensee can be delinquent in the payment of taxes, penalties, or interest in an amount greater than \$250 before the director can suspend, revoke, or refuse to renew their license.
- Prohibits a city or town from increasing fees for hospitality businesses in any year by an amount greater than the increase in the average of the last 5 years' consumer price index.

### **2011 TAX LAWS**

#### **Laws 2011, Chapter 165:**

- Allows the Department of Liquor Licenses and Control to utilize fingerprint scanning equipment for licenses and charge a fee for such services until January 1, 2015.
- Requires licensees to keep a copy of their license on their premises for 2 years.
- Clarifies and makes changes to the process for filing written arguments and determining approval of a proposed license.
- Clarifies when the public convenience must be served by transferring and re-issuing licenses.
- Allows spirituous liquor licenses to be transferred to a qualified person if the transfer is pursuant to the sale of the license.
- Increases the number of days that a person has to notify the department after acquiring or transferring a license from 15 to 30 days.
- Allows a licensed wholesaler for a special event to donate spirituous liquor at a net zero. The wholesaler is also given 5 business days after the event to make necessary billing adjustments.
- Allows a key to a minibar at a hotel or motel to be furnished to a guest at any time and stipulates that the minibar cannot be restocked between the hours of 2:00 a.m. and 6:00 a.m.
- Prohibits a bar license or a beer and wine bar license from being issued or used if the associated off-sale use (sale of alcohol for consumption off-site), by total retail spirituous liquor sales exceeds 30% of the sales price of on-sale (sale of alcohol for consumption on-site) spirituous liquor by the licensee.
- Requires that premises with dual licenses, including a spirituous liquor, beer and wine bar, and bar licenses have the burden of establishing that public convenience and the best interests of the community will be served by the issuance of the license.
- Allows the beer and wine license and bar license to be issued simultaneously.
- Mandates that for the purpose of reporting liquor purchases for dual licensees, all off-sale beer and wine purchases are presumed to be purchased under the beer and wine license.
- Makes provisions relating to the bar, beer and wine bar or liquor store licenses to be retroactive to January 1, 2011.
- Allows the applicant for a beer and wine store license to apply for sampling privileges, stipulates allowable standards for sampling, and allows for a fee to be assessed to the applicant.
- Allows the department to assess a fee to review floor plans and diagrams submitted by a licensee until January 1, 2015 in order to determine the applicant's proximity to churches, schools, and recreational areas adjacent to schools.
- Specifies that the department can conduct a client settlement conference with a licensee to resolve a complaint and may provide restrictions in the payments of fines.
- Changes identification requirements for licensees.
- Allows military personnel to import up to 1 liter of liquor duty free.
- Prohibits a local government from limiting any right granted by a license or discriminating against the hospitality industry in the collection of fees.
- Allows a town or city to enforce the zoning requirements and to collect any fee associated with the original placement license.
- Permits a fee to be collected by the Department of Liquor Licenses and Control for inspections before issuing a restaurant license until January 1, 2015.
- Permits the Department of Liquor Licenses and Control to issue a fee for the inspection of unlicensed premises of pending applicants until January 1, 2015.
- Requires licensees to post additional signs for the prohibition of weapon possession on the premises and to make their liquor license readily accessible for inspection.

## Alcoholic Beverage License Fees

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- Extends the timeframe in which a bar license may be exchanged for a liquor store license from January 1, 2011 to January 1, 2012.
- Stipulates that the department shall identify the licenses with sampling privileges in their records without further application or approval and that the sampling rights may not be transferred.
- Appropriates all monies from the newly-created fees to the Department of Liquor Licenses and Control. The department plans to deposit these fees into the Liquor Licenses Fund.
- Exempts the department from rulemaking through January 1, 2015 for the purposes of establishing the new fees and requires the department to give at least 30 days notice for public comment before implementing a fee.

### 2010 TAX LAWS

**Laws 2010, Chapter 85** requires that after January 1, 2011 bar, beer, and wine bar licenses are to be issued for on-sale (establishments where alcohol is consumed on-site) purposes only. The off-sale (establishments where alcohol is consumed off-site) privileges of these licenses are limited to 10% of the sales price of on-sale spirituous liquors at the licensed location. This law also allows a license for beer and wine to be issued simultaneously and in the same location as a store, liquor store, or restaurant license. A liquor store licensee may also apply for sampling privileges to allow a sponsoring distiller, vintner, brewer, wholesaler, or retail licensee to provide 3 ounces of beer and/or 1 ounce of wine or distilled spirits per person, per brand, per day. The law excludes a license in nonuse status from any municipal fee or tax attributed to the time the license was held in nonuse status. Lastly, the licensees must display the license in a conspicuous public area of the licensed premises for easy inspection by the public.

Laws 2010, Chapter 85, also allows, in session law, bar liquor and beer and wine license holders for off-sale purposes to trade-in their licenses, before January 1, 2011, for a liquor store or beer and wine store license, respectively. A session law provision also stipulates that newly-issued licenses allow sampling privileges without further approval.

**Laws 2010, Chapter 224** extends the hours that hotel minibars can be restocked and on/off-sale retailers can sell spirituous liquor to the hours of 6-10 a.m. on Sunday mornings. Also allows a person to consume or possess spirituous liquors on the premises of an on-sale retailer during the hours of 6-10 a.m. Sunday morning. This law modifies statute so that spirituous liquors cannot be restocked in hotel minibars from 1-6 a.m., sold by on-sale retailers from 2-6 a.m., or consumed on the premises of an on-sale retailer from 2:30-6 a.m. The law also extends the sunset date for the Department of Liquor Licenses and Control to July 1, 2015.

### 2009 TAX LAWS

**Laws 2009, Chapter 50** allows the consumption of wine and beer from broken packages in public places where an event or festival is taking place as long as a special license has been obtained.

**Laws 2009, Chapter 81** increases the amount of beer a microbrewery may produce in a calendar year from 620,000 to 1,240,000 gallons.

### 2008 TAX LAWS

**Laws 2008, Chapter 256** extended the lapsing date of FY 2008 (Laws 2006, Chapter 383) to FY 2013 for the Department of Liquor Licenses and Control to permit up to 15 restaurant licensees to continue to operate as a restaurant, if: 1) the department has determined, either through audit or consent agreement, that the establishment's food sales to total sales are at least 30% but less than the statutory requirement of 40% required to be considered a restaurant; 2) a licensee requests to continue to operate and meets additional criteria established by the Laws 2006, Chapter 383; and 3) the licensee pays an additional annual fee, which is to be determined by the department, for the special license. Those receiving approval may continue to operate beyond FY 2013 should the establishment continue to meet the criteria established by this chapter. Prior to Chapter 383, if an audit revealed that the licensee did not meet the definition of a restaurant, the department would revoke the license. The establishment could then have attempted to secure a spirituous liquor license, which does not have the food sale requirement of a restaurant license.

Laws 2008, Chapter 256 also required that 5% of the revenues generated from licensees that are permitted to continue to operate as a restaurant pursuant to A.R.S. § 4-213E be deposited into the Driving Under The Influence

## **Alcoholic Beverage License Fees**

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Abatement Fund established by A.R.S. § 28-1304. The remaining 95% is to be deposited into the General Fund in accordance with A.R.S. § 4-209D paragraph 12.

### **2006 TAX LAWS**

**Laws 2006, Chapter 383** allowed the Department of Liquor Licenses and Control to permit up to 15 restaurant licensees to continue to operate as a restaurant in FY 2007 and FY 2008, if: 1) the department has determined, either through audit or consent agreement, that the establishment's food sales to total sales are at least 30% but less than the statutory requirement of 40% required to be considered a restaurant; 2) a licensee requests to continue to operate and meets additional criteria established by the Chapter 383; and 3) the licensee pays an additional annual fee, which is to be determined by the department, for the special license. Those receiving approval may continue to operate beyond FY 2008 should the establishment continue to meet the criteria established by this chapter. Prior to Chapter 383, if an audit revealed that the licensee did not meet the definition of a restaurant, the department would revoke the license. The establishment could then have attempted to secure a spirituous liquor license, which does not have the food sale requirement of a restaurant license.

Chapter 383 appropriated \$450,000 and 5 FTE Positions from the General Fund in FY 2007 to the department to hire 3 investigators and 2 auditors to comply with the legislation. Additionally, revenues to the General Fund are estimated to increase as a result of an additional license annual fee, to be determined by the department. This new fee is to be deposited into the General Fund and is in addition to the \$500 charged annually to those holding a restaurant license. In FY 2007, revenues from the new license fee are estimated to total \$450,000, offsetting the cost of Chapter 383.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# **INSURANCE PREMIUM TAX**

# INSURANCE PREMIUM TAX

## DESCRIPTION

This tax is imposed on net insurance premiums received by insurance companies for risks that exist within the state. Included are premiums for life insurance, accident and health insurance, fire insurance, vehicle insurance, prepaid dental and legal insurance, and other property and casualty premiums such as homeowners and commercial insurance, medical malpractice, and fidelity and surety insurance.

The tax applies to insurance companies formed under the laws of this state (“domestic” insurance carriers), insurance companies formed under the laws of another state within the United States (“foreign” insurance carriers), and insurance companies formed under the laws of another country (“alien” insurance carriers).

Insurance premium tax also includes “retaliatory” taxes, which are taxes owed by foreign insurers to the extent that the sum of taxes an insurer pays in Arizona is less than what the sum of taxes would be if the same insurance business were transacted in the insurer’s “home” state (state of domicile).

## DISTRIBUTION

Except for a portion of the tax on fire insurance premiums and an additional tax paid on vehicle insurance premiums, these tax revenues are deposited in the state’s General Fund [A.R.S. § 20-227].

Eighty-five percent of the fire insurance premium tax is transferred to cities and towns and legally organized fire districts which procure the services of private fire companies and to cities and towns which have their own fire department or legally organized fire district. The proceeds are to be used to assist in funding pension plans for fire fighting personnel. The other 15% is deposited into the state’s General Fund [A.R.S. § 20-224, A.R.S. § 9-951, and A.R.S. § 9-952].

An additional tax of 0.4312% paid on insurance carried on vehicles is separately accounted for and transferred to the Public Safety Personnel Retirement System for deposit in the Highway Patrol Account to assist in funding the pension plan for highway patrol personnel [A.R.S. § 20-224.01].

*Table 1* on the following page provides the historical distribution of insurance premium tax. It should be noted that the “total” column in the following table reflects net collections for the fiscal year, and in some cases, does not equal the amounts distributed to the General Fund, the Public Safety Personnel Retirement System, and to cities and fire districts. In these cases, some collections were carried forward into the next fiscal year and were distributed then.

## WHO PAYS THE TAX

All authorized insurers and formerly authorized insurers (insurers not currently authorized, but continuing collection of premiums and servicing of existing policies in the state) are subject to the insurance premium tax. In addition, health care service organizations, prepaid dental plan organizations, and prepaid legal insurance corporations are subject to the tax [A.R.S. § 20-206, A.R.S. § 20-224, A.R.S. § 20-401.05, A.R.S. § 20-416, A.R.S. § 20-837, A.R.S. § 20-1010, A.R.S. § 20-1060, A.R.S. § 20-1097.07].

## Insurance Premium Tax

Table 1

### INSURANCE PREMIUM TAX COLLECTIONS AND DISTRIBUTION

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Transfer to Public Safety Retirement System</u>	<u>Transfer to Cities and Fire Districts</u>	<u>Total</u>
FY 2012	\$393,990,499	\$15,720,974	\$12,606,341	\$422,317,814
FY 2011	\$413,765,850	\$15,978,058	\$12,514,392	\$442,258,300
FY 2010	\$405,612,042	\$16,696,764	\$13,492,671	\$435,801,477
FY 2009	\$411,370,853	\$17,507,607	\$12,480,006	\$441,358,466
FY 2008	\$407,035,082	\$17,569,437	\$13,361,461	\$437,965,980
FY 2007	\$399,850,367	\$17,861,557	\$12,652,891	\$430,364,815
FY 2006	\$373,703,789	\$17,057,414	\$11,842,931	\$402,604,134
FY 2005	\$358,752,402	\$16,234,673	\$12,459,164	\$387,446,239
FY 2004	\$308,967,921	\$15,441,384	\$11,677,878	\$336,087,183
FY 2003	\$226,648,800	\$14,009,100	\$10,588,600	\$251,246,500
FY 2002	\$195,036,900	\$12,633,600	\$8,148,700	\$215,819,200
FY 2001	\$183,394,700	\$11,419,500	\$7,187,100	\$202,001,300
FY 2000	\$160,723,567	\$10,953,470	\$5,670,876	\$177,344,423
FY 1999	\$150,697,201	\$10,735,299	\$5,178,291	\$166,614,522
FY 1998	\$124,603,122	\$10,208,838	\$5,090,836	\$139,960,268
FY 1997	\$120,518,800	\$9,761,100	\$5,418,300	\$135,697,400
FY 1996	\$114,153,900	\$8,904,400	\$5,627,300	\$128,673,900
FY 1995	\$111,102,609	\$8,310,295	\$5,181,985	\$124,594,889
FY 1994	\$110,731,681	\$7,988,541	\$5,018,862	\$123,739,084
FY 1993	\$103,002,519	\$7,389,377	\$4,773,301	\$115,165,197

SOURCE: Department of Insurance.

### TAX BASE AND RATE

The tax applies to premiums paid for insurance covering liabilities that exist within the state. The tax is levied on the net premium income, which is defined as the total amount received from premiums after deducting cancellations, returned premiums, policy dividends, refund reductions, savings coupons, and similar amounts paid or credited to policyholders within the state, and not reapplied as premiums for new, additional, or extended insurance [A.R.S. § 20-224].

Except for fire insurance and surplus line insurance (insurance that is offered by an out-of-state insurer since no in-state insurer provides the given coverage), the tax rate for most types of insurance is 2% of net premium income [A.R.S. § 20-224].

The tax rate for fire insurance is 0.66% for insurance on properties located in an incorporated city or town which procures the services of a private fire company. The rate on all other fire insurance is 2.2% [A.R.S. § 20-224].

The tax rate on premiums paid to brokers selling surplus line insurance and industrial insurance contracts procured from unauthorized insurers is 3% of the net premium income [A.R.S. § 20-401.07 and A.R.S. § 20-416].

Certain types of insurers, employee benefit trusts, and voluntary employees' beneficiary associations are exempted from the insurance premium tax, including some hospital and medical service corporations, some fraternal benefit societies, and extended warranty insurers [A.R.S. § 20-108].

Title insurance premiums are also exempted from the insurance premium tax and are instead subject to the state income tax [A.R.S. § 20-224 and A.R.S. § 20-1566].

Premiums paid by government entities to non-profit hospitals and medical, dental, and optometric service corporations are exempt from the insurance premium tax [A.R.S. § 20-837].

## **Insurance Premium Tax**

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### **TAX REFUNDS AND/OR TAX CREDITS**

#### *Enterprise/Military Reuse Zones Tax Credit*

A tax credit against insurance premium tax liability is allowed for net increases in employment positions of residents of the state by an insurer that is located in an enterprise zone or a military reuse zone. A credit may not be claimed under both an enterprise zone and a military reuse zone for the same employee [A.R.S. § 20-224.03 and A.R.S. § 20-224.04].

The tax credit for insurers in an enterprise zone equals one-fourth of taxable wages (not to exceed \$500) paid to an employee in a qualified employment position in the first year of employment, one-third of taxable wages (not to exceed \$1,000) in the second year, and one-half of taxable wages (not to exceed \$1,500) in the third year. Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 allowed this credit to sunset at the end of FY 2011, as scheduled. This credit was replaced by the new Employment Tax Credit, which is described below.

The tax credit for insurers in a military reuse zone equals \$1,000 per year in the first year of employment, increasing by \$500 per year up to \$3,000 per year in the fifth year of employment for each dislocated military base employee, and \$500 per year in the first year of employment, increasing by \$500 per year up to \$2,500 per year in the fifth year of employment for each employee other than a dislocated military base employee.

#### *Health Insurance Premium Tax Credit*

A premium tax credit is allowed for health care insurers that provide health insurance to qualified individuals and small businesses that are certified by the Arizona Department of Revenue (DOR). An application is required to DOR for the tax credit, which includes a written declaration subject to the penalties of perjury [A.R.S. § 20-224.05 and A.R.S. § 43-210].

An individual or small business must obtain health insurance to receive the credit. In order for the insurer to claim a credit on an individual, that individual must be a United States citizen or legally residing resident. The individual must also: 1) earn less than 250% of the federal poverty level, be a resident of Arizona, not have had health insurance for at least the past 6 consecutive months, and not be enrolled by any other state or federal government health insurance program; or 2) work for a small business that has been in existence for at least 1 calendar year and that has not provided health insurance to its employees for at least 6 months. A small business is defined as between 2 and 25 employees during the most recent calendar year.

The amount of the tax credit for individuals is the lesser of the following: a) \$1,000 for single coverage, \$500 for coverage of a child, or \$3,000 for family coverage; or b) 50% of the health insurance premium. The amount of the tax credit for small businesses is the lesser of the following: \$1,000 for single coverage or \$3,000 for family coverage; or 50% of the health insurance premium.

Health insurers are required to deduct the amount of the tax credit from the premium paid by the individual or small business for health insurance. In this way, the state effectively subsidizes the cost of the individual or small business's health insurance in the amount of the premium tax credit. The maximum amount of tax credits allowed in a calendar year is capped at \$5 million. DOR reports that a total of \$3,730,933 in credits were claimed in calendar year 2010 and \$3,718,004 in calendar year 2011. The tax credits are administered by DOR.

#### *New Employment Tax Credit*

A \$3,000 annual tax credit may be claimed for each net new qualifying job added by an employer in the state. To qualify for the credit, new employment positions must be full-time, pay at least the median wage, and offer health insurance paid by the employer (at least 65% of the premium). Credits can be claimed for 3 years. A business cannot claim the credit unless it adds at least 25 net new jobs in a year in an urban area (5 in a rural area) and makes a capital investment of at least \$5 million (\$1 million in a rural area). The credit is subject to a statewide aggregate cap of 10,000 jobs in FY 2013 (\$30 million) and grows by an additional 10,000 jobs in both FY 2014 (\$60 million) and FY 2015 (\$90 million). Laws 2012, Chapter 343 eliminates the individual company credit cap of 400 new workers per year. The cap applies to credits claimed against insurance premium, individual income, and corporate income taxes. The credit cannot be claimed against employees that are also claimed under the Military Reuse Zone Tax Credit (A.R.S. § 20-224.03 and A.R.S. § 41-1525).

## Insurance Premium Tax

### *School Tuition Organization Tax Credit*

A taxpayer may claim an insurance premium tax credit, up to the full amount of the donation, for contributions made to a school tuition organization that provides education scholarships and tuition grants either to children of low-income families (A.R.S. § 20-224.06) or to disabled children or children in foster care (A.R.S. § 20-224.07). The full amount of tax credit approved by DOR pursuant to A.R.S. § 43-1183 (low-income credit) for both corporate income tax credits and insurance premium tax credits combined is capped at \$10 million per year, with the cap increasing by 20% per year beginning in FY 2008. The full amount of tax credit approved by DOR pursuant to A.R.S. § 43-1184 (displaced and disabled credit) is capped at \$5 million per year. A taxpayer may carry forward the unused portion of either tax credit for 5 years. A taxpayer claiming the credit shall not be required to pay any retaliatory taxes required by A.R.S. § 20-230. [A.R.S. § 20-224.06 and A.R.S. § 20-224.07].

The actual dollar impact of these tax credits is included in *Table 2* below:

**Table 2**

<b>INSURANCE PREMIUM TAX CREDITS</b>				
<b>Calendar Year</b>	<b>Enterprise Military Reuse Zones</b>	<b>Health Insurance Premium</b>	<b>New Employment</b>	<b>School Tuition Organization</b>
CY 2011	\$0	\$3,718,000	-	\$1,180,000
CY 2010	\$99,000	\$3,730,900	-	\$937,000
CY 2009	\$549,900	\$3,700,000	-	-
CY 2008	\$517,000	\$4,000,000	-	-
CY 2007	\$592,500	-	-	-
CY 2006	\$650,500	-	-	-
CY 2005	\$621,500	-	-	-

SOURCE: Department of Insurance Tax Expenditures Report.

### **PAYMENT SCHEDULE**

Payment of the preceding calendar year's insurance premium tax liability is due on or before March 1 of each year [A.R.S. § 20-224].

Any insurer which paid or is required to pay a tax of \$2,000 or more for the preceding calendar year is required to pay an "installment" payment of 15% of that amount on or before the 15<sup>th</sup> day of each month from March through August. These installment payments are then credited against the insurance premium tax due in March of the following year [A.R.S. § 20-224].

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law and other revenue changes that have been enacted by the Legislature since 2006. The estimated dollar impact of these changes is summarized by fiscal year in *Table 3* below:

## Insurance Premium Tax

<b>Table 3</b>		
<b><u>ESTIMATED DOLLAR VALUE OF TAX LAW AND REVENUE CHANGES</u></b>		
<b><u>Session/Chapter</u></b>	<b><u>Description</u></b>	<b><u>Revenue Impact</u></b>
<b><u>FY 2013</u></b>		
Laws 2012, Ch. 343	Modifies several provisions of the New Employment Tax Credit.	Undetermined
<b><u>FY 2012</u></b>		
L 2011, 2 <sup>nd</sup> SS, Ch. 1	Creates the New Employment Tax Credit for net, new employment positions in state	Undetermined
<b><u>FY 2010</u></b>		
L 2009, Ch 168	Expands tax credits for Student Tuition Organization donations to include Insurance Premium Tax	Undetermined
<b><u>FY 2007</u></b>		
L 2006, Ch 378	Establishes a premium tax credit for small business health insurers	\$ 5,000,000

### 2012 TAX LAWS

**Laws 2012, Chapter 3** makes conforming changes and deletes obsolete language for the New Employment Tax Credit.

**Laws 2012, Chapter 343** provided several modifications to the new employment tax credit. The bill removes the cap of 400 new workers per year per company for the credit and adds equipment to the acceptable definitions for capital investment. An ending date of December 31, 2019 was also added to the credit. Additionally, the bill requires an interested business to obtain preapproval from the Commerce Authority so that all 3 years of credits are covered. Also, the bill requires that all capital investment be incurred and new qualified employment positions be filled within 12 months after the start of the required capital investment. No credits are allowed to be claimed until both requirements are met. If the requirements are met, the business is allowed to claim first year credits for 3 years beginning in the taxable year in which the capital and employment requirements are met. Lastly, the bill provided some clarifying language regarding the definition of new employees.

### 2011 TAX LAWS

**Laws 2011, Chapter 136** makes changes to the statutes relating to surplus line insurance (insurance that is offered by an out-of-state insurer since no in-state insurer provides the given coverage) and interstate insurance compacts. Additionally, Chapter 136 allows the Department of Insurance to enter into a multistate agreement to provide for the collection, payment, and reporting of taxes imposed on unauthorized surplus lines insurance covering multistate risks (a policy that covers an individual across borders) in accordance with the Nonadmitted and Reinsurance Reform Act of 2010.

**Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1** creates the new Employment Tax Credit, which provides a \$3,000 annual tax credit for each net new qualifying job added by an employer in the state. To qualify for the credit new employment positions must be full-time, pay at least the median wage, and offer health insurance paid by the employer (at least 65% of the premium). Credits can be claimed for 3 years. A business cannot claim the new credit unless it adds at least 25 net new jobs in a year in an urban area (5 in a rural area) and makes capital investment of at least \$5 million (\$1 million in a rural area). No employer can claim more than 400 jobs in the first year of credit use, 800 jobs in the second year, and 1,200 jobs in the third year. The bill provides a statewide aggregate credit cap of 10,000 jobs in FY 2013 (\$30 million) and grows by an additional 10,000 jobs in both FY 2014 (\$60 million) and FY 2015 (\$90 million). The cap applies to credits claimed against insurance premium, individual income, and corporate income taxes.

## **Insurance Premium Tax**

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A summary of all the Chapter 1 fiscal impact provisions is displayed in the Corporate Income Tax section of the Tax Handbook.

### **2010 TAX LAWS**

**Laws 2010, Chapter 118** requires fire districts and municipalities to provide to the Public Safety Personnel Retirement System any and all information needed to calculate and split fire insurance tax premium revenues between the fire districts and municipalities.

**Laws 2010, Chapter 292** prohibits insurance premium tax donations to charter schools as part of the School Tuition Organization (STO) Tax Credit program.

### **2009 TAX LAWS**

**Laws 2009, Chapter 135** requires the State Fire Marshal to certify and report which properties are located within an incorporated city or town that have service from a private fire company. The law prohibits action from being taken against an insurer that relies on the State Fire Marshal's report when calculating fire insurance premium taxes. Additionally, the law allows for a refund to be issued to fire insurance providers for any excess amount of premium tax paid.

**Laws 2009, Chapter 168** allows insurers to take a tax credit against their insurance premium tax liability for donations to STOs. Also, the law eliminates the sunset date of June 30, 2011 for the credit. The credit was capped at \$10 million in FY 2007, increasing by 20% in each successive year. Previously, the credit was only allowed for corporate income taxes. There is no fiscal impact as a result of this law as the inclusion of insurance premium tax liability did not alter the cap for the credit.

STO contributions are used to fund scholarships or grants for students of low-income families. The students must have transferred from a public school in the previous year to a qualified private school, enrolled in a private school kindergarten program or received a grant scholarship from the STO program in the previous year.

**Laws 2009, 2<sup>nd</sup> Special Session, Chapter 1** provides a credit, up to the full amount of the donation, for contributions made to a STO that provides education scholarships to disabled children or children in foster care. Previously, contributions made to a STO were only for education scholarships and tuition grants to children of low-income families. If the taxpayer is an insurer, the credit may be applied against their insurance premium tax liability. The full amount of tax credit approved by DOR is capped at \$5 million per year. A taxpayer may carry forward the unused portion of the tax credit for 5 years. A taxpayer shall not claim a tax credit under both A.R.S. § 43-1183 and A.R.S. § 43-1184 for the same contribution.

### **2008 TAX LAWS**

**Laws 2008, Chapter 118** clarified current statute by exempting accountable health plans from premium taxes for net premiums received for health benefits issued to small employers. The law also clarified current practice by exempting groups of small businesses that voluntarily pool their health plans from premium taxes [A.R.S. § 20-2304J].

### **2007 TAX LAWS**

**Laws 2007, Chapter 263** required an application to DOR for the health insurance premium tax credit to include a written declaration that it is made under the penalty of perjury. Chapter 263 also clarified that the individual or small business must obtain health insurance to receive the credit, and applied a retroactive date of September 21, 2006.

### **2006 TAX LAWS**

**Laws 2006, Chapter 378** established a tax credit to health care insurers that provide health insurance to individuals and small businesses that have not had health insurance for the past 6 months. The tax credit began December 31, 2006, is capped at \$5 million per calendar year, and is administered by DOR.

## **Insurance Premium Tax**

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A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# **ESTATE TAX**

# ESTATE TAX

## DESCRIPTION

The estate tax is imposed on the transfer of wealth that occurs upon the death of an estate owner. The tax is also imposed on every generation-skipping transfer of property. The amount of the state estate tax is equal to the maximum allowable federal tax credit for state death taxes under Section 2011 of the Internal Revenue Code. (Note that since the state receives or picks up an amount equal to this federal tax credit, the state estate tax is also often referred to as a “pick-up” tax.) Since the Federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 repealed the federal tax credit on December 31, 2004, the state estate tax effectively ended on that date. The state subsequently repealed the state estate tax from state statute in 2006.

## DISTRIBUTION

Estate tax revenues are distributed to the Tax Refund Account in amounts sufficient to meet tax refund requirements. All remaining amounts are deposited in the state General Fund [A.R.S. § 42-1116].

<b>Table 1</b>			
<b>TAX COLLECTIONS</b>			
<u>Fiscal Year</u>	<u>General Fund</u>	<u>Fiscal Year</u>	<u>General Fund</u>
FY 2012	\$200,800	FY 2002	\$80,552,220
FY 2011	\$437,372	FY 2001	\$74,651,783
FY 2010	\$363,755	FY 2000	\$80,644,330
FY 2009	\$210,372	FY 1999	\$87,250,096
FY 2008	\$320,203	FY 1998	\$62,904,674
FY 2007	\$(550,764)	FY 1997	\$65,432,336
FY 2006	\$11,683,602	FY 1996	\$54,207,976
FY 2005	\$31,236,067	FY 1995	\$48,771,386
FY 2004	\$38,818,431	FY 1994	\$40,616,732
FY 2003	\$94,217,919	FY 1993	\$39,714,304

SOURCE: Department of Revenue, Annual Reports. Figures are net of refunds.

EGTRRA reduced the state death tax credit by 25% in 2002, 50% in 2003, 75% in 2004, and 100% in 2005. The phase-out of this tax credit under EGTRRA is the reason for the large decline of state estate tax collections after FY 2003.

No state tax is owed on an estate of a person who died after December 31, 2004. However, the state General Fund still collected estate tax revenues in FY 2006 due to the filing of extensions and amended returns. Small amounts of state estate taxes were processed in the period between FY 2007 and FY 2012 due to the filing of amended returns.

## WHO PAYS THE TAX

The estate tax was paid by the personal representative of an estate or generation-skipping trust. (Note that due to the repeal of the estate tax, it is no longer included under Arizona Revised Statutes.)

“Personal representative” is defined as the executor or administrator of a decedent’s estate; trustee of a generation-skipping trust; or, in the absence of such executor or appointed trustee, any person in actual or constructive possession of any portion of the estate subject to the tax.

## TAX BASE

The estate tax applies to transfer of a resident’s gross estate to its beneficiaries as defined in Section 2031 of the Internal Revenue Code or a non-resident’s Arizona estate that is included in the gross estate. The Arizona estate of

## **Estate Tax**

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non-residents includes (1) real property located in Arizona and (2) tangible personal property having actual situs in Arizona.

The generation-skipping tax applies to every transfer subject to the federal tax under Subtitle B, Chapter 13 of the Internal Revenue Code. The estate subject to such tax includes (1) real property located in Arizona, (2) tangible personal property having actual situs in Arizona, and (3) intangible personal property owned by a trust having its principal place of administration in Arizona at the time of transfer.

### **TAX RATE**

The tax levied on residents' estates is equal to Arizona's share of the maximum allowable federal tax credit for death taxes paid to states. As noted above, the federal credit was phased out over a 4-year period that began in tax year 2002. When it existed, the maximum federal credit was reduced by an amount that represented death taxes imposed on the estate by another state. The reduction for death taxes paid to another state was equal to the lesser of:

- (1) The amount of the death tax paid to the other state and credited against the federal estate tax.
- (2) The amount of the federal tax credit that was apportioned to the other state based on the ratio of the value of the estate's property located in that state to the total value of the property of the estate.

The tax levied on non-residents' estates was equal to the amount of the federal tax credit that was apportioned to Arizona based on the ratio of the value of the estate's property located in Arizona to the total value of the property of the estate.

The tax levied on generation-skipping transfers of property was equal to Arizona's share of the maximum federal tax credit allowable under Section 2604 of the Internal Revenue Code. Arizona's share was based on the ratio of the value of the property located in Arizona to the total value of the property included in the generation-skipping transfer.

### **PAYMENT SCHEDULE**

If the personal representative of an estate is required to file a federal estate tax return, then a state estate tax return was also required and due on or before the required federal filing date. An extension for filing a state estate tax return was granted automatically if the federal due date was extended. Also, the Department of Revenue could grant an extension up to 6 months for filing the Arizona estate tax return if good cause was shown.

The personal representative of the estate paid the state estate tax no later than the required filing date, including any extensions of such date. The Department of Revenue could, however, extend the time for payment if good cause was shown.

If federal estate tax payments were made in installments under Section 6166 of the Internal Revenue Code and the amount of the tax due exceeded \$50,000, then the personal representative could elect to pay in the same installments as the federal tax. Note that interest was assessed until the balance is paid.

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

As noted below, the Arizona estate tax was permanently repealed in 2006.

#### **2006 TAX LAWS**

**Laws 2006, Chapter 262** permanently repealed the Arizona estate tax. (Effective retroactively from January 1, 2006)

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

**OTHER GENERAL FUND REVENUE  
SOURCES**

# BINGO LICENSE AND LIEU TAX

## DESCRIPTION

The bingo license and lieu tax consists of a license fee charged to qualified operators of bingo games and a bingo tax assessed on the receipts from bingo games. There are 3 license classifications for bingo operators based on the amount of gross receipts. The license fee and tax rate vary by classification, with a maximum tax rate of 2% of gross receipts. All bingo games in Arizona must be conducted by a licensed person. The Department of Revenue serves as the licensing authority in the state. The tax is in lieu of the transaction privilege tax.

## DISTRIBUTION

All bingo tax revenue, administrative receipts, license fees, penalties and interest collections are deposited in the state General Fund [A.R.S. § 5-407H].

<b>Table 1</b>			
<b>BINGO LICENSE FEE AND LIEU TAX COLLECTIONS</b>			
<u>Fiscal Year</u>	<u>General Fund</u>	<u>Fiscal Year</u>	<u>General Fund</u>
FY 2012	\$508,100	FY 2002	\$629,680
FY 2011	\$504,905	FY 2001	\$634,384
FY 2010	\$520,655	FY 2000	\$677,036
FY 2009	\$531,588	FY 1999	\$717,830
FY 2008	\$558,330	FY 1998	\$750,970
FY 2007	\$619,387	FY 1997	\$774,129
FY 2006	\$623,480	FY 1996	\$791,848
FY 2005	\$610,055	FY 1995	\$909,562
FY 2004	\$624,501	FY 1994	\$923,834
FY 2003	\$626,770	FY 1993	\$922,180

SOURCE: Department of Revenue, Tax Facts.

## WHO PAYS THE TAX

The license fee and lieu tax is paid by persons and organizations that have been licensed by the Department of Revenue to conduct the game of bingo [A.R.S. § 5-403 and 5-407H].

## TAX BASE

*Licenses.* A flat fee and a percentage of adjusted gross receipts or gross receipts are charged for bingo licenses, license renewals and games, depending on the license classification. Class A licenses are taxed on adjusted gross receipts, while Class B and Class C licenses are taxed on gross receipts. Adjusted gross receipts means gross receipts minus prize money paid [A.R.S. § 5-414].

*License Classifications.* There are 3 license classes based on the bingo game's gross receipts per year [A.R.S. § 5-413]:

- *Class A License.* Bingo games for which the gross receipts do not exceed \$15,600. This license cannot be issued to persons holding a liquor license unless it is a club license. The reporting period is 1 year coinciding with the license's term.
- *Class B License.* Bingo games for which gross receipts do not exceed \$300,000. There are 4 reporting periods coinciding with the quarters of the license's term.
- *Class C License.* Bingo games for which gross receipts exceed \$300,000. There are 12 reporting periods coinciding with each month of the license's term.

## Bingo License and Lieu Tax

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### TAX RATE

The following fees and tax are assessed for the different license classes [A.R.S. § 5-414]:

<u>License Class</u>	<u>Local Governing Body Fee</u>	<u>License Fee</u>	<u>Bingo Tax</u>
A	\$5	\$10	2.5% of Adjusted Gross Receipts
B	\$25	\$50	1.5% of Gross Receipts
C	\$50	\$200	2.0% of Gross Receipts

### PAYMENT SCHEDULE

*License Fee Due Date.* The license fee, which is non-refundable, is due and paid at the time of application. Licenses expire 1 year from the issue date and must be renewed annually [A.R.S. § 5-403].

*Bingo Tax.* The tax is due at the time of each financial report submitted by the licensee according to the above-described schedule for the corresponding license class [A.R.S. § 5-407I].

*License Fee Collection.* The initial application for license is submitted to the local governing body along with the one-time local governing body fee and the license fee. The license fee and an original or certified copy of the application must be received by the Department of Revenue before a license is issued. Subsequent renewal fees, which are the same amount as the license fee, are paid to the Department of Revenue. A 30-day grace period from the expiration date is given for renewal with a penalty equal to the license fee; otherwise after such period a licensee must reapply for a new license [A.R.S. § 5-403].

