STATE OF ARIZONA

2015
Tax Handbook

JLBC

Prepared by the Staff
of the Joint Legislative Budget Committee

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FOREWORD

The *2015 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 2009 and 2015 legislative sessions. A listing of statutory changes prior to the 2009 legislative session is available on the Joint Legislative Budget Committee (JLBC) website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.pdf. Appendix D provides the estimated dollar value of individual 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 at the Arizona Department of Revenue.

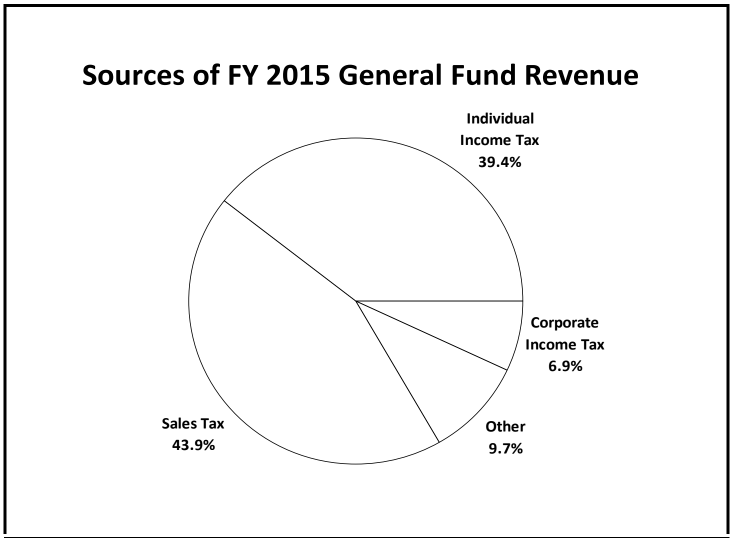
Each entry in the Tax Handbook includes the following sections (where applicable):

- 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 – a description of who is legally responsible for the payment of the tax or fee.
- Revenue 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 Statutory Changes – includes statutory changes from 2009 through 2015. As noted above, statutory changes prior to 2009 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 2015, on-going General Fund revenue was $9.5 billion. This amount excludes urban revenue sharing and one-time financing sources.

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 2015, these 3 taxes represented 90% of on-going General Fund revenue. As noted in the chart below, the largest category is the state sales tax, which represented 43.9% of General Fund revenue collections in FY 2015. Individual and corporate income tax represented 39.4% and 6.9%, respectively, of General Fund revenue.



The state levies many other taxes, fees, and assessments. 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 $471 million in FY 2015 and the unemployment insurance tax generated $711 million. 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. Additionally, it shows the amount of revenue collections and tax distributions by fund.

SALES AND USE TAXES

TRANSACTION PRIVILEGE TAX

DESCRIPTION

The transaction privilege tax (TPT) is a gross receipts tax levied by the State of Arizona on certain persons for the privilege of conducting business in the state. Although TPT is commonly referred to as Arizona's sales tax, it differs from the "true" sales tax imposed by many other states as it is imposed upon the seller rather than the buyer of the taxable item. Although the seller may pass the burden of the tax onto the buyer, the seller is the party that remains ultimately liable to the state for the tax.

TPT is currently imposed under 16 separate business classifications: retail, transporting, utilities, telecommunications, publication, job printing, pipeline, private car line, commercial lease, transient lodging, personal property rental, mining, amusement, restaurant, prime contracting, and owner builder sales. As of June 1, 2015, the state tax rates for the various classifications are as follows: 5.5% for the transient lodging (hotel/motel) classification, 3.125% for the mining classification, 0% for the commercial lease (rental of real property for commercial use) classification, and 5.6% for all other TPT classifications. (Note that Laws 1993, 2nd Special Session, Chapter 9 reduced the state TPT rate on commercial leases to 0%, beginning in FY 1998.)

TPT is imposed on the total gross receipts of taxable businesses, with the exception of prime contractors, who are taxed at 65% of their gross receipts. As of January 1, 2015, prime contractors are not subject to tax on the gross receipts from contracts for the maintenance, repair, replacement or alteration (MRRA) of real property if such contracts do not include modification activity.

All gross receipts are subject to tax (under one of the 16 TPT classifications) unless specifically exempted or excluded by statute. Exemptions and deductions under one TPT classification may not be used under another classification unless specifically provided by law.

Chart 1 illustrates the relative importance of the major TPT categories. Retail is the largest TPT category and comprised 54% of total state sales tax collections in FY 2015. Other large categories are restaurants and bars, prime contracting, and utilities.

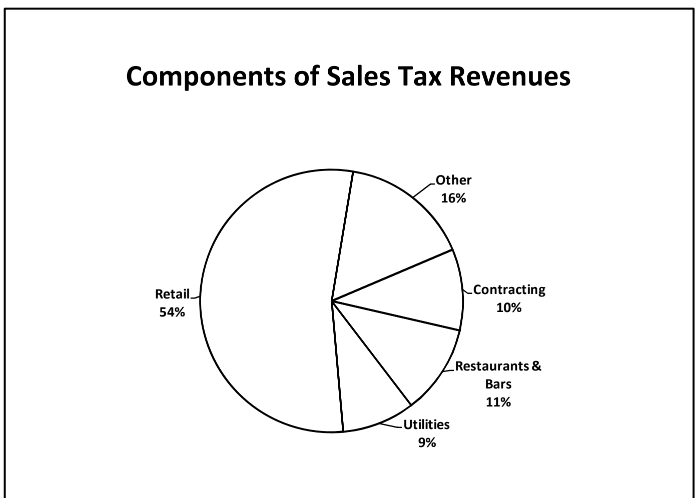


Chart 1

TPT is the state's single largest revenue source, representing 43.9% of ongoing General Fund revenues in FY 2015. 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.

From June 2001 through June 2021, the state is levying an additional 0.6% tax exclusively dedicated to education. The 0.6% education tax, which was approved by voters in November 2000 and commonly referred to as Proposition 301, is not subject to the regular TPT distribution. Proposition 301 raised the general state TPT rate from 5.0% to 5.6%, beginning in June 2001. The 0.6% education tax generated $626.4 million in FY 2015.

From June 2010 through May 2013, the state levied an additional 1.0% tax exclusively for public primary and secondary education, health and human services, and public safety. The 3-year 1.0% tax, which was approved by voters in May 2010 and commonly known as Proposition 100, was not subject to the regular TPT distribution. Proposition 100 increased the state TPT rate from 5.6% to 6.6% from June 2010 through May 2013. In June 2013, the state TPT rate returned to 5.6%. The temporary 1.0% tax generated $864 million in FY 2011, $916 million in FY 2012, and $962 million in FY 2013.

Of the state's 15 counties, all but 1 (Maricopa) are authorized by statute to impose a general excise tax. All sales subject to state TPT are also subject to the applicable county general excise tax. By statute, the county general excise tax cannot exceed 10% of the regular state TPT rate. Subject to voter approval, any county may levy a transportation or road tax. Other county excise tax options are: jail tax, capital projects tax, and tax on county judgment bonds.

Unlike the county general excise tax, the imposition of Arizona city transaction privilege taxes is separate and distinct from the imposition of state TPT. Instead, cities in Arizona use the Model City Tax Code (MCTC) as the basis for imposing their privilege taxes. MCTC is a uniform sales and use tax act that has been adopted by most cities in Arizona. Although MCTC is intended to facilitate tax base uniformity among cities, the code authorizes cities to exempt or tax certain items that are not part of the standard or "model" language of the code.

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).

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 <u>distribution base</u> is designated for distribution to counties, cities, and other purposes pursuant to A.R.S. § 42-5029D4. (The allocation of distribution base monies to special purposes is described on the following pages.) 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.

As previously mentioned, revenues collected from the 1.0% tax under Proposition 100 were not distributed to counties and municipalities, nor other government entities. Two-thirds of the additional revenue from the 1.0% tax was appropriated to public primary and secondary education and the remaining one-third was 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 2016 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:

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 net assessed valuation for secondary property taxes.

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 2 previous steps are compared, with the larger of the 2 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 monies remaining from the 2.43% portion are 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.

Table 1

COLLECTIONS AND DISTRIBUTION (20-year history)*

Fiscal Year	General Fund	Cities	Counties	Proposition 301	Proposition 100	Total
2015	$4,189,263,497	$459,176,964	$744,050,353	$626,400,822	$1,760,338	$6,020,651,974
2014	$3,985,881,580	$437,628,967	$709,133,978	$601,853,602	$8,422,920	$5,742,921,047
2013	$3,778,863,746	$411,117,897	$666,175,440	$567,824,410	$962,171,977	$6,386,153,470
2012	$3,652,165,656	$392,475,912	$635,967,967	$542,394,529	$915,835,541	$6,138,839,605
2011	$3,448,016,988	$373,259,250	$604,829,288	$514,345,951	$864,501,708	$5,804,953,185
2010	$3,422,528,509	$356,997,763	$578,479,176	$513,589,704		$4,871,595,152
2009	$3,756,407,238	$387,050,618	$627,176,822	$558,899,709		$5,329,534,387
2008	$4,353,564,848	$447,060,657	$724,417,089	$645,827,821		$6,170,870,415
2007	$4,457,494,716	$462,037,141	$748,684,984	$666,184,022		$6,334,800,863
2006	$4,273,358,451	$439,120,139	$711,550,274	$628,471,192		$6,052,500,056
2005	$3,661,168,623	$376,212,970	$609,615,497	$538,346,435		$5,185,343,525
2004	$3,294,788,319	$340,535,844	$551,804,282	$487,214,807		$4,674,343,252
2003	$3,033,877,715	$316,406,294	$512,704,759	$447,841,034		$4,310,829,802
2002	$3,000,431,898	$311,693,101	$505,067,501	$439,004,543		$4,256,197,043
2001	$2,983,552,245	$312,676,402	$506,661,075			$3,802,889,722
2000	$2,829,307,415	$299,386,513	$485,126,158			$3,613,820,086
1999	$2,577,768,324	$272,402,244	$441,400,596			$3,291,571,164
1998	$2,367,883,017	$253,826,710	$411,300,801			$3,033,010,528
1997	$2,211,158,987	$240,264,373	$389,324,389			$2,840,747,749
1996	$2,103,275,229	$233,196,324	$377,871,323			$2,714,342,876

* 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.

The remaining 34.49% of distribution base revenue is allocated to various purposes as provided by A.R.S. § 42-5029D4, 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, the Tourism and Sports Authority (TSA) and certain public infrastructure improvements. 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) Department of Revenue (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 2 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 of 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 TPT to finance the development of a multipurpose facility and supporting projects, stretches east from Downtown Tucson along the retail-intensive Broadway Corridor.

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. The ballot information for Proposition 400 described Rio Nuevo as a development project of cultural and recreational amenities and improvements, historical recreations, and mixed-use developments. The District's 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 2015, Rio Nuevo has received a total of $7.0 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:

Table 2

Fiscal Year	Distributions
2015	$6,958,022
2014	$9,486,100
2013	$9,755,752
2012	$11,957,943
2011	$14,099,949
2010	$8,727,318
2009	$10,399,336
2008	$15,456,187
2007	$14,974,923
2006	$10,968,178
2005	$7,469,632
2004	$5,081,197
Total	$125,334,537

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.

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 that 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. Under A.R.S. § 9-602D, as added by Chapter 266, the State Treasurer was required to transfer $5 million in debt payments from the ACCDF to the City of Phoenix in the first year (FY 2010), $10 million in the second year (FY 2011), $15 million in the third year (FY 2012), and $20 million in the fourth year (FY 2013). Beginning in the fifth year (FY 2014), the debt payments would increase by $500,000 annually up to a maximum of $30 million per year until debt service and related costs would be retired.

Laws 2011, Chapter 28 suspended the State Treasurer's debt payment from the ACCDF in FY 2012 and changed the distribution schedule under A.R.S. § 9-602D for subsequent years. However, Chapter 28 did not provide the same change to the DOR's distribution schedule under A.R.S. § 42-5030, which requires the department to transfer state TPT monies from the distribution base to the ACCDF. Laws 2015, Chapter 10 conformed DOR's transfer schedule of state TPT monies under A.R.S. § 42-5030 to the State Treasurer's debt service payment schedule under A.R.S. § 9-602D.

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. Chapter 328 requires DOR to separately account for prime contracting tax revenues generated from qualifying public infrastructure improvements. Although DOR is authorized to disclose information to cities and counties regarding the distribution of monies associated with public infrastructure improvements, Chapter 328 prohibits DOR and the relevant local government entities from disclosing such information to the public. While information on specific projects may not be available, DOR would likely report on aggregate amounts in its annual report.

WHO PAYS

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.

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.

REVENUE 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. § 42-5076. 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. § 42-5075]. Note, however, Laws 2014, Chapter 263 provides that prime contractors are not subject to tax from the gross sale proceeds or gross income resulting from contracts for MRRA of real property if the contract does not include modification activity.

Exemptions. There are numerous (over 100) TPT and use 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 2013/14.* This document provides a complete listing of the sales tax exemptions, and includes the estimated FY 2014 dollar impact of each exemption (where available). *Table 3* below lists exemptions with an estimated revenue impact of at least $400 million in FY 2014. The complete list of tax expenditures is shown in *Attachment B* at the end of *Transaction Privilege Tax* section.

Table 3

THE FY 2014 DOLLAR VALUE OF MAJOR SALES TAX EXEMPTIONS

Exemptions	**Additional Collections at a 5% Rate**
Wholesale Trade	$4,819,428,000
Sale of Articles to be Incorporated into a Manufactured Product	1,195,346,000
Professional, Scientific and Technical Services	1,047,899,000
Health Care Services	1,009,216,000
Food for Home Consumption	668,594,000
Sales of Vehicle Fuel and Aviation Fuel	558,125,000
Prescription Drugs and Medical Oxygen	495,216,000
Administrative and Business Support Services	482,579,000
Other	1,885,466,000
Total	$12,161,869,000

Source: DOR, The Revenue Impact of Arizona's Tax Expenditures Fiscal Year 2013/2014

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 5.6%. *Table 4* lists the tax rates for each classification. In addition, a complete list of sales 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 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].

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 $2,000 or less may pay on an annual basis.
- Taxpayers with an estimated annual tax liability of between $2,000 and $8,000 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 June sales tax liability (which represents May sales). Laws 2010, 7th 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.

Table 4

TRANSACTION PRIVILEGE TAX CLASSIFICATIONS

Classification	A.R.S. Exemption Statute	Tax Rate	Distribution Base 1/	Non-Shared Base 2/	Education 3/
Retail	42-5061	5.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment
Transporting	42-5062	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Utilities	42-5063	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Telecommunications	42-5064	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Publication	42-5065	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Job Printing	42-5066	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Pipeline	42-5067	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Private Car Line	42-5068	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Commercial Lease	42-5069	0.0%	0%	0%	None
Transient Lodging	42-5070	5.5%	50%	50%	None
Personal Property Rental	42-5071	5.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment
Mining	42-5072	3.125%	32%	68%	None
Amusement	42-5073	5.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment
Restaurant and Bar	42-5074	5.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment
Prime Contracting	42-5075	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Owner Builder	42-5076	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment

1/ Represents the portion of revenues that is designated for the distribution base.
2/ Represents the portion of revenues that is designated for the non-shared base.
3/ Represents the portion of revenues that is designated for education.

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 increase of state revenues by advancing a portion of the next fiscal year's revenues into the current fiscal year. If the program were ever eliminated, as is periodically proposed, it would result in a one-time loss of 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 revenue loss.

Collections. DOR was originally required (pursuant to Laws 2013, Chapter 255) to become the single point for licensing, filing tax return, and paying state, county, and municipal TPT, beginning January 1, 2015. However, due to the complexity of incorporating the cities' requirements into DOR's information technology system, the department reported in the fall of 2014 that it would not be able to implement the requirement by January 1, 2015. For this reason, taxpayers were instructed to continue filing TPT returns and payments separately to the state and "non-program cities" (cities that have not entered into agreement with DOR to collect municipal TPT) through calendar year 2015. According to DOR, the department will become the single point of administration and collection of state, county, and municipal TPT, beginning January 1, 2016.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

2015 LAWS

Laws 2015, Chapter 4 clarifies and simplifies the implementation of the TPT tax reform measures (commonly referred to as "TPT Simplification") enacted by Laws 2013, Chapter 255 and further amended by Laws 2014, Chapter 263. (Effective retroactively from January 1, 2015)

Laws 2015, Chapter 6 exempts the gross proceeds from sales of electricity and natural gas to the owner or operator of a business certified by the Arizona Commerce Authority as an "International Opertions Center." The exemption is estimated to reduce General Fund revenue by $(1.3) million, beginning in FY 2017. (Effective August 1, 2015)

Laws 2015, Chapter 10 permits DOR to authorize contracted collectors to collect TPT accounts receivable in FY 2016 and FY 2017. DOR may use up to $2.0 million of the revenues collected by the contracted collectors to pay for for their services. The additional TPT collectors are expected increase General Fund revenue by $32.6 million in FY 2016 and $13.0 million in FY 2017. Moreover, Chapter 10 requires DOR to establish a tax amnesty program from September 1, 2015 through October 31, 2015. The program, which is estimated to generate a total of $15.0 million (of which $3.3 million is expected to come from TPT) for the General Fund in FY 2016, waives civil penalties and interest on unpaid tax liabilities for any period before January 1, 2014 for annual filers and February 1, 2015 for all other filers.

Laws 2015, Chapter 16 extends the deadline by which an Indian tribe must enter into a compact with the state to receive TPT revenues for tribal community colleges from September 1, 2012 to September 1, 2017. (Effective July 3, 2015)

Laws 2015, Chapter 72 exempts the leasing or renting of space to make attachments to utility poles from state and municipal TPT. Fiscal impact is unknown. (Effective retroactively from January 1, 2015)

Laws 2015, Chapter 235 exempts Transportation Network Companies (TNC) with a permit and TNC drivers from the transporting classification of TPT. (Effective July 3, 2015)

2014 LAWS

Laws 2014, Chapter 7 exempts gross proceeds from sales of electricity and natural gas to businesses that are principally engaged in manufacturing and smelting operations from the state TPT and use tax. The exemption is estimated to reduce General Fund revenue collections by $(14.6) million in FY 2015 and $(18.2) million in FY 2016. (Effective August 1, 2014)

Laws 2014, Chapter 54 exempts the transfer of coal, back and forth, between a coal refinery and a power plant from the state and municipal TPT and use tax if certain conditions are met. The act is not expected to have any fiscal impact. (Effective retroactively from January 1, 2014)

Laws 2014, Chapter 121 specifies that any changes that cities make in their Model City Tax Code (MCTC) are void if those changes are not shown in DOR's official copy of the MCTC. (Effective retroactively from July 1, 1988, which is the original effective date of the MCTC.)

Laws 2014, Chapter 141 requires DOR to allow TPT taxpayers with annual liabilities of less than $2,000 to pay taxes annually and taxpayers with annual liabilities between $2,000 and $8,000 to pay quarterly. (Effective January 1, 2015)

Laws 2014, Chapter 228 exempts the gross proceeds from building a mixed waste processing facility from the prime contracting tax. To qualify for the TPT exemption, the facility must be located on a municipal landfill and constructed for the purpose of recycling solid waste or producing renewable energy from landfill waste. The act is estimated to reduce General Fund revenue by $(183,600) in FY 2015, $(56,500) in FY 2016, and $(183,600) in FY 2017. (Effective retroactively from January 1, 2013)

Laws 2014, Chapter 263 exempts from the state and municipal TPT the sales of restaurant meals to the elderly, disabled, or homeless by restaurants that contract with the Department of Economic Security (DES) and are approved under the federal Supplemental Nutrition Assistance Program (SNAP). To qualify for the exemption, the meals must be paid with the benefits issued to SNAP recipients. The General Fund impact of this provision is expected to be less than $(10,000) annually. (Effective January 1, 2015)

Laws 2014, Chapter 276 exempts personal property that is sold to a qualified health sciences educational institution from state and municipal retail, publication, and job printing TPT and use tax. The act is estimated to reduce General Fund revenue by $(196,400) in FY 2015 and $(471,400) in FY 2016. (Effective January 1, 2015)

2013 LAWS

Laws 2013, Chapter 27 provides a municipal TPT exemption for the leasing of real property between affiliated companies, businesses, persons, and reciprocal insurers. (Effective September 13, 2013)

Laws 2013, Chapter 120 exempts orthodontic devices that are dispensed by a licensed dental professional to a patient from state and municipal TPT. This act has no state General Fund impact. (Effective retroactively from October 1, 2007)

Laws 2013, Chapter 153 specifies that machinery and equipment that is exempt from taxation under the retail classification and that has independent functional utility is not considered taxable under the prime contracting classification. Fiscal impact is unknown. (Effective retroactively from July 1, 1997)

Laws 2013, Chapter 233 exempts the sale of cash equivalents, such as gift cards and gift certificates, from taxation under the retail classification. Any claim of TPT refund must be submitted to DOR on or before December 31, 2013. Total statewide refunds are limited to $10,000. (Effective retroactively from September 1, 1999)

Laws 2013, Chapter 236 exempts the leasing and renting of certified interlock devices from state and municipal TPT. This provision is estimated to result in a General Fund revenue reduction of $(0.6) million, beginning in FY 2014. (Effective retroactively from September 1, 2004). In addition, Chapter 236 exempts, retroactive to January 1, 2002, qualified destination management companies from state TPT. Chapter 236 also exempts energy drinks from state TPT (Effective September 13, 2013). For a list of all tax provisions in Chapter 236, see *Table 13* in the *Individual Income Tax* section.