The Department of Revenue collects the tax [A.R.S. § 5-407H].

### IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax from 2006 to 2012.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# BOULDER CANYON PROJECTS - IN LIEU PAYMENTS

## DESCRIPTION

These are payments made by the United States or its agencies or instrumentalities to the State of Arizona in lieu of taxes from the proceeds of any hydroelectric power development ("Boulder Canyon Projects") on the Colorado River [A.R.S. § 45-1331A].

## DISTRIBUTION

Two-thirds of payments received are dedicated to the state General Fund. The remaining one-third of payments received are placed in a special fund of the county in which the hydroelectric power development is located and are used for recreational facilities, access roads, and public works [A.R.S. § 45-1331].

<b>Table 1</b>			
<b>TAX COLLECTIONS</b>			
<u>Fiscal Year</u>	<u>General Fund</u>	<u>Fiscal Year</u>	<u>General Fund</u>
FY 2012	\$200,000	FY 2002	\$200,000
FY 2011	\$200,000	FY 2001	\$200,000
FY 2010	\$200,000	FY 2000	\$200,000
FY 2009	\$200,000	FY 1999	\$200,000
FY 2008	\$200,000	FY 1998	\$400,000
FY 2007	\$200,000	FY 1997	-
FY 2006	\$200,000	FY 1996	\$200,000
FY 2005	\$200,000	FY 1995	\$200,000
FY 2004	\$200,000	FY 1994	\$200,000
FY 2003	\$200,000	FY 1993	\$200,000

SOURCE: State Treasurer's Office. Total collections from Boulder Canyon Projects are derived by summing the payments to the state General Fund and to Mohave County.

## WHO PAYS THE TAX

Department of the Interior - Bureau of Reclamation.

## TAX BASE AND RATE

These are lump sum payments received from the Federal Government in lieu of taxes on the proceeds from the Boulder Canyon Projects.

## PAYMENT SCHEDULE

Federal payments are normally made in June of each year.

## IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in the period from 2006 to 2012.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# COMMERCIAL NUCLEAR GENERATING STATION ASSESSMENT

## DESCRIPTION

The commercial nuclear generating station assessment is levied on each consortium of public service corporations engaged in operating a commercial nuclear generating station. In effect, only the Palo Verde nuclear generating station is assessed by this law. Collection amounts are used by the state to develop emergency response capabilities for accidents caused at a commercial nuclear generating station. The assessment is equal to the amount appropriated by the Legislature to the Nuclear Emergency Management Fund for nuclear emergency response.

## DISTRIBUTION

Monies collected from the commercial nuclear generating station assessment are deposited in the General Fund [A.R.S. § 26-306.01D].

<b>Table 1</b>			
<b>COLLECTIONS</b>			
<u>Fiscal Year</u>	<u>General Fund</u>	<u>Fiscal Year</u>	<u>General Fund</u>
FY 2012	\$1,782,028	FY 2002	\$940,611
FY 2011	\$1,812,420	FY 2001	\$924,778
FY 2010	\$1,569,091	FY 2000	\$945,935
FY 2009	\$1,523,108	FY 1999	\$926,814
FY 2008	\$1,440,492	FY 1998	\$880,824
FY 2007	\$1,367,248	FY 1997	\$878,374
FY 2006	\$1,198,087	FY 1996	\$850,091
FY 2005	\$1,168,550	FY 1995	\$858,564
FY 2004	\$1,036,085	FY 1994	\$870,000
FY 2003	\$1,012,992	FY 1993	\$833,000

SOURCE: Department of Revenue, Annual Reports.

## WHO PAYS THE TAX

The assessment is paid by each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station [A.R.S. § 26-306.01D]. In practice, the assessment is only paid by the Palo Verde nuclear plant.

## TAX BASE AND RATE

The amount of the assessment is equal to the biennial legislative appropriation from the state General Fund to the Nuclear Emergency Management Fund, plus an additional 10% per year for interest [A.R.S. § 26-306.01D]. However, any unexpended monies in the Nuclear Emergency Management Fund at the end of each fiscal year are used to offset the assessment in future years [A.R.S. § 26-306.02B]. The assessments are used to develop, maintain, and support the state plan for responding to accidents at a commercial nuclear generating station [A.R.S. § 26-306.01A].

## PAYMENT SCHEDULE

The assessment is due to the Department of Revenue each year on the date that the appropriation to the Nuclear Emergency Management Fund becomes available for expenditure. If the assessment is not paid on this date, interest is charged at the rate of 10% per year until payment is received. If a consortium fails to pay the assessment within 1 year, the Legislature may require the Director of Emergency Management to notify the United States Nuclear Regulatory Commission [A.R.S. § 26-306.01D&E].

## **Commercial Nuclear Generating Station Assessment**

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### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in 2006, 2008, 2010, and 2012.

The following tax law changes levied biennial assessments against each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station. The assessment amounts were then appropriated from the state General Fund to the Nuclear Emergency Management Fund to develop and maintain the state response plan for an accident at a commercial nuclear generating station. The monies were allocated to various entities, including the Department of Emergency and Military Affairs, the Radiation Regulatory Agency, Maricopa County, and the Town of Buckeye.

#### **2011 TAX LAWS**

**Laws 2011, Chapter 132** levied an assessment of \$1,812,420 in FY 2012 and \$1,782,028 in FY 2013. (Effective July 14, 2011)

#### **2009 TAX LAWS**

**Laws 2009, Chapter 73** levied an assessment of \$1,523,108 in FY 2010 and \$1,569,091 in FY 2011. (Effective July 10, 2009)

#### **2007 TAX LAWS**

**Laws 2007, Chapter 25** levied an assessment of \$1,367,248 in FY 2008 and \$1,440,492 in FY 2009. (Effective April 10, 2007)

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# PARI-MUTUEL TAX

## DESCRIPTION

The pari-mutuel tax is assessed on the amount of money wagered at horse and dog racing facilities and simulcasts in the state. The tax structure is separated according to the type of racing – horse or dog – and the population size of the county in which the facility is located. The Department of Racing also collects fees for licenses issued to facilities and personnel involved in the racing industry and regulatory assessments. The distribution has varied in the past several years. (See distribution discussion below.)

The pari-mutuel tax does not include Indian gaming because the Indian tribes do not conduct pari-mutuel races. Also, the payments that the tribes make to the state pursuant to Proposition 202 are not taxes. The state cannot tax the tribes—these contributions are “voluntary” payments made in exchange for substantial exclusivity in their gaming activities.

## DISTRIBUTION

Table 1 below provides pari-mutuel tax and license fee collections for the past 20 years. Prior to FY 2010, pari-mutuel taxes, license fees, and unclaimed property monies collected by the Department of Revenue (DOR) were distributed among several different racing funds. In FY 2010 and FY 2011 these proceeds were all distributed to the General Fund. In FY 2012, licenses and assessments were deposited into the Racing Regulation Fund, while the pari-mutuel taxes continued to be deposited into the General Fund. In FY 2013, all proceeds are distributed to the Racing Regulation Fund.

<b>PARI-MUTUEL COLLECTIONS</b>			
<u>Fiscal Year</u>	<u>Pari-Mutuel Taxes</u>	<u>Licenses</u>	<u>Total Collections</u>
FY 2012	\$254,800	\$173,800	\$428,600
FY 2011	\$321,600	\$130,200	\$451,800
FY 2010	\$314,000	\$73,600	\$387,600
FY 2009	\$326,590	\$80,356	\$406,946
FY 2008	\$429,600	\$168,600	\$598,200
FY 2007	\$431,400	\$53,500	\$484,900
FY 2006	\$527,860	\$61,426	\$589,286
FY 2005	\$483,901	\$194,954	\$655,914
FY 2004	\$565,204	\$130,900	\$696,104
FY 2003	\$628,564	\$111,750	\$740,314
FY 2002	\$750,354	\$158,988	\$909,342
FY 2001	\$1,802,280	\$91,558	\$1,893,838
FY 2000	\$2,549,046	\$59,506	\$2,608,552
FY 1999	\$2,945,419	\$166,829	\$3,112,248
FY 1998	\$2,943,787	\$88,530	\$3,032,317
FY 1997	\$2,606,325	\$58,126	\$2,664,451
FY 1996	\$2,802,122	\$173,655	\$2,975,775
FY 1995	\$8,535,300	\$87,100	\$8,622,400
FY 1994	\$8,507,000	\$49,200	\$8,556,200
FY 1993	\$8,080,200	\$184,400	\$8,264,600

SOURCE: Arizona Department of Racing.

## **Pari-Mutuel Tax**

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### **WHO PAYS THE TAX**

The taxpayer is the person, firm, partnership, corporation, or association that holds a pari-mutuel permit. No single permittee may simultaneously own more than 4 racetracks within the state. No permittee that holds a permit in a county of over 300,000 persons may simultaneously hold a permit for the same kind of racing in another county having a population of over 300,000 [A.R.S. § 5-108.03].

### **TAX BASE AND RATE**

The tax base is the “handle,” which is defined as the total amount of money contributed to pari-mutuel pools by bettors [A.R.S. § 5-101 and A.R.S. § 5-111].

For dog racing, the state receives 5.5% of the total handle [A.R.S. § 5-111B].

For horse racing, the state receives 2% of the first \$1,000,000 of the daily pari-mutuel pool, and 5% of the amount exceeding \$1,000,000 of the daily pari-mutuel pool [A.R.S. § 5-111D].

Exemptions to the pari-mutuel tax include [A.R.S. § 5-111]:

- The portion of the handle for wagering on simulcasts of out-of-state races.
- Racing meetings conducted by county fair associations with the permission of the Racing Commission. This exemption is limited to one racing meeting each year.
- Monies received from horse and dog races held on charity days. Charity days are defined as days on which the net proceeds of the pari-mutuel pool are donated to non-profit organizations and corporations that benefit the general public.

*Licenses and assessments.* The Racing Department issues licenses and assessments to facilities and personnel involved in the racing industry. The licenses are valid for a period not to exceed 3 years. The Racing Department establishes and collects fees for the licenses it issues [A.R.S. § 5-104].

The licenses and assessments include:

- Racing licenses.
- A regulatory assessment from the purse accounts to pay for racing animal medication testing, and animal safety and welfare.
- A regulatory assessment from each permittee for each day of dark day simulcasting conducted in excess of the number of live racing days conducted by the permittee.
- A regulatory assessment from each commercial racing permittee payable from amounts deducted from pari-mutuel pools by the permittee, in addition to the amounts the permittee is authorized to deduct from amounts wagered on live and simulcast races from in-state and out-of-state wagering handled by the permittee.

Note that these fees and assessments shall not be reduced for hardship tax credits or capital improvements.

Persons, firms, partnerships, corporations, or associations applying for a pari-mutuel permit are not charged a permit fee. Instead, the department charges a 3-year licensing fee of \$20 to the following individuals representing permit applicants, where appropriate: racetrack owners with a stake of 10% or greater, corporate officers, racetrack general managers, and board members of county associations. However, prior to the issuance of a permit, each applicant must post a bond document of up to \$100,000 for dog racing and up to \$300,000 for horse racing payable to the department and the state [A.R.S. § 5-107D]. Each pari-mutuel permit holder must also make a refundable \$5,000 deposit with the department 10 days prior to a racing meeting to insure payment of the amount of pari-mutuel tax due to the state [A.R.S. § 5-107C].

### **TAX REFUNDS AND/OR TAX CREDITS**

*Hardship Credit.* On August 1 of each year, a permittee is eligible for a hardship tax credit determined as follows [A.R.S. § 5-111I]:

## Pari-Mutuel Tax

- Determine the percentage decrease in pari-mutuel wagering in the previous fiscal year compared to the base year. The base year is defined as the highest total pari-mutuel wagering at the racetrack and all additional wagering facilities owned by the permittee for FY 1990 through FY 1994.
- Multiply the total pari-mutuel tax liability for the current year by the percentage decrease determined above, and multiply the result by 3.
- Reduce the permittee's pari-mutuel tax due for the current period, and all future periods, by the result. The hardship tax credit can be used in addition to any other tax exemptions, rebates, and credits.

Note that the credits do not apply to licenses and assessments.

The revenue projections developed by the Department of Racing and included in the tables below are based on historical levels and industry trends and assume the continued operation of each of Arizona's commercial race tracks. These tables indicate state pari-mutuel taxes from dollars wagered during FY 2011. The tables also provide actual and estimated amounts for the Hardship Tax Credit during FY 2012. As of July 2012, Yavapai Downs is no longer in operation.

Track	Base Year	Base Year Amount	Actual FY 2011 Amount Wagered	Actual FY 2011 Percent Decrease	Actual Pari-Mutuel Tax Due	Tax Due Based on Percent Decrease	Estimated FY 2012 Hardship Credit	Carryover From FY 2011 Hardship Tax Credit	FY 2012 Tax Credit With FY 2011 Carryover
<b>HORSE TRACKS:</b>									
Turf Paradise	FY 1994	\$101,467,993	\$103,932,849	2.43%	\$293,002	\$0	\$0	\$14,564	\$14,564
Yavapai Downs	FY 1994	\$17,490,826	\$16,845,458	-3.69%	\$32,506	\$1,199	\$3,598	\$0	\$3,598
<b>GREYHOUND TRACKS:</b>									
Apache Greyhound Park	FY 1990	\$12,262,396	\$13,483,368	9.96%	\$0	\$0	\$0	\$360,850	\$360,850
Tucson Greyhound Park	FY 1990	\$38,110,346	\$15,884,969	-58.32%	\$472,604	\$275,623	\$826,869	\$2,704,280	\$3,531,149

*Capital Improvements.* The permittee's pari-mutuel annual tax liability may be reduced in order to fund capital improvements to racetracks. The reduction can be up to 1% of the total handle in counties having a population of 500,000 or more, and up to 2% in all other counties. The annual reduction continues until sufficient funds have been obtained for the completion of the capital improvement project. The projects must be approved by the Racing Commission. [A.R.S. § 5-111.02 and A.R.S. § 5-111.03].

The capital improvements provision expired on June, 30 1992 for counties with populations of 500,000 or more, and on June 30, 1999 for all other counties. Projects approved prior to these dates may continue with the tax reduction until sufficient funds have been obtained for completion of the capital improvement.

The capital improvement reduction does not apply to licenses and assessments.

### PAYMENT SCHEDULE

Pari-mutuel taxes are paid daily during the racing season. The tax is collected by the Department of Racing.

### IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006. There were no changes enacted to this tax in 2007, 2008, and 2010. The estimated initial dollar impact of these changes is summarized by fiscal year in *Table 3* below.

## Pari-Mutuel Tax

<b>Table 3</b>		
<b>ANNUAL INCREMENTAL DOLLAR IMPACT OF TAX LAW AND REVENUE CHANGES</b>		
<u>Session/Chapter</u>	<u>Description</u>	<u>Revenue Impact</u>
<u>FY 2013</u>		
L 12, Ch 297	Pari-Mutuel Tax Redirect	\$(280,000)
L 11, Ch 35	Reduction as Part of Shift to Self-Funding of Racing	\$(1,020,000)
Subtotal FY 2013		\$(1,300,000)
<u>FY 2012</u>		
L 11, Ch 35	Reduction as Part of Shift to Self-Funding of Racing	\$(1,042,000)
<u>FY 2010</u>		
L 09, 4 <sup>th</sup> SS, Ch 3	Racing – Pari-Mutuel Revenue Shift	\$5,305,500
<u>FY 2007</u>		
L 06, 2 <sup>nd</sup> SS, Ch 363	Unclaimed Property Fund Shift	- - <sup>1/</sup>
<sup>1/</sup> General Fund impact is unknown.		

### 2012 TAX LAWS

**Laws 2012, Chapter 297** required that pari-mutuel taxes collected on wagering at horse and dog racing facilities be deposited to the Racing Regulation Fund to fund the Department of Racing’s operating budget. Previously, these collections (\$321,600 in FY 2011) were deposited to the General Fund. (Effective Tax Year 2013)

### 2011 TAX LAWS

**Laws 2011, Chapter 35** repealed specific statutory racing and boxing license fees which had been deposited to the General Fund. The law required that the Racing Department and Boxing Commission establish and collect increased or new license fees and regulatory assessments for deposit in the newly-established Racing Regulation Fund. The fund is subject to appropriation. Laws 2011, Chapter 333 provided it was legislative intent that the new fees not exceed \$1,442,000 in FY 2012 and \$2,562,000 in FY 2013. This repeal reduced General Fund revenues by \$(1,042,000) in FY 2012 and another \$(1,020,000) in FY 2013. The FY 2012 budget also reduced the department’s General Fund appropriation by these same amounts so there was no net impact on the General Fund.

Chapter 35 required that the Racing Department establish racing license fees, a regulatory assessment from the purse accounts to pay for racing animal medication testing, animal safety and welfare, a regulatory assessment from each permittee for each day of dark day simulcasting conducted in excess of the number of live racing days conducted by the permittee, and a regulatory assessment from each commercial racing permittee payable from amounts deducted from pari-mutuel pools by the permittee. Hardship and capital improvement tax credits do not apply to these fees and assessments. The law eliminated specific Boxing Commission fees and replaced them with authority for the Commission to determine fees. (Effective Tax Year 2012)

### 2009 TAX LAWS

**Laws 2009, Chapter 3, 4<sup>th</sup> Special Session** required pari-mutuel proceeds and unclaimed property revenues to be distributed to the General Fund, rather than to racing funds. The FY 2010 General Appropriation Act also appropriated General Fund monies to current racing fund recipients to partially offset the loss of pari-mutuel taxes. (Effective Tax Year 2010)

## **Pari-Mutuel Tax**

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### **2006 TAX LAWS**

**Laws 2006, Chapter 363** raised the statutory dollar amounts for funds that receive distributions from pari-mutuel taxes, license fees and unclaimed property monies. Of the 8 funds that receive distributions from these revenues, 6 funds were adjusted. For the 6 affected funds only the dollar limitation, not the percentage distribution, was raised. The law may impact the General Fund by decreasing distributions to it as distributions to the 8 funds are increased. (Effective Tax Year 2007)

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# UNCLAIMED PROPERTY COLLECTIONS

## DESCRIPTION

Unclaimed property includes intangible personal property such as traveler's checks, money orders, stocks or other equity interest, principal on debt, demand or savings deposits, customer credits, insurance settlements, property received or held by a court, wages, retirement accounts, and other miscellaneous types of property that are presumed abandoned according to the schedule set out in statute (A.R.S. § 44-302). Unclaimed property also includes tangible property held in a safe deposit box which remains unclaimed after the expiration of the lease on the box (A.R.S. § 44-303). Property is presumed abandoned and therefore unclaimed after it is held for an extended period of time with no owner contact and a "good faith" effort has been made to locate the owner. Abandoned property is transferred to the Department of Revenue (DOR) from many holders, including banks, credit unions, corporations, utilities, insurance companies, governmental entities, and retailers. DOR also establishes and maintains records of escheated estates. An escheated estate is created when a person dies without leaving a will and has no known heirs; the property reverts to the state after 5 years.

DOR acts as custodian of the property and administers a program to locate the owners. Once reported to DOR, unclaimed property is available for refund to the owners or their heirs indefinitely. Statute requires businesses and other organizations to review their records each year to determine whether they hold any funds, securities, or other property that are unclaimed for the statutory abandonment period. Holders file an annual report and transfer the property to the state. The holding period before property is considered unclaimed varies by type of property. If the properties received by DOR remain unclaimed within a specified time period, the properties are sold by DOR with the proceeds distributed to a number of state funds.

Although the collection and sale of unclaimed property held by the DOR does not constitute a tax, monies derived from this activity represent a significant state revenue source.

## DISTRIBUTION

Monies from the sale of unclaimed property are deposited in the non-appropriated Estate and Unclaimed Property Fund administered by DOR. DOR retains not less than \$100,000 to pay allowed claims while the state attempts to locate abandoned property owners. Revenues from the sale of escheated estates are deposited in the Escheated Estates Fund.

Monies received by DOR from the collection and sale of unclaimed properties and escheated estates are distributed as follows:

- Monies derived from unclaimed victim restitution payments are deposited in the Victim Compensation and Assistance Fund (VCAF) [A.R.S. § 44-313C and A.R.S. § 41-2407A].
- Monies from unclaimed shares and dividends of any corporation incorporated under the laws of Arizona, escheated estates, and unclaimed property in a self-storage unit are deposited in the Permanent State School Fund (PSSF) [A.R.S. § 44-313B, § 37-521A, § 12-885B, § 33-1704D].
- Unclaimed utility deposits are transferred to the Utility Assistance Fund (UAF) [A.R.S. § 46-731B].

The remaining monies are distributed as follows:

- The first \$2.0 million in unclaimed property collections are deposited into the Seriously Mentally Ill Housing Trust Fund.
- The next \$2.5 million are deposited into the Housing Trust Fund.
- The next \$24.5 million are deposited into the DOR Administrative Fund to cover DOR's administrative costs, including unclaimed property contract auditors and the handling, publicizing, and selling of abandoned property.
- All remaining monies are redirected to the General Fund.

## Unclaimed Property Collections

Table 1

Unclaimed Property Distributions									
Fiscal Year	General Fund	Housing Trust Fund	DOR Admin. Fund	Racing Funds	VCAF <sup>1/</sup>	UAF <sup>2/</sup>	PSF <sup>3/</sup>	DHS SMIHTF <sup>4/</sup>	Total
2012 <sup>5/</sup>	\$45,840,400	\$2,500,000	\$24,500,000	\$0	\$100,500	\$0	\$140,400	\$2,000,000	\$75,081,300
2011	\$49,120,900	\$10,500,000	\$24,500,000	\$0	\$1,143,800	\$0	\$59,100	0	\$85,323,800
2010 <sup>6/7/</sup>	\$101,669,100	\$10,500,000	\$24,500,000	\$0	\$739,400	\$0	\$20,600	0	\$137,429,100
2009	\$9,526,600	\$28,554,100		\$10,383,300	\$144,600	\$0	\$9,100	0	\$48,617,700
2008 <sup>8/</sup>	\$58,020,600	\$33,684,300		\$12,248,800	\$173,100	\$26,300	\$11,200	0	\$104,164,300
2007 <sup>8/</sup>	\$12,346,200	\$40,972,900		\$14,899,200	\$1,250,300	\$2,550,700	\$408,600	0	\$72,427,900
2006 <sup>8/</sup>	\$22,825,000	\$26,004,600		\$9,456,200	\$128,300	\$855,500	\$408,700	0	\$59,678,300
2005 <sup>8/</sup>	\$30,715,200	\$23,942,700		\$8,706,400	\$299,600	\$1,664,500	\$426,100	0	\$65,754,500
2004	\$8,044,000	\$20,708,300		\$7,530,300	\$547,300	\$1,308,000	\$397,200	0	\$38,535,200
2003	\$6,745,700	\$17,950,700		\$6,527,500	\$2,128,000	\$1,119,000	\$214,100	0	\$34,685,000
2002	\$7,656,000	\$19,761,600		\$7,186,000	\$0	\$868,400	\$0	0	\$35,472,000
2001	\$4,309,800	\$11,733,800		\$4,266,900	\$17,000	\$905,000	\$77,800	0	\$21,310,300
2000	\$4,208,700	\$11,421,700		\$4,153,300	\$0	\$639,100	\$13,000	0	\$20,435,800
1999	\$2,084,500	\$6,791,800		\$2,465,200	\$0	\$818,400	\$217,300	0	\$12,594,500
1998	\$2,402,500	\$7,380,800		\$2,681,200	\$0	\$712,000	\$55,200	0	\$13,231,700
1997	\$4,566,100	\$3,655,100		\$0	\$0	\$604,900	\$342,700	0	\$13,734,900
1996	\$10,399,100	\$6,024,100		\$0	\$0	\$515,500	\$362,000	0	\$17,300,700
1995	\$6,438,200	\$3,899,500		\$0	\$0	\$628,200	\$335,700	0	\$11,301,600
1994	\$5,777,000	\$3,181,700		\$0	\$0	\$400,000	\$57,500	0	\$9,416,200
1993	\$5,095,400	\$2,932,600		\$0	\$0	\$446,800	\$211,700	0	\$8,686,500

1/ Victim Compensation and Assistance Fund distributions became effective January 1, 2001, with the implementation of Laws 2001, Chapter 146.  
2/ Utility Assistance Fund.  
3/ Permanent School Fund.  
4/ Department of Health Services Seriously Mentally Ill Housing Trust Fund.  
5/ In FY 2012 the first \$2 million in unclaimed property collections were deposited into the Department of Health Services Seriously Mentally Ill Housing Trust Fund, the next \$2.5 million were deposited into the Housing Trust Fund, the next \$24,500,000 into the Department of Revenue Administration Fund, and all the remaining monies were deposited in the General Fund. Transfers to the VCAF, UAF, and PSF continue to be distributed as under current law.  
6/ In FY 2010 and FY 2011, the first \$10.5 million in unclaimed property collections were deposited in the Housing Trust Fund, the next \$24.5 million were deposited in the DOR Administrative Fund, and all remaining monies were deposited in the General Fund. Transfers to VCAF, UAF and PSF were made in accordance with statute.  
7/ Laws 2009, 4<sup>th</sup> Special Session, Chapter 3 as permanent law, accelerated by 2 years the holding periods for all property types to be presumed abandoned and therefore unclaimed. Chapter 3 also revised the holding period for traveler's checks from 15 to 3 years as well as the holding period for money orders from 7 to 3 years. This was estimated to generate one-time additional revenue of \$39.4 million to the General Fund in FY 2010. Actual FY 2010 collections totaled \$83.7 million, or \$44.3 million more than anticipated. Laws 2010, Chapters 102 and 119 restored the holding period for traveler's checks to 15 years as well as the holding periods for stocks, principal and interest on debt, and any dividend, profit distribution, redemption, payment on principals or other sum held by a business association for its shareholders to 3 years.  
8/ Laws 2007, Chapter 260 as session law, allowed DOR to sell unclaimed securities upon their receipt with the requirement that all proceeds from the sales of these securities in FY 2008 be deposited into the General Fund, instead of the statutory split among the General Fund, Department of Housing, and Department of Racing. This was estimated to generate increased revenue of \$45 million to the General Fund in FY 2008; the actual amount was \$47.2 million.  
9/ FY 2005 – FY 2007 General Fund distributions include unclaimed monies arising from the cases of Ladewig v. State of Arizona and Kerr v. State of Arizona.

SOURCE: DOR, Annual Reports. Figures are net of refunds and agency administrative expenses.

Prior to FY 2012, the first \$10.5 million in unclaimed property collections were deposited into the Housing Trust Fund. The next \$24.5 million in collections were deposited into the DOR Administrative Fund and the remaining monies were deposited into General Fund.

Prior to FY 2010, 55% of all remaining monies were transferred to the Housing Trust Fund, 25% to the General Fund, and the remaining 20% was distributed among 8 funds administered by the Department of Racing.

### REVENUE BASE

Property is presumed abandoned and therefore unclaimed after it has been held for an extended period of time with no owner contact and a “good faith” effort has been made to locate the owner. The length of time for property to be presumed abandoned varies depending on the classification of property. The property classifications and presumption of abandonment timeframes are as follows [A.R.S. § 44-302 and A.R.S. § 38-722]:

## **Unclaimed Property Collections**

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### 1 Year

- Property that is received by a court as proceeds of a class action suit and that is not distributed pursuant to the judgment - 1 year after the date the court distributed the proceeds.
- Wages or other labor compensation - 1 year from payment date.

### 2 Years

- Property that is held by a court or governmental entity - 2 years after the property becomes distributable.
- Property in any individual retirement account or defined benefit - 2 years after date of the required distribution.
- Excess proceeds from a trustee sale deposited with the county treasurer pursuant to A.R.S. § 33-812 - 2 years from the date of deposit.
- A utility deposit that is paid in advance for utility services to be furnished - 2 years after termination of services.

### 3 Years

- Money Order - 3 years after issuance.
- Any stock or other equity interest in a business association or financial organization, including security entitlements - 3 years after the most recent unclaimed dividend, stock split, or other distribution.
- The principal and interest on corporate bonds - 3 years after the maturity and after the last interest payment date.
- Demand, savings, or time deposit and any interest or dividends accrued by the accounts - 3 years after maturity.
- Credits owed to a retail customer - 3 years after the obligation accrued.
- Life or endowment insurance policy or an annuity that has matured or terminated - 3 years after the obligation to pay arose.
- Check, or similar instrument, to include cashier's and certified checks - 3 years after the check or instrument was payable.
- Dividend, profit, distribution, interest, redemption, payment on principal or other sum held or owed by a business to shareholders, bondholders, or other security holders who have not claimed it - 3 years after the date prescribed for payment or delivery.
- All other property not otherwise specified - 3 years after the owner's rights to demand the property or after the obligation to pay or distribute the property arises, whichever occurs first.
- Tangible property held in safe deposit box - 3 years after expiration of safe deposit box lease or rental period.
- Monies deposited into the Arizona State Retirement System (ASRS) Trust Fund established by A.R.S. § 38-712 and the Long-Term Disability (LTD) Trust Fund established by A.R.S. § 38-797.02 - Monies in both the ASRS and LTD Trust Funds are presumed abandoned if the apparent owner has not communicated in writing with ASRS and has not otherwise indicated an interest in the monies for the 3-year period following the required beginning date of distributions.
- Certificates of Deposit and resultant interest – 3 years after maturity.

### 5 Years

- Escheated estate - 5 years without having identified an heir.

### 15 Years

- Traveler's Check - 15 years after issuance.

Property that is not covered under the Arizona Unclaimed Property Act includes gift certificates, electronic gift cards, nonrefundable tickets, prepaid phone cards, frequent flyer miles, stored value cards, merchandise points and business accounts of less than \$50 [A.R.S. § 44-301].

A.R.S. § 44-304 provides further guidance on how to determine whether property is abandoned.

## **HOW REVENUES ARE COLLECTED**

Holders of unclaimed property include banks, credit unions, corporations, utilities, insurance companies, governmental entities, and retailers. Each institution is required, except for state agencies, to annually report to DOR unclaimed property in its possession. Life insurance companies are required to file the report for each reporting year before May 1 of the succeeding year; all other holders of property presumed abandoned file the report before November 1 and the report covers the last 12 months before July 1 of that year. For the prior fiscal year, county treasurers must file the report on or before November 1. State agencies that hold monies for the payment of voided warrants report no later than the 10th day of each month [A.R.S. § 44-307]. In FY 2010 only, Laws 2009, 4<sup>th</sup> Special Session, Chapter 3 requires that holders of property presumed abandoned file the report before June 1, 2010 and the report covers the last 12 months before July 1, 2009.

## Unclaimed Property Collections

Upon filing the report with DOR, the holder of unclaimed property shall pay or deliver it to DOR. On payment or delivery of property to DOR, the State of Arizona assumes custody and responsibility for the property. A holder who pays or delivers property to the department in good faith is relieved of all liability with respect to the property that arises after the payment or delivery [A.R.S. § 44-310].

Statute requires DOR to publish a notice at least semiannually of abandoned property that has been paid or delivered to the department. DOR's website must contain information about abandoned property no later than November 30 of the year after the year in which abandoned property was paid or delivered to the department [A.R.S. § 44-309].

Unclaimed securities may be sold upon receipt (*see Laws 2007, Chapter 260 below*). Within 3 years after receiving abandoned property other than securities, the department must sell the unclaimed properties to the highest bidder at a public sale. Before conducting a sale, the department publishes a notice at least 3 weeks before the sale in the county in which the sale will occur. A purchaser of property at a sale conducted by the department takes the property free of all claims of the owner or previous holder and of all persons claiming through or under the owner or previous holder. [A.R.S. § 44-312].

Securities that are listed on an established stock exchange are sold at prices prevailing on the exchange at the time of the sale. DOR may sell all other securities in the over-the-counter market at prices prevailing at the time of the sale. Except in a case of intentional misconduct or malfeasance by the department, a person claiming their property is not entitled to receive any appreciation in property value that occurred after the delivery to DOR [A.R.S. § 44-312].

Any person who claims property that was paid or delivered to DOR may file a claim to recover the property or its monetary value at the time the property was sold. Within 90 days after a claim is filed the department is required to allow or deny the claim. If the claim is denied, the department informs the claimant of the reasons for the denial and specifies what additional evidence is required before the claim will be allowed. Within 30 days after a claim is allowed the department must deliver the property or pay the net proceeds of a sale of the property to the claimant [A.R.S. § 44-317]. *Table 2* displays refunds of unclaimed properties to its owners.

<b>Unclaimed Property Refunds</b>			
<b><u>Fiscal Year</u></b>	<b><u>Refund</u></b>	<b><u>Fiscal Year</u></b>	<b><u>Refund</u></b>
2012	\$40,049,500	2002	\$11,903,200
2011	\$34,677,600	2001	\$15,764,200
2010	\$24,207,900	2000	\$9,881,800
2009	\$22,267,200	1999	\$8,135,400
2008	\$27,859,500	1998	\$6,609,800
2007	\$22,541,000	1997	\$9,103,400
2006	\$17,693,700	1996	\$7,507,900
2005	\$16,241,200	1995	\$3,529,100
2004	\$10,093,800	1994	\$3,818,500
2003	\$10,333,100	1993	\$2,859,900

SOURCE: DOR, Annual Reports.

### IMPACT OF STATUTORY AND REVENUE CHANGES

The following section is a summary by year of statutory and other revenue changes that have been enacted by the Legislature since 2006. There were no changes enacted in 2009. The estimated dollar impact of prior year tax law changes is summarized by fiscal year in *Table 3*.

## Unclaimed Property Collections

<b>Table 3</b>		
<b>ESTIMATED DOLLAR VALUE OF TAX LAW AND REVENUE CHANGES</b>		
<u>Session/Chapter</u>	<u>Description</u>	<u>Revenue Impact</u>
<u>FY 2011</u>		
L 2010, 2 <sup>nd</sup> RS, Ch 102	Restored the abandonment period for stocks, principals on debt and interest from 2 to 3 years.	Unknown
L 2010, 2 <sup>nd</sup> RS, Ch 119	Restored the abandonment period for traveler's checks from 3 to 15 years.	\$(2,400,000)
<u>FY 2010</u>		
L 2009, 4 <sup>th</sup> SS, Ch 3	Accelerated the holding periods for all property types to be presumed abandoned and therefore unclaimed.	\$39,400,000 <sup>1/</sup>
<u>FY 2008</u>		
L 2007, 1 <sup>st</sup> RS, Ch. 260	Transfers Securities sales to the General Fund	\$ 45,000,000
<u>FY 2007</u>		
L 2006, 2 <sup>nd</sup> RS, Ch. 347	Transfers <u>Kerr</u> and <u>Ladewig</u> unclaimed monies to General Fund in FY 2007	\$ 15,000,000
<u>FY 2006</u>		
L 2005, 1 <sup>st</sup> RS, Ch. 333	Transfers <u>Ladewig</u> unclaimed monies to General Fund in FY 2005 and FY 2006	\$33,000,000
<u>1/</u> A total of \$83.7 million was actually collected. The \$39.4 million figure in the table represents estimated collections at the time of enactment.		

### 2012 LAWS

**Laws 2012, Chapter 217** allows certificates of deposit and the resultant interest to be declared abandoned 3 years after maturity.

### 2011 LAWS

**Laws 2011, Chapter 28** reduces the annual deposit of unclaimed property revenues to the Housing Trust Fund from \$10.5 million to \$2.5 million beginning in FY 2012. Additionally, the bill establishes the Seriously Mentally Ill Housing Trust Fund with the first \$2 million in unclaimed property revenue collected annually. These monies are to be used to fund housing for the seriously mentally ill and the fund is to be administered by the Department of Health Services. Also, the bill removes the non-lapsing provision from the unclaimed monies deposited into the Department of Revenue Administration Fund.

**Laws 2011, Chapter 315** provides clarifications and modifications of current unclaimed property holder rights, and establishes the difference between a private holder ruling and a holder information ruling. Additionally, Chapter 315 provides holders with the right to withdraw a request for a ruling on unclaimed property provisions if DOR disagrees with the holder's request for confidentiality. The act requires DOR to notify a holder when a holder information ruling is modified or revoked and mandates that the decision of DOR to publish a ruling is not an appealable decision.