Laws 2013, Chapter 255 makes numerous statutory changes intended to simplify the administration of TPT. Among the requirements of Chapter 255 is that DOR modifies its online portal on or before January 1, 2015. The online portal is required to serve as a single point for licensing, filing a single tax return, and paying all state, county, and municipal TPT. Chapter 255 also requires the Director of DOR and the cities and towns that levy TPT to enter into agreements with each other to provide for unified and coordinated licensing, collection, and auditing programs. In addition, the act exempts service contractors who work directly for the property owners and whose work is limited to the maintenance, repair, or replacement of existing property from TPT under the prime contracting classification. Instead, materials purchased as part of such service contract are subject to taxation under the retail classification. The fiscal impact of Chapter 255 is uncertain and depends in large measures on the underlying assumptions with respect to factors such as taxpayer non-compliance, materials as a percent of service contracts, and the share of total contracting activity attributable to trade/service contracting and minor remodels. Depending on these assumptions, Chapter 255 is estimated to result in a General Fund revenue gain of either $1.3 million or $36.6 million in FY 2016, the first full year of the act's implementation. Additionally, JLBC is required to prepare a report by September 30, 2016 on the estimated revenue impact of Chapter 255 on the state, counties, cities and towns. (Effective January 1, 2015)

Laws 2013, 1st Special Session, Chapter 9 establishes a TPT and use tax exemption for equipment purchased by owners, operators, or co-location tenants of computer data centers certified by the Arizona Commerce Authority. To qualify for the exemption, newly constructed data centers located in Maricopa and Pima Counties must make a minimum investment of $50 million over 5 years. The corresponding minimum investment requirement in other counties is $25 million. Existing data centers, which made an investment of at least $250 million during the 6 years immediately preceding the act's effective date, are eligible for the same exemption with respect to future equipment purchases. Chapter 9 is expected to reduce General Fund revenues by $(4.2) million in FY 2014, $(6.0) million in FY 2015, and $(7.9) million in FY 2016. (Effective September 1, 2013)

2012 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, 2nd 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 ulitity 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 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.

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 LAWS

Laws 2010, 6th 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 $918 million in FY 2011, $968 million in FY 2012, and $1.06 billion in FY 2013. (Effective June 1, 2010)

Laws 2010, 7th 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, 7th 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 LAWS

Laws 2009, 1st 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 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, 4th 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. A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.pdf.

Attachment A

State and Local Retail Sales Tax Rates by City

Revised March 11, 2015

Cities by County	State	County					City	Total Rate
		GF	Road	Jail	Capital	Health		
Apache County								
Eagar	5.60	0.50	-	-	-	-	3.00	**9.10**
St. Johns	5.60	0.50	-	-	-	-	3.00	**9.10**
Springerville	5.60	0.50	-	-	-	-	3.00	**9.10**
Cochise County								
Benson	5.60	0.50	-	-	-	-	2.50	**8.60**
Bisbee	5.60	0.50	-	-	-	-	3.50	**9.60**
Douglas	5.60	0.50	-	-	-	-	2.80	**8.90**
Huachuca City	5.60	0.50	-	-	-	-	1.50	**7.60**
Sierra Vista	5.60	0.50	-	-	-	-	1.75	**7.85**
Tombstone	5.60	0.50	-	-	-	-	3.50	**9.60**
Willcox	5.60	0.50	-	-	-	-	3.00	**9.10**
Coconino County								
Flagstaff	5.60	0.50	0.30	0.50	-	-	2.051	**8.951**
Fredonia	5.60	0.50	0.30	0.50	-	-	4.00	**10.900**
Page	5.60	0.50	0.30	0.50	-	-	3.00	**9.900**
Sedona	5.60	0.50	0.30	0.50	-	-	3.00	**9.900**
Tusayan	5.60	0.50	0.30	0.50	-	-	2.00	**8.900**
Williams	5.60	0.50	0.30	0.50	-	-	3.50	**10.400**
Gila County								
Globe	5.60	0.50	0.50	-	-	-	2.00	**8.60**
Hayden	5.60	0.50	0.50	-	-	-	3.00	**9.60**
Miami	5.60	0.50	0.50	-	-	-	2.50	**9.10**
Payson	5.60	0.50	0.50	-	-	-	2.12	**8.72**
Star Valley	5.60	0.50	0.50	-	-	-	2.00	**8.60**
Winkelman	5.60	0.50	0.50	-	-	-	3.50	**10.10**
Graham County								
Pima	5.60	0.50	-	-	-	-	2.00	**8.10**
Safford	5.60	0.50	-	-	-	-	2.50	**8.60**
Thatcher	5.60	0.50	-	-	-	-	2.50	**8.60**
Greenlee County								
Clifton	5.60	0.50	-	-	-	-	3.00	**9.10**
Duncan	5.60	0.50	-	-	-	-	2.00	**8.10**
La Paz County*								
Parker	5.60	1.50	-	0.50	-	-	2.00	**9.60**
Quartzsite	5.60	1.50	-	0.50	-	-	2.50	**10.10**
Maricopa County								
Apache Junction	5.60	-	0.50	0.20	-	-	2.40	**8.70**
Avondale	5.60	-	0.50	0.20	-	-	2.50	**8.80**
Buckeye	5.60	-	0.50	0.20	-	-	3.00	**9.30**
Carefree	5.60	-	0.50	0.20	-	-	3.00	**9.30**
Cave Creek	5.60	-	0.50	0.20	-	-	3.00	**9.30**
Chandler	5.60	-	0.50	0.20	-	-	1.50	**7.80**
El Mirage	5.60	-	0.50	0.20	-	-	3.00	**9.30**
Fountain Hills	5.60	-	0.50	0.20	-	-	2.60	**8.90**
Gila Bend	5.60	-	0.50	0.20	-	-	3.00	**9.30**
Gilbert	5.60	-	0.50	0.20	-	-	1.50	**7.80**
Glendale	5.60	-	0.50	0.20	-	-	2.90	**9.20**
Goodyear	5.60	-	0.50	0.20	-	-	2.50	**8.80**
Guadalupe	5.60	-	0.50	0.20	-	-	4.00	**10.30**
Litchfield Park	5.60	-	0.50	0.20	-	-	2.80	**9.10**
Mesa	5.60	-	0.50	0.20	-	-	1.75	**8.05**
Paradise Valley	5.60	-	0.50	0.20	-	-	2.50	**8.80**
Peoria	5.60	-	0.50	0.20	-	-	1.80	**8.10**
Phoenix	5.60	-	0.50	0.20	-	-	2.00	**8.30**
Queen Creek	5.60	-	0.50	0.20	-	-	2.25	**8.55**
Maricopa County								
Scottsdale	5.60	-	0.50	0.20	-	-	1.65	**7.95**
Surprise	5.60	-	0.50	0.20	-	-	2.20	**8.50**
Tempe	5.60	-	0.50	0.20	-	-	1.80	**8.10**
Tolleson	5.60	-	0.50	0.20	-	-	2.50	**8.80**
Wickenburg	5.60	-	0.50	0.20	-	-	2.20	**8.50**
Youngtown	5.60	-	0.50	0.20	-	-	3.00	**9.30**
Mohave County								
Bullhead City	5.60	0.25	-	-	-	-	2.00	**7.85**
Colorado City	5.60	0.25	-	-	-	-	2.00	**7.85**
Kingman	5.60	0.25	-	-	-	-	2.50	**8.35**
Lake Havasu City	5.60	0.25	-	-	-	-	2.00	**7.85**
Navajo County								
Holbrook	5.60	0.50	-	-	-	-	3.00	**9.10**
Pinetop-Lakeside	5.60	0.50	-	-	-	-	2.50	**8.60**
Show Low	5.60	0.50	-	-	-	-	2.00	**8.10**
Snowflake	5.60	0.50	-	-	-	-	2.00	**8.10**
Taylor	5.60	0.50	-	-	-	-	2.00	**8.10**
Winslow	5.60	0.50	-	-	-	-	3.00	**9.10**
Pima County								
Marana	5.60	-	0.50	-	-	-	2.00	**8.10**
Oro Valley	5.60	-	0.50	-	-	-	2.50	**8.60**
Sahuarita	5.60	-	0.50	-	-	-	2.00	**8.10**
South Tucson	5.60	-	0.50	-	-	-	4.50	**10.60**
Tucson	5.60	-	0.50	-	-	-	2.00	**8.10**
Pinal County								
Apache Junction	5.60	0.50	0.50	-	-	0.10	2.40	**9.10**
Casa Grande	5.60	0.50	0.50	-	-	0.10	2.00	**8.70**
Coolidge	5.60	0.50	0.50	-	-	0.10	3.00	**9.70**
Eloy	5.60	0.50	0.50	-	-	0.10	3.00	**9.70**
Florence	5.60	0.50	0.50	-	-	0.10	2.00	**8.70**
Kearny	5.60	0.50	0.50	-	-	0.10	3.00	**9.70**
Mammoth	5.60	0.50	0.50	-	-	0.10	2.00	**8.70**
Marana	5.60	0.50	0.50	-	-	0.10	2.00	**8.70**
Maricopa	5.60	0.50	0.50	-	-	0.10	2.00	**8.70**
Queen Creek	5.60	0.50	0.50	-	-	0.10	2.25	**8.95**
Superior	5.60	0.50	0.50	-	-	0.10	4.00	**10.70**
Winkelman	5.60	0.50	0.50	-	-	0.10	3.50	**10.20**
Santa Cruz County								
Nogales	5.60	0.50	-	0.50	-	-	2.00	**8.60**
Patagonia	5.60	0.50	-	0.50	-	-	3.00	**9.60**
Yavapai County								
Camp Verde	5.60	0.50	-	0.25	-	-	3.65	**10.00**
Chino Valley	5.60	0.50	-	0.25	-	-	4.00	**10.35**
Clarkdale	5.60	0.50	-	0.25	-	-	3.00	**9.35**
Cottonwood	5.60	0.50	-	0.25	-	-	3.00	**9.35**
Dewey-Humboldt	5.60	0.50	-	0.25	-	-	2.00	**8.35**
Jerome	5.60	0.50	-	0.25	-	-	3.50	**9.85**
Prescott	5.60	0.50	-	0.25	-	-	2.00	**8.35**
Prescott Valley	5.60	0.50	-	0.25	-	-	2.33	**8.68**
Sedona	5.60	0.50	-	0.25	-	-	3.00	**9.35**
Yuma County								
San Luis	5.60	0.50	-	0.50	-	0.112	4.00	**10.71**
Somerton	5.60	0.50	-	0.50	-	0.112	3.30	**10.01**
Wellton	5.60	0.50	-	0.50	-	0.112	2.50	**9.21**
Yuma	5.60	0.50	-	0.50	-	0.112	1.70	**8.41**

Source: Arizona Department of Revenue

*Effective 12/1/11, La Paz County imposed an additional 0.50% rate for the repayment of judgment bonds (SB1178-Chapter 321, 2011). Effective beginning 6/1/13, the county increased the rate to 1%.