### 2010 LAWS

**Laws 2010, Chapter 102** restores the holding periods for stocks, principal and interest on debt, and any dividend, profit, distribution, redemption, payment on principal or other sum held by a business association for its shareholder from 2 to 3 years. The impact to the General Fund has not been determined.

**Laws 2010, Chapter 119** restores the holding periods for traveler's checks from 3 to 15 years. The impact to the General Fund is estimated to be \$(2.4) million in FY 2011.

## Unclaimed Property Collections

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### 2009 LAWS

**Laws 2009, 4<sup>th</sup> Special Session, Chapter 3** accelerated by 2 years the holding periods for all property types to be presumed abandoned and therefore unclaimed. Chapter 3 revised the holding period for traveler's checks from 15 to 3 years as well as the holding period for money orders from 7 to 3 years. It was projected that shortening these holding periods would result in additional General Fund revenues of \$39.4 million in FY 2010 (*Please see Laws 2010, Chapters 102 and 119*). Actual collections in FY 2010 were \$83.7 million, or \$44.3 million more than anticipated.

**Laws 2009, 4<sup>th</sup> Special Session, Chapter 3** required that the first \$10.5 million in unclaimed property proceeds be deposited into the Housing Trust Fund, the next \$24.5 million into the DOR Administrative Fund, and all remaining proceeds are redirected to the General Fund. Distributions to VCAF, UAF, and PSF continued to be distributed as under current law.

### 2008 LAWS

**Laws 2008, Chapter 264** established that any monies left in a retirement account or benefit plan are presumed abandoned 3 years after the statutorily prescribed date of distribution. As holder of the property, ASRS was required to report and pay the property to DOR. The impact to the General Fund had not been determined. (Effective July 1, 2009)

### 2007 LAWS

**Laws 2007, Chapter 260** made changes to abandonment periods for certain classifications of property and the timeframe that securities can be sold. The abandonment periods for corporate bonds and dividends on securities was reduced from 5 to 3 years. The law allowed DOR to sell unclaimed securities upon their receipt, with the requirement that all proceeds from the sales of securities in FY 2008 be deposited into the state General Fund. The sale of all securities held by DOR was estimated to generate a one-time gain of \$45 million to the General Fund and reduce DOR's \$160,000 annual portfolio management costs by \$60,000. Actual collections of \$47.2 million from the sale of securities exceeded the original estimate by \$2.2 million.

### 2006 LAWS

**Laws 2006, Chapter 33** increased the abandonment period for tangible property that was held in a safe deposit box from 1 to 3 years after the expiration of the box's lease or rental period.

**Laws 2006, Chapter 243** eliminated the statutory requirement that monies held for payment of void warrants by the State Treasurer of up to \$1 million be transferred to the Homeless Trust Fund. A.R.S. § 44-302 stipulated that monies held by the State Treasurer for the payment of warrants by a state agency that remain unclaimed by the owner at the time of the void date printed on the warrant are presumed abandoned.

**Laws 2006, Chapter 316** appropriated \$135,000 from the Estate and Unclaimed Property Fund in FY 2006 to DOR for supplemental funding for unclaimed property printing and advertising costs.

**Laws 2006, Chapter 347** required DOR to deposit in FY 2007 any unclaimed property that was associated with the case of Ladewig v. State of Arizona and the case of Kerr v. State of Arizona in the General Fund.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

**PAYMENTS IN LIEU OF  
PROPERTY TAXES**

# AIRCRAFT LICENSE TAX

## DESCRIPTION

Aircraft license tax is a tax imposed on aircraft based and registered in the state [A.R.S. § 28-8335].

## DISTRIBUTION

Monies received from the aircraft license tax are deposited in the State Aviation Fund [A.R.S. § 28-8345].

<b>Table 1</b>			
<b>AIRCRAFT LICENSE TAX COLLECTIONS</b>			
<u>Fiscal Year</u>	<u>Aviation Fund</u>	<u>Fiscal Year</u>	<u>Aviation Fund</u>
FY 2012	\$8,802,691	FY 2002	\$3,543,819
FY 2011	\$7,733,417	FY 2001	\$3,176,180
FY 2010	\$7,582,645	FY 2000	\$3,094,727
FY 2009	\$6,900,648	FY 1999	\$2,365,498
FY 2008	\$7,413,608	FY 1998	\$2,043,058
FY 2007	\$7,748,524	FY 1997	\$1,825,858
FY 2006	\$5,980,022	FY 1996	\$1,800,630
FY 2005	\$5,577,258	FY 1995	\$1,507,555
FY 2004	\$5,748,210	FY 1994	\$1,461,259
FY 2003	\$4,360,187	FY 1993	\$1,429,867

SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning.

## WHO PAYS THE TAX

The tax is paid by owners of aircraft registered in the state, unless an exemption is provided [A.R.S. § 28-8324].

## TAX BASE AND RATE

The tax base is aircraft based in the state and registered with ADOT. ADOT is responsible for determining the fair market value of such aircraft each year as established by the dealer price guides or other recognized reliable source of information [A.R.S. § 28-8342].

The following are exempt from the aircraft license tax:

- (1) Regularly scheduled aircraft operated by an airline company for hire [A.R.S. § 28-8322].
- (2) Nonresident owned aircraft not used for intrastate commercial activities and not based in Arizona for more than 90 days per year [A.R.S. § 28-8322].
- (3) Aircraft operated exclusively in the public service by the United States Government, the state, a political subdivision, or the Civil Air Patrol [A.R.S. § 28-8323].

The tax rate is 0.5% of the average fair market value of the aircraft, except that in no case shall the tax be less than \$20 per year unless an exemption has been established [A.R.S. § 28-8335]. A nonresident who bases an aircraft in Arizona for more than 90 days but less than 210 days in any calendar year and is not engaged in intrastate commercial activity is subject to a tax rate equal to 0.1% of the average fair market value [A.R.S. § 28-8336].

The license tax for aircraft in storage or under repair is \$20 per aircraft [A.R.S. § 28-8337]. The license tax for salvaged aircraft that is in storage or being restored is \$5 per aircraft [A.R.S. § 28-8338]. The license tax for antique, classic, warbird, glider, experimental, homebuilt, or balloon aircraft is \$20 per aircraft [A.R.S. § 28-8339]. The license tax for manufacturer’s aircraft is \$20 per aircraft [A.R.S. § 28-8340]. The license tax for maintenance aircraft owned by a nonresident is \$20 per aircraft [A.R.S. § 28-8341].

## **Aircraft License Tax**

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The license tax for aircraft that was registered for the first time after the beginning of a calendar year is prorated [A.R.S. § 28-8324].

### **PAYMENT SCHEDULE**

All aircraft based in the state, except those for which exemptions were provided, must be registered with ADOT within 60 days after the aircraft was brought into the state. The aircraft registration must be renewed each year on or before the last day of February [A.R.S. § 28-8322].

The registration fee is \$5 per year [A.R.S. § 28-8325]. If the registration requirement is not met, then a penalty of \$25 for the first month and \$5 for each succeeding month of delinquency will be assessed [A.R.S. § 28-8329].

The aircraft license tax is payable to ADOT upon initial registration and annually by the last day of February [A.R.S. § 28-8335].

Owners of aircraft in storage or salvaged aircraft must notify ADOT within 10 days of the date the aircraft is returned to use and then pay the appropriate license tax, if any, on a pro rata basis [A.R.S. § 28-8337 and § 28-8338].

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in 2006 to 2012.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# FLIGHT PROPERTY TAX

## DESCRIPTION

The flight property tax is assessed on the value of airline company aircraft operating in Arizona. The tax is in lieu of ad valorem property taxes on this type of property [A.R.S. § 42-14255].

## DISTRIBUTION

Laws 1986, Chapter 369 shifted flight property tax revenues from the General Fund to the Aviation Fund over a phase-in period of 3 years. Beginning on January 1, 1987, 33% of total tax receipts were deposited in the Aviation Fund. On the same date the following 2 years, the distribution level to the Aviation Fund increased to 66% and 100%, respectively.

Laws 1997, 1<sup>st</sup> Special Session, Chapter 3 changed the distribution of flight property tax revenues so that, starting in FY 1998, 50% of total proceeds were deposited in the General Fund and the other 50% in the Aviation Fund.

Laws 2003, Chapter 263 provided that, beginning in FY 2005, 100% of flight property tax revenues are deposited in the Aviation Fund [A.R.S. § 42-14255].

**Table 1**

**FLIGHT PROPERTY TAX COLLECTIONS AND DISTRIBUTION**

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Aviation Fund</u>	<u>Total</u>
FY 2012	\$0	\$10,585,261	\$10,585,261
FY 2011	\$0	\$9,709,712	\$9,709,712
FY 2010	\$0	\$9,451,430	\$9,451,430
FY 2009	\$0	\$11,712,920	\$11,712,920
FY 2008	\$0	\$13,821,790	\$13,821,790
FY 2007	\$0	\$15,300,127	\$15,300,127
FY 2006	\$0	\$13,685,936	\$13,685,936
FY 2005	\$0	\$13,180,039	\$13,180,039
FY 2004	\$6,320,722	\$6,320,723	\$12,641,445
FY 2003	\$6,715,536	\$6,026,213	\$12,741,749
FY 2002	\$6,528,347	\$6,528,347	\$13,056,694
FY 2001	\$6,693,589	\$6,693,590	\$13,387,179
FY 2000	\$6,709,386	\$6,709,385	\$13,418,771
FY 1999	\$7,367,078	\$7,489,832	\$14,856,910
FY 1998	\$7,582,939	\$7,582,939	\$15,165,878
FY 1997	\$0	\$17,679,764	\$17,679,764
FY 1996	\$0	\$18,564,298	\$18,564,298
FY 1995	\$0	\$13,803,042	\$13,803,042
FY 1994	\$0	\$12,278,607	\$12,278,607
FY 1993	\$0	\$11,329,977	\$11,329,977

SOURCE: Department of Transportation, Office of Financial Planning.

## WHO PAYS THE TAX

The tax is paid by airline companies operating within the state [A.R.S. § 42-14255].

## Flight Property Tax

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### TAX BASE AND RATE

The Department of Revenue (DOR) determines the full cash value of flight property by August 31 each year. The full cash value is the value determined as of the prior January 1 of the valuation year [A.R.S. § 42-14254A]. DOR establishes the full cash value as follows [A.R.S. § 42-14254B]:

- (1) determines the valuation of flight property by fleet type,
- (2) determines the valuation of each fleet type by the original cost less depreciation,
- (3) computes depreciation using 15-year straight-line depreciation to salvage value, and
- (4) allows additional obsolescence if supported by market evidence.

Small flight property that is operated in the state in air commerce is valued at 30% of its original cost less depreciation [A.R.S. § 42-14254C]. (Small flight property is airline company aircraft with a maximum passenger capacity of less than 56 seats and a maximum payload capacity of less than 18,000 pounds [A.R.S. § 42-14251].)

Arizona's share of the total full cash value of flight property is determined by an apportionment formula, which depends on the number of minutes that flight property is on the ground and on the flight mileage scheduled within and outside Arizona [A.R.S. § 42-14254D].

Flight property is assessed as Class 5 property [A.R.S. § 42-12005]. The assessment ratio for Class 5 property is computed as follows [A.R.S. § 42-15005]:

- For secondary property taxes: The ratio that total *net assessed valuation* for secondary tax purposes of all taxable property in Class 1 and Class 6, paragraph 3, and personal property in Class 2 bears to the total *full cash value* of such property.
- For primary property taxes: The ratio that total *net assessed valuation* for primary tax purposes of all taxable property in Class 1 and Class 6, paragraph 3, and personal property in Class 2 bears to the total *limited valuation* of such property.

As the formulas above suggest, the assessment ratio for Class 5 property may change from one year to the next. In the period from 1991 to 2012, the assessment ratio has varied between 15% and 26%. The FY 2012 assessment ratio for this type of property was 15%.

The tax rate equals the sum of the average rates for primary and secondary property taxes in all taxing jurisdictions of the state in the current year [A.R.S. § 42-14255]. The historical flight property tax rates are shown in *Table 2* on the following page.

The property tax liability is calculated in the same manner as other property (see *Property Tax* section), i.e., by multiplying the tax rate by the assessed valuation of the flight property and then dividing the product by 100.

### PAYMENT SCHEDULE

The flight property tax is due and payable at the same time as real and personal property [A.R.S. § 42-14255]. This means that one-half of the tax is due and payable on October 1 of the tax year, unless the total amount of the tax due is \$100 or less, in which case the full amount of the tax is due and delinquent after November 1. The remaining one-half of the tax is due on March 1 of the year following the tax year and becomes delinquent after May 1 [A.R.S. § 42-18052]. Both of these payments fall in the same fiscal year.

## Flight Property Tax

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Table 2

### HISTORICAL AVERAGE PROPERTY TAX RATES PER \$100 OF ASSESSED VALUATION

<u>Fiscal Year</u>	<u>Sum of Average State Tax Rates</u>	<u>Primary Tax Rate</u> <sup>1/</sup>	<u>Secondary Tax Rate</u>
FY 2012	\$ 10.94	\$7.28	\$3.67
FY 2011	\$ 9.67	\$6.32	\$3.35
FY 2010	\$ 9.20	\$6.13	\$3.07
FY 2009	\$ 9.23	\$6.24	\$2.99
FY 2008	\$10.04	\$6.75	\$3.29
FY 2007	\$10.99	\$7.24	\$3.75
FY 2006	\$11.56	\$7.81	\$3.75
FY 2005	\$11.81	\$8.09	\$3.72
FY 2004	\$12.18	\$8.36	\$3.82
FY 2003	\$12.49	\$8.56	\$3.93
FY 2002	\$12.55	\$8.54	\$4.01
FY 2001	\$12.68	\$8.56	\$4.12
FY 2000	\$12.80	\$8.67	\$4.13
FY 1999	\$12.79	\$8.58	\$4.21
FY 1998	\$12.70	\$8.57	\$4.13
FY 1997	\$12.52	\$8.54	\$3.98
FY 1996	\$13.27	\$9.45	\$3.82
FY 1995	\$12.78	\$9.35	\$3.43
FY 1994	\$12.51	\$9.00	\$3.51
FY 1993	\$12.19	\$8.82	\$3.37

<sup>1/</sup> State tax rate for 1990 to 1995 includes the minimum qualifying school tax rate.

SOURCE: Arizona Property Tax Rates and Assessed Valuations published by the Arizona Tax Research Association (ATRA).

### IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006. There were no changes enacted to this tax between 2006 and 2012.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# IN LIEU TAX ON PRIVATE RAILROAD CAR COMPANIES

## DESCRIPTION

This tax is imposed in lieu of all other taxes on the property and business of private railroad car companies in the state, except for the annual license tax and registration fee [A.R.S. § 42-14308]. Private railroad car companies operate, furnish, or lease cars that transport people or freight over railroad lines located wholly or partially in the state, and that are not owned, leased, or operated by them [A.R.S. § 42-14301].

## DISTRIBUTION

Table 1 below provides historical private railroad car company tax collections for the past 20 years. The Department of Revenue remits tax payments from private railroad car companies to the State Treasurer for deposit in the state General Fund [A.R.S. § 42-14308].

<b>Table 1</b>			
<b>TAX COLLECTIONS</b>			
<u>Fiscal Year</u>	<u>General Fund</u>	<u>Fiscal Year</u>	<u>General Fund</u>
FY 2012	\$1,065,773	FY 2002	\$1,506,625
FY 2011	\$1,283,026	FY 2001	\$1,349,685
FY 2010	\$1,335,091	FY 2000	\$1,476,728
FY 2009	\$1,435,069	FY 1999	\$1,441,440
FY 2008	\$1,615,246	FY 1998	\$1,494,821
FY 2007	\$1,709,362	FY 1997	\$1,525,854
FY 2006	\$1,426,435	FY 1996	\$1,641,634
FY 2005	\$1,312,163	FY 1995	\$1,240,453
FY 2004	\$1,335,056	FY 1994	\$1,036,897
FY 2003	\$1,485,996	FY 1993	\$894,851

SOURCE: Department of Revenue, Annual Reports.

## WHO PAYS THE TAX

The tax is paid by private railroad car companies in Arizona.

## TAX BASE AND RATE

The tax base is the full cash value, as determined by the Department of Revenue, on or before June 15 each year [A.R.S. § 42-14305]. The assessed value of private railroad car property is derived by multiplying its full cash value by the Class 5 assessment ratio [A.R.S. § 42-12005]. The assessment ratio for Class 5 property is re-calculated each year based on a statutory formula [A.R.S. § 42-15005]. The FY 2012 assessment ratio for this type of property was 15%.

The tax rate for properties operated by private railroad car companies is equal to the sum of the average rates for primary and secondary property taxes in the taxing jurisdictions in this state for the current year [A.R.S. § 42-14308]. The statewide average tax rate in FY 2012 was \$10.94 per \$100 of assessed value.

## PAYMENT SCHEDULE

This tax is due and payable on October 1 and delinquent after November 1. (Delinquent taxes bear interest at the rate determined pursuant to A.R.S. § 42-1123 for each subsequent month in which the tax remains unpaid.) The tax is levied and collected by the Department of Revenue for deposit in the state General Fund [A.R.S. § 42-14308].

## **In Lieu Tax on Private Railroad Car Companies**

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### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in 2006 to 2012.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# VOLUNTARY CONTRIBUTIONS BY DISTRICTS

## DESCRIPTION

Certain districts in Arizona are authorized to make voluntary contributions to the state, county, city, town, school district, or other political subdivision instead of paying property taxes. The Legislature provided this incentive to encourage such districts to operate as multi-purpose reclamation systems to provide funds for water conservation and maintenance and development of their water distribution systems.

## DISTRIBUTION

The County Treasurer is required to remit to the county, school districts, cities, towns, or other political subdivisions, and the State of Arizona, all monies received as *net voluntary contributions* (see definition under *Tax Base and Rate* below) from districts in the same manner as property taxes are distributed.

The monies deposited in the state General Fund are from voluntary contributions for properties not located within any school district, so-called unorganized districts [A.R.S. § 15-991.01], and for properties in certain school districts ineligible for state aid, sometimes referred to as minimum qualifying tax rate (MQTR) districts [A.R.S. § 15-992].

The amount of voluntary contributions by districts deposited in the General Fund is shown in *Table 1* below.

<b>Table 1</b>			
<b>TAX COLLECTIONS</b>			
<u>Fiscal Year</u>	<u>General Fund</u>	<u>Fiscal Year</u>	<u>General Fund</u>
FY 2012	\$767,569	FY 2002	\$3,431,652
FY 2011	\$422,596	FY 2001	\$4,606,361
FY 2010	\$84,855	FY 2000	\$5,315,929
FY 2009	\$708,972	FY 1999	\$5,919,047
FY 2008	\$1,053,210	FY 1998	\$5,983,913
FY 2007	\$2,037,640	FY 1997	\$6,086,339
FY 2006	\$2,490,685	FY 1996	\$16,953,919
FY 2005	\$2,653,117	FY 1995	\$4,220,053
FY 2004	\$1,769,124	FY 1994	\$4,155,690
FY 2003	\$2,030,685	FY 1993	\$4,091,560

SOURCE: Arizona Department of Administration's Finance Division, Revenue Codes, the State Treasurer's Office, and the Salt River Project.

## WHO PAYS THE TAX

Any irrigation district, power district, electrical district, or agricultural improvement district organized under Arizona law that is directly engaged in the sale of electrical power or energy other than for irrigation purposes [A.R.S. § 48-241]. Effectively, this law applies mainly to properties included within the Salt River Project.

## TAX BASE AND RATE

The tax base is the *statewide total gross voluntary contribution*. This is the base from which to determine the *statewide net voluntary contribution*, which is the total amount of voluntary contributions paid to all taxing jurisdictions by the Salt River Project.

In determining the net voluntary contributions paid by the Salt River Project in lieu of property taxes, the following calculations are made [A.R.S. § 48-241 and § 48-242]:

## **Voluntary Contributions by Districts**

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- (1) Calculate for all taxing districts combined the total property tax for which the Salt River Project would be liable if assessed by the same property tax procedures as other similar properties for the current tax year.
  - (a) The method used would be the full cash value as determined by the Department of Revenue multiplied by the assessment ratio for Class 1 property.
  - (b) The primary and secondary property tax rates for each taxing jurisdiction are then applied against the product calculated in (a) above to obtain the *statewide total gross voluntary contribution*.
- (2) To obtain the *statewide net voluntary contribution*, subtract the following deductions from the total gross voluntary contribution determined above:
  - (a) The tax on properties devoted to production of electricity for pumping groundwater. This amount is estimated by multiplying the total net property tax liability to which Salt River Project is subject by the percent that represents the portion of electricity produced by Salt River Project during the preceding 5-year period used specifically for pumping groundwater. (The maximum percent of electricity that may be claimed for pumping groundwater is 10%, unless the percent of kilowatt hours devoted to pumping groundwater exceeds 70% within a district.)
  - (b) The annual average of total water costs incurred by Salt River Project in producing and distributing water for municipal use, as estimated by:
    - (i) Summing for the previous 3-year period, the operating expenses (less depreciation) attributable to: (1) protection of watersheds, water production, development, storage, distribution and conservation, and (2) any repayment of U.S. government debt obligations incurred by Salt River Project for water department construction and expenses related to the development of future water projects.
    - (ii) Dividing this sum by 3 to arrive at the annual average of total water costs.
    - (iii) Multiplying this total by the percent of total water produced by Salt River Project devoted to municipal use during the latest 3 calendar years. (The percentage of water devoted to municipal use is the ratio of total water for municipal uses for the past 3 calendar years to total water delivered for all uses during the same time period.)
  - (c) Any taxes or assessments paid to the State of Arizona or its political subdivisions during the preceding calendar year other than transaction privilege taxes, highway taxes, unemployment taxes, equipment weight fees, improvement district assessments, and any other taxes paid by the district prior to effective date of this law.

The district is required to report to the county assessors and the Department of Revenue by May 1 of each year the factor used to compute each county's proportion of the total deductions taken by the district. The district is also required to submit to the Board of Supervisors at the same time as the submission of the assessment roll, an estimate for the net contributions in the following fiscal year.

### **PAYMENT SCHEDULE**

One-half of the voluntary contribution is paid to the County Treasurer of the county in which the property is located on the first Monday in November of each year. The other half is due on the first Monday in May of the succeeding calendar year [A.R.S. § 48-242E]. Each County Treasurer is required to remit to the State Treasurer the state's portion of the net voluntary contribution.

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in 2006, 2007 and in the period from 2009 to 2012.

### **2008 TAX LAWS**

**Laws 2008, Chapter 60** specified that the values used to determine the net voluntary contributions would not be included in the publication of net assessed values. (Effective September 26, 2008)

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# VOLUNTARY CONTRIBUTIONS BY THE GAME AND FISH COMMISSION

## DESCRIPTION

The Game and Fish Commission may elect to make voluntary contributions to the state, county, municipality, school district, community college district, or other special taxing district in lieu of property taxes when purchasing real property within the district [A.R.S. § 17-272A].

## DISTRIBUTION

The County Treasurer distributes the monies received to the various taxing jurisdictions in which the property is located in the same manner as property taxes are distributed (see *Distribution* under General Property Tax) [A.R.S. § 17-272E].

<b>Table 1</b>	
<b>TAX COLLECTIONS</b>	
<u>Fiscal Year</u>	<u>Net Collections</u> <sup>1/</sup>
FY 2012	\$10,776
FY 2011	\$11,141
FY 2010	\$11,482
FY 2009	\$10,799
FY 2008	\$10,369
FY 2007	\$12,630
FY 2006	\$12,382
FY 2005	\$12,009
FY 2004	\$12,229
FY 2003	\$12,485
FY 2002	\$12,485
FY 2001	\$12,363
FY 2000	\$11,910
FY 1999	\$11,438
FY 1998	\$12,000
FY 1997	\$165,500
FY 1996	\$183,500
FY 1995	\$3,302
FY 1994 <sup>2/</sup>	\$0

<sup>1/</sup> Laws 1996, 7<sup>th</sup> Special Session, Chapter 2 repealed the state property tax. Beginning in FY 1998, amounts represent contributions which were collected for local jurisdictions. Amounts were distributed back to local jurisdictions and not retained by the state.

<sup>2/</sup> The Act became effective July 17, 1993.

SOURCE: Arizona Game and Fish Department, Habitat Branch.

## WHO PAYS THE TAX

The Game and Fish Commission may make voluntary contributions instead of paying property taxes if the Commission purchases the following types of real property [A.R.S. § 17-272A]:

- (1) The property was subject to taxation, or
- (2) The property was exempt from taxation at the time of purchase due to one of the following reasons:

## **Voluntary Contributions by the Game and Fish Commission**

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- Held by a charitable organization as parkland and no rent or value was received by the charitable organization, or
- Held by a charitable organization to preserve and protect scientific, biological, geological, paleontological, natural, or archaeological resources.

The Game and Fish Commission is not required to make contributions with respect to lands acquired for fish hatcheries, game farms, firing ranges, reservoir sites, administrative sites, or rights-of-way to fishing waters [A.R.S. § 17-272F].

### **TAX BASE AND RATE**

The Game and Fish Commission is required to consult with the assessor of the county in which the property is located and determine the assessed valuation as Class 2 agricultural property. The assessed valuation of the property cannot be increased from one year to the next by more than 2% [A.R.S. § 17-272B].

The tax rates are the same as those set for real and personal property for agricultural purposes or Class 2 property. The amount of the contribution is determined by applying the current aggregate property tax rate to the determined valuation [A.R.S. § 17-272C].

### **PAYMENT SCHEDULE**

The County Treasurer collects the voluntary contributions from the Game and Fish Commission at the same time and in the same manner as ad valorem property taxes (see *Payment Schedule* under General Property Tax) [A.R.S. § 17-272D].

The voluntary contributions may be made by the Game and Fish Commission from the Game, Nongame, Fish and Endangered Species Fund, the Conservation Development Fund, the Waterfowl Conservation Fund, the Arizona Game and Fish Commission Heritage Fund, or any other source of monies available to and budgeted by the Commission [A.R.S. § 17-272A].

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in the period from 2006 to 2012.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# WATERCRAFT LICENSE FEE

## DESCRIPTION

The Arizona Constitution, Article 9, Section 15 exempts all watercraft registered for operation in the state, except those owned and operated for commercial purposes, from property taxes. Instead, watercraft is subject to the watercraft registration fee, which is a fee levied based on the length of a watercraft [A.R.S. § 5-321]. The watercraft registration fee replaced the former watercraft license tax in FY 2006 (Laws 2005, Chapter 318).

(Statute defines "watercraft" as any boat designed to be propelled by machinery, oars, paddles or wind for navigation on the water [A.R.S. § 5-301].)

## DISTRIBUTION

Each month, watercraft license fee revenues are deposited as follows:

- 65% of revenues are transferred to the Watercraft Licensing Fund. Such monies are subject to legislative appropriation. Monies deposited in this fund are used for administration and enforcement of watercraft laws [A.R.S. § 5-323B].
- The remaining 35% of revenues are deposited by Arizona Game and Fish Department as follows: (1) 15% to the State Lake Improvement Fund and (2) 85% to the Law Enforcement and Boating Safety Fund [A.R.S. § 5-323C].

Total net collections from the watercraft license fee are shown in the table below.

<b>Table 1</b>			
<b>WATERCRAFT LICENSE FEE COLLECTIONS</b>			
<u>Fiscal Year</u>	<u>Net Collections</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
FY 2012	\$4,301,047	FY 2002	\$2,259,952
FY 2011	\$4,450,746	FY 2001	\$2,074,784
FY 2010	\$5,120,398	FY 2000	\$2,028,111
FY 2009	\$5,468,067	FY 1999	\$1,735,862
FY 2008	\$4,955,124	FY 1998	\$1,683,698
FY 2007	\$5,398,134	FY 1997	\$1,634,369
FY 2006	\$4,338,741	FY 1996	\$1,596,016
FY 2005	\$2,317,368	FY 1995	\$1,543,993
FY 2004	\$1,061,931	FY 1994	\$1,316,700
FY 2003	\$2,327,090	FY 1993	\$1,618,546

SOURCE: Game and Fish Department

## WHO PAYS THE TAX

The fee is paid by the owner of each watercraft that requires numbering by the state [A.R.S. § 5-321]. Numbering is required for all undocumented watercraft underway, moored, or anchored on the waters of this state [A.R.S. § 5-322].

## TAX BASE AND RATE

The watercraft registration fee is levied on watercraft based on 7 different watercraft length ranges [A.R.S. § 5-321].

## Watercraft License Tax

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The fees for watercraft are as follows:

	<u>Resident</u>	<u>Non-residents</u>
Twelve feet and less	\$20	\$100
Twelve feet one inch through sixteen feet	\$22	\$110
Sixteen feet one inch through twenty feet	\$30	\$222
Twenty feet one inch through twenty-six feet	\$35	\$259
Twenty-six feet one inch through thirty-nine feet	\$39	\$292
Thirty-nine feet one inch through sixty-four feet	\$44	\$330
Sixty-four feet one inch and over	\$66	\$495

In addition, owners of motorized watercraft may be charged a fee for the Lower Colorado River Multispecies Conservation Program (MSCP).

The main exemptions from the watercraft registration fee are [A.R.S. § 5-322A]:

- (1) Foreign water watercraft temporarily using the waters of the state.
- (2) Military or public vessels of the United States, except recreational type of public vessels.
- (3) Watercraft used solely as lifeboats.
- (4) Undocumented watercraft operating under a valid temporary certificate.

### **PAYMENT SCHEDULE**

Watercraft registration fees are due at the time of application for watercraft registration with the Arizona Game and Fish Department [A.R.S. § 5-321A].

Laws 1982, Chapter 255 authorized the Arizona Game and Fish Commission to establish rules for registering watercraft on a staggered monthly basis. All registrations expire according to schedules established by the Commission [A.R.S. § 5-321.01].

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this fee in 2006, 2007, 2010, 2011, and 2012.

#### **2009 TAX LAWS**

**Laws 2009, Chapter 77** provides that monies in the Watercraft Licensing Fund can be used for an aquatic invasive species program. (Effective September 30, 2009)

#### **2008 TAX LAWS**

**Laws 2008, Chapter 256** provided that the Arizona Game and Fish Commission would be allowed to register a watercraft for up to a period of 36 months, instead of 18. (Effective January 1, 2009)

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# GOVERNMENT PROPERTY LEASE EXCISE TAX

## DESCRIPTION

The Government Property Lease Excise Tax (GPLET) was enacted in 1996 (Laws 1996, Chapter 349) to replace the tax on possessory interests that was repealed in 1995 (*for a more detailed discussion, see below*). GPLET is a local excise tax that is based on the square footage of a building rather than on its value. GPLET is levied on entities that lease the property of a city, town, county, or county stadium district for commercial or industrial purposes for at least 30 days [A.R.S. § 42-6201].

In 1985, the Arizona Legislature enacted legislation that provided a method for the taxation of possessory interests. A possessory interest is created when a private party is granted the exclusive use of real property owned by a non-taxable entity. Typically, possessory interests are created when private individuals, companies, or corporations lease, rent, or use federal, state, county, or municipal government-owned facilities and land for their own benefit.

The tax on possessory interest was enacted in response to the extensive use of the property tax exemption for government owned property as an economic development tool. (Article 9 of the Arizona Constitution provides that all federal, state, county, and municipal government property is exempt from taxation.) The new law specifically provided that possessory interests in federal, state, county, and municipal government property would become subject to taxation. Additionally, the law established possessory interest tax exemptions and provided special valuation rules for possessory interests that were created prior to April 1, 1985.

Over time, the possessory interest tax was challenged in court in a number of cases. As a result, the court held that limiting the special valuation to possessory interests created before April 1, 1985 was in violation of the uniformity clause under the Arizona Constitution. The court also held that the possessory interest exemptions went beyond the constitutional tax exemptions and were therefore ruled invalid. The effect of these court rulings was that all possessory interests became taxed in the same manner as other properties.

In 1995, the Legislature repealed the possessory interest tax (effective retroactively from January 1, 1995). The intent statement expressed the Legislature's desire that possessory interests not be subject to ad valorem taxation until a new taxing mechanism was enacted. Laws 1996, Chapter 349 created such a taxing mechanism in the form of GPLET, which was to serve as the successor to the possessory interest tax.

### New Requirements and Grandfather Provisions

Laws 2010, Chapter 321 provides new requirements for all leases subject to GPLET that were entered into on or after June 1, 2010. The act provides new tax rates, as well as new abatement and reporting requirements. Additionally, the act grandfathers all leases that were entered into before June 1, 2010, or that resulted from a development agreement, ordinance, or resolution approved before this date and entered into within 10 years of such approval. A grandfathered lease that is subsequently amended continues to be subject to the provisions in effect prior to Laws 2010, Chapter 321, if all of the following conditions are met: (1) the amendment furthers the purpose of the original lease, (2) any land added under the amendment is contiguous to the land under the original lease and does not increase the land area by more than 50%, and (3) any government property improvement added under the amendment does not increase the area of gross building space by more than 100%.

## DISTRIBUTION

The county treasurer is required to distribute the tax within 30 days of receipt as follows [A.R.S. § 42-6205]:

- 13% to the county general fund
- 7% to the city, if applicable
- 7% to the community college district, if applicable
- 73% to the school district not within a high school district (or 36.5% each to the high school and elementary district), if applicable.

If inapplicable, proceeds are split proportionally among the other entities.

## Government Property Lease Excise Tax

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Table 1

### TAX COLLECTIONS

<u>Fiscal Year</u>	<u>Net Collections</u> <sup>1/</sup>
FY 2012	\$7,500,000 (est.)
FY 2011	\$7,310,714
FY 2010	\$5,672,312
FY 2009	\$3,091,291
FY 2008	\$3,204,870
FY 2007	\$3,108,195
FY 2006	\$2,921,164
FY 2005	\$2,696,092
FY 2004	\$2,898,944
FY 2003	\$3,013,352
FY 2002	\$2,721,824
FY 2001	\$2,230,063
FY 2000	\$2,379,198
FY 1999	\$1,935,671
FY 1998	\$988,269
FY 1997	\$977,226
FY 1996 <sup>2/</sup>	\$0

<sup>1/</sup> The state does not collect any monies from GPLET.

<sup>2/</sup> The Act became effective December 1, 1996.

SOURCE: League of Arizona Cities and Towns.

### WHO PAYS THE TAX

County treasurers collect the tax annually on prime lessees who use or occupy the government property [A.R.S. § 42-6202].

The following are exempt from GPLET [A.R.S. § 42-6208]:

1. Property used for government activity.
2. Property used for public housing.
3. Easements and rights-of-way of railroads and gas, electric, pipeline, and telephone utilities.
4. Interests in a facility that is owned by the government lessor and used primarily for athletic, recreational, entertainment, artistic, cultural, or convention activities.
5. Property that is used for aviation-related purposes, including hangars, tie-downs, aircraft maintenance, commercial aircraft terminal franchises, rental car operations, parking facilities, restaurants, stores, and other services located in a terminal.
6. The use by a commercial airline of the runways and terminal facilities of a state, city, town, or county airport.
7. Leases of property or interests in a transportation facility that is constructed or operated pursuant to Title 28, Chapter 22.
8. Interest in state trust lands.
9. Interest in property held in trust for an Indian tribe by the United States government.
10. Interest in "contractor-acquired property" or "government-furnished property" that is owned by the government and used to perform a government contract.
11. Property of a corporation that is organized or directed by a county, city, or town to be used for public purposes and that such government entity pledges to lease or lease-purchase with county or municipal revenues.
12. Interest in property used by a chamber of commerce.
13. Interest in property used by tax-exempt organizations under 501(c)(3) of the Internal Revenue Code.
14. Interest in parking garages or decks owned and operated by the government lessor, or operated on behalf of the government lessor by an entity other than the prime lessee.
15. Residential rentals occupied by the prime lessee.