NOTE: If these rate tables are being used to remit taxes, please refer to the Arizona Department of Revenue website at www.azdor.gov.

Arizona Tax Research Association

Attachment B

The following preliminary information on sales tax exemptions and credits for FY 2014 is provided by courtesy of DOR.

SUMMARY OF TRANSACTION PRIVILEGE AND USE TAX EXPENDITURES FISCAL YEAR 2013/14

PREFERENTIAL TAX RATES:

Nonmetalliferous Mining; Oil and Gas Production	$2,188,000
Commercial lease	427,148,000
TOTAL VALUE OF PREFERENTIAL TAX RATES	**$429,335,000**

CREDITS:

Accounting credit	$20,000,000

TRANSACTION PRIVILEGE AND USE TAX EXEMPTIONS – SAMPLE OF SERVICES:
PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES:

Legal	$187,809,000
Architectural and Engineering	230,152,000
Specialized Design Services	19,310,000
Computer System Design and Related Services	266,011,000
Management, Scientific and Technical Consulting	105,489,000
Scientific Research and Development	40,307,000
Advertising, Public Relations and Technical Services	62,544,000
Other Professional, Scientific and Technical Services	52,149,000
Accounting, Tax Preparation and Bookkeeping	84,129,000
TOTAL VALUE OF PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES	**$1,047,899,000**

HEALTH CARE SERVICES:

Physicians	$397,659,000
Dentists	125,541,000
Chiropractors	15,067,000
Optometrists	10,478,000
Mental Health Practitioners	4,765,000
Specialty Therapists	20,170,000
All Other Health Practitioners	9,490,000
Outpatient Care Centers	94,879,000
Medical and Diagnostic Labs	62,138,000
Home Health Services	45,211,000
Other Ambulatory Health Services	81,302,000
Nursing Care Facilities	54,382,000
Residential Mental Health Facilities	32,324,000
Community Care Facilities	47,864,000
Other Residential Care Facilities	7,945,000
TOTAL VALUE OF HEALTH CARE SERVICES	**$1,009,216,000**

ADMINISTRATIVE AND BUSINESS SUPPORT SERVICES:

Office Administrative Services	$54,609,000
Facilities Support Services	26,980,000
Employment Placement and Executive Search Services	23,809,000
Business Support Services	81,200,000
Services to Building and Dwellings	160,223,000
Investigation and Security	42,368,000
Other Support Services	32,400,000
Waste Management and Remediation Services	60,990,000
TOTAL VALUE OF ADMINISTRATIVE AND BUSINESS SUPPORT SERVICES	**$482,579,000**

PERSONAL CARE SERVICES:

Barber	$634,000
Beauty Salons	20,158,000
Nail Salons	930,000
Other Personal Care	5,344,000
Death Care Services	8,935,000
Drycleaner and Laundry	23,981,000
Pet Care (not Veterinary)	3,296,000
Parking lot/Garages	8,723,000
Other Personal Services	3,750,000
TOTAL VALUE OF PERSONAL SERVICES	**$75,751,000**

EDUCATIONAL SERVICES:

Business School/Computer/Management Training	$5,709,000
Technical and Trade Schools	22,434,000
Other Schools and Instruction	17,965,000
Education Support Services	5,816,000
TOTAL VALUE OF EDUCATIONAL SERVICES	**$51,925,000**

FINANCIAL SERVICES:

Mortgage and Nonmortgage Loan Brokers	$29,395,000
Financial Transaction Processing and Clearing	102,692,000
Other Activities Related to Credit Intermediation	20,188,000
Securities and Commodity Contracts Intermediation	153,475,000
Portfolio Management	57,267,000
Investment Advice	10,793,000
Other Financial Investment Activities	5,309,000
TOTAL VALUE OF FINANCIAL SERVICES	**$379,119,000**

OTHER SERVICES:

Automotive Repair and Maintenance	$114,007,000
Electronic and Precision Repair and Maintenance	8,722,000
Commercial, Industrial Machinery Repair and Maintenance	21,942,000
Personal and Household Goods Repair and Maintenance	5,645,000
Data Processing, Hosting and Related Services	69,434,000
Local Messengers and Local Delivery	2,964,000
TOTAL VALUE OF OTHER SERVICES	**$222,714,000**

TRANSACTION PRIVILEGE AND USE TAX EXEMPTIONS – ALL OTHER:

Wholesale trade	$4,819,428,000
Cash discounts	NIA[1]
Trade-ins	NIA
Sale of warranty or service contracts	39,418,000
Sale of tangible personal property by a nonprofit organization	NIA
Sale of stocks and bonds	NIA
Prescription drugs and medical oxygen	495,216,000
Eyeglasses and contact lenses, insulin, insulin syringe and glucose test strips, prosthetic appliances, hearing aids and durable medical equipment	18,447,000
Sales to nonresidents for use outside Arizona if the property is shipped or delivered outside the state	152,200,000
Food for home consumption	668,594,000
Textbooks that are required by any state university or community college	3,398,000
Meals provided to Employee of restaurants	NIA
Food used in school lunches	NIA
Sale of Arizona lottery tickets	36,198,000
Precious metal bullion and monetized bullion	NIA
Sales of vehicle fuel and aviation fuel	558,125,000
Tangible personal property sold to a qualifying hospital or a qualifying health care organization or sold to or purchased by qualifying community health centers and health care organizations	71,923,000
Tangible personal property sold to a nonprofit organization which regularly serves meals to the needy and indigent	4,241,000
Tangible personal property sold to a nonprofit organization which provides housing for low-income persons over 62 years of age	NIA[2]
Gross proceeds from contracts to build housing for nonprofits to house low-income persons over 62 years of age	NIA
Magazines or other periodicals or publications to encourage tourist travel	NIA
Sale of articles to a contractor for incorporation or fabrication under a contract	8,652,000
Sale of articles to be incorporated into a manufactured product	1,195,346,000
Exempt motor vehicle sales (certain nonresidents and Native Americans)	27,357,000
Tangible personal property purchased by a nonprofit charitable organization that uses such property for training, etc., for mentally or physically handicapped persons	NIA

[1] No Information Available

[2] No Information Available.

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, etc., to commercially produce agricultural, horticultural, viticultural or floricultural crops in Arizona	2,239,000
Machinery, equipment and certain supplies used to assist the physically or developmentally disabled or those persons with head injuries	6,655,000
Tangible personal property shipped or delivered directly to a foreign country for use in that country	21,798,000
Sales of natural gas or liquefied petroleum gas used to propel a vehicle	1,996,000
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	NIA
Sales of liquid, solid or gaseous chemicals used in manufacturing, processing, fabricating, mining, refining, metallurgical operations or research or development	8,177,000
Sales of food or drink consumed on the premises of a jail or prison	1,087,000
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	14,244,000
Livestock, poultry, feed and supplies for use or consumption in the business of farming, ranching and feeding livestock or poultry	NIA[3]
Livestock, poultry feed, salts, vitamins for livestock or poultry consumption	13,907,000
Sale or purchase of implants used as growth promotants and injectable medicine	208,000
Sales of motor vehicles at auction to nonresidents of Arizona for use outside Arizona	6,359,000
Personal hygiene products which are furnished to and to be consumed by hotel occupants	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	NIA
Tangible personal property consisting of food, beverages and condiments sold to or purchase by a commercial airline	NIA
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
Tangible personal property by a nonprofit that produces, organizes or promotes cultural	NIA
Sale of Arizona centennial medallions by the historical advisory commission	NIA
Application services designed to assess or test student learning	NIA
Sale of motor vehicle fuel and use fuel to a Healthy Forest business	NIA
Sale of repair parts in equipment used by a Healthy Forest business	NIA
Sales or transfer of renewable energy credits	NIA
Sales of computer data equipment for use in a certified computer data center	NIA

[3] No Information Available.

Sales of orthodontic devices dispensed by a dental professional	NIA
Machinery or equipment used directly in manufacturing, processing, fabricating, job printing, refining or metallurgical operations	102,577,000
Sale of machinery or equipment used in mining and in drilling for or extracting oil or gas from the earth	29,943,000
Certain equipment used in the telecommunications industry	NIA
Machinery, equipment or transmission lines used directly in producing or transmitting electrical power	13,009,000
Neat animals, horses, asses, sheep, swine or goats used or to be used as breeding or production stock	NIA[4]
Pipes or valves 4" in diameter used to transport oil, natural gas, artificial gas, water or coal slurry	6,542,000
Certain aircraft, navigational and communication instruments	8,773,000
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 an direct broadcast satellite television or data transmission service or facility	NIA
Sales of services by direct broadcast satellite television services	NIA
Clean rooms used for manufacturing, processing, fabrication or research and development	1,827,000
Gross income from installation, assembly, repair or maintenance of clean rooms	NIA
Machinery and equipment used to meet land, water, 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	NIA
Portion of price of luxury automobiles that reflects 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 U.S. government and the manufacturer	NIA

[4] No Information Available.

Sales of tangible personal property made to the U.S. government not deducted under A.R.S. § 42-5061 (L)	NIA
Retail sales to the manufacturer or assembler if the end product is sold to the U.S. Government	146,183,000
Gross income from motor vehicle manufacturer's cash rebates if assigned to the retailer	15,406,000
Gross income derived from the waste tire disposal fee	NIA[5]
Sales of solar energy devices	23,536,000
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 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 Arizona to another point in Arizona	NIA
Sales of electricity to a distributor	NIA
Sales of electric services to a retail electric customer who is located outside Arizona for Delivery and use outside Arizona	NIA
Revenue received by any person owning a utility system in the form of reimbursement or compensation for property and equipment installed to provide utility access to, on or across land of any actual utility consumer	NIA
Interstate sales of electricity, natural gas and water	NIA
Interstate telecommunications 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	NIA
Sales to a person distributing 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 Arizona if the materials are shipped or delivered out of the state	NIA[6]
Sales of postage and freight	1,093,000
Leasing or renting 4 or fewer rooms of an owner-occupied residence bed and breakfast with less than 50% average annual occupancy	NIA

[5] No Information Available.