## **Government Property Lease Excise Tax**

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### Tax Abatement

A city or town is allowed to abate the tax on a government property improvement for a period of 8 years after the certificate of occupancy is issued if the following requirements are met [A.R.S. § 42-6209]:

1. The improvement is located in a single central business district in the city or town and is subject to a lease or development agreement entered into on or after April 1, 1985.
2. The government property improvement resulted or will result in an increase in property value of at least 100%.

The tax abatement is restricted to government property improvements within a single central business district that is located entirely within a “slum and blighted area” established pursuant to Title 36, Chapter 12, Article 3. The central business district must be geographically compact and no larger than the greater of: (1) 5% of the total land area within the exterior boundaries of the city or town or (2) 640 acres.

Laws 2010, Chapter 321 prohibits a city or town from designating more than 1 central business district within its corporate boundaries and approving a new lease or development agreement within 1 year of such designation. Unless the grandfather provisions are met, the act prohibits a city or town from approving a new lease or development agreement on or after June 1, 2010 unless the government lessor: (1) approves the lease or development agreement by simple majority vote without the use of consent calendar, (2) notifies the governing bodies of affected taxing jurisdictions where the government property is located at least 60 days prior to approval, and (3) determines that the economic and fiscal benefits to the state and county, city, or town where the government property is located will exceed the benefits received by the prime lessee, as determined by an independent third party.

### Park Property Lease Excise Tax

Each county is required to levy and collect an annual Park Property Lease Excise Tax on each prime lessee of a lease with the National Park Service of a property improvement located in that county [A.R.S. § 42-6210]. The tax is assessed, collected, and distributed in the same manner GPLET, except that:

1. Each lease or development agreement is neither required to include a notice of tax liability nor a provision that failure to pay could result in divesting the prime lessee of any interest in the right of occupancy of the property.
2. The tax rate cannot be less than 20% of GPLET (see the *Tax Base and Rate* section below).

## **TAX BASE AND RATE**

### Grandfathered Leases

The tax rates applied to a government property improvement subject to a grandfathered lease are as follows [A.R.S. § 42-6203]:

- \$1.00 per square foot for 1-story office buildings.
- \$1.25 per square foot for office buildings with 2 to 7 stories.
- \$1.75 per square foot for office buildings with 8 or more stories.
- \$1.50 per square foot for retail buildings.
- \$1.50 per square foot for hotel/motel buildings.
- \$0.75 per square foot for warehouse or industrial buildings.
- \$0.50 per square foot for residential rental buildings.
- \$100 per parking space for parking garages.
- \$1.00 per square foot for any other building.

Lessees pay a percentage of the “base” rates listed above depending on where the property is located, the start date of the lease, and when the original certificate of occupancy for the government property improvement was issued, as summarized in *Table 2* below.

## Government Property Lease Excise Tax

Table 2

**TAX RATES FOR GRANDFATHERED LEASES**

<u>Location of Property</u>	<u>Start Date of Lease</u>	<u>Years Since Date of Issuance of Original Certificate of Occupancy (COO)</u>	<u>Percentage of "Base" Excise Tax Rate (by age of COO)</u>
Inside of a Redevelopment Area	On or after 4/1/1985	0 – 10	100%
		10 – 20	80%
		20 – 30	60%
		30 – 40	40%
		40 – 50	20%
		50 or more	0%
Outside of a Redevelopment Area	On or after 4/1/1985 but before 6/30/1996	0 – 10	100%
		10 – 20	80%
		20 – 30	60%
		30 – 40	40%
		40 – 50	20%
		50 or more	0%
Inside of a "Slum" or "Blighted" Area	Before 6/1/2010	0 – 10	80%
		10 – 20	80%
		20 – 30	60%
		30 – 40	40%
		40 – 50	20%
		50 or more	0%
Outside of a "Slum" or "Blighted" Area	On or after 6/30/1996	0 – 10	150%
		10 – 20	120%
		20 – 30	90%
		30 – 40	60%
		40 – 50	30%
		50 or more	0%
Inside of a "Central Business District"	On or after 4/1/1985	0 – 8	0%
		8 – 10	80%
		10 – 20	80%
		20 – 30	60%
		30 – 40	40%
		50 or more	0%
At an Airport Owned by a County (or a City within a County) with a Population of 400,000 or Less	Before 6/1/2010	0 – 10	20%
		10 – 20	16%
		20 – 30	60%
		30 – 40	40%
		40 – 50	20%
		50 or more	0%
Location is Not Specified	Before 4/1/1985	0 – 10	20%
		10 – 20	16%
		20 – 30	60%
		30 – 40	40%
		40 – 50	20%
		50 or more	0%
National Park Service Property	Before 6/1/2010	0 – 10	100%
		10 – 20	80%
		20 – 30	60%
		30 – 40	40%
		40 or more	20%

## **Government Property Lease Excise Tax**

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The tax rate on a government property improvement subject to a lease or development agreement entered into after June 30, 1996 and that is located outside a “slum and blighted area” is 150% of the applicable rate listed above. The tax rate on a government property improvement subject to a pre-April 1, 1985 lease or development agreement, or on an improvement at a rural (county population under 400,000 prior to 1988) county or city airport is 20% of the applicable rate listed above.

As noted above, tax abatement is restricted to government property improvements within a single central business district within the “slum and blighted area.” Other improvements outside the single central business district but still within the “slum and blighted area” will pay 80% of the tax.

### New Leases

The 2012 tax rates applied to a government property improvement subject to a new lease entered into on or after June 1, 2010 are as follows [A.R.S. § 42-6203]:

- \$2.05 per square foot for 1-story office buildings.
- \$2.35 per square foot for office buildings with 2 to 7 stories.
- \$3.17 per square foot for office buildings with 8 or more stories.
- \$2.57 per square foot for retail buildings.
- \$2.05 per square foot for hotel/motel buildings.
- \$1.38 per square foot for warehouse or industrial buildings.
- \$0.78 per square foot for residential rental buildings.
- \$204.67 per parking space for parking garages.
- \$2.05 per square foot for any other building.

The GPLET rates above apply to Tax Year 2012. Laws 2010, Chapter 321 requires the Department of Revenue (DOR) to adjust the tax rates for inflation each year. The act also provides that the tax rates for government property improvements subject to a lease entered into on or after June 1, 2011 be reduced by 10% if the aggregate of all property tax rates of all taxing jurisdictions in which the government property improvement is located is less than 90% of the county-wide average combined property tax rates in the tax year in which the lease is entered into. For example, if the average combined property tax rate is \$10.00 for all properties in a county but \$9.00 or less for the those properties located in the same taxing jurisdictions as the GPLET property, then the tax rates would be reduced by 10%.

Laws 2010, Chapter 321 requires that all new leases entered into on or after June 1, 2010 begin within 10 years after the approval of the development agreement. The act limits the term of such lease to 25 years, including any abatement period regardless of whether the lease is transferred or conveyed to subsequent prime lessees during that period. Moreover, the act requires the government lessor to convey the title to the government property improvement and underlying land to the prime lessee as soon as practicable but no later than 12 months after the expiration of the lease. Additionally, such property is prohibited from subsequently being designated to Class 6 or any other discounted assessment.

### **PAYMENT SCHEDULE**

The tax is due and payable to the county treasurer annually on or before December 1 [A.R.S. § 42-6204].

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax between 2006 and 2008, nor in 2011.

## **Government Property Lease Excise Tax**

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### **2012 TAX LAWS**

**Laws 2012, Chapter 3** makes a technical correction related to the application of Government Property Lease Excise Tax, as modified by Laws 2010, Chapter 321.

### **2010 TAX LAWS**

**Laws 2010, Chapter 321** provides new requirements for all leases subject to GPLET entered into on or after June 1, 2010. The act provides new tax rates, as well as new abatement and reporting requirements. Additionally, the act grandfathers all leases that were entered into before June 1, 2010, or that resulted from a development agreement, ordinance, or resolution approved before this date and entered into within 10 years after such approval. A grandfathered lease that is subsequently amended continues to be subject to the provisions under the old law if all of the following conditions are met: (1) the amendment furthers the purpose of the original lease, as determined by the government lessor, (2) any land added under the amendment is contiguous to the land under the original lease and does not increase the land area by more than 50%, and (3) any government property improvement added under the amendment does not increase the area of gross building space by more than 100%.

### **2009 TAX LAWS**

**Laws 2009, 3<sup>rd</sup> Special Session, Chapter 12** requires county assessors to include all property subject to GPLET on their tax roll and report the assessed valuation of such property to the Arizona Department of Education. The act was estimated to reduce the cost for Basic State Aid to schools by \$(4.0) million in FY 2010.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# **HIGHWAY USER TAXES**

# HIGHWAY USER REVENUE FUND OVERVIEW

## DESCRIPTION

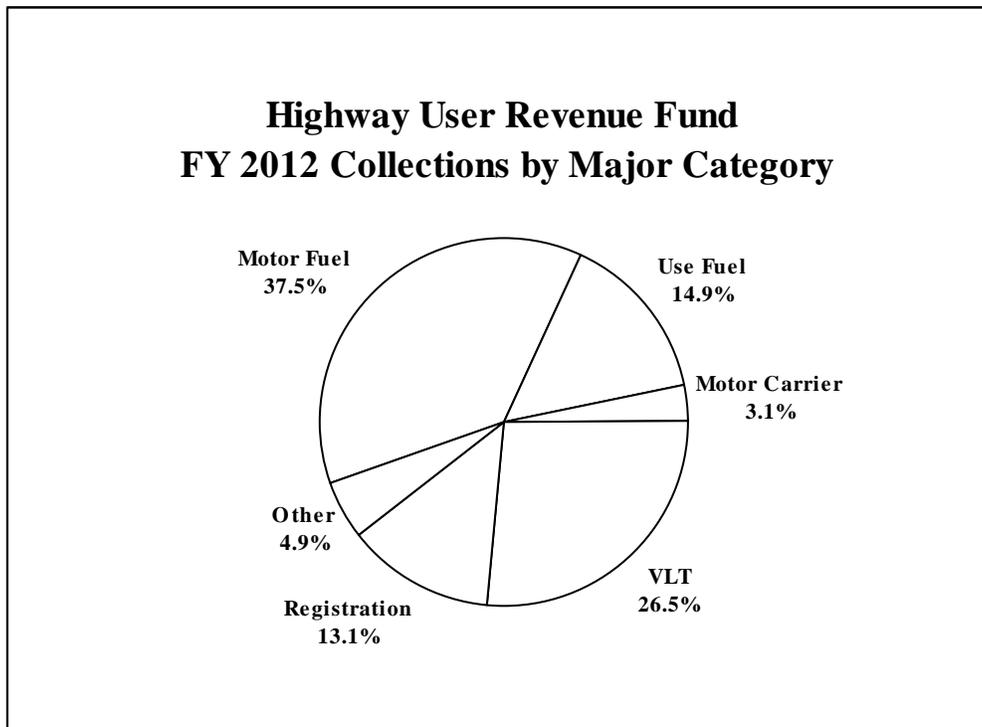
The State of Arizona taxes motor fuels and imposes various other fees related to the registration and operation of motor vehicles. Included are motor vehicle fuel taxes, use fuel taxes, vehicle license taxes, motor carrier fees, vehicle registration fees, and various other miscellaneous fees. Depending on the category, all, or a portion of these taxes and fees are used to fund the Arizona Highway User Revenue Fund (HURF). This *2012 Tax Handbook* contains individual sections on the major tax components of HURF, including Motor Vehicle Fuel Tax, Use Fuel Tax, Vehicle License Tax (VLT), and the Motor Carrier Fee (which replaced the Motor Carrier Tax in FY 1998). Vehicle registration fees and various other fees that are part of HURF are not included in the handbook.

HURF revenues are a major source of funding to the state for highway construction, highway maintenance and improvements, and other highway-related expenditures. A portion of HURF revenue is also distributed to Arizona cities, towns, and counties for highway-related purposes.

## DISTRIBUTION

HURF collections totaled approximately \$1.2 billion in FY 2012. This was an increase of 0.5% from FY 2011 collections. The bulk of HURF revenue comes from motor fuel, or gas taxes. The next biggest category is VLT, followed by Use Fuel Tax, then the registration and other fees. As noted above, more detailed discussion of the tax categories is provided in subsequent sections of the handbook.

The following chart provides a graphic representation of the relative importance of each of the HURF revenue categories for FY 2012:



## Highway User Revenue Fund Overview

Table 1 below summarizes HURF collections by major category over the last 10 years.

<b>HURF COLLECTIONS</b> (\$ in Thousands)							
<b>Fiscal Year</b>	<b>Motor Vehicle Fuel Tax</b>	<b>Use Fuel Tax</b>	<b>Vehicle License Tax <sup>1/</sup></b>	<b>Motor Carrier Fee</b>	<b>Registration Fees</b>	<b>Other Fees</b>	<b>Total</b>
FY 2012	\$454,769	\$180,242	\$320,979	\$37,350	\$158,124	\$59,122	\$1,210,586
FY 2011	\$456,299	\$178,684	\$322,017	\$36,300	\$156,148	\$55,626	\$1,205,073
FY 2010	\$455,436	\$171,308	\$329,915	\$35,808	\$152,236	\$49,714	\$1,194,417
FY 2009	\$456,812	\$173,931	\$357,498	\$40,483	\$167,565	\$52,294	\$1,248,583
FY 2008	\$492,536	\$207,859	\$385,186	\$40,177	\$162,765	\$55,953	\$1,344,477
FY 2007	\$497,702	\$210,282	\$393,497	\$45,226	\$177,788	\$57,979	\$1,382,474
FY 2006	\$489,081	\$213,460	\$373,864	\$40,504	\$158,805	\$55,911	\$1,331,625
FY 2005	\$481,284	\$194,368	\$328,232	\$37,980	\$154,122	\$49,567	\$1,245,553
FY 2004	\$463,531	\$179,002	\$312,262	\$34,617	\$146,638	\$43,511	\$1,179,561
FY 2003	\$446,891	\$166,744	\$281,947	\$32,856	\$141,328	\$41,490	\$1,111,256
FY 2002	\$434,818	\$161,507	\$270,641	\$29,347	\$138,210	\$41,873	\$1,076,395

<sup>1/</sup> The amounts indicated reflect only the portion of VLT that is distributed to HURF.

SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning.

HURF may be expended for the following purposes (*see Arizona Constitution, Article 9, Section 14*):

- (1) The cost of administering taxes that are deposited in the fund.
- (2) Refunds and adjustments provided for by law.
- (3) Payment of highway obligations.
- (4) The cost of construction, reconstruction, maintenance and repair of public highways and bridges and county, city and town roads and streets.
- (5) The cost of state enforcement of traffic laws.
- (6) The cost of publication and distribution of *Arizona Highways Magazine*.
- (7) Distribution to counties, incorporated cities and towns according to law.

HURF is distributed each fiscal year in the following manner [A.R.S. § 28-6533]:

- (1) \$1 million is allocated to the Economic Strength Project Fund [A.R.S. § 28-6534].
- (2) Each fiscal year a portion of the monies in HURF is distributed to the Department of Public Safety (DPS) for funding a portion of highway patrol costs. The distribution is to be made in 8 installments in each of the first 8 months of the fiscal year, and is not to exceed \$10,000,000 [A.R.S. § 28-6537] beginning in FY 2000. However, beginning in FY 2000, the Legislature has “notwithstanding” the provisions of this statute, and has provided for the transfer of HURF monies to DPS as noted in *Table 2* below.
- (3) As noted in *Table 3* below, the balance of collections after making the above distributions are allocated as follows [A.R.S. § 28-6538]:
  - 50.5% State Highway Fund (SHF).  
Of the monies distributed to SHF, 15.2% (12.6% by statute and 2.6% by the State Transportation Board) shall be distributed as follows [A.R.S. § 28-6538B]:
    - 75% to counties with a population of 1,500,000 or more for design, right-of-way purchase, or construction of controlled access highways to be included as state routes or state highways in regional transportation plans and the state highway system.
    - 25% to counties with a population of more than 800,000 but less than 1,500,000 for design, right-of-way purchase, or construction of controlled access highways to be included as state routes or state highways in regional transportation plans and the state highway system.

## Highway User Revenue Fund Overview

- 19% Counties - Each county receives 72% of its HURF distribution based on 2 criteria: the portion of gasoline distributed by fuel suppliers to gasoline stations in the county and an estimation of diesel consumed in the county. The other 28% of the county distribution is based on unincorporated population.
- 27.5% Incorporated cities and towns - Cities and towns receive half of their HURF distribution based on their share of statewide incorporated population. The other half is based on the portion of gasoline supplied at the county level. Once a county's pro-rata share of gasoline supplies is determined, those monies are distributed based on a city's or town's total population in relation to the county's incorporated population.
- 3% Incorporated cities with population greater than 300,000 persons - This distribution to Phoenix, Tucson, and Mesa is based on population.

Table 2 below summarizes HURF distributions by major category. Please refer to the table in the Summary of Highway Construction section of the Capital Outlay section in the *FY 2013 Appropriations Report* for a more detailed explanation of the distribution of HURF revenues. It should be noted that the FY 2012 amounts in the table below vary slightly from those presented in the Appropriations Report. The numbers in Table 2 below reflect actual collections, while the numbers in the *FY 2013 Appropriations Report* were based on estimated collections.

**Table 2**

<b>HURF DISTRIBUTION</b>								
(\$ in Thousands)								
<b>Fiscal Year</b>	<b>State Highway Fund</b>	<b>County Controlled Access</b>	<b>Cities and Towns</b>	<b>Counties</b>	<b>DPS</b>	<b>Economic Strength Project</b>	<b>Other</b>	<b>Total</b>
FY 2012	\$328,879	\$58,949	\$304,092	\$193,524	\$125,607	\$1,000	\$198,535 <sup>1/</sup>	\$1,210,586
FY 2011	\$441,554	\$79,147	\$342,892	\$213,605	\$81,615	\$1,000	\$45,260 <sup>2/</sup>	\$1,205,073
FY 2010	\$437,848	\$78,482	\$339,823	\$211,693	\$81,118	\$1,000	\$44,453 <sup>3/</sup>	\$1,194,417
FY 2009	\$442,020	\$79,229	\$356,458	\$222,056	\$86,912	\$1,000	\$60,908 <sup>4/</sup>	\$1,248,583
FY 2008	\$565,381	\$101,341	\$404,434	\$251,942	\$12,913	\$1,000	\$7,465	\$1,344,477
FY 2007	\$584,531	\$104,775	\$418,114	\$260,465	\$12,983	\$1,000	\$607	\$1,382,474
FY 2006	\$539,865	\$96,768	\$386,128	\$240,538	\$66,693	\$1,000	\$633	\$1,331,625
FY 2005	\$410,362	\$73,556	\$363,535	\$226,464	\$52,216	\$1,000	\$118,420 <sup>5/</sup>	\$1,245,553
FY 2004	\$483,688	\$86,699	\$344,491	\$214,601	\$48,698	\$1,000	\$384	\$1,179,561
FY 2003	\$451,827	\$80,988	\$321,799	\$200,465	\$54,528	\$1,000	\$648	\$1,111,256
FY 2002	\$438,230	\$78,551	\$312,115	\$194,433	\$52,066	\$1,000	-	\$1,076,395

<sup>1/</sup> Laws 2011, Chapter 24 transferred \$105.8 million from the State Highway Fund (SHF) share of HURF VLT to the General Fund in FY 2012. This amount includes a Fund Reduction and Transfer from SHF of \$28 million, a Highway Patrol Vehicle Replacement HURF transfer to DPS of \$6.8 million, a VLT transfer of \$8.4 million, a Safety Enforcement and Transportation Infrastructure Fund (SETIF) transfer of \$0.4 million (which is done via the VLT), DPS funding shift savings of \$23.6 million, and MVD funding shift savings of \$38.6 million. A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund in FY 2012. The transfer totaled \$1.2 million. A.R.S. § 28-5808D provides that an amount equal to 90 percent of the fees collected under A.R.S. § 28-4802A and 60 percent of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled \$2.1 million in FY 2012.

<sup>2/</sup> Laws 2010, 7<sup>th</sup> Special Session, Chapter 1 transferred \$43.6 million from the SHF share of HURF VLT to the General Fund in FY 2011. This amount includes a Fund Reduction and Transfer from SHF of \$28 million, a Highway Patrol Vehicle Replacement HURF transfer to DPS of \$6.8 million, a VLT transfer of \$8.4 million, and a SETIF transfer of \$0.4 million, which is done via the VLT. A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund in FY 2011. The transfer totaled \$0.94 million. A.R.S. § 28-5808D provides that an amount equal to 90 percent of the fees collected under A.R.S. § 28-4802A and 60 percent of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled about \$80,000.

<sup>3/</sup> Laws 2009, 3<sup>rd</sup> Special Session, Chapter 11 transferred \$43.2 million from the SHF share of HURF VLT to the General Fund in FY 2010. This amount includes a Fund Reduction and Transfer from SHF of \$28 million, a Highway Patrol Vehicle Replacement HURF transfer to DPS of \$6.8 million, and a VLT transfer of \$8.4 million. Laws 2009, 5<sup>th</sup> Special Session, Chapter 1 transferred \$0.6 million from SETIF to the General Fund in FY 2010, which is done via the VLT.

<sup>4/</sup> Laws 2008, Ch. 285 and Laws 2009, 1<sup>st</sup> Special Session, Chapters 1 and 2 transferred \$8.4 million and \$58.6 million, respectively from the SHF share of HURF VLT to the General Fund in FY 2009. Laws 2009, 1<sup>st</sup> Special Session, Chapter 2 also reverted \$6.7 million from SHF to HURF for 2 MVD facilities and 1 ADOT facility, based on Laws 2007, Chapter 257.

<sup>5/</sup> Laws 2004, Ch. 282 provided for a one-time transfer of \$118 million from the SHF share of HURF VLT to the General Fund in FY 2005.

SOURCE: ADOT, Office of Financial Planning.

## Highway User Revenue Fund Overview

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Table 3 below summarizes HURF actual distribution percentages for FY 2012 after the DPS, Economic Strength Project, and other distributions noted above.

PERCENTAGE DISTRIBUTION OF HURF MONIES	
Cities	31.8%
Counties	19.8%
Controlled Access	7.4%
State Highway Fund	<u>41.0%</u>
<b>Total</b>	<b>100.0%</b>

The tax base and tax rates, payment schedules, and the impact of tax law changes for the motor vehicle fuel tax, use fuel tax, VLT, and motor carrier fee are provided in the individual write-ups for each of the HURF revenue categories in the following section of the handbook.

### IMPACT OF TAX LAW AND REVENUE CHANGES

#### 2012 TAX LAWS

**Laws 2012, Chapter 302** suspends, as session law, the statutory cap of \$10,000,000 established by A.R.S. § 28-6537 and related to A.R.S. § 28-6993 governing HURF and State Highway Fund revenues available to fund the Department of Public Safety's Highway Patrol costs. This same suspension has been enacted in other session laws in prior years.

#### 2011 TAX LAWS

**Laws 2011, Chapter 33** suspends, as session law, the statutory cap of \$10,000,000 established by A.R.S. § 28-6537 and related to A.R.S. § 28-6993 governing HURF and State Highway Fund revenues available to fund the Department of Public Safety's Highway Patrol costs. This same suspension has been enacted in other session laws in prior years.

**Laws 2011, Chapter 28** suspends, as session law, the HURF distribution formula as required in A.R.S. § 28-6538. This law requires ADOT to transfer \$4,090,000 from the State Highway Fund in FY 2012 to the 10 least populated counties to hold them harmless from the MVD funding shift.

# MOTOR VEHICLE FUEL TAX

## DESCRIPTION

The motor vehicle fuel tax is levied on each gallon of motor vehicle fuel, commonly known as gasoline, produced or imported into the state by a distributor. The tax rate is 18¢ per gallon, and the large majority of revenues are deposited in the Highway User Revenue Fund (HURF) to pay for highway construction and maintenance.

## DISTRIBUTION

Table 1 shows a 20-year revenue history for this tax. The tax on motor vehicle fuel consumed in vehicles operated on Arizona roads and highways is deposited in HURF [A.R.S. § 28-6533].

Tax collections are distributed on the following basis (see Table 2 on following page):

- *Watercraft.* Tax collections on fuel for watercrafts pay for the cost of conducting a survey to determine the percent of fuel taxes collected from watercraft. One percent of such collections is retained by the Arizona Department of Transportation (ADOT) to defray administrative expenses. The remaining collections are deposited in the State Lake Improvement Fund [A.R.S. § 28-5926].
- *Off-Highway Vehicles.* Fifty-five one hundredths of 1% of the tax collections on motor vehicle fuel is transferred to the Off-Highway Vehicle Recreation Fund on a monthly basis [A.R.S. § 28-5927].
- *Aircraft.* Taxes collected from sales of motor vehicle fuel consumed in aircraft are deposited in the State Aviation Fund. However, if a refund is claimed, 5¢ on each gallon of tax collected remains in the State Aviation Fund and the balance is refunded to the taxpayer [A.R.S. § 28-5611].
- *Remainder.* The net collections remaining after refunds and the above distributions are deposited in HURF [A.R.S. § 28-5925]. (See *HURF Overview* at the beginning of this section for distribution of HURF monies.)

**Table 1**

**MOTOR VEHICLE FUEL TAX COLLECTIONS**

<u>Fiscal Year</u>	<u>Net Collections</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
FY 2012	\$471,264,772	FY 2002	\$452,550,965
FY 2011	\$471,346,375	FY 2001	\$436,073,531
FY 2010	\$471,232,029	FY 2000	\$424,486,824
FY 2009	\$474,008,922	FY 1999	\$410,037,087
FY 2008	\$512,094,400	FY 1998	\$376,348,116
FY 2007	\$516,208,893	FY 1997	\$373,986,908
FY 2006	\$503,210,580	FY 1996	\$369,058,121
FY 2005	\$496,340,649	FY 1995	\$351,038,867
FY 2004	\$478,829,323	FY 1994	\$341,252,229
FY 2003	\$463,864,197	FY 1993	\$322,572,576

SOURCE: ADOT, Office of Financial Planning.

## WHO PAYS THE TAX

The motor vehicle fuel tax is presumed to be a direct tax on the consumer but is still collected and remitted to ADOT by suppliers for the purpose of convenience. In other words, the tax is collected and paid to ADOT by a supplier, who then adds the tax to the price of motor vehicle fuel in order to recover it from the consumer [A.R.S. § 28-5606].

## Motor Vehicle Fuel Tax

Table 2

### DISTRIBUTION OF MOTOR VEHICLE FUEL TAX COLLECTIONS

Fiscal Year	Highway User Revenue Fund <sup>1/</sup>	State Aviation Fund	State Lake Improvement Fund	Watercraft Fuel Tax Administration Fund	Off-Highway Vehicle Recreation Fund	Refunds to Taxpayers
FY 2012	\$454,769,542	\$312,914	\$4,621,612	\$46,683	\$2,540,883	\$8,973,138
FY 2011	\$456,298,591	\$383,655	\$4,637,151	\$46,840	\$2,549,426	\$7,430,712
FY 2010	\$455,435,953	\$339,980	\$5,968,615	\$60,289	\$2,552,093	\$6,875,099
FY 2009	\$456,811,694	\$380,429	\$7,939,017	\$80,192	\$2,570,709	\$6,226,881
FY 2008	\$492,536,307	\$420,915	\$8,559,882	\$86,463	\$2,771,749	\$7,719,084
FY 2007	\$497,702,087	\$460,470	\$8,649,659	\$87,370	\$2,800,820	\$6,508,486
FY 2006	\$489,080,644	\$462,598	\$7,171,053	\$72,435	\$2,744,880	\$3,678,970
FY 2005	\$481,284,019	\$499,136	\$7,056,736	\$71,280	\$2,701,122	\$4,728,355
FY 2004	\$463,530,904	\$572,686	\$6,796,435	\$68,651	\$2,601,486	\$5,259,161
FY 2003	\$446,890,929	\$646,314	\$9,231,999	\$93,253	\$2,523,066	\$4,478,637
FY 2002	\$434,817,721	\$510,378	\$8,982,587	\$90,733	\$2,454,903	\$5,694,643
FY 2001	\$418,399,657	\$456,476	\$8,643,418	\$87,307	\$2,362,209	\$6,124,464
FY 2000	\$409,137,312	\$481,594	\$6,352,370	\$64,165	\$2,298,186	\$6,153,196
FY 1999	\$397,463,146	\$671,799	\$6,171,114	\$62,335	\$2,232,611	\$3,436,082
FY 1998	\$366,376,609	\$485,333	\$5,692,654	\$57,502	\$2,059,511	\$1,676,507
FY 1997	\$363,953,161	\$514,687	\$7,390,313	\$74,650	\$2,054,097	\$1,149,581
FY 1996	\$358,961,177	\$512,328	\$7,288,948	\$73,626	\$2,025,923	\$1,218,254
FY 1995	\$342,229,293					\$8,739,574 <sup>2/</sup>
FY 1994	\$334,643,264					\$6,608,965 <sup>2/</sup>
FY 1993	\$315,227,469					\$7,345,107 <sup>2/</sup>

<sup>1/</sup> Use Fuel Tax collections excluded.

<sup>2/</sup> Represents all non-HURF distributions. Individual distributions are not available for FY 1993 - 1995.

### TAX BASE AND RATE

The tax base is motor vehicle fuel, which includes all products that are commonly or commercially known or sold as gasoline. This definition includes casinghead gasoline (unprocessed natural gas containing natural gasoline and other liquid hydrocarbon vapors produced from an oil well), natural gasoline and all flammable liquids composed of a mixture of selected hydrocarbons manufactured or blended for use in internal combustion engines. Motor vehicle fuel does not include transmix, jet or aviation fuel, or any fuels covered under the use fuel tax [A.R.S. § 28-101].

The following are exempted from the motor vehicle fuel tax [A.R.S. § 28-5610]:

- Motor vehicle fuel for which proof of export is available in the form of a terminal issued destination state shipping paper, and is either exported by a supplier that is licensed in the destination state, or sold by a supplier to a distributor for immediate export.
- Motor vehicle fuel that was acquired by a distributor on which the tax has previously been paid and was subsequently exported across the state border.
- Motor vehicle fuel sold on an Indian reservation to a tribal member.
- Motor vehicle fuel sold off an Indian reservation for purposes of operating a motor vehicle for the benefit of an Indian tribe.
- Motor vehicle fuel that is moving in interstate or foreign commerce and that is not destined or diverted to a point in this state.
- Motor vehicle fuel that is sold to the United States or its agencies or instrumentalities.

The tax rate is 18¢ per gallon [A.R.S. § 28-5606].

## **Motor Vehicle Fuel Tax**

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### **TAX REFUNDS AND/OR TAX CREDITS**

A person who buys and uses motor vehicle fuel is entitled to a refund if he or she pays the tax on the fuel and either [A.R.S. § 28-5611]:

- uses the fuel for purposes other than operating a motor vehicle on a highway, a motor vehicle on a transportation facility or toll road (public-private partnerships), or a watercraft on a waterway in Arizona,
- buys aviation fuel for use in aircraft applying seeds, fertilizer, or pesticides, or
- loses the fuel by fire, theft or other accident.

### **PAYMENT SCHEDULE**

The motor fuel tax that is accrued in any calendar month shall be paid on or before the 27<sup>th</sup> day of the succeeding calendar month to ADOT [A.R.S. § 28-5925].

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in the period from 2006 through 2011.

### **2012 TAX LAWS**

**Laws 2012, Chapter 210**, in addition to other provisions, removes the requirement that the state refund or credit the motor vehicle fuel tax paid while operating a motor vehicle on a public-private partnership roadway project.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# USE FUEL TAX

## DESCRIPTION

The use fuel tax applies to diesel and other fuels, but not to gasoline and alternative fuels. For vehicles weighing less than 26,000 pounds, the tax rate is 18¢ per gallon. For vehicles weighing more than 26,000 pounds, the tax rate is 26¢ per gallon. Revenues from the tax are deposited in the Highway User Revenue Fund (HURF).

## DISTRIBUTION

The use fuel tax is deposited in HURF [A.R.S. § 28-5730]. (See *HURF Overview* at the beginning of this section for distribution of HURF monies:)

**Table 1**

**USE FUEL TAX COLLECTIONS**

<u>Fiscal Year</u>	<u>Net Collections</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
FY 2012	\$180,242,229	FY 2002	\$161,507,309
FY 2011	\$178,684,336	FY 2001	\$155,859,243
FY 2010	\$171,308,245	FY 2000	\$156,598,568
FY 2009	\$173,930,895	FY 1999	\$160,311,953
FY 2008	\$207,859,050	FY 1998	\$142,166,607
FY 2007	\$210,281,755	FY 1997	\$124,748,225
FY 2006	\$213,460,036	FY 1996	\$114,779,960
FY 2005	\$194,368,181	FY 1995	\$108,789,949
FY 2004	\$179,002,025	FY 1994	\$87,912,597
FY 2003	\$166,744,147	FY 1993	\$72,008,139

SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning.

## WHO PAYS THE TAX

The use fuel tax is presumed to be a direct tax on the consumer but is still collected and remitted to ADOT by suppliers for the purpose of convenience. In other words, the tax is collected and paid to ADOT by a supplier, who then adds the tax to the price of use fuel in order to recover it from the consumer [A.R.S. § 28-5606].

## TAX BASE AND RATE

The tax base is use fuel, which includes all gases and liquids used to propel motor vehicles that are not subject to the motor vehicle fuel tax [A.R.S. § 28-5601].

An interstate user of use fuel on which the use fuel tax has not been paid is required to remit an amount that is computed by multiplying the number of gallons of use fuel used by the tax rate per gallon. The taxable gallonage is computed on the basis of miles traveled in Arizona as compared to total miles traveled in and outside the state. The actual method of computation is decided by ADOT [A.R.S. § 28-5720].

The following are exempted from the use fuel tax [A.R.S. § 28-5610]:

- Use fuel for which proof of export is available in the form of a terminal-issued destination state shipping paper, and is either exported by a supplier that is licensed in the destination state, or sold by a supplier to a distributor for immediate export.
- Use fuel that was acquired by a distributor on which the tax has previously been paid and was subsequently exported across the state border.
- Use fuel sold on an Indian reservation to a tribal member.

## Use Fuel Tax

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- Use fuel sold off an Indian reservation for purposes of operating a motor vehicle for the benefit of an Indian tribe.
- Use fuel that is moving in interstate or foreign commerce and that is not destined or diverted to a point in this state.
- Use fuel that has been accidentally contaminated by dye and hence rendered unsalable as highway fuel.
- Dyed diesel fuel.

NOTE: There is no use fuel tax on alternative fuels [A.R.S. § 28-5606].

The tax rate is 18¢ per gallon for vehicles weighing less than 26,000 pounds. The tax rate is 26¢ per gallon for vehicles weighing more than 26,000 pounds [A.R.S. § 28-5606]. There is an exception to both of these rates for healthy forest enterprises, which pay 9¢ per gallon.

### PAYMENT SCHEDULE

Tax that is accrued in any calendar month shall be paid on or before the 27th day of the succeeding calendar month to ADOT [A.R.S. § 28-5925].

### IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in 2006, 2007, 2009, 2010, and 2011.

#### 2012 TAX LAWS

**Laws 2012, Chapter 210**, in addition to other provisions, removes the requirement that the state refund or credit the use fuel tax paid while operating a motor vehicle on a public-private partnership roadway project.

**Laws 2012, Chapter 331** allows for a reduced use fuel tax of 9¢ per gallon to be assessed on fuel used in the propulsion of a motor vehicle transporting forest products for a healthy forest enterprise. This discounted rate will continue until the end of calendar year 2024. Previously, between 2005 and 2010, this reduced rate had been 13¢ per gallon.

#### 2008 TAX LAWS

**Laws 2008, Chapter 51** clarifies that trucks that are at least 25 years old, are not used commercially, and have been issued a Historic Vehicle license plate are subject to the “light class” (less than 26,000 pounds) use fuel rate of 18¢ per gallon. The provisions of this bill are anticipated to result in an annual reduction of use fuel tax revenues of \$(400,000) to \$(800,000). (Effective September 26, 2008)

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# VEHICLE LICENSE TAX

## DESCRIPTION

The Vehicle License Tax (VLT) is an ad valorem tax levied on registered vehicles in the state. The tax is levied per \$100 of a vehicle's assessed value. For the first 12 months of the vehicle's life, the assessed value is 60% of the manufacturer's base retail price. For each subsequent year, the assessed value is 16.25% less than the previous year. The rate per \$100 of assessed value is \$2.80 for new vehicles and \$2.89 for renewals.