[6] No Information Available.

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 nonprofit school offering aviation and aerospace degrees	NIA
Leasing or renting photographs, transparencies, etc. used by Arizona on the internet, in magazines or other publications encouraging tourism	NIA
Leasing or renting certified ignition interlock devices	NIA
Amounts received by a motor vehicle dealer for the 1st month of a lease payment if the lease is transferred to a third party	3,127,000
Freight charges relating to nonmetalliferous mineral products	NIA
Tuition and fees paid to universities and 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	4,677,000
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 Congressionally-chartered veterans organization of food or drink	NIA
Sales by churches, fraternal benefit societies and other nonprofit organizations which don't 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	770,000
Wages and salaries for labor employed in construction	332,051,000
Sales price of land	17,393,000
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
Gross proceeds of sales from a contract to provide response to a release or suspected release of a hazardous substance	NIA[7]
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

[7] No Information Available.

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 certain state university research infrastructure projects	NIA
Gross proceeds from construction contracts for healthy forest business	NIA
Gross proceeds from development or impact fees	4,462,000
Gross proceeds from direct costs for architectural or engineering services	6,082,000
Tangible personal property not exceeding $200 purchased by an individual at retail outside the continental U.S. – 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
Liquefied natural gas used to fuel compressor equipment – USE TAX ONLY	NIA
TOTAL VALUE OF ALL OTHER TRANSACTION PRIVILEGE AND USE TAX EXEMPTIONS	**$12,161,869,000**

TOTAL QUANTIFIABLE TRANSACTION PRIVILEGE AND USE TAX EXPENDITURES[8] **$12,611,204,000**
Value of exemptions from the Proposition 301 – Education Tax **$1,513,344,000**

[8] This amount represents foregone revenue to the state general fund, counties and incorporated cities and 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.

In June 2010, the use tax rose from 5.6% to 6.6%, with the additional 1.0% dedicated exclusively to public primary and secondary education, health and human services, and public safety. The tax increase, which lasted through May 2013, was not subject to the regular use tax distribution. This rate 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

Almost all use tax revenues are deposited in the General Fund. Twenty percent of the revenue collected from the use tax on electricity purchased from electricity suppliers is designated as distribution base. The remaining 80% is deposited in General Fund [A.R.S. § 42-5164]. The use tax collected from utilities makes up less than 0.2% of total use tax collections.

Table 1

COLLECTIONS

Fiscal Year	State General Fund	Fiscal Year	State General Fund
2015	$281,143,731	2005	$259,615,656
2014	$235,984,933	2004	$232,216,222
2013	$257,899,313	2003	$189,684,520
2012	$263,724,399	2002	$162,022,998
2011	$229,250,912	2001	$196,147,647
2010	$271,763,845	2000	$175,730,649
2009	$292,698,574	1999	$147,642,017
2008	$340,535,252	1998	$136,473,801
2007	$303,010,863	1997	$119,600,758
2006	$306,198,808	1996	$113,964,912

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

WHO PAYS

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.

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.

REVENUE BASE AND RATE

The revenue 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 current use tax rate is 5.6%, 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 5.6%, 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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this tax in 2009, 2010, and 2013 through 2015.

2012 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 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)

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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

COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Cities	Counties	Total
2015	$11,832,303	$4,972,391	$8,057,263	$24,861,957
2014	$12,464,109	$5,237,901	$8,487,495	$26,189,505
2013	$14,196,409	$5,965,880	$9,667,113	$29,829,402
2012	$19,311,779	$8,115,557	$13,150,448	$40,577,783
2011	$19,149,246	$8,047,254	$13,039,770	$40,236,270
2010	$13,848,584	$5,819,711	$9,430,259	$29,098,554
2009	$8,666,537	$3,642,014	$5,901,520	$18,210,071
2008	$20,822,267	$8,750,323	$14,179,023	$43,751,613
2007	$20,725,843	$8,709,801	$14,113,362	$43,549,006
2006	$14,486,992	$6,087,995	$9,864,986	$30,439,973
2005	$7,804,650	$3,279,819	$5,314,617	$16,399,086
2004	$3,112,796	$1,308,118	$2,119,674	$6,540,588
2003	$539,399	$224,889	$361,945	$1,126,233
2002	$ (49,954)	$(21,400)	$(35,237)	$(106,591)
2001 [1/]	$56	$1,609,331	$2,607,994	$4,217,380
2000	$3,554,565	$3,237,959	$5,247,042	$12,039,566
1999	$8,914,656	$3,746,283	$6,070,478	$18,731,417
1998	$12,884,325	$5,414,492	$8,773,643	$27,072,460
1997	$12,875,213	$5,410,663	$8,767,438	$27,053,314
1996	$19,540,585	$8,211,710	$13,306,254	$41,058,549

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

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS

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].

REVENUE 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 under TPT.

PAYMENT SCHEDULE

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

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this tax from 2009 through 2015.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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. Sixty percent 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 over the last 20 years.

Table 1

DISTRIBUTION OF JET FUEL EXCISE TAX

Fiscal Year	General Fund	Cities	Counties	Total
2015	$2,913,538	$394,810	$639,750	$3,948,098
2014	$2,181,056	$301,707	$534,309	$3,017,072
2013	$2,637,640	$362,379	$623,767	$3,623,786
2012	$2,811,537	$380,987	$617,353	$3,809,877
2011	$3,819,798	$517,616	$838,745	$5,176,159
2010	$3,291,706	$446,054	$722,789	$4,460,549
2009	$2,982,561	$404,163	$654,906	$4,041,630
2008	$3,421,347	$462,874	$752,020	$4,636,291
2007	$3,584,305	$485,704	$787,036	$4,857,045
2006	$4,471,848	$605,974	$981,921	$6,059,743
2005	$3,941,095	$534,053	$865,378	$5,340,526
2004	$3,833,833	$519,518	$841,826	$5,195,177
2003	$4,308,588	$583,851	$946,073	$5,838,512
2002	$4,167,728	$564,764	$915,143	$5,647,635
2001	$4,333,585	$587,239	$951,561	$5,872,385
2000	$3,838,375	$519,727	$842,165	$5,200,267
1999	$3,645,555	$494,004	$800,485	$4,940,044
1998	$3,767,232	$510,493	$827,203	$5,104,928
1997	$3,411,961	$462,351	$749,193	$4,623,505
1996	$3,135,681	$424,912	$688,527	$4,249,120

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

Table 2

DISTRIBUTION OF JET FUEL USE TAX

Fiscal Year	General Fund	Fiscal Year	General Fund
2015	$671,606	2005	$890,252
2014	$555,401	2004	$724,543
2013	$701,492	2003	$501,537
2012	$731,896	2002	$728,989
2011	$320,137	2001	$740,281
2010	$828,265	2000	$835,615
2009	$679,816	1999	$458,118
2008	$1,045,498	1998	$394,789
2007	$906,377	1997	$532,451
2006	$724,106	1996	$613,252

SOURCE: DOR, Annual Reports.

WHO PAYS

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].

REVENUE 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 [A.R.S. § 42-5353].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this tax in the period from 2009 through 2015.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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 39.4% of total General Fund base revenue in FY 2015. 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].

Table 1

COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
2015	$3,760,878,097	2005	$2,973,716,271
2014	$3,462,859,929	2004	$2,306,175,168
2013	$3,397,545,131	2003	$2,097,754,868
2012	$3,086,137,360	2002	$2,086,648,727
2011	$2,863,657,980	2001	$2,300,751,988
2010	$2,416,296,308	2000	$2,289,328,921
2009	$2,567,963,783	1999	$2,097,629,461
2008	$3,406,450,738	1998	$1,862,514,798
2007	$3,747,386,937	1997	$1,668,414,355
2006	$3,689,373,375	1996	$1,494,282,274

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 2016 URS distributions by city. The estimate is calculated based on actual FY 2014 net income tax collections and population as reported in the 2010 Census.

Table 2

FY 2016 URBAN REVENUE SHARING DISTRIBUTION BY CITY (ESTIMATE)

Cities by County	Amount	Percent of Total
APACHE		
Eagar	$588,354	0.10%
St. Johns	$419,134	0.07%
Springerville	$236,185	0.04%
COCHISE		
Benson	$614,851	0.10%
Bisbee	$671,458	0.11%
Douglas	$2,093,022	0.35%
Huachuca City	$223,177	0.04%
Sierra Vista	$5,285,910	0.87%
Tombstone	$180,869	0.03%
Willcox	$452,496	0.07%
COCONINO		
Flagstaff	$7,933,441	1.31%
Fredonia	$180,869	0.03%
Page	$872,835	0.14%
Tusayan	$180,869	0.03%
Williams	$364,093	0.06%
GILA		
Globe	$907,161	0.15%
Hayden	$180,869	0.03%
Miami	$221,250	0.04%
Payson	$1,842,866	0.30%
Star Valley	$278,218	0.05%
Winkelman	$180,869	0.03%
GRAHAM		
Pima	$287,492	0.05%
Safford	$1,152,138	0.19%
Thatcher	$585,945	0.10%
GREENLEE		
Clifton	$398,780	0.07%
Duncan	$180,869	0.03%
LA PAZ		
Parker	$371,319	0.06%
Quartzsite	$442,861	0.07%
MARICOPA		
Avondale	$9,182,172	1.52%
Buckeye	$6,127,551	1.01%
Carefree	$405,043	0.07%
Cave Creek	$604,001	0.10%
Chandler	$28,438,864	4.70%
El Mirage	$3,829,659	0.63%
Fountain Hills	$2,708,595	0.45%
Gila Bend	$231,487	0.04%
Gilbert	$25,106,265	4.15%
Glendale	$27,306,479	4.51%
Goodyear	$7,861,779	1.30%
Guadalupe	$665,195	0.11%
Litchfield Park	$659,534	0.11%
Mesa	$52,878,488	8.73%
Paradise Valley	$1,544,052	0.25%
Peoria	$18,555,726	3.06%
Phoenix	$174,113,203	28.75%
Queen Creek	$3,174,942	0.52%
Scottsdale	$26,182,043	4.32%
Surprise	$14,153,852	2.34%
Tempe	$19,477,580	3.22%
Tolleson	$788,286	0.13%
Wickenburg	$766,365	0.13%
Youngtown	$741,434	0.12%
MOHAVE		
Bullhead City	$4,762,233	0.79%
Colorado City	$580,646	0.10%
Kingman	$3,380,535	0.56%
Lake Havasu City	$6,326,399	1.04%
NAVAJO		
Holbrook	$608,588	0.10%
Pinetop-Lakeside	$515,728	0.09%
Show Low	$1,283,900	0.21%
Snowflake	$673,265	0.11%
Taylor	$495,253	0.08%
Winslow	$1,162,857	0.19%
PIMA		
Marana	$4,210,734	0.70%
Oro Valley	$4,939,401	0.82%
Sahuarita	$3,042,216	0.50%
South Tucson	$680,732	0.11%
Tucson	$62,643,233	10.34%
PINAL		
Apache Junction	$4,316,601	0.71%
Casa Grande	$5,849,934	0.97%
Coolidge	$1,424,214	0.24%
Eloy	$2,003,052	0.33%
Florence	$3,075,579	0.51%
Kearny	$234,860	0.04%
Mammoth	$180,869	0.03%
Maricopa	$5,237,011	0.86%
Superior	$341,691	0.06%
SANTA CRUZ		
Nogales	$2,509,627	0.41%
Patagonia	$180,869	0.03%
YAVAPAI		
Camp Verde	$1,309,554	0.22%
Chino Valley	$1,302,809	0.22%
Clarkdale	$493,446	0.08%
Cottonwood	$1,356,767	0.22%
Dewey-Humboldt	$468,997	0.08%
Jerome	$180,869	0.03%
Prescott	$4,798,726	0.79%
Prescott Valley	$4,675,756	0.77%
Sedona	$1,208,143	0.20%
YUMA		
San Luis	$3,071,845	0.51%
Somerton	$1,720,739	0.28%
Wellton	$347,111	0.06%
Yuma	$11,208,711	1.85%
TOTAL	**$605,634,300**	**100.00%**

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

Table 3

URBAN REVENUE SHARING PERCENTAGE

Distribution Year Fiscal Year	Collection Year Fiscal Year	Percentage
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%
2005-2016	2003-2014	15.0%

SOURCE: Department of Revenue.

This distribution is based on the last U.S. decennial census [A.R.S. § 43-206] or a special census [A.R.S. § 42-5033]. 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].

Table 4

DISTRIBUTION OF INDIVIDUAL AND CORPORATE INCOME TAX

Fiscal Year	Total Collections 1/	State General Fund	Urban Revenue Sharing	Voluntary Contribution Funds 2/
2015	$4,424,300,956	$3,815,365,256	$608,935,700	$419,840
2014	$4,038,451,798	$3,476,561,022	$561,001,195	$889,581
2013	$4,060,928,176	$3,545,987,484	$513,584,045	$1,356,647
2012	$3,736,966,176	$3,305,485,765	$424,423,442	$7,056,969
2011	$3,430,873,524	$2,949,887,110	$474,006,520	$6,979,894
2010	$2,836,495,645	$2,200,844,986	$628,644,630	$7,006,029
2009	$3,167,705,050	$2,432,366,069	$727,677,400 3/	$7,661,581
2008	$4,198,991,106	$3,506,425,271	$684,538,927	$8,026,908
2007 4/	$4,648,252,998	$4,089,906,556	$551,230,661	$7,115,781
2006 4/	$4,520,688,826	$4,089,641,855	$425,228,927	$5,818,044
2005 4/	$3,549,619,113	$3,170,987,163	$373,072,578	$5,559,372
2004	$2,839,690,345	$2,469,794,357	$365,065,158	$4,830,830
2003	$2,491,768,256	$2,056,591,466	$430,559,053	$4,617,737
2002	$2,436,926,281	$2,011,052,550	$421,876,573	$3,997,158
2001	$2,845,061,464	$2,445,472,944	$396,452,640	$3,135,880
2000	$2,815,064,125	$2,434,799,495	$377,710,988	$2,553,642
1999	$2,643,737,477	$2,302,706,944	$340,310,656	$719,877
1998	$2,390,575,871	$2,098,733,397	$291,243,578	$598,896
1997	$2,269,304,787	$2,010,937,159	$257,800,548	$567,080
1996	$1,942,321,758	$1,723,080,577	$218,543,272	$697,909

1/ Includes corporate income tax.
2/ Represents taxpayer contributions of their refunds to various entities through the tax "check-off" boxes.
3/ Laws 2006, Ch. 351 appropriated a total of $727.6 million for FY 2009 *(see 2009 Tax Handbook, page 33 for more details)*.
4/ 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.

<u>Voluntary Contribution Funds</u>
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, and National Guard Relief Fund. The list of voluntary contribution funds was further expanded to include the Veterans' Donation Fund (Laws 2006, Chapter 102), the I Didn't Pay Enough Fund (Laws 2010, Chapter 115) and the Sustainable State Parks and Road Fund (Laws 2014, Chapter 120). Laws 2015, Chapter 208 repealed the National Guard Relief Fund. In addition to 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 622].

WHO PAYS

<u>Individuals</u>
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].

<u>Businesses</u>
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.

Table 5

COMPARISON OF BUSINESS STRUCTURES

	Sole Proprietorship	Partnership	Limited Liability Company (LLC)	S Corporation
Control	• Owner	• General Partners	• Members	• Shareholders
Owner Restrictions	• 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.
Filing Requirements	• 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

	Sole Proprietorship	Partnership	Limited Liability Company (LLC)	S Corporation
Liability	• Owner is personally liable.	• General Partners are liable. • Limited partners are liable to the extent of their investments.	• All members are protected.	• All shareholders are protected.
Officers	• No	• No	• No, unless designated by management.	• Yes
Controlling Documents	• Business Plan	• Partnership Agreement	• Operating Agreement	• Articles of Incorporation
Income Tax Treatment	• Owner subject to individual income tax. • Tax items reported on Schedule C.	• Partners subject to individual income tax. • Partners taxed for their share of profits.	• Members subject to individual income tax. • Members taxed for their share of profits. • However, LLC may choose to be taxed at entity level.	• Shareholders subject to individual income tax. • Shareholders taxed for their share of profits.

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 (DOR) 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.

REVENUE 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 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. 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.

Laws 2012, Chapter 343 reduced 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 2011, 2nd 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)

Tax Year	Net Capital Gains 1/	Tax Year	Net Capital Gains 1/
2013	NA	2003	$4,580.4
2012	$7,167.7	2002	$3,603.7
2011	$4,706.6	2001	$4,420.8
2010	$4,276.2	2000	$8,412.9
2009	$3,242.3	1999	$8,163.1
2008	$6,606.2	1998	$7,045.1
2007	$14,853.7	1997	$5,409.1
2006	$15,214.8	1996	$4,051.2
2005	$14,784.3	1995	$2,461.2
2004	$8,732.1	1994	$1,879.7

1/ 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.
(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.

RATE

Rates and Brackets. The TY 2015 rate structure, based on DOR's inflation-adjusted brackets of Arizona taxable income, is as follows [A.R.S. § 43-1011]:

Table 7

TY 2015 TAX RATE SCHEDULE 1/

Single 2/ Arizona Taxable Income	Rate 3/	Married 4/ Arizona Taxable Income	Rate 3/
$0 - $10,163	2.59%	$0 - $20,325	2.59%
$10,164 - 25,406	$263 plus 2.88%	$20,326 - $50,812	$526 plus 2.88%
$25,407 - 50,812	$702 plus 3.36%	$50,813 - $101,623	$1,404 plus 3.36%
$50,813 - 152,434	$1,556 plus 4.24%	$101,624 - $304,868	$3,112 plus 4.24%
$152,435 and over	$5,865 plus 4.54%	$304,869 and over	$11,729 plus 4.54%

1/ Pursuant to A.R.S. § 43-1011, DOR increased the TY 2015 rates above TY 2014 rates using a 1.63% inflation adjustment.
2/ Or married filing separately.
3/ The marginal rates apply to income within the taxable income bracket. Capital gains are taxed at a lower rate. The rates above are reduced by (10)% in TY 2013, (20)% in TY 2014, and (25)% in TY 2015.
4/ Or unmarried head of household.

Beginning in TY 2015, individual income tax brackets are adjusted for inflation as measured by the Metropolitan Phoenix Consumer Price Index. Tax brackets are not decreased for annual decreases in the index. [A.R.S. § 43-1011].

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].

Table 8

HISTORICAL INDIVIDUAL INCOME TAX RATES 1/

Taxable Income 2/3/	TY 1990	TY 1994	TY 1995	TY 1997	TY 1998	TY 1999	TY 2006	TY 2007
$0 -$ 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%

1/ For marginal rates prior to 1990, see page 90 of the 1990 Tax Handbook.
2/ 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).
3/ Beginning in TY 2015, tax brackets are indexed to inflation (Laws 2014, Chapter 2010 and Laws 2015, Chapter 91). See Table 7 for TY 2015 bracket amounts.

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

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

Notes:
1/ 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.
2/ Credit is subject to an aggregate cap of $70 million annually, which it shares with the qualified facility credit. Laws 2014, Chapter 8 limits a taxpayer from claiming both this credit and the qualified facility credit for the same facilities (see *Appendix A* for details).
3/ Credit is subject to an aggregate cap of $70 million annually, which it shares with the renewable energy investment credit.

The value of tax credits used and carried forward through calendar year 2013 is summarized by the 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 statute 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 $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, physically disabled children, provided that the charity does not provide, pay for, promote, or financially support abortions or any entity that provides abortions. Most contributions earn a maximum credit of $200 for taxpayers filing as single or head of household and $400 for those filing as married couples. Contributions made to charitable organizations that provide foster care to children or services to under-21-year-old former foster youth in independent living programs instead earn a maximum credit of $400 for taxpayers filing as single or head of household and $800 for those filing as married couples. If a taxpayer makes contributions to both foster care and other charitable organizations, the total credit they claim cannot exceed $400 for single tax filers or $800 for married tax filers. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [A.R.S. § 43-1088].

Enterprise Zones. Businesses located in an enterprise zone were able to claim a credit for net increases in employment of persons who qualify as economically disadvantaged under the Job Training Partnership Act. *(See Laws 1989, Chapter 194 for changes in the amount of credit allowed.)* To qualify, at least 35% of the full-time equivalent employees claimed must reside in an enterprise zone. 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 non-refundable credit may not be claimed for more than 200 employees. Laws 2013, Chapter 236 provides that businesses that were certified by ACA and then claimed first year credits under the now repealed credit program, be exempt from the requirement to file for certification in order to claim second or third year credits. Though new credits may not be earned after tax year 2011, previously earned credits may be carried forward up to 5 years and used no later than for tax year 2016.

Environmental Technology Facility Construction Costs. A taxpayer may claim a credit for expenses incurred in constructing a qualified environmental technology facility as described in A.R.S. § 41-1514.02. 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 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 investment credit (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].

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 Proposition 301 Taxes. 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].

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. Though new credits may not be earned after tax year 2010, previously earned credits may be carried forward up to 5 years and used no later than for tax year 2015.