## DISTRIBUTION

Monies received by the Director of the Arizona Department of Transportation (ADOT) from this tax are distributed as follows [A.R.S. § 28-5808]:

For monies collected from most vehicles:

- 45% to the Highway User Revenue Fund (HURF)
- 24.6% to county general funds
- 5.7% to counties for transportation related purposes
- 24.6% to incorporated cities and towns

For monies collected from alternative fuel vehicles, car rental surcharges, and private ambulances, fire fighting vehicles, and school buses:

- 37.61% to HURF
- 20.45% to county general funds
- 4.91% to counties for transportation related purposes
- 20.45% to incorporated cities and towns
- 5.73% to the State Highway Fund
- 10.85% to the General Fund for school financial assistance

(See *HURF Overview* at the beginning of this section for distribution of HURF monies.)

**Table 1**

### VEHICLE LICENSE TAX COLLECTIONS

<u>Fiscal Year</u>	<u>Net Collections</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
FY 2012	\$716,086,941	FY 2002	\$601,666,653
FY 2011	\$719,280,662	FY 2001	\$570,769,364
FY 2010	\$735,972,889	FY 2000	\$583,199,118
FY 2009	\$796,683,787	FY 1999	\$594,224,410
FY 2008	\$858,975,998	FY 1998	\$586,835,092
FY 2007	\$875,746,210	FY 1997	\$552,348,715
FY 2006	\$831,950,743	FY 1996	\$480,300,608
FY 2005	\$747,013,406	FY 1995	\$426,019,239
FY 2004	\$695,325,929	FY 1994	\$377,593,859
FY 2003	\$633,788,189	FY 1993	\$333,479,528

SOURCE: ADOT, Office of Financial Planning.

## Vehicle License Tax

Table 2

### DISTRIBUTION

<u>Fiscal Year</u>	<u>State General Fund</u>	<u>State Highway Fund</u>	<u>MVD 3<sup>rd</sup> Parties</u> <sup>1/</sup>	<u>Local Governments</u>	<u>Dept. of Public Safety Parity Comp Fund</u>
FY 2012 <sup>2/</sup>	\$111,110,374	\$86,559,610	\$18,666,754	\$497,354,125	\$2,396,078
FY 2011 <sup>3/</sup>	\$47,278,118	\$121,085,125	\$17,436,109	\$531,081,982	\$2,399,328
FY 2010 <sup>4/</sup>	\$45,955,022	\$126,415,528	\$16,046,738	\$545,063,803	\$2,491,798
FY 2009 <sup>5/</sup>	\$68,637,851	\$129,031,249	\$16,060,465	\$580,992,141	\$1,962,081
FY 2008 <sup>6/</sup>	\$2,269,219	\$175,782,821	\$16,304,558	\$661,705,985	\$2,913,415
FY 2007	\$684,102	\$180,569,892	\$15,524,579	\$675,984,843	\$2,982,792
FY 2006	\$585,136	\$172,515,319	\$13,901,699	\$642,162,540	\$2,693,307
FY 2005 <sup>7/</sup>	\$135,073,829	\$36,758,445	\$11,329,742	\$563,851,390	
FY 2004	\$800,278	\$148,436,587	\$9,667,114	\$536,421,948	
FY 2003 <sup>8/</sup>	\$6,556,895	\$134,596,889	\$8,154,054	\$484,480,321	
FY 2002	\$70,213	\$130,128,937	\$6,571,119	\$464,896,384	
FY 2001	\$475,007	\$130,047,925	\$4,389,182	\$435,857,252	
FY 2000	\$24,265,823	\$140,307,371	\$3,899,329	\$414,726,595	
FY 1999	\$90,592,289	\$132,866,068	\$2,378,247	\$368,387,805	

- 1/ Laws 1998, Chapter 200 and Laws 2001, Chapter 326 provide for the reimbursement of authorized Motor Vehicle Division (MVD) 3<sup>rd</sup> parties for their services performed. The majority of reimbursement monies come from the State Highway Fund.
- 2/ In FY 2012, there was a one-time distribution in the amount of \$109.1 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of approximately \$1.3 million for school financial assistance and about \$700,000 from the MVD Registration Compliance program per Laws 2002, Chapter 328, which required ADOT to deposit 50% of any increase in VLT collections due to vehicle registration enforcement in the General Fund.
- 3/ In FY 2011, there was a one-time distribution in the amount of \$44.6 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of approximately \$1.6 million for school financial assistance and about \$1.1 million from the MVD Registration Compliance program.
- 4/ In FY 2010, there was a one-time distribution in the amount of \$43.8 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of approximately \$1 million for school financial assistance and about \$1.2 million from the MVD Registration Compliance program.
- 5/ In FY 2009, there was a one-time distribution in the amount of \$67 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of approximately \$600,000 for school financial assistance and about \$1 million from the MVD Registration Compliance program.
- 6/ This amount includes allocations to the General Fund of approximately \$900,000 for school financial assistance and about \$1.4 million from the MVD Registration Compliance program.
- 7/ In FY 2005, there was a one-time distribution in the amount of \$118 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of approximately \$700,000 for school financial assistance and about \$16.4 million from the MVD Registration Compliance program.
- 8/ This amount includes allocations to the General Fund of approximately \$1 million for school financial assistance and about \$5.6 million from the MVD Registration Compliance program.

SOURCE: ADOT, Office of Financial Planning.

Of the VLT distributed to the State Highway Fund, 1.51% is dedicated to the Parity Compensation Fund.

### WHO PAYS THE TAX

Owners of vehicles that are registered for operation on the highways of Arizona [Arizona Constitution, Article 9, Section 11].

## Vehicle License Tax

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### TAX BASE AND RATE

#### Base

The VLT is levied on the assessed value of each vehicle. Effectively, the tax is levied on 10 classes of vehicles [A.R.S. § 28-5801]:

- (1) Passenger vehicles
- (2) Commercial vehicles
- (3) Non-commercial one-half ton pick-ups and similar vehicles
- (4) Buses
- (5) Taxis
- (6) Travel trailers
- (7) Trailers
- (8) Motorcycles and scooters
- (9) Privately-owned motor vehicles used exclusively as a school bus
- (10) Motor vehicles powered by alternative fuels

The taxable value of vehicles in these classes is determined as follows:

#### Classes 1 through 8

During the first 12 months of the life of the vehicle (as determined by its initial registration) the assessed value of the vehicle is 60% of the manufacturer's base retail price. During each succeeding 12-month period, the assessed value of the vehicle is 16.25% less than the assessed value for the preceding 12-month period.

#### Class 9 and Class 10

During the first 12 months of the life of the vehicle (as determined by its initial registration) the assessed value of the vehicle is 1% of the manufacturer's base retail price. During each succeeding 12-month period, the assessed value of the vehicle is 15% less than the assessed value for the preceding period [A.R.S. § 28-5804, 28-5805].

If a Class 9 vehicle is temporarily used for purposes other than as a school bus, the taxable value is determined in the same manner as Class 1-8 vehicles. The tax is then assessed and collected monthly in an amount equal to one-tenth of the calculated annual VLT for each full month the vehicle is operated for other purposes [A.R.S. § 28-5804].

### EXEMPTIONS

A veteran who is a resident of Arizona and whose vehicle, or replacement of such vehicle, is acquired by financial aid from the Veteran's Administration is exempt from this license tax [A.R.S. § 28-5802].

No license tax or registration fee shall be collected for a vehicle that is personally owned by a veteran, a veteran and another party, or the surviving spouse of a veteran, if such veteran is certified by the Veteran's Administration as 100% disabled and drawing compensation. Only 1 vehicle or its replacement may claim this exemption during each 12-month period.

A vehicle owned by a resident who receives disability payments under Title 16 of the Social Security Act is exempt from the VLT. Such resident must show satisfactory proof of such assistance [A.R.S. § 28-5803]. Only 1 vehicle may be claimed by a disabled resident.

An Arizona resident who is a member of the U.S. Armed Forces, including a member of a National Guard or Reserve unit, who is deployed in support of a worldwide contingency operation of the U.S. Armed Forces may register or renew the registration of a motor vehicle for one year without payment of registration fees and VLT. No more than two motor vehicles owned or leased by the member of the U.S. Armed Forces may be claimed. This exemption may only be taken one time by the member of the U.S. Armed Forces, the member's spouse or the member's legally designated representative [A.R.S. § 28-5811].

## Vehicle License Tax

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### Rate

For Classes 1 through 8, the VLT rate is \$2.80 per \$100 of assessed value for the first 12 months of the vehicle's life, and \$2.89 per \$100 of value thereafter. Exception: for noncommercial trailers that are not travel trailers and have a gross vehicle weight of less than 10,000 pounds, the VLT is a one-time tax of \$105 on initial registration and is a one-time tax of \$70 on renewal of registration [A.R.S. § 28-5801].

For Classes 9 and 10, the VLT rate is \$4 per \$100 of assessed value [A.R.S. § 28-5804, 28-5805].

For trailers and semitrailers that are not travel trailers over 10,000 pounds gross vehicle weight, the VLT is a one-time fee of \$555 for trailers which have not previously been registered, \$355 for trailers less than 6 years old which have been previously registered in another state, and \$100 for trailers 6 or more years old which have been previously registered in another state.

*Minimum Tax.* For Classes 1 through 8, the minimum amount of the VLT is \$10 per year for each vehicle subject to the tax [A.R.S. § 28-5801]. For Class 9 and Class 10 vehicles, the minimum VLT is \$5 per year [A.R.S. § 28-5804, 28-5805].

### **PAYMENT SCHEDULE**

The VLT is due and collected annually at the time of vehicle registration [A.R.S. § 28-5801]. Exception: depending on eligibility, owners of vehicles may participate in a 2-year or 5-year vehicle registration program and prepay the VLT for the subsequent year or years [A.R.S. § 28-2159].

ADOT collects tax payments and fees.

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law and other revenue changes that have been enacted by the Legislature since 2006:

There were no changes enacted to this tax in 2006 and 2012.

#### **2011 TAX LAWS**

**Laws 2011, Chapter 28** continues, as permanent law, to require that the amount of VLT collected from the 5-year registration option, which is over and above what would have been collected had the vehicles been registered for 2 years, be deposited into the General Fund. This provision was previously in session law.

#### **2010 TAX LAWS**

**Laws 2010, 7<sup>th</sup> Special Session, Chapter 12** continues to require that the amount of VLT collected from the 5-year registration option, which is over and above what would have been collected had the vehicles been registered for 2 years, be deposited into the General Fund in FY 2011. Chapter 12 also allows ADOT to set the Abandoned Vehicle Fees and directs the additional revenue to the General Fund. Chapter 12 includes an intent clause that limits the additional revenue to be generated by this fee to \$12,061,200. Previously, the Abandoned Vehicle Fee was set at \$200 for vehicles abandoned on federal land and \$50 for vehicles abandoned on non-federal land. These base fees, however, will continue to be deposited in the Abandoned Vehicle Administration Fund, which is a subaccount of the State Highway Fund. In FY 2011, the Abandoned Vehicle Fee generated \$76,500 for the General Fund.

#### **2009 TAX LAWS**

**Laws 2009, 4<sup>th</sup> Special Session, Chapter 3** continued to require that the amount of VLT collected from the 5-year registration option, which is over and above what would have been collected had the vehicles been registered for 2 years, be deposited into the General Fund in FY 2010. The 5-year renewal option was originally expected to generate \$14 million in additional VLT revenue in FY 2010. However, the policy was not implemented until September of 2010. In FY 2011, the 5-year registration option generated \$944,300 for the General Fund.

## Vehicle License Tax

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**Laws 2009, Chapter 187** raised the weight limit for noncommercial trailers or semitrailers from 6,000 to 10,000 pounds gross vehicle weight for registration, transfer fee, and VLT purposes. It also specifies that trailers and semitrailers that are not travel trailers are not subject to commercial registration fees.

**Laws 2009, 1<sup>st</sup> Special Session, Chapter 3** allowed ADOT to offer an optional 5-year registration option for any vehicle not subject to an annual emissions inspection. Laws 2009, 1<sup>st</sup> Special Session, Chapter 1, transferred \$2,333,300 in VLT monies for distribution to the State Highway Fund to the General Fund in FY 2009. This amount represents the estimated additional VLT revenue that the 5-year renewal registration option would have generated in FY 2009. As mentioned above, this option was not implemented in FY 2009.

### 2008 TAX LAWS

**Laws 2008, Chapter 291** allowed county VLT monies to be used for any purpose related to transportation as determined by the Board of Supervisors instead of limiting the use of VLT monies to the same use as HURF monies. (Effective September 26, 2008)

**Laws 2008, Chapter 294** reduced the VLT on all-terrain or off-highway vehicles to a flat rate of \$3 per year. Chapter 294 further provided that these vehicles be subject to an off-highway user fee, which is to be determined by ADOT in cooperation with the Game and Fish Department and the Arizona State Parks Board by January 1, 2009. This legislation was anticipated to result in a \$(2.7) million reduction in VLT revenues in FY 2010, the first full year of implementation. Overall, the legislation was expected to result in net new revenues of \$5.4 million, with the \$(2.7) million loss in VLT revenues offset by \$7.2 million in new user fee collections, and \$1.4 million in new title and license plate fees. The majority of the new user fee revenues will be deposited into the Off-Highway Vehicle Recreation Fund, with smaller portions allocated to the State Highway Fund and local governments for transportation funding. (Effective December 31, 2008)

### 2007 TAX LAWS

**Laws 2007, Chapter 239** made numerous changes to the existing VLT and vehicle registration fee exemption for members of the military who are deployed in support of a worldwide contingency operation of the United States armed forces. Changes included expanding the exemption to include newly-acquired vehicles; limiting the exemption to military members who are residents of Arizona; providing that the exemption may only be taken one time; and limiting the exemption to no more than 2 vehicles. This bill was estimated to reduce VLT collections by approximately \$(360,000) in FY 2008. This reduction will have no impact on the state's General Fund, but will impact the amount of VLT deposited into the State Highway Fund and distributed to local governments. (Effective September 19, 2007)

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# MOTOR CARRIER FEE

## DESCRIPTION

The motor carrier fee replaced the motor carrier tax with the enactment of Laws 1997, Chapter 8. The fee is annually imposed on vehicles with a weight in excess of 12,000 pounds for the use of public highways. The amount of the fee varies according to vehicle weight, with a maximum fee of \$800 for vehicles that weigh up to 80,000 pounds. Collections from the motor carrier fee are dedicated to the Highway User Revenue Fund (HURF).

## DISTRIBUTION

Table 1 shows a 20-year revenue history for this fee.

<b>Table 1</b>			
<b>MOTOR CARRIER FEE COLLECTIONS</b>			
<u>Fiscal Year</u>	<u>Net Collections</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
FY 2012	\$37,349,582	FY 2002	\$29,346,709
FY 2011	\$36,299,755	FY 2001	\$32,677,923
FY 2010	\$35,807,490	FY 2000	\$36,562,768
FY 2009	\$40,483,421	FY 1999	\$34,139,960
FY 2008	\$40,177,453	FY 1998	\$63,845,891
FY 2007	\$45,226,185	FY 1997	\$90,186,000
FY 2006	\$40,504,406	FY 1996	\$85,433,269
FY 2005	\$37,980,023	FY 1995	\$92,103,162
FY 2004	\$34,617,452	FY 1994	\$118,530,292
FY 2003	\$32,856,325	FY 1993	\$120,303,202

SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning.

Collections from the Motor Carrier Fee are deposited in HURF. (See *HURF Overview* at the beginning of this section for distribution of HURF.)

## WHO PAYS THE FEE

A person who operates or causes to be operated a motor vehicle on a public highway [A.R.S. § 28-5851].

## FEE BASE AND RATE

### BASE

Motor vehicle means a motor driven vehicle that has a declared gross vehicle weight of more than 12,000 pounds (typically, a delivery type van, a large 1-ton pickup truck, or some recreational vehicles), and is subject to vehicle registration, excluding a vehicle that is exempt from gross weight fees [A.R.S. § 28-5851].

### RATE

Motor carriers pay a flat fee that varies with the weight class of the motor vehicle, as shown in *Table 2* [A.R.S. § 28-5854].

## Motor Carrier Fee

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Table 2

### FEE SCHEDULE

<u>Vehicle Weight</u>	<u>Fee</u>	<u>Vehicle Weight</u>	<u>Fee</u>
12,001 - 14,000 lbs.	\$64	32,001 - 36,000 lbs.	\$155
14,001 - 16,000 lbs.	\$73	36,001 - 40,000 lbs.	\$173
16,001 - 18,000 lbs.	\$82	40,001 - 45,000 lbs.	\$336
18,001 - 20,000 lbs.	\$91	45,001 - 50,000 lbs.	\$374
20,001 - 22,000 lbs.	\$101	50,001 - 55,000 lbs.	\$412
22,001 - 24,000 lbs.	\$110	55,001 - 60,000 lbs.	\$450
24,001 - 26,000 lbs.	\$119	60,001 - 65,000 lbs.	\$627
26,001 - 28,000 lbs.	\$128	65,001 - 70,000 lbs.	\$693
28,001 - 30,000 lbs.	\$137	70,001 - 75,000 lbs.	\$750
30,001 - 32,000 lbs.	\$146	75,001 - 80,000 lbs.	\$800

The following vehicles are exempt from this fee [A.R.S. § 28-5853]:

- School buses
- Motor vehicles used in the production of
  - motion pictures
  - industrial, training, and educational films
  - television commercials
  - video discs and video tapes

The director shall compute a reduced fee that is seven-tenths of the original fee if the motor carrier pre-qualifies for a reduced fee prior to registration and if other specific circumstances regarding vehicle load status are met [A.R.S. § 28-5855; A.R.S. § 28-5856; A.R.S. § 28-5857].

The fee for a vehicle that weighs more than 26,000 pounds and is driven less than 2,000 miles each year is \$80. The fee for a vehicle that weighs more than 26,000 pounds and is driven between 2,000 and 4,000 miles a year is \$160 [A.R.S. § 28-5867].

Non-resident motor carriers, or non-resident persons, who operate a motor vehicle in this state may purchase a Single-Trip Motor Carrier Fee Permit instead of paying the regular Motor Carrier Fee. A Single-Trip Permit is only effective during the specific trip for which it is issued. The Motor Carrier Fee on a Single-Trip Permit is \$12 for 50 miles or less or \$48 for more than 50 miles traveled on the highways of this state [A.R.S. § 28-5863].

ADOT may also issue a Special 30-Day Motor Carrier Fee Permit for vehicles not in the commercial transportation business, only in the state for a limited period of time and will make limited use of Arizona's highways. The Motor Carrier Fee for a Special 30-Day Permit is \$96 [A.R.S. § 28-5864].

### TAX REFUNDS AND/OR TAX CREDITS

In the event the director determines that a motor carrier overpaid the fee, penalty, or interest, the director shall credit that amount on any current amount due or refund the excess amount [A.R.S. § 28-5859].

### PAYMENT SCHEDULE

Fee is payable at the time the motor vehicle is registered with the state [A.R.S. § 28-5854B].

The collecting agency is ADOT [A.R.S. § 28-5854B].

## **Motor Carrier Fee**

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### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in the period from 2006 through 2011.

### **2012 TAX LAWS**

**Laws 2012, Chapter 210**, in addition to other provisions, removes the requirement that the state refund or credit the motor carrier fee paid while operating a motor vehicle on a public-private partnership roadway project.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

**MISCELLANEOUS OTHER FUND  
REVENUE SOURCES**

# AVIATION FUEL TAX

## DESCRIPTION

The aviation fuel tax is levied on each gallon of aviation fuel produced or imported into Arizona. Aviation fuel is defined as fuel that is expressly manufactured for use in an internal combustion engine of an aircraft. The tax rate is 5¢ per gallon, and revenues are deposited in the State Aviation Fund.

## DISTRIBUTION

The tax on aviation fuel is deposited in the State Aviation Fund [A.R.S. § 28-8345]. The monies in the fund are dedicated to the construction, development, and improvement of airports in the state.

<b>Table 1</b>			
<b>AVIATION FUEL TAX COLLECTIONS</b>			
<u>Fiscal Year</u>	<u>Net Collections</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
FY 2012	\$312,914	FY 2002	\$510,378
FY 2011	\$383,655	FY 2001	\$456,476
FY 2010	\$339,980	FY 2000	\$481,594
FY 2009	\$380,429	FY 1999	\$671,799
FY 2008	\$420,915	FY 1998	\$485,333
FY 2007	\$460,470	FY 1997	\$514,687
FY 2006	\$462,598	FY 1996	\$512,328
FY 2005	\$499,136	FY 1995	\$442,980
FY 2004	\$572,686	FY 1994	\$690,752
FY 2003	\$646,314	FY 1993	\$396,733

SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning.

## WHO PAYS THE TAX

The aviation fuel tax is presumed to be a direct tax on the consumer but is still collected and remitted to the Arizona Department of Transportation (ADOT) by suppliers for the purpose of convenience. In other words, the tax is collected and paid to ADOT by a supplier, who then adds the tax to the price of aviation fuel in order to recover it from the consumer [A.R.S. § 28-5606].

## TAX BASE AND RATE

The tax base is aviation fuel, which means all flammable liquids composed of a mixture of selected hydrocarbons manufactured and blended for the purpose of operating an internal combustion engine in an aircraft. Aviation fuel does not include fuel used in jet or turbine powered aircraft [A.R.S. § 28-101].

The following are exempted from the aviation fuel tax [A.R.S. § 28-5610]:

- Aviation fuel for which proof of export is available in the form of a terminal issued destination state shipping paper, and is either exported by a supplier that is licensed in the destination state, or sold by a supplier to a distributor for immediate export.
- Aviation fuel that was acquired by a distributor on which the tax has previously been paid and that was subsequently exported across the state border.
- Aviation fuel that is moving in interstate or foreign commerce and that is not destined or diverted to a point in this state.
- Aviation fuel that is sold to the United States or its agencies or instrumentalities.

The tax rate is 5¢ per gallon [A.R.S. § 28-8344].

## **Aviation Fuel Tax**

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### **PAYMENT SCHEDULE**

The tax that is accrued in any calendar month is to be paid on or before the 27<sup>th</sup> day of the next succeeding calendar month to ADOT [A.R.S. § 28-5925].

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in the period from 2006 through 2012.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# INTRASTATE UTILITY CORPORATION ASSESSMENTS

## DESCRIPTION

Two separate assessments are imposed on public service corporations to support the statutory duties of the Corporation Commission's Utilities Division and the Residential Utility Consumer Office (RUCO).

## DISTRIBUTION

*Utilities Division.* Proceeds from the Utilities Division assessment are dedicated to the Utility Regulation Revolving Fund (URRF) to pay representing attorneys and the expenses of the Utilities Division of the Corporation Commission, including related expenses of the Corporation Commission's Legal, Administration, and Hearing Divisions [A.R.S. § 40-408B-C].

*Residential Utility Consumer Office.* Proceeds from the RUCO assessment are dedicated to the RUCO Revolving Fund for the operation of RUCO [A.R.S. § 40-409B-C].

*Disposition.* Both funds are subject to legislative appropriation. Monies remaining in the funds at the end of the fiscal year do not revert to the state General Fund, but are used to calculate the annual assessments [A.R.S. § 40-408D-F and § 40-409D-F].

Table 1 below provides tax collections for the past 20 years. As noted above, the Utilities Division assessment is distributed to URRF, and the RUCO assessment is distributed to the RUCO Revolving Fund.

<b>Table 1</b>			
<b>TAX COLLECTIONS AND DISTRIBUTION</b>			
<b><u>Fiscal Year</u></b>	<b><u>Utilities Division Net Collections</u></b>	<b><u>RUCO Net Collections</u></b>	<b><u>Total Collections</u></b>
FY 2012	\$13,655,900	\$1,319,200	\$14,975,100
FY 2011	\$13,226,800	\$1,325,200	\$14,552,000
FY 2010	\$17,548,800	\$1,308,700	\$18,857,500
FY 2009	\$14,702,300	\$1,313,100	\$16,015,400
FY 2008	\$14,702,300	\$1,313,100	\$16,015,400
FY 2007	\$13,787,200	\$1,313,300	\$15,100,500
FY 2006	\$12,225,000	\$1,184,000	\$13,409,000
FY 2005	\$11,100,900	\$1,110,200	\$12,211,100
FY 2004	\$11,158,000	\$1,131,700	\$12,289,700
FY 2003	\$8,418,500	\$1,095,200	\$9,513,700
FY 2002	\$10,622,575	\$1,045,200	\$11,667,775
FY 2001	\$8,882,000	\$1,017,000	\$9,899,000
FY 2000	\$7,511,900	\$1,068,700	\$8,580,600
FY 1999	\$7,237,090	\$573,784	\$7,810,874
FY 1998	\$6,649,080	\$938,274	\$7,587,354
FY 1997	\$6,021,300	\$1,021,500	\$7,042,800
FY 1996	\$5,603,000	\$933,600	\$6,536,600
FY 1995	\$5,439,400	\$1,009,000	\$6,448,400
FY 1994	\$5,491,000	\$925,300	\$6,416,300
FY 1993	\$5,688,327	\$814,946	\$6,502,273

SOURCE: Corporation Commission, Annual Reports.

## **Intrastate Utility Corporation Assessments**

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### **WHO PAYS THE TAX**

Public service corporations with gross operating revenues exceeding \$500,000 from intrastate operations during the preceding calendar year must pay the tax [A.R.S. § 40-401 and § 40-401.01]. (Prior to Laws 2005, Chapter 79, the qualifying level of revenues was \$250,000.)

*Exceptions.* Corporations that are not required to hold certificates of convenience and necessity are exempted from this assessment [A.R.S. § 40-401A and § 40-401.01A]. In effect, this exception applies mainly to railroads [A.R.S. § 40-281A]. The RUCO assessment also does not apply to member-owned nonprofit cooperative corporations [A.R.S. § 40-461].

### **TAX BASE**

*Utilities Division.* The assessment for the Corporation Commission's Utilities Division is levied on the gross operating revenue from each corporation's intrastate operations during the preceding calendar year [A.R.S. § 40-401 B].

*Residential Utility Consumer Office.* The assessment for RUCO is levied on the gross operating revenue during the preceding calendar year from each corporation's intrastate operations that served residential consumers [A.R.S. § 40-401.01B].

### **TAX RATE**

*Utilities Division.* The assessment for the Utilities Division is set at a rate determined by the Corporation Commission that will raise monies equal to the amount determined as follows [A.R.S. § 40-401B]:

- (1) Determine the amount appropriated by the Legislature to operate the Utilities Division, including related appropriations for the Corporation Commission's Legal, Administration, and Hearing Divisions, for the following fiscal year.
- (2) Multiply the amount determined in (1) by 1.2.
- (3) Subtract the monies estimated to remain unexpended in URRF at the end of the current fiscal year. The difference computed is the amount to be raised by the assessment.

The assessment is allocated to each public service corporation with gross operating revenues exceeding \$500,000 from intrastate operations during the preceding calendar year proportionate to each public service corporation's share of the total amount of gross operating revenues earned by all such public service corporations.

*Residential Utility Consumer Office.* The assessment for RUCO is set at a rate that will raise monies equal to the amount determined as follows [A.R.S. § 40-401.01B]:

- (1) Determine the amount appropriated by the Legislature for operating RUCO for the following fiscal year.
- (2) Subtract the monies estimated to remain in the RUCO Revolving Fund at the end of the current fiscal year. The difference computed is the amount to be raised by the assessment.

The assessment is allocated to each public service corporation with gross operating revenues exceeding \$500,000 from intrastate operations during the preceding calendar year proportionate to each public service corporation's share of the total amount of gross operating revenues derived from serving residential consumers earned by all such public service corporations.

*Maximum Combined Rate.* Notwithstanding the assessment formulas, the combined assessment rates may not exceed 0.25% of any corporation's gross operating revenues from intrastate operations during the preceding calendar year [A.R.S. § 40-401C and § 40-401.01C]. (Prior to Laws 2005, Chapter 79, the combined assessment rates could not exceed 0.20%).

## **Intrastate Utility Corporation Assessments**

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### **PAYMENT SCHEDULE**

*Due Date.* The Corporation Commission must levy both assessments no later than June 15 of each year. Notice is then sent to each corporation by certified mail. The assessments are due within 15 days after such mailing [A.R.S. § 40-401D and § 40-401.01D].

*Collecting Agencies.* The Corporation Commission [A.R.S. § 40-408B and § 40-409B]. In the event a corporation fails or refuses to pay the amount assessed within 15 days without filing objections to the assessment statement with the Corporation Commission, the Corporation Commission shall transmit a certified copy of the statement of the assessment to the Department of Public Safety (DPS). Within 10 days after receipt of the copy of the statement, DPS shall proceed to collect the amount stated due, with legal interest, by seizure and sale of any goods or property in the state belonging to the public service corporation [A.R.S. § 40-407].

*Filing Dates.* Public service corporations with gross operating revenues exceeding \$500,000 must file an estimate of their gross operating revenues from intrastate operations during the previous calendar year on or before January 10. All public service corporations must file a statement showing the amount of such revenues received during the prior calendar year by May 1, as well as a statement showing the gross operating revenues derived from intrastate operations during the preceding calendar year that were received from residential consumers. [A.R.S. § 40-401E-F, and § 40-401.01E]. (Prior to Laws 2005, Chapter 79, the threshold for the January 10 filing was \$250,000.)

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law and other revenue changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in the period from 2006 through 2012.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# TAX ON WORKERS' COMPENSATION INSURANCE PREMIUMS

## DESCRIPTION

The tax on workers' compensation insurance premiums is a tax on the premiums paid by employers to insurance carriers for workers' compensation insurance. This tax is in lieu of all other taxes on workers' compensation insurance [A.R.S. § 23-961].

The state requires most employers to obtain such insurance so that employees and their families are provided financial protection from industrial injuries or death. The tax rate may be a maximum of 3% of net premiums, and revenues are used for the administrative expenses of the Industrial Commission [A.R.S. § 23-961].

## DISTRIBUTION

*Administrative Fund.* Tax collections for the Administrative Fund are used for all administrative expenses of the Industrial Commission. Expenditures from the Administrative Fund are subject to budgetary review and legislative appropriation. Tax collections to this fund are to be no more than necessary to cover actual expenses, and unless the Special Fund [*see description below*] is not on an actuarially sound basis, any surplus or deficit in revenue above or below the expenses shall be included in the calculation of the rate to be fixed the following year [A.R.S. § 23-1081].

*Special Fund.* Tax collections for the Special Fund provide additional compensation payments or awards to promote the rehabilitation of disabled workers. Since July 25, 1981, monies in the Special Fund may be allocated to acquire real property or construct and furnish or procure a new office building for the Industrial Commission. Since April 19, 1983, the Special Fund may also provide loans to the Administrative Fund [A.R.S. § 23-1065].

Net collections by fund are provided in *Table 1* on the following page.

## WHO PAYS THE TAX

The tax on workers' compensation insurance premiums is paid by insurance carriers issuing workers' compensation insurance (and the State Compensation Fund until it terminates effective January 1, 2013), and employers providing workers' compensation insurance through the self-insurance method [A.R.S. § 23-961].

## TAX BASE

The tax on workers' compensation insurance premiums is levied on total direct premiums paid or contracted for during the preceding calendar year minus deductions for cancellations, returned premiums, policy dividends, refunds and similar amounts paid or credited to policyholders within this state and not reapplied as premiums for new, additional or extended insurance [A.R.S. § 23-961]. The above applies to premiums paid to insurers (and the State Compensation Fund until it terminates effective January 1, 2013). For self-insured employers, the tax is based on the premiums that would have been paid by the employer if fully insured under a plan available from the State Compensation Fund until it terminates effective January 1, 2013, and thereafter by an insurance carrier issuing workers' compensation insurance, during the preceding calendar year. Employers of domestic servants are not subject to the "workmen's compensation" statutes [A.R.S. § 23-902].

## TAX RATE

The total tax rate is composed of 2 separate rates:

- (1) *Tax Rate for Administrative Fund.* 3% of net premiums, but for self-insured employers, not less than \$250 annually [A.R.S. § 23-961].
- (2) *Tax Rate for Special Fund.* 1.5% of net premiums is the maximum rate allowed but, for self-insured employers, the minimum annual payment is \$250. The tax rate for the Special Fund may be adjusted downward by the Industrial Commission so that revenues received are no more than necessary to keep the

## Tax on Workers' Compensation Insurance Premiums

Special Fund actuarially sound [A.R.S. § 23-1065]. According to the Industrial Commission, the base tax rate was set at 1.5% of net premiums in CY 2012.

Table 1

<b>TAX COLLECTIONS</b>				
<b>Calendar Year</b>	<b>Net Collections Administrative Fund <sup>1/</sup></b>	<b>Net Collections Special Fund <sup>2/</sup></b>	<b>Special Fund Tax Rate <sup>2/</sup></b>	<b>Total Net Collections</b>
2011	\$24,166,300	\$20,140,000	2.5%	\$44,306,300
2010	\$20,486,000	\$19,328,000	2.5%	\$39,814,000
2009	\$25,950,000	\$12,975,000	1.5%	\$38,925,000
2008	\$30,558,100	\$15,279,100	1.5%	\$45,837,200
2007	\$31,786,900	\$26,490,900	2.5%	\$58,277,800
2006	\$28,382,700	\$23,653,400	2.5%	\$52,036,100
2005	\$24,647,200	\$20,540,600	2.5%	\$45,187,800
2004	\$21,758,100	\$10,888,700	1.5%	\$32,646,800
2003	\$20,117,300	\$0	0%	\$20,117,300
2002	\$15,716,000	\$0	0%	\$15,716,000
2001	\$16,257,700	\$0	0%	\$16,257,700
2000	\$13,894,800	\$0	0%	\$13,894,800
1999	\$14,792,900	\$0	0%	\$14,792,900
1998	\$15,600,000	\$0	0%	\$15,600,000
1997	\$9,600,000	\$0	0%	\$9,600,000
1996	\$12,300,000	\$0	0%	\$12,300,000
1995	\$10,513,000	\$0	0%	\$10,513,000
1994	\$11,653,700	\$1,600	0%	\$11,655,300
1993	\$20,728,400	\$2,400	0%	\$20,730,800
1992	\$19,384,800	\$3,432,900	.75%	\$22,817,700

<sup>1/</sup> Laws 1993, 2nd Special Session, Chapter 9, provides that tax collections for the Administrative Fund will be no more than necessary to cover actual expenses.

<sup>2/</sup> The base tax rate to the Special Fund is not to exceed 1.5% and is set at a rate no more than necessary to keep it actuarially sound. An additional 0.5% tax may be levied to cover Special Fund Liabilities in excess of \$6 million, and a further 0.5% may be authorized to reimburse the State Compensation Fund until it terminates effective January 1, 2013, and thereafter to reimburse the Special Fund, for payments made to individuals whose self-insured employer or insurance carrier fails to pay a claim or comply with a commission order.

SOURCE: Industrial Commission.

The Industrial Commission may, after notice and a hearing, levy an additional 0.5% of net premiums to meet liabilities of the Special Fund in excess of \$6 million [A.R.S. § 23-1065F].

The Industrial Commission has the authority to increase the Special Fund tax assessment by up to 0.5% of that assessment in any one year. This additional assessment is to reimburse the State Compensation Fund until it terminates effective January 1, 2013, and thereafter to reimburse the Special Fund, for payments made to individuals whose self-insured employer or insurance carrier fails to pay a claim or comply with a commission order [A.R.S. § 23-966].

### PAYMENT SCHEDULE

The tax is due annually, on or before March 31 for self-insured employers, and on or before March 1 for all other covered insurance carriers (and the State Compensation Fund until it terminates effective January 1, 2013) [A.R.S. § 23-961].