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 associated with 1 net new job can be claimed for 3 years. A company may claim 1st year credits for separate new jobs for up to 3 consecutive years. Since 2nd and 3rd year credits may be claimed against each of the new positions, the taxpayer may claim credits for up to a total of 5 consecutive 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) [A.R.S. § 43-1074]. The Arizona Commerce Authority (ACA) is authorized to issue 1st year credits for up to 10,000 new employees ($30 million) in each year. Statute does not permit the ACA to authorize new credits after June 30, 2017 (A.R.S. § 41-1525). Given the maximum 5-year schedule outlined above, businesses may claim credits through TY 2022. In TY 2013 and later years, Laws 2012, Chapter 343 eliminates the requirement (provided by Laws 2011, 2nd Special Session, Chapter 1) that no employer can claim more than 400 new jobs in the first year of credit use, 800 jobs in the second year, and 1,200 jobs in the third year. The cap applied 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). Laws 2014, Chapter 168 changes the requirement for the New Employment Tax Credit program by providing that second and third year credits can be claimed irrespective of whether the same employee remains employed as long as the employer replaces the vacant position with another qualified employee within 90 days.

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 Extracurricular Activity Fees. A credit may be claimed for contributions for extracurricular activities, character education programs, standardized tests for college credit and readiness, testing preparation courses and career and technical assessments 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.

Recycling Equipment. Taxpayers were able to claim a credit for placing recycling equipment in service after December 31,1992. This credit was in lieu of any deductions taken for depreciation. The credit was equal to 10% of the installation cost, but not to exceed the lesser of 25% of the tax liability for that year or $5,000. Certain recapture provisions applied when the recycling equipment ceased operation or was transferred. Though new credits may not be earned after tax year 2002, previously earned credits may be carried forward up to 15 years and used no later than tax year 2017.

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 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.

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 and A.R.S. § 41-1511]. 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]. This credit cannot be claimed against the same facilities that are used to claim the Renewable Manufacturing Facility credit. For additional information on renewable energy incentives, see *Appendix A*.

Renewable Energy Manufacturing Facility. A credit is allowed for companies that make substantial investments in new facilities that produce renewable energy to be used in a company's manufacturing processes or for a company's certified "International Operations Center" (IOC). A company may earn up to $5 million in credits per year for up to 5 years for each qualifying renewable energy facility. Prior to Laws 2015, Chapter 6, only manufacturing facilities could qualify for a credit of $1 million per year for each facility, up to 5 years.
The credit program includes different criteria to qualify as a manufacturer than as a certified IOC. In order to qualify for credits, a manufacturing company must invest a minimum of $300 million within 3 years of applying for the credit or by December 31, 2017, whichever is earlier. Each of a manufacturer's renewable energy facilities requires at least a $30 million investment, production of at least 40,000 megawatt hours of energy annually, and use of at least 90% of the energy produced at the facility for self-consumption in the state and for manufacturing. To qualify for the credit, an IOC must invest at least $100 million in renewable energy facilities within 3 years of applying for the credit or by December 31, 2018, whichever is earlier. At least 51% of energy produced by an IOC

renewable energy facility must be used for self-consumption by the fifth year of operation. A company's facility must meet additional investment requirements pursuant to A.R.S. § 41-1520 to be certified by the Arizona Commerce Authority as an International Operations Center.

The credit is not refundable, has an aggregate individual income and corporate income tax cap of $10 million a year, and may be carried-forward up to 5 years. The lifetime limit on tax credits that an IOC may claim is capped at $25 million. This credit cannot be claimed against the same facilities that are used to claim the Renewable Energy Production Credit [A.R.S. § 43-1083.02 and A.R.S. § 43-1083.04]. 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. 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 Statutory Changes*). Laws 2011, 2nd 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 S Corporation Credit. Owners of an S corporation may claim a credit for cash contributions made to a school tuition organization (STO) that provides scholarships to "low income" or "displaced or disabled" students. Prior to Laws 2015, Chapter 301, only businesses classified as C corporations were allowed to receive income tax credits for such contributions, pursuant to A.R.S. § 43-1183 and A.R.S. § 43-1184. In order to be used for tax purposes, an S corporation's credits must be pro-rated, passed through to the business owners and applied to the owners' individual income tax liability [A.R.S. § 43-1089.04].

The full amount of the low-income tax credit approved by DOR for individual income, corporate income, and insurance premium tax credits is capped at $10 million per year, with the cap increasing by 20% per year beginning in FY 2008 [A.R.S. § 43-1183]. The credit cap is $51.6 million in FY 2016, $61.9 million in FY 2017, and $74.3 million in FY 2018. There is no cap on the amount of contributions made by individual businesses. The full amount of the displaced or disabled tax credit approved by DOR is capped at $5 million per year [A.R.S. § 43-1184]. A taxpayer may carry forward the unused portion of either tax credit for 5 years. See *Appendix B* in the Tax Handbook for a comparison of private school tax credits.

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 Statutory 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 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 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, 2021. Taxpayers are allowed to claim authorized credits on their tax returns through TY 2024. For an individual investor, the credit is applied to investment amounts of up to $500,000 per calendar year in one or more qualified small businesses. Investment amounts in excess of $500,000 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].

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 was for the installation of water conservation systems to encourage the re-use of "graywater," or waste water for irrigation purposes. The credit was equal to 25% of the cost of the water conservation system up to a maximum of $1,000. The maximum aggregate amount that could be claimed in a taxable year was $250,000. This non-refundable tax credit was effective for tax years 2007 through 2011. Though new credits may not be earned after tax year 2011, previously earned credits may be carried forward up to 5 years and used no later than tax year 2016.

TAX COMPUTATION

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

Individuals:

Arizona Gross Income *Plus*	Equivalent to taxpayer's federal adjusted gross income. Includes a taxpayer's capital gain or loss.
Additions 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 *Minus*	See A.R.S. § 43-1022 for amounts taxed under federal income tax laws, but not subject to Arizona income tax.
Exemptions *Equals*	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.
Arizona Adjusted Gross Income *Minus*	
Standard or Itemized Deductions *Minus*	See A.R.S. § 43-1041 and 43-1042: Standard deduction is $5,009 for single or married filing separately and $10,010 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.
Personal Exemptions *Equals*	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.
Taxable Income *Multiply By*	
Tax Rates *Equals*	See *Tax Rate* Section.
Tax Liability *Minus*	
Tax Credits *Minus*	See *Tax Credits* Section.
Tax Payments *Equals*	Withholding, estimated, and extension payments made to the Department of Revenue.
Tax Due	This can also be an overpayment; in which case, taxpayer will be entitled to tax refund.

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	Equivalent to federal taxable income of estates or trusts (A.R.S. § 43-1301). *Add* 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	

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 since January 1, 2011 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 <u>not</u> 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].

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 subtractions, exemptions, 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 state collected over $2.7 billion in resident individual income taxes in tax year 2008. However, according to DOR, the state allows subtractions, exemptions, deductions, and credits worth as much as $2.25 billion during a tax year. *Table 11* lists individual income tax subtractions, exemptions and deductions for tax year 2008, as shown in DOR's report *The Revenue Impact of Arizona's Tax Expenditures FY 2009/10*. Laws 2015, Chapter 8 includes a footnote that requires the Department of Revenue to report by September 30, 2015 on the amounts of individual income tax credits claimed in FY 2015. Due to the timing of the report, *Table 12* instead lists credits in the most recent tax year reported by DOR. The total annual tax expenditure estimate of $2.25 billion, 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.

In addition to tax expenditure provisions, the state permits individual and corporate income tax filers to accelerate depreciation of certain qualified asset purchases, for purposes of calculating state income tax liability. The *Accelerated Depreciation* section within this *Individual Income Tax* section includes more details on these allowances.

ACCELERATED DEPRECIATION ALLOWANCES

The Internal Revenue Code (IRC) has recently allowed individual and corporate income tax filers to accelerate depreciation of qualified asset purchases for purposes of calculating federal taxable income. This acceleration was typically authorized annually. For purposes of calculating state taxable income, the state's individual and corporate income tax statutes have varied with regard to conforming to the federal business expensing allowance and the federal bonus depreciation allowance. Based on the amount of federal allowance available in a given tax year, tax filers are able to use these provisions, potentially together, to reduce their federal and state taxable income in the tax year that the qualified investment is made. Allowances adjust the timing, not the total amount, of depreciation that can be taken over the life of an asset.

<u>Business Expensing</u>
Section 179 of the IRC is a federal business expensing provision that allows individual and corporate tax filers to deduct 100% of their qualified property (up to a stipulated amount) in the year of purchase rather than in smaller installments over several years according to a federal depreciation schedule. The maximum business expensing deduction cannot exceed a filer's federal taxable income and is reduced, dollar for dollar, for investment exceeding a certain threshold. Qualified property generally includes purchase of new or used commercial machinery, equipment, and certain types of software.

Congress gradually increased the business expensing allowance on a temporary basis, from an amount of $24,000 in TY 2002 to $500,000 in TY 2013. Prior to TY 2013 though, Arizona capped the allowance at $25,000 (Laws 2004, Chapter 196) for purposes of calculating Arizona income tax liability for individuals and corporations. Laws 2013, Chapter 256 later conformed the state's tax statutes to the IRC's business expensing federal deduction limit in place as of the most recent conformity date, removing the $25,000 cap.

Congress did not extend the temporary $500,000 federal limit by December 31, 2013, allowing the deduction to decrease to $25,000 in TY 2014. In December 2014, however, the federal Tax Increase Prevention Act of 2014 was signed into law, which retroactively extended the $500,000 business expensing allowance, and a number of other expiring federal tax provisions, for one more year, through TY 2014.

In the 2014 Regular Session, the Legislature passed HB 2664 to permanently raise the business expensing limit for state income taxes to $500,000. Though Congress had not yet extended the increased allowance beyond TY 2013, the already enacted FY 2015 budget assumed a 1- year continuation of the $500,000 limit at a cost of $25 million. The Governor, however, vetoed HB 2664. The Executive used the $24.8 million General Fund savings from the veto as a financing source for the cost of establishing the new Department of Child Safety in the May 2014 2nd Special Session. Since the cost of business expensing was redirected elsewhere, the March 2015 budget did not fund its continuation in FY 2016.

The 2015 "Conformity Bill" was signed into law (Laws 2015, Chapter 227) several weeks after the budget was adopted in March 2015, in part conforming the state's business expensing level with the federal limit of $500,000 in TY 2014. For this reason, Chapter 227 resulted in a General Fund revenue loss of $(30.8) million in FY 2015 relative to the March 2015 enacted budget (note that the original $24.8 million cost estimate had subsequently been revised to $30.8 million).