Since the 1983 tax year, insurance carriers (and the State Compensation Fund until it terminates January 1, 2013) are required to make quarterly payments on the tax for the Administrative Fund if their tax liability for the preceding calendar year was \$2,000 or more. Quarterly payments are submitted to the state on or before the last day of the

## **Tax on Workers' Compensation Insurance Premiums**

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month following the close of each quarter. All quarterly payments are deducted from the tax that is payable on the regular March due date [A.R.S. § 23-961]. The quarterly payments are to equal one of the following:

- (1) The tax due on net premiums collected or contracted for during the preceding calendar quarter, or
- (2) 25% of the tax paid or required to be paid for the preceding calendar year.

Any overpayment of taxes resulting from the quarterly payments may be refunded by the Industrial Commission without interest [A.R.S. § 23-961].

The tax for the Administrative and Special Fund is paid to the State Treasurer through the Industrial Commission [A.R.S. § 23-961].

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in 2006 to 2010, and 2012.

#### **2011 TAX LAWS**

**Laws 2011, Chapter 157** transfers the assignment of unprocessed and unpaid claims from the State Compensation Fund to the Special Fund. (Effective January 1, 2013)

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# TELECOMMUNICATIONS SERVICES EXCISE TAX

## DESCRIPTION

The Telecommunications Services Excise Tax is composed of 3 separate taxes. The *Emergency Telecommunication Services* tax and the *Prepaid Wireless Telecommunications Service* tax finance 911 emergency telecommunication services. The *Telecommunications Provider Proceeds* tax provides funding for the Commission for the Deaf and the Hard of Hearing.

## DISTRIBUTION

Table 1 below provides a history of the distribution of the Telecommunications Services Excise Tax.

<u>Fiscal Year</u>	<u>Emergency Telecomm. Svcs. Revolving Fund</u>	<u>Telecomm. Fund for the Deaf</u>	<u>Poison Control Fund</u>	<u>AZ State Schools for the Deaf &amp; the Blind</u>	<u>Teratogen Information Program</u>
FY 2012	\$16,481,682	\$4,883,543	-	-	-
FY 2011	\$16,606,135	\$6,452,762	-	-	-
FY 2010	\$16,453,500	\$6,086,692	-	-	-
FY 2009	\$17,774,128	\$6,274,404	-	-	-
FY 2008	\$17,332,349	\$6,581,940	-	-	-
FY 2007	\$23,074,167	\$6,744,231	-	-	-
FY 2006	\$28,736,951	\$3,860,508	\$1,128,620	\$ 867,140	\$48,678
FY 2005	\$27,245,559	\$4,035,765	\$1,066,833	\$1,363,179	\$53,771
FY 2004	\$25,691,865	\$5,091,661	\$1,437,566	\$1,362,312	-
FY 2003	\$23,510,706	\$6,338,095	\$2,340,528	-	-
FY 2002	\$21,927,338	\$6,395,057	\$2,365,295	-	-
FY 2001	\$11,337,064	\$5,514,542	\$2,039,625	-	-
FY 2000	\$9,353,630	\$4,960,224	\$1,834,603	-	-
FY 1999	\$9,266,210	\$5,158,289	\$1,907,860	-	-
FY 1998	\$8,375,062	\$4,908,914	\$1,815,626	-	-
FY 1997	\$6,668,099	\$4,284,353	\$1,584,624	-	-
FY 1996	\$6,068,018	\$5,355,897	-	-	-
FY 1995	\$5,743,686	\$4,943,715	-	-	-
FY 1994	\$5,320,210	\$3,395,370	-	-	-
FY 1993	\$4,986,710	\$3,091,965	-	-	-

SOURCE: Department of Revenue, Annual Reports

*Emergency Telecommunication Services Revolving Fund.* For fiscal years 2001 through 2006, each month a telecommunications provider paid 37¢ for each activated wire, Voice Over Internet Protocol (VoIP), and wireless service account into this fund. For FY 2007, this amount was reduced to 28¢. From and after FY 2007, the amount deposited in the fund is 20¢ per activated wire, VoIP, and wireless service account [A.R.S. § 42-5252 (A-1 through A-3)].

Beginning on January 1, 2014, the tax is extended to the retail sale of prepaid wireless telecommunication services at a rate of 0.8% of the gross proceeds or sales [A.R.S. § 42-5402 (A)].

*Telecommunication Fund for the Deaf.* An amount equal to 1.1% of the public service corporations' gross proceeds of sales or gross income from wired telephone lines [A.R.S. § 42-5252(B)]. Prior to Laws 2006, Chapter 351, 1.1% of the public service corporations' gross proceeds of sales or gross income from wired telephone lines was distributed: 0.68% to the Telecommunications Fund for the Deaf, 0.25% to the Poison Control Fund, 0.16% to the Arizona State Schools for the Deaf and Blind Telecommunications Tax Fund, and 0.01% to the Teratogen Information Program Fund.

# Telecommunications Services Excise Tax

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## WHO PAYS THE TAX

Public service corporations offering telephone or telecommunications services which provide local exchange access services or two-way voice commercial mobile radio services, commonly called a "provider" or "wireless provider" [A.R.S. § 42-5251].

## TAX BASE AND RATE

### TAX BASE

The *Emergency Telecommunication Services* tax rate is imposed on each wire account, VoIP account, and wireless accounts [A.R.S. § 42-5252(A-1 through A-3)].

The *Prepaid Wireless Telecommunications Service* tax rate is imposed on the service provider's gross proceeds of sales or gross income derived from the retail sale of prepaid wireless telecommunications services [A.R.S. § 42-5402 (A)].

The *Telecommunications Provider Proceeds* tax rate is imposed on the public service corporations' gross proceeds of sales or gross income from the business of providing exchange access services [A.R.S. § 42-5252(B)]. Exchange services are essentially wired telephone or telecommunication exchange lines that provide access from the customer to the local telecommunication network. This tax does not apply to wireless and VoIP.

### TAX RATE

*Emergency Telecommunication Services.* For FY 2001-FY 2006, an amount equal to 37¢ for each activated wire and wireless service account. For FY 2007, the rate was 28¢ per activated service. Beginning from and after FY 2008, the rate is 20¢ per activated service [A.R.S. § 42-5252(A-1 through A-3)].

*Prepaid Wireless Telecommunications Service.* Beginning on January 1, 2014, an amount of 0.8% of the gross proceeds of sales or gross income derived from the retail sale of prepaid wireless telecommunications services [A.R.S. § 42-5402 (A)].

*Telecommunications Provider Proceeds.* An amount equal to 1.1% of the public service corporations' gross proceeds of sales or gross income from wired telephone lines [A.R.S. § 42-5252(B)].

## PAYMENT SCHEDULE

Each provider remits the tax monthly to the Department of Revenue in the same manner and time as the Transaction Privilege Tax.

## IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006. There were no changes enacted to this tax in the period from 2007 through 2011.

### 2012 TAX LAWS

**Laws 2012, Chapter 198** established the prepaid wireless telecommunications 911 excise tax. The tax is equal to 0.8% of the gross income derived from the retail sale of prepaid wireless telecommunications services. The revenue generated from the tax will be deposited in the Emergency Telecommunications Services Revolving Fund. (Effective January 1, 2014)

### 2006 TAX LAWS

**Laws 2006, Chapter 351** amended A.R.S. § 42-5252 to redistributed telecommunications services excise tax revenues from the ASDB, the Poison Control System, and the Teratogen Information Program to the Commission for the Deaf and the Hard of Hearing, leaving the commission with 100% of collections from the tax, or 1.1% provider's gross proceeds of sales or gross income from wired telephone lines. (Effective July 1, 2006)

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# UNDERGROUND STORAGE TANK TAX

## DESCRIPTION

The tax applies to gasoline, diesel fuel, and aviation fuel. The tax finances the Assurance Account of the Underground Storage Tank Revolving Fund to provide partial coverage for corrective action costs incurred by the Department of Environmental Quality (DEQ) and owners, operators, or political subdivisions. This tax became effective from and after July 1, 1990.

Laws 2004, Chapter 273 repeals the Underground Storage Tank (UST) Program and the associated 1¢ excise tax no earlier than July 1, 2011, but no later than December 31, 2013. The program will be replaced by the Regulated Substance Fund (RSF). The RSF will then be the funding source for underground storage tanks where the owner cannot be located. As a result, owners will no longer be eligible for corrective action assistance.

The legislation set June 30, 2010 as the last date to make a claim against the Assurance Account. Once all claims against the Assurance Account have been paid, but no earlier than July 1, 2011, any remaining funds will be transferred to the RSF. DEQ anticipates paying all claims during FY 2012. The UST Program and the 1¢ excise tax will be repealed once the RSF receives \$60,000,000 from the Assurance Account, or December 31, 2013, whichever occurs first. Any amount in the Assurance Account in excess of \$60,000,000 will go to the General Fund.

DEQ currently anticipates that less than \$60 million will be available for transfer to the RSF. Therefore, the 1¢ excise tax will remain in place until December 31, 2013.

## DISTRIBUTION

The Director of the Arizona Department of Transportation (ADOT) acts as the collecting agent for the Director of DEQ and is required, by the 20th day of each month, to distribute the UST Tax monies, net of administrative costs received during the preceding calendar month, to the Director of DEQ [A.R.S. § 28-6001]. The tax monies are then credited into the UST Revolving Fund as follows [A.R.S. § 49-1036]:

- Nine-tenths to the Assurance Account.
- One-tenth to the Grant Account. When the balance exceeds \$5,600,000, the excess amount is credited to the Assurance Account. The cap was reached in August 1994 and deposits are now credited to the Assurance Account.

No funding is currently credited to the Regulatory Account, which will consist of monies appropriated by the Legislature, expenses, costs and judgements recovered, fees, and gifts.

Monies generated and collected from Maricopa County are segregated from the monies collected and generated in other counties, and are deposited in an Area A Account. [A.R.S. § 49-541]

*Assurance Account.* Tax monies in this account can be used in the following manner [A.R.S. § 49-1051]:

- Partial coverage for corrective action costs incurred by a political subdivision or an owner or an operator of an underground storage tank which is subject to the tax.
- Reimburse DEQ for costs in taking corrective actions [A.R.S. § 49-1017].
- Reimburse DEQ for "reasonable" administration costs.

*Legislative Report.* By December 15 each year, the Director of DEQ shall report to the Legislature the Assurance Account activities and make recommendations for any revisions to the tax rate [A.R.S. § 49-1031A].

*Reimbursable Costs.* The Assurance Account may be used to reimburse costs of corrective actions incurred in soil and groundwater remediation. Effective July 1, 1996, groundwater and soil remediation coverage ceilings were raised to \$1,000,000 from \$225,000 for those persons with a \$25,000 deductible policy [A.R.S. § 49-1054].

## Underground Storage Tank Tax

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**Table 1**

**UNDERGROUND STORAGE TANK TAX COLLECTIONS**

<u>Fiscal Year</u>	<u>Net Collections</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
FY 2012	\$28,233,058	FY 2002	\$27,819,100
FY 2011	\$28,644,426	FY 2001	\$30,025,500
FY 2010	\$28,703,900	FY 2000	\$28,963,800
FY 2009	\$28,652,200	FY 1999	\$27,761,100
FY 2008	\$31,581,700	FY 1998	\$26,829,600
FY 2007	\$32,092,000	FY 1997	\$23,056,300
FY 2006	\$36,174,100	FY 1996	\$24,624,400
FY 2005	\$30,759,200	FY 1995	\$23,125,400
FY 2004	\$28,090,000	FY 1994	\$24,785,500
FY 2003	\$27,769,100	FY 1993	\$18,572,600

SOURCE: Department of Environmental Quality

### WHO PAYS THE TAX

The operator and owner of an underground storage tank, which serves as the final dispenser of motor vehicle fuel, aviation fuel, and diesel, is responsible for payment of this tax. Underground storage tank means tank(s) used to contain vehicle fuel, aviation fuel, and diesel with at least 10% of its volume underground [A.R.S. § 49-1001 and 49-1031B].

Excluded are:

- 1) non-commercial types of tanks
- 2) certain regulated pipeline facilities
- 3) tanks owned and operated by Indian tribes
- 4) septic tanks or wastewater collection systems
- 5) surface water impoundment pit
- 6) tanks situated on the floor of an underground area such as a basement.

A separate license is not required for payment of this tax [A.R.S. § 28-6003B].

### TAX BASE AND RATE

The tax rate is 1¢ per gallon of regulated substance placed in a tank in any calendar year [A.R.S. § 49-1031].

"Regulated substance" means petroleum or a substance defined in the CERCLA, not including a substance regulated as hazardous waste under the Solid Waste Disposal Act of 1984 [A.R.S. § 49-1001].

The tax does not apply to (1) underground storage tanks operated by the Federal or State Government or (2) USTs used for jet fuel [A.R.S. § 49-1031C]. Indian tribes are also exempt but through an intergovernmental agreement may participate in the partial coverage by paying the UST Tax [A.R.S. § 49-1055].

### Additional fees

Owners and operators subject to the UST Tax shall pay an annual registration fee of \$100 for each tank [A.R.S. § 49-1020].

## **Underground Storage Tank Tax**

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### **PAYMENT SCHEDULE**

The tax is due and payable annually by March 31 for the proceeding calendar year and is delinquent if not postmarked or delivered in person by that same date. A return is required to be filed at this time [A.R.S. § 49-1032]. But most taxpayers make periodic payments to ADOT at the same time and manner as the Motor Vehicle Fuel Tax. This refers to those distributions of products that ADOT normally collects for, such as gasoline, aviation fuel, and diesel oxygenated fuel. Other regulated substances such as kerosene, new and used oil, and CERCLA hazardous substances shall be collected by DEQ at the annual March 31 date mentioned above [A.R.S. § 28-1599.45D]. The Director of DEQ may extend the filing time for "good cause" provided at least 90% of the tax liability is paid upon the extension request [A.R.S. § 49-1033].

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in 2008.

#### **2012 TAX LAWS**

**Laws 2012, Chapter 303** suspended the administrative cap established in A.R.S. § 49-1051B2 and B3 for FY 2013 and DEQ may transfer a combined \$6,531,000 from the Assurance Account of the UST Revolving Fund and the Regulated Substance Fund for administrative costs of the UST Leak Prevention Program and funding for the Used Oil Program.

#### **2011 TAX LAWS**

**Laws 2011, Chapter 36** suspended the administrative cap established in A.R.S. § 49-1051B2 and B3 for FY 2012 and DEQ may transfer \$6,531,000 from the Assurance Account of the UST Revolving Fund for administrative costs of the UST Leak Prevention Program and funding for the Used Oil Program.

#### **2010 TAX LAWS**

**Laws 2010, 7<sup>th</sup> Special Session, Chapter 7** suspended the administrative cap established in A.R.S. § 49-1051B2 and B3 for FY 2011 and DEQ may transfer \$6,531,000 from the Assurance Account of the UST Revolving Fund for administrative costs of the UST Leak Prevention Program and funding for the Used Oil Program.

#### **2009 TAX LAWS**

**Laws 2009, 3<sup>rd</sup> Special Session, Chapter 5** suspended the administrative cap established in A.R.S. § 49-1051B2 and B3 for FY 2010 and DEQ may transfer \$6,531,000 from the Assurance Account of the UST Revolving Fund for administrative costs of the UST Leak Prevention Program and funding for the Used Oil Program.

#### **2007 TAX LAWS**

**Laws 2007, Chapter 262** suspended the administrative cap established in A.R.S. § 49-1051B2 and B3 for FY 2008 and FY 2009 and DEQ may transfer \$6,531,000 from the Assurance Account of the UST Revolving Fund for administrative costs of the UST Leak Prevention Program and funding for the Used Oil Program.

#### **2006 TAX LAWS**

**Laws 2006, Chapter 349** suspended the administrative cap established in A.R.S. § 49-1051B2 and B3 for FY 2007 and DEQ may transfer \$6,331,000 from the Assurance Account of the UST Revolving Fund for administrative costs of the UST Leak Prevention Program and funding for the Used Oil Program.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# UNEMPLOYMENT INSURANCE TAX

## DESCRIPTION

Employers are required to pay both federal and state unemployment insurance taxes. Each employer is required to make contributions based on wages paid for employment, the employer's history of benefit charges, and the solvency of the statewide unemployment insurance system. These contributions are used to pay benefits to unemployed persons.

The base state unemployment insurance rate is between 0.02% and 5.4% of the first \$7,000 of each employee's wages each calendar year (CY), depending on the solvency of an employer's unemployment insurance account. These rates may be further adjusted depending on the solvency of the state's overall unemployment insurance system. The average state unemployment insurance rate is 2.4% in CY 2012.

The state unemployment insurance taxes fund 26 weeks of benefits. During periods of high unemployment the state tax may not generate sufficient revenue to fund all 26 weeks of benefits. The state can then borrow funds from the federal government to cover its cost, as Arizona did in 2010. As a result of borrowing funds, each employer pays a special assessment of 0.5% in CY 2012.

Currently, the federal government provides 100% federal funding for emergency benefits for an additional 47 weeks until September 1, 2012, as long as the state's three-month average unemployment rate is at least 7%. From September 2, 2012 to December 29, 2012, the state must maintain an unemployment rate of at least 7% to remain eligible for 37 weeks of emergency unemployment insurance. If unemployment insurance eligibility occurred prior to May 27, 2012, an individual may be eligible for additional weeks of emergency unemployment insurance in addition to the above amounts.

In addition, an employer pays a federal unemployment tax, which is expected to be 0.9% of the first \$7,000 of each employee's wages in CY 2012. In CY 2011, the federal unemployment tax (FUTA) was 6.2% on the first \$7,000 of wages, but was offset by a 5.4% credit for a net tax rate of 0.8% in states with programs that conform to federal standards. Beginning July 1, 2011, the FUTA rate returned to the prior rate of 6.0% for a net tax rate of 0.6%. The tax is 0.9% in 2012 as the state has not yet fully repaid its federal loan.

FUTA funds are deposited into 3 federal accounts. The first, the Employment Security Administration Account (ESAA), supports state program administration for the Unemployment Insurance program and the Employment Service program. The second, the Extended Unemployment Compensation Account (EUCA), provides the funds for the 50% share of the Extended Benefits program; the other 50% share is from the state's Unemployment Compensation Fund. The third, the Federal Unemployment Account (FUA), provides a loan fund for state unemployment programs in distress to ensure a continued flow of benefits.

In summary, an employer is paying the following taxes and assessment on the first \$7,000 of an employee's wages each for CY 2012:

- a base state unemployment tax of between 0.02% and 5.4% (with an average of 2.4%).
- a Special Assessment of 0.5%.
- a net FUTA rate of 0.9%

## DISTRIBUTION

Contributions are deposited in the Unemployment Compensation Fund and are used for the benefit of persons unemployed through no fault of their own [A.R.S. § 23-701].

## Unemployment Insurance Tax

Table 1

### UNEMPLOYMENT INSURANCE TAX COLLECTIONS

Fiscal Year	Average State Contribution Rate <sup>1/</sup>	Total Collections	Unemployment Tax Contributions	Reimbursement Payments in Lieu of Tax <sup>2/</sup>	Federal Reimbursements
FY 2012	2.90% <sup>3/</sup>	\$1,485,462,876 <sup>4/</sup>	\$391,350,470	\$37,569,725	\$1,056,542,680 <sup>5/</sup>
FY 2011	2.64% <sup>3/</sup>	\$2,257,212,580 <sup>4/</sup>	\$354,688,388	\$50,022,678	\$1,852,501,515 <sup>5/</sup>
FY 2010	2.08%	\$1,755,552,142 <sup>4/</sup>	\$277,863,738	\$52,537,283	\$1,425,151,121 <sup>5/</sup>
FY 2009	1.36%	\$587,359,403	\$246,091,332	\$21,889,172	\$319,378,899 <sup>5/</sup>
FY 2008	1.39%	\$301,561,384	\$282,038,804	\$14,111,465	\$5,411,115
FY 2007	1.52%	\$324,836,608	\$304,835,124	\$13,736,790	\$6,264,694
FY 2006	1.48%	\$311,615,055	\$288,389,906	\$16,099,858	\$7,125,290
FY 2005	1.43%	\$254,702,773	\$228,222,848	\$18,269,674	\$8,210,251
FY 2004	1.01%	\$239,618,898	\$162,309,395	\$20,411,672	\$56,897,831
FY 2003	0.80%	\$228,540,796	\$135,055,266	\$16,718,797	\$76,766,733
FY 2002	0.80%	\$185,776,445	\$137,021,529	\$11,142,567	\$37,612,349
FY 2001	0.82%	\$173,555,672	\$161,067,162	\$6,967,171	\$5,521,339
FY 2000	1.02%	\$164,634,552	\$153,057,470	\$6,880,773	\$4,696,309
FY 1999	1.05%	\$187,458,343	\$175,626,310	\$7,138,106	\$4,693,927
FY 1998	1.27%	\$212,383,380	\$199,086,932	\$8,009,523	\$5,286,925
FY 1997	1.50%	\$221,693,418	\$206,596,749	\$8,137,939	\$6,958,730
FY 1996	1.65%	\$234,080,469	\$216,800,153	\$9,393,816	\$7,886,500
FY 1995	1.85%	\$219,218,067	\$200,018,374	\$10,731,555	\$8,468,138
FY 1994	1.81%	\$250,185,770	\$177,017,525	\$11,103,155	\$62,065,090
FY 1993	1.51%	\$241,049,444	\$124,839,134	\$10,575,310	\$105,635,000

<sup>1/</sup> Contribution rates are based on calendar years. Represents effective average contribution rate after accounting for all adjustments.

<sup>2/</sup> Certain non-profit organizations, the state government and its political subdivisions may elect to make payments in lieu of contributions equal to the regular benefits and one-half of the extended benefits paid [A.R.S. § 23-750].

<sup>3/</sup> Rate includes a special assessment of 0.4% in CY 2011 and 0.5% in CY 2012 according to Laws 2011, Chapter 218 to pay down the state's federal loan balance.

<sup>4/</sup> Includes funds received from the federal government for borrowing, emergency unemployment, extended benefits, and the Reed Act.

<sup>5/</sup> In FY 2009 – FY 2011 the Federal Reimbursements include extensions of benefits authorized by the Emergency Unemployment Compensation program enacted in the federal Supplemental Appropriations Act of 2008, as well as additional extensions authorized by both the Unemployment Compensation Extension Act of 2008 and the American Recovery and Reinvestment Act of 2009 (ARRA) and a benefit increase also authorized by ARRA. All of these benefits extensions and increases are federally funded. In addition, these funds include monies received from the federal loan and the Reed Act.

SOURCE: Department of Economic Security

### WHO PAYS THE TAX

The unemployment insurance tax is paid by Arizona employers [A.R.S. § 23-726].

The following employing units are excluded from the definition of employer and are, therefore, not subject to the unemployment insurance tax (for definition of employer and employing unit, see A.R.S. § 23-613):

- (1) Any employing unit that has not employed at least 1 individual for some portion of a day in each of 20 different calendar weeks during the current or preceding calendar year, and has not paid \$1,500 or more in wages in any calendar quarter of the current or preceding calendar year. This exclusion does not apply to an employer of the following services:
  - (a) Services performed in the employ of this state or any of its instrumentalities, any political subdivisions of this state and their instrumentalities, or any combination of these employing units with each other or with similar employing units in other states.
  - (b) Services performed for an employing unit that volunteer for coverage.
  - (c) Services that are subject to the Federal Unemployment Tax, when a credit may be taken against the federal tax for amounts paid into the State Unemployment Compensation Fund.
  - (d) Services performed for an employing unit that acquires the business of a covered employer.
- (2) Any employing unit that has not employed at least 10 individuals in each of 20 calendar weeks during the current or preceding calendar year and has not paid \$20,000 or more in wages in any calendar quarter of the current or preceding calendar year for agriculture employment.
- (3) An employing unit that has not paid \$1,000 or more in wages in any calendar quarter of the current or

## Unemployment Insurance Tax

preceding calendar year for domestic service in a private home, local college club, or local chapter of a college fraternity or sorority.

- (4) An employer that has a combined Unemployment Compensation Fund contribution, Unemployment Special Assessment Fund contribution, and Arizona Job Training Fund contribution amount of less than \$10 due in a quarter.

NOTE: Employers, once covered by unemployment insurance, are not permitted to terminate coverage simply by virtue of this exemption [A.R.S. § 23-725].

### TAX BASE

The tax base is the wages from employment. The unemployment insurance tax is levied on the first \$7,000 of wages paid by an employer to each employee during a calendar year. Wages mean remunerations for services from whatever source including commissions, bonuses, fringe benefits, and the cash value of remuneration in any medium other than cash [A.R.S. § 23-622]. (Exclusions from the statutory definition of wages are provided in A.R.S. § 23-622B.)

A.R.S. § 23-615 and § 23-617 lists the services not included in the definition of employment.

### TAX RATE

#### State Base Rate

The maximum base rate of contribution is 5.40% of the wages paid by the employer during each calendar year [A.R.S. § 23-728].

An employer, whose account has not been chargeable with benefits during the 12 consecutive calendar month period ending June 30 of the preceding calendar year, pays a contribution rate of 2.0% [A.R.S. § 23-729].

If the employer's account has been subject to charges for benefits, the maximum rate is adjusted downward depending on the employer's reserve, which is the contributions received from the employer minus benefits charged [A.R.S. § 23-730]:

- (1) If the employer's total contributions paid on or before July 31 of the preceding calendar year equals or exceeds the total benefits chargeable to the employer's account prior to July 1 of the preceding calendar year, the contribution rate for the ensuing calendar year is determined by the employer's Positive Reserve Ratio. An employer's reserve ratio is the percentage that results from dividing the employer's reserve surplus (the excess of contributions paid to the Unemployment Fund over benefits charged to the employer's account) by the employer's average annual payroll. The new contribution rate is determined from the Positive Reserve Ratio as shown in *Table 2* below:

<b>EMPLOYER CONTRIBUTION RATES</b>		
<b>POSITIVE RESERVE RATIO</b>		
<b><u>Positive Reserve Ratio</u></b>	<b><u>Base Statutory Rate</u></b>	<b><u>2012 Adjusted Rate</u></b> <sup>1/</sup>
less than 3% <sup>2/</sup>	2.60%	3.07%
3% to 4%	2.40%	2.84%
4% to 5%	2.15%	2.54%
5% to 6%	1.90%	2.24%
6% to 7%	1.65%	1.95%
7% to 8%	1.40%	1.65%
8% to 9%	1.15%	1.36%
9% to 10%	0.90%	1.06%
10% to 11%	0.65%	0.77%
11% to 12%	0.40%	0.47%
12% to 13%	0.15%	0.18%
13% or more	0.02%	0.02%

<sup>1/</sup> Base rate adjusted to account for overall system solvency.  
<sup>2/</sup> At 0%, the Base Statutory Rate is 0%.

## Unemployment Insurance Tax

- (2) If an employer's reserve equals zero, the contribution rate for the ensuing calendar year shall be 2.70%. If an employer has a negative reserve ratio, the contribution rate is displayed in Table 3.

**Table 3**

**EMPLOYER CONTRIBUTION RATES  
NEGATIVE RESERVE RATIO**

<u>Negative Reserve Ratio</u>	<u>Base Statutory Rate</u>	<u>2012 Adjusted Rate</u> <sup>1/</sup>
less than 3%	2.85%	3.37%
3% to 4%	3.05%	3.60%
4% to 5%	3.30%	3.90%
5% to 6%	3.55%	4.19%
6% to 7%	3.80%	4.49%
7% to 8%	4.05%	4.78%
8% to 9%	4.30%	5.08%
9% to 10%	4.55%	5.38%
10% to 11%	4.80%	5.67%
11% to 12%	5.05%	5.97%
12% to 13%	5.30%	6.26%
13% or more	5.40%	6.38%

<sup>1/</sup> Base rate adjusted to account for overall system solvency.

### State Adjusted Rate

Employer contribution rates may be further adjusted depending on the level of overall assets in the Unemployment Compensation Fund [A.R.S. § 23-730]. The ratio of total assets of such fund on July 31 to the total taxable payrolls for the preceding year is designated as the Fund Ratio and is used to determine the systemwide Required Income Rate in accordance with *Table 4*. The required income rate will be used in a calculation to determine whether the employer contribution rates need to be adjusted.

**Table 4**

<u>Fund Ratio</u>	<u>Required Income Rate</u>
12.0% or more	0.40%
10.0% to 12.0%	0.50%
9.5% to 10.0%	0.60%
9.0% to 9.5%	0.70%
8.5% to 9.0%	0.80%
8.0% to 8.5%	0.90%
7.5% to 8.0%	1.00%
7.0% to 7.5%	1.10%
6.5% to 7.0%	1.20%
6.0% to 6.5%	1.30%
5.5% to 6.0%	1.40%
5.0% to 5.5%	1.50%
4.5% to 5.0%	1.70%
4.0% to 4.5%	1.80%
3.5% to 4.0%	2.00%
3.0% to 3.5%	2.20%
less than 3.0%	2.40%

At the beginning of each year the department computes the Estimated Required Tax Yield from employers. This is the product of the total taxable payrolls for the preceding year multiplied by the Required Income Rate as determined from the Fund Ratio. The contribution rates are adjusted proportionately if the Estimated Required Tax Yield differs from the amount that would be collected using the contribution rates determined from the employer's Reserve Ratio. An employer's final rate of contribution is never less than 0.02% [A.R.S. § 23-730].

## Unemployment Insurance Tax

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In addition, A.R.S. § 23-730.02 reduces the Required Income Rate for the Unemployment Insurance Compensation Fund, which is a component in determining employers tax rates as shown in *Table 4*. Effective January 1, 2001 through June 30, 2012, the rate was reduced by 0.1% if the FUTA rate was greater than 6.0%. Beginning July 1, 2011, the FUTA rate declined from 6.2% to 6.0%. As a result, the 0.1% reduction to the Required Income Rate was eliminated beginning July 1, 2011. However, effective August 2, 2012, Laws 2012, Chapter 162 amends A.R.S. § 23-730.02 to change the 0.1% Required Income Rate reduction elimination trigger to a FUTA rate that is less than 6.0%. Because contributions are paid by employers on a quarterly basis, the 0.1% reduction to the Required Income Rate is restored administratively as of the beginning of the third quarter of 2012 (July 1, 2012).

### Sample State Rate Calculation

An employer who has benefit charges in the past year with total contributions in excess of total benefits charged and a positive reserve ratio of less than 3% would have a base statutory rate of 2.6% as identified in Positive Reserve Ratio in *Table 2*. This rate is then adjusted further based upon a series of calculations beginning with the determination of the fund ratio. Assuming a hypothetical Unemployment Compensation Fund balance of \$1.2 million and state taxable payroll of \$16 billion, the fund ratio would be 0.01%. In accordance with *Table 4*, the Required Income Rate would be 2.4%. The rate is further reduced by 0.1% as a result of Laws 2012, Chapter 162. (This 0.1% reduction will be eliminated if the FUTA rate becomes less than 6.0%.) As a result, this rate is 2.3%. When applied against the state taxable payroll, the estimated required tax yield would be \$368 million, which is then adjusted down by any interest. Assuming \$800,000 of interest, the adjusted required tax yield would be \$367.2 million.

The next calculation determines whether the actual tax rates will generate the required tax yield (of \$367.2 million). If not, then the base rate needs to be adjusted. As part of the calculation, the aggregate taxable payroll within each ratio group is multiplied by its unadjusted tax rate to arrive at the unadjusted yield for each ratio group; then all the unadjusted yields for each ratio group are added together to arrive at the total unadjusted yield. Assuming a \$339 million unadjusted yield and \$17 million of non-adjustable yield, the net adjusted yield would be \$322 million (\$339 - \$17), and the net adjusted required tax yield would be \$350.2 million (\$367.2 - \$17). The \$350.2 million is divided by the \$322 million to derive a hypothetical adjustment factor of 1.0875. (The actual adjustment factor is closer to 1.18).

The contribution rate within each reserve ratio group is multiplied by the adjustment factor to arrive at the adjusted contribution rate for the year. In this example, the final adjusted contribution rate for the year would be 2.8% (2.6% X 1.0875) for employers within that reserve ratio group as shown in *Table 2*. However, this rate may be further adjusted if the state has an outstanding loan balance and the legislature has authorized an additional assessment.

### Special Assessment

The weak labor market has increased the amount of claims against Arizona's Unemployment Compensation Fund. Arizona is one of 33 states that borrowed from the U.S. Department of Labor to fund unemployment benefits. To pay off the federal loan and moderate the loss of the FUTA credit, the state established a special assessment for CY 2011 and CY 2012 only. The maximum allowable assessment is 0.8% (*see Laws 2011, Chapter 218*). The assessment is set at 0.5% in CY 2012. The special assessment is expected to generate revenues of \$136.5 million over its 2-year life span. The Unemployment Compensation Fund is projected to return to solvency in CY 2013.

### Statewide Effective Rate

After adjusting for all of these factors, the average effective state rate is approximately 2.4% in CY 2012 before the special assessment. After accounting for the special assessment of 0.5% the average effective rate that employers will pay in 2012 is approximately 2.9%.

### Federal Tax Rate

In FY 2011, FUTA was 6.2% on the first \$7,000 of wages, but was offset by a 5.4% credit for a net tax rate of 0.8% in states with programs that conform to federal standards. Beginning July 1, 2011, the FUTA rate declined to 6.0% for a net tax rate of 0.6%. FUTA funds are deposited into 3 federal accounts which support state program administration, the Extended Benefits program, and the loan fund for state unemployment programs in distress.

Arizona had to borrow money to pay its share of the 26 weeks of benefits. The state has been unable to repay its loan and had a negative federal account balance in January 2011 and January 2012. Under federal law, it is required to repay the federal loan by no later than November 10, 2012 or have its FUTA credit reduced. Since DES projects that the federal account balance will remain negative by \$(260) - \$(275) million, the FUTA tax rate credit will be

## **Unemployment Insurance Tax**

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reduced by (0.3)% in CY 2012. This reduction will effectively increase employers' net federal tax rate from 0.6% to 0.9%.

### Relationship with Job Training Employer Tax

Pursuant to Laws 2000, Chapter 383, the state began levying a new tax referred to as the Job Training Employer Tax as of January 1, 2001. This tax is imposed on each employer in the state at 0.1% of taxable wages. However, through a variety of exemptions, several categories of employers are excluded. Four of these exemptions are tied to the level of FUTA taxes. Effective January 1, 2001 through June 30, 2012, if the FUTA rate declined to 6.0% or less, as occurred on July 1, 2011 when the FUTA rate declined to 6.0%, the law provided for these exemptions to be eliminated and the exempted employers would have to start paying the tax. However, effective August 2, 2012, Laws 2012, Chapter 162 amends A.R.S. § 23-730.02 to change the exemptions elimination trigger to a FUTA rate that is less than 6.0%. Because contributions are paid by employers on a quarterly basis, the exemptions are restored administratively as of the beginning of the third quarter of 2012 (July 1, 2012). The tax is collected by the Department of Economic Security and deposited in the Arizona Job Training Fund (for more information, see separate description under the *Job Training Employer Tax* section).

### Combined State and Federal Rate

The average combined state and federal rate is 3.8%, consisting of an average base state unemployment tax of 2.4%, a Special Assessment of 0.5%, and a net FUTA rate of 0.9%

## **PAYMENT SCHEDULE**

Contributions are paid by employers on a quarterly basis with due dates determined by the Department of Economic Security [A.R.S. § 23-723]. The department serves as the collecting agency for state unemployment taxes, special assessment and the Job Training Tax [A.R.S. § 23-726A].

## **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in 2006 and 2007.

### **2012 TAX LAWS**

**Laws 2012, Chapter 115** alters the definition of "employee" by codifying the indications of control of a worker by the employing unit that were already used to determine unemployment insurance benefit eligibility. For an individual to qualify for unemployment insurance benefits, in addition to existing statute, an employing unit must control an individual's hours of work, location of work, right to perform services for others, tools, equipment, materials, expenses, and use of other workers and other indicia of employment.

**Laws 2012, Chapter 162** changes the 0.1% Required Income Rate reduction (Job Training Employer Tax exemptions elimination trigger) to a FUTA rate that is less than 6.0%. Previously, the trigger was a FUTA rate that is less than 6.2%. When the FUTA rate declined to 6.0% beginning July 1, 2011, the 0.1% Required Income Rate reduction and Job Training Employer Tax exemptions were eliminated. Because contributions are paid by employers on a quarterly basis, the 0.1% Required Income Rate reduction and Job Training Employer Tax exemptions are restored administratively as of the beginning of the third quarter of 2012 (July 1, 2012).

### **2011 TAX LAWS**

**Laws 2011, Chapter 218** established a special assessment in 2011 and 2012. The rate is determined by DES, which set the rate at 0.4% in CY 2011 and 0.5% in CY 2012. Monies collected will be deposited in the Unemployment Special Assessment Fund, which is to be used to pay down the state's federal loan for unemployment insurance. Fund monies must first pay interest on the loan and then are to be used to pay down the federal loan by November 10, 2012.

## Unemployment Insurance Tax

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### 2010 TAX LAWS

**Laws 2010, Chapter 197** established that benefits paid as a result of unemployment due to an individual's employer being called to active duty are not used as a factor in determining the contribution rate of affected employers. Additionally, the contribution rate is not affected by individuals who receive benefits as a result of being unemployed due to a former employee returning from active duty.

### 2009 TAX LAWS

**Laws 2009, Chapter 3** established that unemployment insurance benefits recipients who have exhausted their ordinary benefits may qualify for extended benefits for up to 13 weeks if the state unemployment rate is between 6.5% and 8% and for up to 20 weeks if the state unemployment rate exceeds 8%. These benefits are provided under the Extended Benefits program, an existing federal program in which Arizona has not historically participated. Funding for the program is ordinarily split 50-50 between state and federal funding sources, and in the past Arizona has not had the statutory triggers necessary to participate in the program.

The American Recovery and Reinvestment Act of 2009 temporarily provides 100% federal funding for these benefits instead of the normal 50-50 split. This legislation temporarily inserts the triggers necessary to participate in the Extended Benefits program into statute, and the change expires on either December 12, 2009 or on expiration of the 100% federal funding of the program, whichever comes first. As a result, the changes in the bill have no impact on the unemployment insurance tax rate.

### 2008 TAX LAWS

**Laws 2008, Chapter 36** established a statutory time limit of 6 years for the Department of Economic Security to collect delinquent unemployment insurance contributions, payments in lieu of contributions, interest, or penalties. The law suspends the 6-year time limit if the Department of Economic Security has initiated civil action to collect the debt. Laws 2008, Chapter 36 also repealed and rewrote statute relating to the authority of the Department of Economic Security to release, subordinate, and withdraw liens.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# JOB TRAINING EMPLOYER TAX

## DESCRIPTION

In 1993, the state established a job training program which is currently administered by the Arizona Commerce Authority. In order to receive state funding, employers had to provide at least 25% of the total program training costs.

As of January 1, 2001, the state began levying a new job training employer tax to provide job training for both new and existing employees. The tax is imposed on each employer in the state at 0.1% of the first \$7,000 in taxable wages. The tax is collected by the Department of Economic Security and deposited in the Arizona Job Training Fund. To receive monies from the fund, employers are required to contribute a portion of the training costs, up to 50% of the total, depending on the type of worker receiving the training. The 0.1% job training tax was accompanied by a corresponding decrease in the unemployment tax rate in order to hold employers harmless to the new tax.

The tax is scheduled to sunset on January 1, 2016.

## DISTRIBUTION

The job training employer tax is deposited in the Arizona Job Training Fund [A.R.S. § 23-769].

<u>Fiscal Year</u>	<u>Net Collections</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
FY 2012	\$15,990,851	FY 2006	\$14,653,279
FY 2011	\$11,784,372	FY 2005	\$13,317,153
FY 2010	\$12,041,812	FY 2004	\$12,350,720
FY 2009	\$14,878,923	FY 2003	\$12,549,532
FY 2008	\$16,226,493	FY 2002	\$13,371,382
FY 2007	\$15,973,538	FY 2001	\$6,478,539

SOURCE: Department of Commerce and Arizona Commerce Authority.

The fund provides grants to train new and existing employees for new and expanding companies and companies undergoing economic conversion with the following conditions [A.R.S. § 41-1541 and A.R.S. § 41-1544]:

- Employers pay 50% of the costs associated with training existing workers and 25% of the cost to train new employees.
- A minimum of 25% of the monies in the fund must be used to provide training to businesses employing less than 100 people.
- A minimum of 25% must be used to train workers in rural areas of the state.
- No more than 50% of the monies in the fund can be used for incumbent worker training.
- Single grants do not make up more than 10% of the fund total.

Training is provided by state community colleges, private post-secondary educational institutions, community colleges operated by a tribal government or another qualified training provider.

## WHO PAYS THE TAX

The job training employer tax is levied on one-tenth of 1% of the first \$7,000 in taxable wages paid to an employee each year [A.R.S. § 23-622 and A.R.S. § 23-769].

The following employers are not subject to the job training employer tax pursuant to A.R.S. § 23-769:

## **Job Training Employer Tax**

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- (1) Employers who have elected to become liable for payment in lieu of contributions pursuant to A.R.S. § 23-750. These are generally non-profit agencies or governmental entities.
- (2) Until the excise tax imposed pursuant to 26 United States Code section 3301 (Federal Unemployment Tax) is reduced to 6% or less, companies:
  - (a) With a positive reserve ratio of at least 13% pursuant to A.R.S. § 23-730
  - (b) With a positive reserve ratio of at least 12% but less than 13%
  - (c) That are assigned the contribution rate of 2% pursuant to A.R.S. § 23-729 or 2.7% pursuant to A.R.S. § 23-730. Contribution rates are determined each year. Companies that paid 2.7% or above of an employee's salary towards Unemployment Insurance are exempt from contributing towards the job training tax.
  - (d) With a negative reserve ratio pursuant to A.R.S. § 23-730
- (3) Employers that deposit a quarterly amount of less than \$10

The Federal Unemployment Tax declined to 6% on July 1, 2011, thus the employers in section (2) above will be subject to the tax.

### **TAX BASE AND RATE**

The tax base is the wages from employment. The tax rate is 0.1% of the first \$7,000 in taxable wages paid to an employee each year.

### **PAYMENT SCHEDULE**

The tax is collected quarterly by the Department of Economic Security with monies deposited to the Arizona Commerce Authority's Arizona Job Training Fund [A.R.S. § 23-769]. All monies deposited in the fund are to be expended for costs related to training, except for the Arizona Commerce Authority reimbursing the Department of Economic Security for the development costs of establishing the system to collect the job training employer tax and ongoing collection costs [A.R.S. § 41-1544]. Ongoing tax collection costs average \$775,000 per year.

### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in 2006, 2008, 2009, 2010, and 2012.

#### **2011 TAX LAWS**

**Laws 2011, 1<sup>st</sup> Special Session, Chapter 1** shifted the administration of the Job Training Program from the Department of Commerce to the newly-created Arizona Commerce Authority. Also, the sunset of the Job Training tax was extended from January 1, 2012 to January 1, 2016. The bill also removed a provision that allowed monies to be appropriated, prior to them being dispersed to recipients, for the Department of Economic Security's Job Program that provides job training to welfare clients.

#### **2007 TAX LAWS**

**Laws 2007, Chapter 293** delayed the date of repeal of the Job Training Tax and Job Training Fund from December 31, 2007 to December 31, 2011. The law also eliminated the provisions that allowed unawarded monies from the minimum percentages set aside for rural and small business job training grants to be awarded to any qualified applicant after June 15 of each fiscal year. Furthermore, the law enumerates employer costs that are ineligible for reimbursement from the Job Training Fund, increases business representation on the Governor's Council on Workforce Policy from 51% to 55% of the membership, and requires the Department of Commerce to create an online application system for the Job Training Fund.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# WATER USE TAX

## DESCRIPTION

The tax is applied on water use by a municipal water delivery system. The tax, together with various registration or license fees, provides a dedicated funding source for the Water Quality Assurance Revolving Fund (WQARF).

## DISTRIBUTION

Table 1 below provides historical water use tax collections since FY 1993. Net tax collections (gross collections less collection fees) are deposited in WQARF by the State Treasurer. [A.R.S. § 42-5304]. Allowable uses of WQARF-moneys are detailed in A.R.S. § 49-282E.

<b>Table 1</b>			
<b>WATER USE TAX COLLECTIONS</b>			
<u>Fiscal Year</u>	<u>WQARF</u>	<u>Fiscal Year</u>	<u>WQARF</u>
FY 2012	\$2,546,099	FY 2002	\$2,214,093
FY 2011	\$2,377,136	FY 2001	\$2,120,483
FY 2010	\$2,392,765	FY 2000	\$2,081,879
FY 2009	\$2,375,423	FY 1999	\$1,957,725
FY 2008	\$2,920,293	FY 1998	\$1,842,707
FY 2007	\$2,449,270	FY 1997	\$1,909,981
FY 2006	\$2,403,644	FY 1996	\$1,842,707
FY 2005	\$2,156,683	FY 1995	\$1,653,929
FY 2004	\$2,195,590	FY 1994	\$1,637,633
FY 2003	\$2,150,995	FY 1993	\$1,469,845

SOURCE: Department of Environmental Quality

## WHO PAYS THE TAX

The tax is paid by the owners or operators of municipal water delivery systems [A.R.S. § 42-5302B].

A "municipal water delivery system" is an entity that distributes or sells potable water mainly through a pipeline system owned by either: [A.R.S. § 42-5301]

- An incorporated city or town.
- A private entity regulated as a public service corporation by the Arizona Corporation Commission.
- A special taxing district under Title 48, Chapter 6 of the Arizona Revised Statutes.
- An entity regulated as a water supply system by the Department of Environmental Quality.

## TAX BASE AND RATE

The tax base is gallons of water delivered to customers of a municipal water delivery system. Water delivered to a customer for resale is exempt from this tax. The tax rate is 0.65 of one cent per 1,000 gallons of water delivered to customers [A.R.S. § 42-5302A].

## PAYMENT SCHEDULE

Payment of the Water Use Tax, if the municipal water delivery system is also subject to the Transaction Privilege Tax, is reported and paid monthly to the Department of Revenue with the Transaction Privilege Tax. Otherwise, the due and delinquent date is the same as the Transaction Privilege Tax [A.R.S. § 42-5302B and A.R.S. § 42-5014].

## **Water Use Tax**

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### **IMPACT OF TAX LAW AND REVENUE CHANGES**

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2006.

There were no changes enacted to this tax in the period from 2006 to 2012.

A listing of tax law changes prior to the 2006 legislative session is available on the JLBC website located at [www.azleg.gov/jlbc/12taxbook/12taxbk.pdf](http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf).

# **APPENDIX D**

## APPENDIX D

### FISCAL IMPACT OF STATUTORY TAX CHANGES

This report details the estimated dollar value of individual historical tax law changes enacted by the Legislature since FY 1989. The report is limited to tax law changes with a General Fund revenue impact.

The report includes individual tables for calendar years 1988 through 2012. The tables provide a listing of tax law changes for each calendar year, and the estimated dollar revenue impact of these changes for ensuing fiscal years. The dollar change reflects the estimated impact at the time of enactment. Unless otherwise noted, the dollar estimate has not been subsequently revised to reflect the actual result. Also included is a one-page summary of the estimated impact of tax law changes for each fiscal year, which provides the estimated marginal dollar value of tax law changes relative to the prior year.

Since the repeal of the state property tax in 1996, the General Fund revenue impact of property tax legislation is often negligible. Instead, property tax law changes typically affect the General Fund by increasing Arizona Department of Education (ADE) expenditures. Generally, any legislation that reduces the local property tax base results in higher General Fund expenditures. Under the statutory K-12 funding formula, the state share of education funding increases whenever local property values decrease. This higher level of K-12 spending is not reflected in the following tables.

There are several caveats related to the estimated dollar impact of tax law changes included in this report. The impact of the 0.6% sales tax authorized by Proposition 301 in 2000 has not been included in the following tables. Also, the tobacco tax increases authorized by Proposition 303 in 2002 and Propositions 201 and 203 in 2006 have not been included. The revenues generated by these tax law changes were deposited into dedicated funds; therefore they did not have a General Fund impact.

Additionally, no inflation factors have been applied to the “out year” estimates, which may understate their impact. Also, the estimates do not include a “dynamic” component. The potential behavioral impact on taxpayers of tax cuts or tax increases has not been incorporated in the numbers. It is very difficult to estimate how inflationary changes, as well as changes in taxpayer behavior over a period of time, would have impacted the estimated dollar value of tax law changes enacted in prior years. As a result, cumulative totals for the marginal annual values of the tax law changes are not provided.

The estimated incremental value of tax law changes for FY 2013 is a \$(16.1) million decrease. This amount includes the \$(20.7) million incremental impact for tax law changes enacted in prior years, including the increase for corporate income tax credits for renewable energy production, new employment, and university research and development. In addition, it includes \$4.6 million in individual income tax impact from the 2012 Regular Session, comprised of \$12.8 million for elimination of the Clean Elections tax credit, partially offset by \$(4.0) million in increased STO tax credits, \$(0.1) million in health forest restoration tax credits, and \$(4.1) million from a deduction allowed for long term care insurance. Details of the tax law changes may be found in the “Economic and Revenue Forecast” section of the *FY 2013 Appropriations Report*.

JLBC Staff  
September 2012

**Estimated Incremental Dollar Value of General Fund Tax Changes <sup>1/</sup>**  
**(\$ in Thousands)**

Fiscal Year	Sales Tax	Individual Income Tax	Corporate Income Tax	Property Tax	Other Taxes	Total <sup>2/</sup> Annual Changes
<b>1989</b>	23,100.0	35,400.0	29,000.0	28,200.0	6,000.0	121,700.0
<b>1990</b>	7,000.0	63,900.0	-	22,600.0	15,800.0	109,300.0
<b>1991</b>	(4,404.0)	118,680.0	30,900.0	49,640.0	13,560.0	208,376.0
<b>1992</b>	(377.5)	9,200.0	400.0	-	485.0	9,707.5
<b>1993</b>	(7,972.1)	(13,500.0)	-	(1,343.0)	3,472.0	(19,343.1)
<b>1994</b>	(12,243.5)	(10,776.0)	-	(1,200.0)	(1,233.0)	(25,452.5)
<b>1995</b>	(21,217.0)	(102,826.0)	4,200.0	(850.0)	-	(120,693.0)
<b>1996</b>	(46,151.9)	(202,260.5)	(18,000.0)	(18,256.0)	-	(284,668.4)
<b>1997</b>	(23,449.3)	(950.0)	(60.0)	(150,078.0)	-	(174,537.3)
<b>1998</b>	(59,907.9)	(114,969.0)	2,601.9	-	(105.0)	(172,380.0)
<b>1999</b>	(3,684.2)	(51,091.5)	(7,015.2)	-	(80,000.0)	(141,790.9)
<b>2000</b>	(8,402.3)	(27,177.9)	(13,982.3)	(51.6)	(55,000.0)	(104,614.1)
<b>2001</b>	(3,392.0)	(82,895.0)	(46,486.1)	(30.0)	(25,000.0)	(157,803.1)
<b>2002</b>	(2.1)	9,825.3	(40,759.6)	(2,234.9)	-	(33,171.3)
<b>2003</b>	(2.2)	11,384.5	21,567.0	(1,738.3)	(18,830.0)	12,381.0
<b>2004</b>	-	-	-	7,000.0	50,418.1	57,418.1
<b>2005</b>	-	(1,834.0)	-	(7,000.0)	3,892.0	(4,942.0)
<b>2006</b>	(600.0)	(14,200.0)	(3,250.0)	-	-	(18,050.0)
<b>2007</b>	(1,678.6)	(176,090.0)	(10,990.0)	-	(5,000.0)	(193,758.6)
<b>2008</b>	(100.0)	(185,510.0)	(31,900.0)	-	-	(217,510.0)
<b>2009</b>	-	1,310.0	(30,080.0)	-	-	(28,770.0)
<b>2010</b>	-	(9,000.0)	(33,410.0)	-	-	(42,410.0)
<b>2011</b>	918,000.0	13,000.0	(10,700.0)	-	-	920,300.0
<b>2012</b>	-	(900.0)	(16,600.0)	-	-	(17,500.0)
<b>2013</b>	-	4,590.0	(20,700.0)	-	-	(16,110.0)

<sup>1/</sup> The estimates exclude one-time increases or decreases in revenue collections. The tax changes also exclude General Fund distribution formula changes and additional K-12 expenditures that were the direct result of property tax legislation. The estimates also reflect the projected fiscal impact at the time of enactment and have not been adjusted for the actual dollar value of a tax change.

<sup>2/</sup> Each yearly amount represents the incremental dollar value of tax law changes relative to the prior year. For example, the total net tax reduction in FY 2008 relative to FY 2007 was \$(217.5) million.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1988**

(\$ in Thousands)

	<u>FY 1988</u>	<u>FY 1989</u>
<b>INDIVIDUAL INCOME</b>		
Elimination of Gasoline Deduction Ch. 271		10,000.0
Federal Income Tax Windfall Cap Ch. 271		25,400.0
<b>TOTAL INDIVIDUAL INCOME</b>		<b>35,400.0</b>
<b>CORPORATE INCOME</b>		
Elimin. of Lower Cap. Gains Rate Ch. 271		14,000.0
Controlled Corp. Dividends Conformed Ch. 271		13,000.0
Depletion Deduction Conformed Ch. 271		1,000.0
Elimination of Gasoline Deduction Ch. 271		1,000.0
<b>TOTAL CORPORATE INCOME</b>		<b>29,000.0</b>
<b>SALES AND USE</b>		
Accounting Allowance Cap. - \$500 Ch. 271		3,000.0
No Exemption for Semi-conductors Ch. 271		1,700.0
Taxation of Casual Commercial Rents Ch. 271		3,300.0
Hotel/Motel Tax Increase to 5.5% Ch. 271		4,200.0
Rental Real Property Increase to 5% Ch. 271		10,900.0
<b>TOTAL SALES AND USE</b>		<b>23,100.0</b>
<b>PROPERTY</b>		
Assessment Ratio Freeze to 1987 Ch. 271		1,600.0
QTR for Homeowners Capped Ch. 271		9,300.0
State Education Rate Set at \$0.09 Ch. 271		17,300.0
<b>TOTAL PROPERTY</b>		<b>28,200.0</b>
<b>OTHER</b>		
Increase Ins. Prem. Tax to 2.0% Ch. 4		6,000.0
<b>TOTAL OTHER</b>		<b>6,000.0</b>
<b>TOTAL</b>		<b>121,700.0</b>

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1989**

(\$ in Thousands)

	<u>FY 1989</u>	<u>FY 1990</u>
<b>INDIVIDUAL INCOME</b>		
Federal Conformity Ch. 211		1,900.0
Eliminate Deduction of Fed. Excise Tax Ch. 211		4,000.0
Federal Windfall Retention Ch. 312		16,800.0
Reduce Consumer Interest Deduction to 50% Ch. 312		39,000.0
Taxation of Previous Exempt Pensions		2,200.0
<b>TOTAL INDIVIDUAL INCOME</b>	<hr/>	<hr/> <b>63,900.0</b>
<b>CORPORATE INCOME</b>		
None		
<b>TOTAL CORPORATE INCOME</b>	<hr/>	<hr/>
<b>SALES AND USE</b>		
Taxation of Catalog Sales Ch. 312		7,000.0
<b>TOTAL SALES AND USE</b>	<hr/>	<hr/> <b>7,000.0</b>
<b>PROPERTY</b>		
Minimum QTR School District Tax Ch. 312		26,000.0
Tax Reduction for Unorg. Districts Ch. 312		(3,400.0)
<b>TOTAL PROPERTY</b>	<hr/>	<hr/> <b>22,600.0</b>
<b>OTHER</b>		
Minimum VLT to \$30 Ch. 4		15,800.0
<b>TOTAL OTHER</b>	<hr/>	<hr/> <b>15,800.0</b>
<b>TOTAL</b>		<hr/> <b>109,300.0</b>

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1990**

(\$ in Thousands)

	<u>FY 1990</u>	<u>FY 1991</u>
<b>INDIVIDUAL INCOME</b>		
Federal Conformity Ch. 63		4,880.0
Tax Simplification - Widened Tax Base, Increased Tax Rates Ch. 3		110,000.0
Limitation of Renters Credit Ch. 3		3,800.0
<b>TOTAL INDIVIDUAL INCOME</b>	<u>                    </u>	<b>118,680.0</b>
<b>CORPORATE INCOME</b>		
Federal Conformity Ch. 63		5,300.0
Tax Simplification - Widened Tax Base Ch. 3		25,600.0
<b>TOTAL CORPORATE INCOME</b>	<u>                    </u>	<b>30,900.0</b>
<b>SALES AND USE</b>		
Elimination of Account Allowance Ch. 3		8,000.0
Tax Reduction - Rental Real Property Ch. 3		(1,800.0)
County Property Tax Relief Ch. 3		(10,000.0)
Rodeo Sales Exemption Ch. 239		(47.0)
Tax Suspension - Federal Bldgs. Ch. 251		(94.0)
Bed Tax to Tourism Ch. 391		(463.0)
<b>TOTAL SALES AND USE</b>	<u>                    </u>	<b>4,404.0</b>
<b>PROPERTY</b>		
Minimum QTR School Dist. Tax Ch. 3		40,700.0
Assessment Ratio Changes Ch. 3		8,940.0
<b>TOTAL PROPERTY</b>	<u>                    </u>	<b>49,640.0</b>
<b>OTHER</b>		
Minimum QTR School Dist. Tax = Salt River Ch. 3		7,000.0
Assessment Ratio Changes = Salt River Ch. 3		660.0
Minimum VLT Reduction Ch. 3		(3,600.0)
Cigarette Tax Increase Ch. 3		9,500.0
<b>TOTAL OTHER</b>	<u>                    </u>	<b>13,560.0</b>
<b>TOTAL</b>		<u><b>208,376.0</b></u>

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**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1991**

(\$ in Thousands)

	<u>FY 1991</u>	<u>FY 1992</u>	<u>FY 1993</u>	<u>FY 1994</u>
<b>INDIVIDUAL INCOME</b>				
Federal Conformity Ch. 146		7,600.0	7,600.0	7,600.0
Eliminate Ret. Contrib. Subtraction Ch. 155		1,600.0	1,600.0	1,600.0
<b>TOTAL INDIVIDUAL INCOME</b>		<b>9,200.0</b>	<b>9,200.0</b>	<b>9,200.0</b>
<b>CORPORATE INCOME</b>				
Federal Conformity Ch. 146		400.0	400.0	400.0
<b>TOTAL CORPORATE INCOME</b>		<b>400.0</b>	<b>400.0</b>	<b>400.0</b>
<b>SALES AND USE</b>				
Membership Camping Tax Ch. 31		122.5	122.5	122.5
Medical Equipment Exemption Ch. 200		(500.0)	(500.0)	(500.0)
<b>TOTAL SALES AND USE</b>		<b>(377.5)</b>	<b>(377.5)</b>	<b>(377.5)</b>
<b>PROPERTY</b>				
Rental property; Assess. Reduction Ch. 134			(1,200.0)	(2,400.0)
<b>TOTAL PROPERTY</b>			<b>(1,200.0)</b>	<b>(2,400.0)</b>
<b>OTHER</b>				
Drano Tax Repeal Ch. 184		320.0	320.0	320.0
Groundwater Fees Ch. 211		165.0	165.0	165.0
<b>TOTAL OTHER</b>		<b>485.0</b>	<b>485.0</b>	<b>485.0</b>
<b>TOTAL</b>		<b>9,707.5</b>	<b>8,507.5</b>	<b>7,307.5</b>

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**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1992**

(\$ in Thousands)

	<u>FY 1992</u>	<u>FY 1993</u>
<b>INDIVIDUAL INCOME</b>		
Increased Exemptions Phase-in Ch. 290		(12,000.0)
Withhold Penalty Forgiveness Ch. 220		(1,500.0)
<b>TOTAL INDIVIDUAL INCOME</b>	<hr/>	<hr/> <b>(13,500.0)</b>
<b>CORPORATE INCOME</b>		
None		
<b>TOTAL CORPORATE INCOME</b>	<hr/>	<hr/>
<b>SALES AND USE</b>		
Church Leases Exemption Ch. 29		(50.0)
Restaurant Food: Use Tax Exemp. Ch. 32		(100.0)
Motion Picture Sales Tax Refund Ch. 96		(67.1)
Semi-Trailers, Bowl Games Exemption Ch. 135		(600.0)
Feed and Seed Exemption Ch. 162		(1,600.0)
Lessor Utility Exemptions Ch. 215		(1,921.0)
Manufactured Bldgs. Exemptions Ch. 217		(100.0)
Aircraft Sales Tax Exemptions Ch. 222		(300.0)
Microwave Systems Exemptions Ch. 237		(84.0)
R & D Equipment Exemptions Ch. 238		(250.0)
Repeal Aircraft Exemptions Ch. 290		(2,900.0)
<b>TOTAL SALES AND USE</b>	<hr/>	<hr/> <b>(7,972.1)</b>
<b>PROPERTY</b>		
Widow/Widower Exemption Ch. 5		(50.0)
Local Telecom. Property Ch. 41		(70.0)
Pipeline Valuations Ch. 51		(50.0)
Sewer/Wastewater Prop. Cent. Valued Ch. 347		27.0
<b>TOTAL PROPERTY</b>	<hr/>	<hr/> <b>(143.0)</b>

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1992**

(\$ in Thousands)

	<u>FY 1992</u>	<u>FY 1993</u>
<b>OTHER</b>		
VLT: Rental Car Surcharge Ch. 219		600.0
Cigarette Luxury Stamps Ch. 55		(100.0)
Jet Fuel Reduction Ch. 221		(1,028.0)
Insurance Premium Tax Offset Ch. 290		4,000.0
<b>TOTAL OTHER</b>	<u>                    </u>	<u>3,472.0</u>
<b>TOTAL</b>		<u>(18,143.1)</u>

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**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1993**

(\$ in Thousands)

	<u>FY 1993</u>	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>
<b>INDIVIDUAL INCOME</b>						
Increased Dependent Exemption Ch. 9		(5,600.0)	(5,600.0)	(5,600.0)	(5,600.0)	(5,600.0)
Increased Exemption - Elderly Ch. 9		(2,700.0)	(2,700.0)	(2,700.0)	(2,700.0)	(2,700.0)
Accelerate Medical Deductions Ch. 9		(2,300.0)	(2,300.0)	(2,300.0)	(2,300.0)	(2,300.0)
Alternative Fuel Vehicles Credit Ch. 160		(176.0)	(176.0)	(176.0)	(176.0)	(176.0)
<b>TOTAL INDIVIDUAL INCOME</b>		<b>(10,776.0)</b>	<b>(10,776.0)</b>	<b>(10,776.0)</b>	<b>(10,776.0)</b>	<b>(10,776.0)</b>
<b>CORPORATE INCOME</b>						
None						
<b>TOTAL CORPORATE INCOME</b>						
<b>SALES AND USE</b>						
Phase-out of Commercial Lease Tax Ch. 9		(8,100.0)	(26,300.0)	(47,300.0)	(70,600.0)	(96,300.0)
Feed Lots Exemption Ch. 64		(331.8)	(331.8)	(331.8)	(331.8)	(331.8)
Residential Care Homes - Use Exemp. Ch. 103		(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)
Motion Picture Tax Refund Ch. 104		(20.4)	(20.4)	(20.4)	(20.4)	(20.4)
Retail Classifications Changes Ch. 132		(138.3)	(138.3)	(138.3)	(138.3)	(138.3)
Health Care Centers - Exemptions Ch. 199		(227.0)	(227.0)	(227.0)	(227.0)	(227.0)
Alternative Use Fuel - Exemption Ch. 206		(50.0)	(50.0)	(50.0)	(50.0)	(50.0)
Nursing Care Leases Ch. 212		(976.0)	(976.0)	(976.0)	(976.0)	(976.0)
Sales Deductions - Telecomm. Charges Ch. 240		(1,100.0)	(1,100.0)	(1,100.0)	(1,100.0)	(1,100.0)
<b>TOTAL SALES AND USE</b>		<b>(12,243.5)</b>	<b>(30,443.5)</b>	<b>(51,443.5)</b>	<b>(74,743.5)</b>	<b>(100,443.5)</b>
<b>PROPERTY</b>						
None						
<b>TOTAL PROPERTY</b>						
<b>OTHER</b>						
Wine Commission Fees Ch. 40		(33.0)	(33.0)	(33.0)	(33.0)	(33.0)
Liquor License Fees Ch. 133		(1,200.0)	(1,200.0)	(1,200.0)	(1,200.0)	(1,200.0)
<b>TOTAL OTHER</b>		<b>(1,233.0)</b>	<b>(1,233.0)</b>	<b>(1,233.0)</b>	<b>(1,233.0)</b>	<b>(1,233.0)</b>
<b>TOTAL</b>		<b>(24,252.5)</b>	<b>(42,452.5)</b>	<b>(63,452.5)</b>	<b>(86,752.5)</b>	<b>(112,452.5)</b>

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**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1994**

(\$ in Thousands)

	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>
<b>INDIVIDUAL INCOME</b>			
IRS Conformity Ch. 41		6,200.0	6,200.0
Personal Income Tax Cut Ch. 41		(106,900.0)	(106,900.0)
Medical Savings Account Ch. 45			(175.0)
Water Conservation Inc. Tax Credit Ch. 90		(1,626.0)	(1,874.0)
Income Tax Benefit Rule Ch. 354		(500.0)	(500.0)
Pollution Control Credits Ch. 117			(1,500.0)
<b>TOTAL INDIVIDUAL INCOME</b>	<u>          </u>	<u><b>(102,826.0)</b></u>	<u><b>(104,749.0)</b></u>
<b>CORPORATE INCOME</b>			
IRS Conformity Ch. 41		10,000.0	10,000.0
Lower Corporate Rate Ch. 41		(5,800.0)	(5,800.0)
Consolidated Returns <sup>1/</sup> Ch. 41			(13,400.0)
Pollution Control Credits Ch. 117			(1,000.0)
<b>TOTAL CORPORATE INCOME</b>	<u>          </u>	<u><b>4,200.0</b></u>	<u><b>(10,200.0)</b></u>
<b>SALES AND USE</b>			
MITRA; Chemicals Ch. 41			(4,000.0)
Super Bowl Exemption Ch. 145			(481.9)
Personal Property Liquidators Ch. 174		(1,000.0)	(1,000.0)
Prison Food TPT Exemption Ch. 240		(80.0)	(80.0)
University Cars Exemption Ch. 305		(57.0)	(57.0)
Feed Exemption Ch. 307		(655.0)	(655.0)
Amusement/Instruc. Exemption Ch. 312		(825.0)	(825.0)
Tax Accounting Ch. 346			(11,870.0)
Omnibus Alternative Fuels Ch. 353		(400.0)	(400.0)
Government Contract Overhead Ch. 377			(8,000.0)
<b>TOTAL SALES AND USE</b>	<u>          </u>	<u><b>(3,017.0)</b></u>	<u><b>(27,368.9)</b></u>

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1994**

(\$ in Thousands)

	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>
<b>PROPERTY</b>			
MITRA; 1% Personal Prop./Phasedown Ch. 41			(16,496.0)
Livestock Ch. 102			(660.0)
Homeowners' Rebate Freeze Ch. 41 Not Included-Tax Cut as Spending Increase		0.0	0.0
Telecommunications Cos. Valuations Ch. 271		(850.0)	(850.0)
<b>TOTAL PROPERTY</b>	<u>                    </u>	<u>(850.0)</u>	<u>(18,006.0)</u>
<b>OTHER</b>			
None	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL OTHER</b>			
<b>TOTAL</b>		<u>(102,493.0)</u>	<u>(160,323.9)</u>

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1/ Chapter 41 provided a tax credit totalling \$115 million for certain consolidated returns, which was to be spread over 10 years. In the 11th year, DOR is required to refund any unused credit (refer to Calendar Year 2006 tax law changes page at the end of this section).

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1995**

(\$ in Thousands)

	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>
<b>INDIVIDUAL INCOME</b>			
Income Tax Reduction Ch. 9		(200,000.0)	(200,000.0)
Summer Schools and Jobs Ch. 236		(337.5)	(337.5)
<b>TOTAL INDIVIDUAL INCOME</b>	<u>                    </u>	<u>(200,337.5)</u>	<u>(200,337.5)</u>
<b>CORPORATE INCOME</b>			
Consolidated Tax Returns Ch. 31		(400.0)	(400.0)
Lower Corporate Rate Ch. 41		(2,200.0)	(2,200.0)
Pollution Control Credits Ch. 117		(1,000.0)	(1,000.0)
<b>TOTAL CORPORATE INCOME</b>	<u>                    </u>	<u>(3,600.0)</u>	<u>(3,600.0)</u>
<b>SALES AND USE</b>			
Motion Picture Tax Refund Ch. 98		(100.0)	(100.0)
Sales Tax Amenities Ch. 267		(700.0)	(700.0)
<b>TOTAL SALES AND USE</b>	<u>                    </u>	<u>(800.0)</u>	<u>(800.0)</u>
<b>PROPERTY</b>			
Personal Property Tax Reductions Ch. 9			(17.3)
Property Tax Reduc. Min. Value Ch. 137			(78.0)
Possessory Interest; Repeal Ch. 294		(1,100.0)	(1,100.0)
<b>TOTAL PROPERTY</b>	<u>                    </u>	<u>(1,100.0)</u>	<u>(1,178.0)</u>
<b>OTHER</b>			
None			
<b>TOTAL OTHER</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL</b>	<u>                    </u>	<u>(205,837.5)</u>	<u>(205,915.5)</u>

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**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1996**

(\$ in Thousands)

	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>
<b>INDIVIDUAL INCOME</b>			
Income Tax Definitions Ch. 49		(860.0)	(860.0)
Neighborhood Protection Deductions Ch. 309		(90.0)	(90.0)
<b>TOTAL INDIVIDUAL INCOME</b>	<u>          </u>	<u>(950.0)</u>	<u>(950.0)</u>
<b>CORPORATE INCOME</b>			
Neighborhood Protection Act Ch. 309		(60.0)	(60.0)
Enterprise Zones: Tax Credits Ch. 344			(1,575.1)
<b>TOTAL CORPORATE INCOME</b>	<u>          </u>	<u>(60.0)</u>	<u>(1,635.1)</u>
<b>SALES AND USE</b>			
Arts Fund; Partnership Ch. 186			(1,475.9)
Prime Contracting Sales Tax Ch. 319			(30,000.0)
Movie Studios Incentives Ch. 322		(49.3)	(49.3)
Homeowners Organizations Ch. 326		(100.0)	(100.0)
<b>TOTAL SALES AND USE</b>	<u>          </u>	<u>(194.3)</u>	<u>(31,625.2)</u>
<b>PROPERTY</b>			
Property Tax Reductions Ch. 2 - Does not include \$50M in spending		(150,000.0)	(150,000.0)
<b>TOTAL PROPERTY</b>	<u>          </u>	<u>(150,000.0)</u>	<u>(150,000.0)</u>
<b>OTHER</b>			
<b>TOTAL OTHER</b>	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL</b>		<u>(151,159.3)</u>	<u>(184,210.3)</u>

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**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1997**

(\$ in Thousands)

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>
<b>INDIVIDUAL INCOME</b>			
Tax Credit; School Tuition Organizations Ch. 48			(8,443.2)
Welfare Reform; Arizona Works Ch. 300			(8,030.8)
IRS Conformity Ch. 63		(3,330.0)	(3,330.0)
Energy Conservation Incentives Ch. 137			(34.1)
Income Adjustments Ch. 238		(749.0)	(749.0)
Air Quality Omnibus Ch. 274		(250.0)	(250.0)
Savings Account; Postsecondary Ed. Ch. 171			(20.4)
Tax Relief Act of 1997 - Rates Reductions Ch. 8		(110,800.0)	(110,800.0)
<b>TOTAL INDIVIDUAL INCOME</b>	<u>                    </u>	<u>(115,129.0)</u>	<u>(131,657.5)</u>
<b>CORPORATE INCOME</b>			
IRS Conformity Ch. 62		4,177.0	4,177.0
Welfare Reform; Arizona Works Ch. 300			(585.2)
<b>TOTAL CORPORATE INCOME</b>	<u>                    </u>	<u>4,177.0</u>	<u>3,591.8</u>
<b>SALES AND USE</b>			
Light Vehicle Fees Ch. 110		(2,000.0)	(2,000.0)
Used Oil Amendments Ch. 178		(92.2)	(92.2)
Use Tax Exemptions - Libraries Ch. 227		(36.9)	(36.9)
Sales Tax; Nursing Homes Ch. 245			(2,000.0)
Omnibus Tax Changes Ch. 274		(542.9)	(542.9)
<b>TOTAL SALES AND USE</b>	<u>                    </u>	<u>(2,672.0)</u>	<u>(4,672.0)</u>
<b>PROPERTY</b>			
None			
<b>TOTAL PROPERTY</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>OTHER</b>			
Agriculture Omnibus Ch. 228		(90.0)	(90.0)
Health Care Omnibus Ch. 268		(15.0)	(15.0)
<b>TOTAL OTHER</b>	<u>                    </u>	<u>(105.0)</u>	<u>(105.0)</u>
<b>TOTAL</b>		<u>(113,729.0)</u>	<u>(132,842.7)</u>

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**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1998**

(\$ in Thousands)

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
<b>INDIVIDUAL INCOME</b>				
Prop. 200 - Campaign Finance			(1,279.1)	(1,279.1)
Alternative Fuels Ch. 221		(923.0)	(2,854.8)	0.0
Omnibus Taxation of 1998 Ch. 283	160.0	(3,240.0)	(6,410.0)	(6,410.0)
Tax Relief Act of 1998 - Rates Reductions Ch. 3		(30,000.0)	(50,000.0)	(50,000.0)
Wheels to Work Ch. 208			(1,140.0)	(1,140.0)
Tax Exemptions; Exempts; Credits Ch. 286			(1,347.0)	(1,347.0)
<b>TOTAL INDIVIDUAL INCOME</b>	<b><u>160.0</u></b>	<b><u>(34,163.0)</u></b>	<b><u>(63,030.9)</u></b>	<b><u>(60,176.1)</u></b>
<b>CORPORATE INCOME</b>				
Income Tax Credits; Coal Taxes Ch. 137		(1,600.0)	(1,600.0)	(1,600.0)
Tax Relief Act of 1998 - Rates Reductions and Deduction Elimination Ch. 3		(10,000.0)	(20,000.0)	(20,000.0)
Wheels to Work Ch. 208			(1,140.0)	(1,140.0)
Tax Exemptions, Deductions Ch. 286			(577.3)	(577.3)
<b>TOTAL CORPORATE INCOME</b>		<b><u>(11,600.0)</u></b>	<b><u>(23,317.3)</u></b>	<b><u>(23,317.3)</u></b>
<b>SALES AND USE</b>				
Sales and Use; Printing Ch. 132		(100.0)	(200.0)	(200.0)
Flight Property Exemptions Ch. 177		(110.0)	(30.0)	(30.0)
Alternative Fuels Ch. 221		(577.0)	(1,434.6)	(1,434.6)
Tax Exemptions, Deductions Ch. 286	(60.0)	(857.2)	(296.5)	(296.5)
<b>TOTAL SALES AND USE</b>	<b><u>(60.0)</u></b>	<b><u>(1,644.2)</u></b>	<b><u>(1,961.1)</u></b>	<b><u>(1,961.1)</u></b>
<b>PROPERTY</b>				
Telecommunications Ch. 220			(19.3)	(19.3)
Widow, Widowers Exemption Ch. 261			(32.3)	(32.3)
<b>TOTAL PROPERTY</b>			<b><u>(51.6)</u></b>	<b><u>(51.6)</u></b>
<b>OTHER</b>				
Tax Relief Act of 1998 - VLT Rate Reduction Ch. 3		(80,000.0)	(100,000.0)	(100,000.0)
<b>TOTAL OTHER</b>		<b><u>(80,000.0)</u></b>	<b><u>(100,000.0)</u></b>	<b><u>(100,000.0)</u></b>
<b>TOTAL</b>	<b><u>100.0</u></b>	<b><u>(127,407.2)</u></b>	<b><u>(188,360.9)</u></b>	<b><u>(185,506.1)</u></b>

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**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1999**

(\$ in Thousands)

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
<b>INDIVIDUAL INCOME</b>				
Public Retirement Benefits Ch. 50			(1,766.7)	(1,766.7)
Alternative Fuel Vehicles Ch. 168			(427.1)	
Taxpayer Bill of Rights Ch. 250		(200.0)	(600.0)	(400.0)
IRS Conformity Ch. 317	(240.0)	2,330.0	690.0	(3,190.0)
<b>TOTAL INDIVIDUAL INCOME</b>	<b><u>(240.0)</u></b>	<b><u>2,130.0</u></b>	<b><u>(2,103.8)</u></b>	<b><u>(5,356.7)</u></b>
<b>CORPORATE INCOME</b>				
Tax Relief and Fiscal Control (Trigger) Rate Reduced from 8.0% to 7.0%; R&D Cap. Removed Ch. 5			(37,000.0)	(74,000.0)
Income Allocation (Airline Bill) Ch. 190			(700.0)	(1,400.0)
Alternative Fuel Vehicles Ch. 168			(1,052.1)	
IRS Conformity Ch. 317	5,170.0	2,920.0	2,920.0	890.0
<b>TOTAL CORPORATE INCOME</b>	<b><u>5,170.0</u></b>	<b><u>2,920.0</u></b>	<b><u>(35,832.1)</u></b>	<b><u>(74,510.0)</u></b>
<b>SALES AND USE</b>				
Sales Tax Exemption; Expendables Ch. 153	(100.0)	(3,500.0)	(3,500.0)	(3,500.0)
Tax Relief and Fiscal Control (Trigger) Mining Severance Tax Reduction Ch. 5		(4,667.0)	(8,000.0)	(8,000.0)
<b>TOTAL SALES AND USE</b>	<b><u>(100.0)</u></b>	<b><u>(8,167.0)</u></b>	<b><u>(11,500.0)</u></b>	<b><u>(11,500.0)</u></b>
<b>PROPERTY</b>				
Omni. Reconciliation - Personal Property (Expend.) Ch. 5 Does not include \$21.4M spending			(30.0)	(30.0)
<b>TOTAL PROPERTY</b>			<b><u>(30.0)</u></b>	<b><u>(30.0)</u></b>
<b>OTHER</b>				
Omni. Reconciliation - VLT Cut Ch. 5		(35,000.0)	(60,000.0)	(60,000.0)
<b>TOTAL OTHER</b>		<b><u>(35,000.0)</u></b>	<b><u>(60,000.0)</u></b>	<b><u>(60,000.0)</u></b>
<b>TOTAL</b>	<b><u>4,830.0</u></b>	<b><u>(38,117.0)</u></b>	<b><u>(109,465.9)</u></b>	<b><u>(151,396.7)</u></b>

Notes:

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- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2000**

(\$ in Thousands)

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<b>INDIVIDUAL INCOME</b>				
Renewable Energy Incentives Ch. 214				(57.0)
Technology Training Credit Ch. 239			(300.0)	(300.0)
IRS Conformity Ch. 252	(680.0)	(2,796.0)	(3,260.0)	(636.0)
Agricultural Preservation District Ch. 267			(100.0)	(100.0)
Character Instruction Tax Credit Ch. 313			(75.0)	(75.0)
Handicapped Preschoolers Tax Credit Ch. 394			(100.0)	(100.0)
Clean Air Act Ch. 405 (neighborhood electric vehicle credit)		(15,750.0)		
Clean Air Act <sup>1/</sup> Ch. 405 (alt fuel vehicle credit)		(59,100.0)	(26,700.0)	(3,100.0)
Alternative Fuels Program Changes Ch. 1 (7th Special Session)		(4,427.0)		
Low-income Tax Credit <sup>1/</sup> Ch. 1 (5th Special Session)			(20,100.0)	(20,100.0)
Tuition Tax Credit Ch. 1 (5th Special Session)			(3,750.0)	(3,847.5)
<b>TOTAL INDIVIDUAL INCOME</b>	<b>(680.0)</b>	<b>(82,073.0)</b>	<b>(54,385.0)</b>	<b>(28,315.5)</b>
<b>CORPORATE INCOME</b>				
Technology Training Credit Ch. 239			(2,500.0)	(2,500.0)
IRS Conformity Ch. 252	(15.0)	21.0	175.0	149.0
Clean Air Act Ch. 405			192.3	192.3
Clean Air Act <sup>1/</sup> Ch. 405 (alt fuel vehicle credit)		(7,300.0)	(6,600.0)	(1,600.0)
<b>TOTAL CORPORATE INCOME</b>	<b>(15.0)</b>	<b>(7,279.0)</b>	<b>(8,732.7)</b>	<b>(3,758.7)</b>
<b>SALES AND USE</b>				
Renewable Energy Incentives Ch. 214		(40.7)	(42.8)	(45.0)
Spaceport Launch Site Exemption Ch. 359	(18.4)	(36.7)	(36.7)	(36.7)
<b>TOTAL SALES AND USE</b>	<b>(18.4)</b>	<b>(77.4)</b>	<b>(79.5)</b>	<b>(81.7)</b>
<b>PROPERTY</b>				
Renewable Energy Incentives Ch. 214				(8.8)
Cemeteries; Property Tax Exemption Ch. 258				(7.3)
Electrical Generation Facilities Ch. 384			(2,234.9)	(3,957.1)
<b>TOTAL PROPERTY</b>			<b>(2,234.9)</b>	<b>(3,973.2)</b>
<b>OTHER</b>				
None				
<b>TOTAL OTHER</b>				
<b>TOTAL</b>	<b>(713.4)</b>	<b>(89,429.4)</b>	<b>(65,432.1)</b>	<b>(36,129.1)</b>

Notes:

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<sup>1/</sup> Amounts for FY 2001, FY 2002, and FY 2003 represent actual impact rather than initial estimated impact.  
Totals do not include approximately \$(12.7) million paid out for consumer loss recovery, for a total alternative fuel impact of approximately \$(117) million.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2001**

(\$ in Thousands)

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<b>INDIVIDUAL INCOME</b>			
Conditional Appropriations; Taxation (reduce standard deduction) Ch. 235		(15,000.0)	(15,000.0)
Department of Revenue; Confidentiality Ch. 261		1,400.0	1,300.0
IRS Conformity Ch. 296	(123.0)	(280.0)	(385.0)
Retirement Benefits; Defined Contribution Ch. 380		(300.0)	(300.0)
Equity Tax Act; Archaic Laws Ch. 382		(552.8)	(552.8)
<b>TOTAL INDIVIDUAL INCOME</b>	<u>(123.0)</u>	<u>(14,732.8)</u>	<u>(14,937.8)</u>
<b>CORPORATE INCOME</b>			
IRS Conformity Ch. 296	(470.0)	(1,098.0)	(1,315.0)
Enterprise Zone Program; Extension Ch. 370 (impact can not be determined)			
<b>TOTAL CORPORATE INCOME</b>	<u>(470.0)</u>	<u>(1,098.0)</u>	<u>(1,315.0)</u>
<b>SALES AND USE</b>			
None			
<b>TOTAL SALES AND USE</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>PROPERTY</b>			
None			
<b>TOTAL PROPERTY</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>OTHER</b>			
None			
<b>TOTAL OTHER</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL</b>	<u>(593.0)</u>	<u>(15,830.8)</u>	<u>(16,252.8)</u>

Notes:

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**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2002 \***

(\$ in Thousands)

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
<b>INDIVIDUAL INCOME</b>				
IRS Conformity Ch. 344		(14,480.0)	(14,480.0)	(14,480.0)
<b>TOTAL INDIVIDUAL INCOME</b>		<b><u>(14,480.0)</u></b>	<b><u>(14,480.0)</u></b>	<b><u>(14,480.0)</u></b>
<b>CORPORATE INCOME</b>				
Repeal Dividends Income Tax Subtraction Ch. 50		11,200.0	11,200.0	11,200.0
IRS Conformity Ch. 344		5,610.0	5,610.0	5,610.0
<b>TOTAL CORPORATE INCOME</b>		<b><u>16,810.0</u></b>	<b><u>16,810.0</u></b>	<b><u>16,810.0</u></b>
<b>SALES AND USE</b>				
None				
<b>TOTAL SALES AND USE</b>				
<b>PROPERTY</b>				
None				
<b>TOTAL PROPERTY</b>				
<b>OTHER</b>				
IRS Conformity - Estate Tax Ch. 344		(18,830.0)	(38,140.0)	(57,740.0)
<b>TOTAL OTHER</b>		<b><u>(18,830.0)</u></b>	<b><u>(38,140.0)</u></b>	<b><u>(57,740.0)</u></b>
<b>TOTAL</b>		<b><u>(16,500.0)</u></b>	<b><u>(35,810.0)</u></b>	<b><u>(55,410.0)</u></b>

Notes:

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\* Includes 45th Legislature, 2nd Special Session (December 2001), 3rd Special Session (March 2002), and 2nd Regular Session.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2003 \***

(\$ in Thousands)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
<b>INDIVIDUAL INCOME</b>			
None			
<b>TOTAL INDIVIDUAL INCOME</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>CORPORATE INCOME</b>			
None			
<b>TOTAL CORPORATE INCOME</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>SALES AND USE</b>			
None			
<b>TOTAL SALES AND USE</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>PROPERTY</b>			
Flight Property Tax Ch. 263		7,000.0	0.0
<b>TOTAL PROPERTY</b>	<u>                    </u>	<u>7,000.0</u>	<u>0.0</u>
<b>OTHER</b>			
Remove Medicaid Exemption/Ins. Premium Tax Ch. 136		69,728.1	92,970.1
<b>TOTAL OTHER</b>	<u>                    </u>	<u>69,728.1</u>	<u>92,970.1</u>
<b>TOTAL</b>		<u>76,728.1</u>	<u>92,970.1</u>

Notes:

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- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

\* Includes 45th Legislature, 6th Special Session (November 2002), and 46th Legislature, 1st Special Session (March 2003), and 1st Regular Session.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2004**

(\$ in Thousands)

	<u>FY 2004</u>	<u>FY 2005</u>
<b>INDIVIDUAL INCOME</b>		
IRS Conformity Ch. 196		(1,800.0)
Stillborn Children Exemption Ch. 214		(34.0)
<b>TOTAL INDIVIDUAL INCOME</b>	<u>                    </u>	<u>(1,834.0)</u>
<b>CORPORATE INCOME</b>		
None		
<b>TOTAL CORPORATE INCOME</b>	<u>                    </u>	<u>                    </u>
<b>SALES AND USE</b>		
None		
<b>TOTAL SALES AND USE</b>	<u>                    </u>	<u>                    </u>
<b>PROPERTY</b>		
None		
<b>TOTAL PROPERTY</b>	<u>                    </u>	<u>                    </u>
<b>OTHER</b>		
Liquor Fees Ch. 275		250.0
<b>TOTAL OTHER</b>	<u>                    </u>	<u>250.0</u>
<b>TOTAL</b>		<u>(1,584.0)</u>

Notes:

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- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

## TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2005

(\$ in Thousands)

	FY 2005	FY 2006	FY 2007	FY 2008
<b>INDIVIDUAL INCOME</b>				
IRS Conformity Ch. 334		(5,400.0)	(5,090.0)	(7,950.0)
Elimination of "Marriage Penalty" Ch. 334		(6,400.0)	(12,800.0)	(12,800.0)
Index Standard Deduction to CPI Ch. 334		(2,400.0)	(4,800.0)	(7,200.0)
Active Duty Military Pay Exemption Ch. 303			(10,300.0)	1/
Graywater Tax Credit <sup>2/</sup> Ch. 292				(250.0)
Small Business Investment Credit Ch. 316				3/
<b>TOTAL INDIVIDUAL INCOME</b>		<b>(14,200.0)</b>	<b>(32,990.0)</b>	<b>(28,200.0)</b>
<b>CORPORATE INCOME</b>				
IRS Conformity Ch. 196		(3,000.0)	5,210.0	9,410.0
AZ National Guard Employment Credit Ch. 264		(250.0)	(250.0)	(250.0)
Motion Picture Tax Incentives Ch. 317			(8,000.0)	(9,200.0)
Graywater Tax Credit <sup>2/</sup> Ch. 292				(500.0)
Corporate Sales Factor <sup>4/</sup> Ch. 289				(32,000.0)
Corporate Consolidated Credit <sup>5/</sup> Laws 1994 Ch. 41				
<b>TOTAL CORPORATE INCOME</b>		<b>(3,250.0)</b>	<b>(3,040.0)</b>	<b>(32,540.0)</b>
<b>SALES AND USE</b>				
Motion Picture Tax Incentives Ch. 317		(600.0)	(1,200.0)	(1,300.0)
<b>TOTAL SALES AND USE</b>		<b>(600.0)</b>	<b>(1,200.0)</b>	<b>(1,300.0)</b>
<b>PROPERTY</b>				
Business Property Tax Reduction <sup>6/</sup> Ch. 302				
Increased Widows Property Tax Exemption <sup>7/</sup> Ch. 309				
<b>TOTAL PROPERTY</b>				
<b>OTHER</b>				
None				
<b>TOTAL OTHER</b>				
<b>TOTAL</b>		<b>(18,050.0)</b>	<b>(37,230.0)</b>	<b>(62,040.0)</b>

Notes:

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1/ Chapter 303 established a one-time active duty pay exemption. Laws 2006, Chapter 342 (see following page) made the exemption permanent, as well as expanding the exemption to National Guard or Reserves..

2/ Individual and corporate credit combined capped at \$750,000 per year for 5 years beginning in FY 2008.

3/ Credit capped at \$20 million for tax years 2007 through 2014. No estimates of impact by year.

4/ Estimated impact of \$(32) million in FY 2008, \$(62) million in FY 2009, \$(91) million when fully implemented in FY 2011.

5/ Legislation enacted in 1994 provided a tax credit totalling \$115 million for certain consolidated returns which was to be spread over 10 years. In the 11th year, DOR is required to refund any unused credit. This legislation is estimated to have a one-time impact of \$(4) million in FY 2007, and \$(55.5) million in FY 2008.

6/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be \$12.3 million in FY 2007, \$26.6 million in FY 2008, \$42.8 million in FY 2009, \$61.5 million in FY 2010, \$82.7 million in FY 2011, \$102.8 million in FY 2012, \$114.2 million in FY 2013, and \$126.5 million in FY 2015. Full implementation in FY 2016 is expected to cost \$140 million.

7/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be \$500,000 in FY 2007 and \$512,000 in FY 2008.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2006**

(\$ in Thousands)

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
<b>INDIVIDUAL INCOME</b>			
IRS Conformity Ch. 357		(700.0)	400.0
Individual Income Tax Rate Reduction Ch. 354		(156,100.0)	(334,000.0)
Solar Energy Device Credit Ch. 333		(500.0)	(500.0)
Active Duty Military Pay Exemption <sup>1/</sup> Ch. 342			(12,200.0)
<b>TOTAL INDIVIDUAL INCOME</b>	<u>                    </u>	<u>(157,300.0)</u>	<u>(346,300.0)</u>
<b>CORPORATE INCOME</b>			
IRS Conformity Ch. 357		(700.0)	(800.0)
Solar Energy Device Credit Ch. 333		(500.0)	(500.0)
School Tuition Tax Credit <sup>2/</sup> Chs. 14 & 325		(10,000.0)	(12,000.0)
<b>TOTAL CORPORATE INCOME</b>	<u>                    </u>	<u>(11,200.0)</u>	<u>(13,300.0)</u>
<b>SALES AND USE</b>			
Solar Energy Device Credit Ch. 333		(500.0)	(500.0)
Exemption for Purchase of Liquid Natural Gas Ch. 371		(378.6)	(378.6)
Tax Simplification-Eliminate 3 Categories Ch. 354		(200.0)	(200.0)
<b>TOTAL SALES AND USE</b>	<u>                    </u>	<u>(1,078.6)</u>	<u>(1,078.6)</u>
<b>PROPERTY</b>			
State Equalization Rate Suspension <sup>3/</sup> Ch. 354			
Nonprofit Hospital Property Tax Exemption <sup>4/</sup> Ch. 327			
<b>TOTAL PROPERTY</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>OTHER</b>			
Health Insurance Premium Tax Credit Ch. 378		(5,000.0)	(5,000.0)
<b>TOTAL OTHER</b>	<u>                    </u>	<u>(5,000.0)</u>	<u>(5,000.0)</u>
<b>TOTAL</b>		<u>(174,578.6)</u>	<u>(365,678.6)</u>

Notes:

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1/ Chapter 342 made the one-time active duty pay exemption enacted by Laws 2005, Chapter 303 permanent.

In addition, the act expands the exemption to include active National Guard or Reserves.

2/ Credit capped at \$10 million for FY 2007. The cap will increase 20% annually beginning in FY 2008.

3/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be \$215.2 million in FY 2007, \$226.0 million in FY 2008, and \$239.6 million in FY 2009

4/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be \$60,000 per year beginning in FY 2007.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2007**

(\$ in Thousands)

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
<b>INDIVIDUAL INCOME</b>			
IRS Conformity			
Ch. 1		(1,300.0)	(980.0)
College Savings Plan			
Ch. 258			(2,500.0)
Military Relief Fund			
Ch. 258			(1,000.0)
<b>TOTAL INDIVIDUAL INCOME</b>	<u>                    </u>	<u>(1,300.0)</u>	<u>(4,480.0)</u>
<b>CORPORATE INCOME</b>			
IRS Conformity			
Ch. 1		(300.0)	60.0
<b>TOTAL CORPORATE INCOME</b>	<u>                    </u>	<u>(300.0)</u>	<u>60.0</u>
<b>SALES AND USE</b>			
None			
<b>TOTAL SALES AND USE</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>PROPERTY</b>			
Business Property Tax Reduction <sup>1/</sup>			
Ch. 258			
Business Personal Property Accelerated Depreciation <sup>2/</sup>			
Ch. 258			
<b>TOTAL PROPERTY</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>OTHER</b>			
None			
<b>TOTAL OTHER</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL</b>		<u>(1,600.0)</u>	<u>(4,420.0)</u>

Notes:

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1/ Laws 2005, Chapter 302 phased down the assessment ratio for business personal property over 10 years.

Chapter 258 accelerates the phase down from the remaining 8 years to 4 years. Impact will occur as increased Arizona Department of Education expenditures. The incremental cost of the accelerated phase down is expected to be an additional \$3.1 million in FY 2009.

2/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be \$4.0 million per year beginning in FY 2009.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2008**

(\$ in Thousands)

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
<b>INDIVIDUAL INCOME</b>				
IRS Conformity				
Ch. 94		(970.0)		
<b>TOTAL INDIVIDUAL INCOME</b>		<b>(970.0)</b>		
<b>CORPORATE INCOME</b>				
IRS Conformity				
Ch. 94		(80.0)		
Research and Development Credit				
Ch. 290				(5,700.0)
<b>TOTAL CORPORATE INCOME</b>		<b>(80.0)</b>		<b>(5,700.0)</b>
<b>SALES AND USE</b>				
None				
<b>TOTAL SALES AND USE</b>				
<b>PROPERTY</b>				
None				
<b>TOTAL PROPERTY</b>				
<b>OTHER</b>				
None				
<b>TOTAL OTHER</b>				
<b>TOTAL</b>		<b>(1,050.0)</b>		<b>(5,700.0)</b>

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2009**

(\$ in Thousands)

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
<b>INDIVIDUAL INCOME</b>				
IRS Conformity				
Ch. 2		(4,000.0)	(880.0)	(880.0)
Contributions to Charitable Organizations				
Ch. 80		(5,000.0)	(5,900.0)	(5,900.0)
Renewable Energy Investment <sup>1/</sup>				
Ch. 96				
<b>TOTAL INDIVIDUAL INCOME</b>	<u>                    </u>	<u>(9,000.0)</u>	<u>(6,780.0)</u>	<u>(6,780.0)</u>
<b>CORPORATE INCOME</b>				
IRS Conformity				
Ch. 2		(4,410.0)	(100.0)	(100.0)
Renewable Energy Investment <sup>1/</sup>				
Ch. 96			(5,000.0)	(5,000.0)
<b>TOTAL CORPORATE INCOME</b>	<u>                    </u>	<u>(4,410.0)</u>	<u>(5,100.0)</u>	<u>(5,100.0)</u>
<b>SALES AND USE</b>				
None				
<b>TOTAL SALES AND USE</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>PROPERTY</b>				
Renewable Energy Investment <sup>1/</sup>				
Ch. 96				
<b>TOTAL PROPERTY</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>OTHER</b>				
None				
<b>TOTAL OTHER</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL</b>		<u>(13,410.0)</u>	<u>(11,880.0)</u>	<u>(11,880.0)</u>

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.

- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Chapter 96 provides income and property tax incentives for qualifying renewable energy companies that invest in headquarter or manufacturing facilities in the state, including land, buildings, machinery and equipment, from tax year 2010 to 2014. The income tax credits are refundable, and are capped at \$70 million annually. The \$(5) million impact is a revised estimate for CY 2010. The cumulative \$(5) million reduction is shown as a corporate income tax reduction for display purposes.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2010**

(\$ in Thousands)

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
<b>INDIVIDUAL INCOME</b>					
IRS Conformity <sup>1/</sup> Ch. 176					
STO Contribution Deadline Extension Ch. 188		(2,500.0)	(2,500.0)	(2,500.0)	(2,500.0)
STO Maximum Credit Inflation Adjustment Ch. 293		(600.0)	(600.0)	(600.0)	(600.0)
Research and Development Refundable Credit <sup>2/</sup> Ch. 312		(5,000.0)	(5,000.0)	(5,000.0)	(5,000.0)
Renewable Energy Production Credit <sup>3/</sup> Ch. 312					
Out-of-State Filers Proportionality 6th SS, Ch. 3		22,000.0	22,000.0	22,000.0	22,000.0
<b>TOTAL INDIVIDUAL INCOME</b>	<b>0.0</b>	<b>13,900.0</b>	<b>13,900.0</b>	<b>13,900.0</b>	<b>13,900.0</b>
<b>CORPORATE INCOME</b>					
IRS Conformity <sup>1/</sup> Ch. 176					
Research and Development Refundable Credit <sup>2/</sup> Ch. 312					
Renewable Energy Production Credit <sup>3/</sup> Ch. 312			(10,000.0)	(20,000.0)	(20,000.0)
<b>TOTAL CORPORATE INCOME</b>	<b>0.0</b>	<b>0.0</b>	<b>(10,000.0)</b>	<b>(20,000.0)</b>	<b>(20,000.0)</b>
<b>SALES AND USE</b>					
TPT Increase - May Election 6th SS, SCR 1001 (May 2010 Election, Prop 100) <sup>4/</sup>		918,000.0	918,000.0	918,000.0	0.0
Estimated Payment Threshold 7th SS, Ch. 12 <sup>5/</sup>					
<b>TOTAL SALES AND USE</b>	<b>0.0</b>	<b>918,000.0</b>	<b>918,000.0</b>	<b>918,000.0</b>	<b>0.0</b>
<b>PROPERTY</b>					
None					
<b>TOTAL PROPERTY</b>					
<b>OTHER</b>					
None					
<b>TOTAL OTHER</b>					
<b>TOTAL</b>	<b>0.0</b>	<b>931,900.0</b>	<b>921,900.0</b>	<b>911,900.0</b>	<b>(6,100.0)</b>

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.

- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ These adjustments may have a minimal revenue impact not reflected in this chart.

2/ The refundable credit provisions of Chapter 312 impact both individual and corporate income tax. The cumulative \$(5) million reduction is shown as an individual income tax reduction for display purposes.

3/ The renewable energy production provisions of Chapter 312 impact both individual and corporate income tax. The cumulative \$(10) million reduction is shown as a corporate income tax reduction for display purposes.

4/ The original ballot proposition estimated collections of \$918 million, \$968 million, and \$1.06 billion respectively for the three years of collection.

5/ The threshold for the June estimated TPT payment was lowered from \$1.0 million in TPT tax liability to \$100,000 for FY 2010 through FY 2012.

This change was estimated to generate \$48 million in FY 2010, and reduce revenues by \$(52) million in FY 2013. These changes do not impact a taxpayer's tax liability, but do impact the timing of payments. The impacts are considered one-time, and are not included in the above chart.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2011**

(\$ in Thousands)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>INDIVIDUAL INCOME</b> <sup>1/</sup>								
IRS Conformity Ch. 4		3,100.0	3,100.0	3,100.0	3,100.0	3,100.0	3,100.0	3,100.0
"Angel" Investment Credit Increase 2nd SS, Ch. 1		(4,000.0)	(4,000.0)	(4,000.0)	(4,500.0)	(4,500.0)	0.0	0.0
Eliminate Small Business-Generated Cap. Gains 2nd SS, Ch. 1					(11,600.0)	(12,300.0)	(12,900.0)	(13,600.0)
New Employment Credit 2nd SS, Ch. 1								
University R&D Credit Increase 2nd SS, Ch. 1 <sup>2/</sup>								
Eliminate Enterprise Zones 2nd SS, Ch. 1 <sup>3/</sup>								
<b>TOTAL INDIVIDUAL INCOME</b>	<b>0.0</b>	<b>(900.0)</b>	<b>(900.0)</b>	<b>(900.0)</b>	<b>(13,000.0)</b>	<b>(13,700.0)</b>	<b>(9,800.0)</b>	<b>(10,500.0)</b>
<b>CORPORATE INCOME</b> <sup>1/</sup>								
IRS Conformity Ch. 4		6,100.0	6,100.0	6,100.0	6,100.0	6,100.0	6,100.0	6,100.0
Corporate Rate Reduction 2nd SS, Ch. 1 <sup>4/</sup>					(53,800.0)	(116,000.0)	(183,500.0)	(269,600.0)
100% Sales Factor 2nd SS, Ch. 1 <sup>5/</sup>					(24,600.0)	(47,300.0)	(67,800.0)	(84,000.0)
New Employment Credit 2nd SS, Ch. 1		(6,700.0)	(13,400.0)	(29,800.0)	(47,700.0)	(52,700.0)	(53,700.0)	(50,900.0)
University R&D Credit Increase 2nd SS, Ch. 1 <sup>2/</sup>			(4,000.0)	(4,000.0)	(4,000.0)	(4,000.0)	(4,000.0)	(4,000.0)
Eliminate Enterprise Zones 2nd SS, Ch. 1 <sup>3/</sup>		4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0
<b>TOTAL CORPORATE INCOME</b>	<b>0.0</b>	<b>3,400.0</b>	<b>(7,300.0)</b>	<b>(23,700.0)</b>	<b>(120,000.0)</b>	<b>(209,900.0)</b>	<b>(298,900.0)</b>	<b>(398,400.0)</b>
<b>SALES AND USE</b>								
None								
<b>TOTAL SALES AND USE</b>								
<b>PROPERTY</b>								
None								
<b>TOTAL PROPERTY</b>								
<b>OTHER</b>								
None								
<b>TOTAL OTHER</b>								
<b>TOTAL</b>	<b>0.0</b>	<b>2,500.0</b>	<b>(8,200.0)</b>	<b>(24,600.0)</b>	<b>(133,000.0)</b>	<b>(223,600.0)</b>	<b>(308,700.0)</b>	<b>(408,900.0)</b>

Notes:

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- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ The Chapter 1 "Jobs Bill" provisions are fully phased in by 2018. See page 74 for additional information.

2/ The university R&D credit impacts both individual and corporate income tax. The cumulative reduction is shown as an corporate income tax reduction for display purposes.

3/ The elimination of enterprise zones impacts both individual and corporate income tax. The cumulative reduction is shown as a corporate income tax reduction for display purposes.

4/ The impact of the corporate income tax rate reduction is estimated at \$(116.0) M in FY 2016, \$(183.5)M in FY 2017, and \$(269.6) M in FY 2018.

5/ The impact of the 100% sales factor phase-in is estimated at \$(47.3) M in FY 2016, \$(67.8)M in FY 2017, and \$(84.0) M in FY 2018.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2012**

(\$ in Thousands)

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
<b>INDIVIDUAL INCOME</b>								
STO Tax Credit								
Ch. 4	0.0	(4,000.0)	(4,000.0)	(4,000.0)	(4,000.0)	(4,000.0)	(4,000.0)	(4,000.0)
Eliminate Clean Election Tax Credit								
Ch. 257	0.0	12,800.0	12,800.0	12,800.0	12,800.0	12,800.0	12,800.0	12,800.0
Healthy Forest Restoration								
Ch. 331	0.0	(110.0)	(110.0)	(110.0)	(110.0)	(110.0)	(110.0)	(110.0)
Long-Term Capital Gains Reduction								
Ch. 343	0.0	0.0	(17,500.0)	(40,500.0)	(56,500.0)	(61,400.0)	(65,600.0)	(69,300.0)
Federal Bonus Depreciation Deduction								
Ch. 343	0.0	0.0	(4,200.0)	(4,200.0)	(4,200.0)	(4,200.0)	(4,200.0)	(4,200.0)
Eliminate Cap-New Employment <sup>1/</sup>								
Ch. 343	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Qualified Facility Credit <sup>2/</sup>								
Ch. 343	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long Term Care Premium Subtraction								
Ch. 351	0.0	(4,100.0)	(4,100.0)	(4,100.0)	(4,100.0)	(4,100.0)	(4,100.0)	(4,100.0)
<b>TOTAL INDIVIDUAL INCOME</b>	<b>0.0</b>	<b>4,590.0</b>	<b>(17,110.0)</b>	<b>(40,110.0)</b>	<b>(56,110.0)</b>	<b>(61,010.0)</b>	<b>(65,210.0)</b>	<b>(68,910.0)</b>
<b>CORPORATE INCOME</b>								
Service Provider Corporate Sales Factor								
Ch. 2	0.0	0.0	(3,000.0)	(3,500.0)	(3,900.0)	(4,400.0)	(4,400.0)	(4,400.0)
Eliminate Cap-New Employment <sup>1/</sup>								
Ch. 343	0.0	0.0	(1,800.0)	(3,600.0)	(5,400.0)	(5,400.0)	(5,400.0)	(5,400.0)
Qualified Facility Credit <sup>2/</sup>								
Ch. 343	0.0	0.0	(4,000.0)	(8,000.0)	(12,000.0)	(16,000.0)	(20,000.0)	(20,000.0)
Extend Net Operating Loss Carry Forward								
Ch. 343	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(12,200.0)
<b>TOTAL CORPORATE INCOME</b>	<b>0.0</b>	<b>0.0</b>	<b>(8,800.0)</b>	<b>(15,100.0)</b>	<b>(21,300.0)</b>	<b>(25,800.0)</b>	<b>(29,800.0)</b>	<b>(42,000.0)</b>
<b>SALES AND USE</b>								
None								
<b>TOTAL SALES AND USE</b>								
<b>PROPERTY</b>								
None								
<b>TOTAL PROPERTY</b>								
<b>OTHER</b>								
None								
<b>TOTAL OTHER</b>								
<b>TOTAL</b>	<b>0.0</b>	<b>4,590.0</b>	<b>(25,910.0)</b>	<b>(55,210.0)</b>	<b>(77,410.0)</b>	<b>(86,810.0)</b>	<b>(95,010.0)</b>	<b>(110,910.0)</b>

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.

- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Impact is estimated at \$(1.8) million between corporate and individual income taxpayers beginning in FY 2014. Impact grows by another \$(1.8) million each year through FY 2016. The impact of the credit is shown in the Corporate Income Tax section for display purposes.

2/ Impact is estimated at \$(4.0) million between corporate and individual income taxpayers, beginning in FY 2014. Impact grows by another \$(4.0) million each year through FY 2018. The impact of the credit is shown in the Corporate Income Tax section section for display purposes.