The federal Tax Increase Prevention Act of 2014 allows the temporary $500,000 federal expensing limit to lapse after December 31, 2014. The FY 2016 budget effectively assumes Congress will again retroactively extend the $500,000 limit in future years by continuing the $(30.8) million General Fund revenue loss past FY 2015.

Bonus Depreciation

Federal bonus depreciation provides individual and corporate tax filers an added first-year depreciation allowance for purchases of qualified new property. Therefore, after deducting any bonus depreciation in the first year of an investment, the remaining value of the asset may be depreciated according to the percentages in federal depreciation schedules.

Congress established a temporary 30% bonus depreciation allowance in TY 2002 and eventually increased the limit to 50% in TY 2013. Prior to TY 2013, Arizona tax statutes did not conform to the federal allowance for purposes of calculating state income tax liability (Laws 2002, Chapter 344 and Laws 2004, Chapter 196). Beginning in TY 2014, Laws 2012, Chapter 343 permit individual income taxpayers to reduce their state taxable income by an amount equal to 10% of the federal allowance, if any. Arizona taxpayers may first take the partial allowance in TY 2014 on property placed in service in TY 2013 (10% of the 50% federal allowance in TY 2013).

In December 2014, the federal Tax Increase Prevention Act of 2014 was signed into law, which retroactively extended the 50% bonus depreciation allowance, and a number of other expiring federal tax provisions, for one more year, through TY 2014. On April 9, 2015, the Governor signed into law, SB 1188, the 2015 "Conformity Bill" (Laws 2015, Chapter 227), which conformed state statutes to numerous retroactive federal tax extensions adopted in 2014, including the 50% bonus depreciation provision. As a result, the provision is estimated to reduce individual income tax revenue by $(1.8) million in FY 2015.

The federal Tax Increase Prevention Act of 2014 allows the temporary 50% limit to lapse after December 31, 2014. The FY 2016 budget effectively assumes Congress will again retroactively extend bonus depreciation into future years by continuing the $(1.8) million General Fund revenue loss beyond FY 2015.

The primary differences between bonus depreciation and business expensing are that bonus depreciation: (1) is only available for new property investments; (2) does not include an investment limitation for determining the deduction amount; (3) can be used to create a net operating loss that can be carried forward to future years; and (4) for purposes of calculating Arizona income tax liability, may only be used by individual taxpayers.

Table 11

DOLLAR VALUE OF FY 2009 INDIVIDUAL INCOME TAX SUBTRACTIONS, EXEMPTIONS AND DEDUCTIONS

FEDERAL SUBTRACTIONS FROM INCOME:	Tax Year 2008
Archer MSA	$247,000
Certain business expenses of reservists, performing artists, etc.	836,000
Health savings account deduction	1,456,000
Moving expenses	834,000
One-half of self-employment tax	9,825,000
Self-employed SEP and SIMPLE deduction	12,583,000
Self-employed health insurance deduction	9,452,000
Penalty on early withdrawal of savings	558,000
Alimony paid	6,238,000
Individual Retirement Account for Qualifying Individuals	5,051,000
Student Loan Interest Deduction	4,088,000
Tuition and fees deduction	2,841,000
Jury Duty Pay	204,000
Domestic Production Activities	4,045,000
Educator Expenses	766,000
Tuition and Fees	2,841,000
Total Value of Federal Subtractions from Income	**$57,051,000**
EXEMPTIONS:	
Personal Exemptions	$226,785,000
Preferential Personal Exemption for Unmarried Head of Household	14,428,000
Preferential Personal Exemption for Married Filers with One or More Dependents	29,461,000
Age 65 or over Exemptions	22,682,000
Dependent Exemptions	98,357,000
Blind Exemptions	457,000
Qualifying Parent or Ancestor Exemption	2,507,000
Total Value of Exemptions	**$366,517,000**
SUBTRACTIONS FROM INCOME:	
Interest on U.S. Obligations	$6,068,000
Exclusion for Federal, State, and Local Pensions	10,802,000
Exempt State Lottery Winnings	179,000
Social Security or Railroad Retirement Benefits Included on Federal Form 1040	105,816,000
Bonus Depreciation Adjustment	39,756,000
Certain Wages of Native Americans	14,234,000
Income Tax Refunds from Other States	677,000
Deposits and Employee Contributions into Medical Savings Accounts	204,000
Constructing Energy Efficient Residences	218,000
Active Duty Military Pay	9,382,000
Other Subtractions	11,871,000
Total Value of Subtractions	**$198,808,000**
DEDUCTIONS:	
Standard Deduction	$203,029,000
Preferential Standard Deduction for Unmarried Head of Household	22,116,000
Itemized Deductions:	
Medical and Dental Expenses	137,417,000
Additional Medical Allowed on Arizona Return	91,699,000
Taxes Paid:	
State and Local Income Taxes	136,767,000

Real Estate Taxes	65,810,000
Personal Property and Other Taxes	13,604,000
Total Value of Taxes Paid Deduction	$214,934,000
Interest Expense:	
Home Mortgage Interest and Points	335,524,000
Mortgage Interest not on Form 1098	5,121,000
Points not on Form 1098	1,098,000
Qualified Mortgage Insurance Premiums	3,110,000
Deductible Investment Interest	16,474,000
Total Value of Interest Expense	$359,618,000
Charitable Contributions:	
Cash Contributions	74,212,000
Contributions Other Than Cash	19,245,000
Carryover From Prior Year	2,773,000
Total Value of Charitable Contributions	$98,918,000
Casualty or Theft Losses	3,770,000
Job Expenses and most Other Miscellaneous Deductions	43,373,000
Nonlimited Miscellaneous Deductions	31,035,000
Total Value of Itemized Deductions	**$700,055,000**
Total Value of Standard and Itemized Deductions	**$1,086,036,000**
Total Value of Subtractions, Exemptions and Deductions	**$1,972,562,000**

SOURCE: Department of Revenue Report – *The Revenue Impact of Arizona's Tax Expenditures FY 2009/10.*

Table 12

INDIVIDUAL INCOME TAX CREDITS

CREDITS:	**Effective Tax Years**	**Annual Cost** [1/2/]
Agricultural Pollution Control Equipment	1999 -	$27,400
Agricultural Water Conservation System	1994 -	1,420,000
Commercial and Industrial Solar	2006 - 2018	504,000
Contributions to Qualifying Charitable Organizations	1998 -	21,835,500
Donations to the Military Family Relief Fund	2009 - 2018	989,600
Employing National Guard	2006 -	N/R
Employment of TANF Recipients	1998 -	20,800
Enterprise Zone [3/]	1990 - 2011	340,300
Environmental Technology	1993 -	N/R
Facility Credit	2013 - 2019	0
Family Tax	1996 -	5,006,600
Health Insurance Plans	2012 - 2014	N/A
Healthy Forest Enterprise	2005 - 2024	0
Investment in Qualified Small Businesses	2007 - 2024	853,700
Low-Income Credit for Proposition 301 Taxes [4/]	2001 -	32,843,400
Military Reuse Zone	1993 -	N/R
Motion Picture Production and Infrastructure [5/]	2006 - 2010	11,400
New Employment [6/]	2011 - 2022	N/A

Pollution Control Device	1995 -	221,000
Property Tax	1975 -	7,256,400
Public School Extra Curricular Activity Fee [7/]	1998 -	50,972,900
Recycling Equipment [8/]	1993 - 2002	0
Renewable Energy Investment [9/]	2010 - 2014	0
Renewable Energy Production [10/]	2011 - 2021	0
Research and Development - Nonrefundable [11/]	2001 -	5,176,800
Research and Development - Refundable	2010 -	41,800
Research and Development – University Research [12/]	2012 -	0
School Site Donation	2001 -	35,100
School Tuition S Corporation	2015-	N/A
School Tuition Organizations (Original) [7/]	1998 -	55,447,500
School Tuition Organizations (Switcher) [7/]	2012 -	19,585,600
Solar Energy Device	1995 -	5,300,000
Solar Liquid Fuel	2011 - 2021	0
Solar Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets	1998 -	1,100
Taxes Paid to Other States or Countries [13/]	1935 -	64,414,600
Water Conservation Systems [14/]	2007 - 2011	86,200
Total Value of Credits		**$275,146,200**
TOTAL VALUE OF INDIVIDUAL INCOME TAX EXPENDITURES [15/]		**$2,247,708,200**

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1/ Amounts represent the annual credit use during the last reported year, which is primarily in tax years 2011, 2012 or 2013.

2/ "N/R" indicates that the information is not releasable due to Arizona confidentiality laws. "N/A" denotes that credit data is not yet available from DOR.

3/ Credit was effective through TY 2011, but earned credits have a 5-year carry forward.

4/ Credit is subject to the 1998 Voter Protection Act (Proposition 105).

5/ Credit was effective through TY 2010, but earned credits have a 5-year carry forward.

6/ Statute does not permit the Arizona Commerce Authority to authorize new credits after June 30, 2017. Given a maximum 5-year schedule, the credit may not be claimed after TY 2022.

7/ Estimate based on the amount of donations as reported by DOR.

8/ Credit was effective through TY 2002, but earned credits have a 15-year carry forward.

9/ Credit is capped at $70 million annually between corporate and individual income taxpayers.

10/ Credit is capped at $10 million annually between corporate and individual income taxpayers.

11/ Credit is capped at $5 million annually between corporate and individual income taxpayers.

12/ Credit is capped at $10 million annually between corporate and individual income taxpayers.

13/ Credit prevents double-taxation of income.

14/ Credit was effective through TY 2011, but earned credits have a 5-year carry forward.

15/ Amount represents the sum of total tax expenditures from subtractions, exemptions, and deductions in *Table 11* and credits in *Table 12*.

SOURCES: Department of Revenue Reports – *Arizona Income Tax Credits (November 2014); Private School Tuition Organization Income Tax Credits in Arizona: A Summary of Activity (FY 2013); 2014 Public School Report – Individual Income Tax Credit for the Support of Extracurricular Activities or Character Education.*

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

2015 LAWS

Laws 2015, Chapter 6 expands the renewable energy manufacturing facility credit to investments in facilities certified by the Arizona Commerce Authority as an "International Operations Center" (IOC) and increases the annual credit amount. Laws 2014, Chapter 8 provides an individual and corporate income tax credit for investments in new renewable energy facilities that produce energy that is used for self-consumption if the power is used primarily in manufacturing operations. Under Laws 2015, Chapter 6, the requirements to qualify for the credit are lower for an IOC than a manufacturer. Chapter 6 increases the credit amount from $1 million to $5 million per year (for 5 years) for each qualifying renewable energy facility. For additional information on the renewable energy investment credit, see *Appendix A* in the Tax Handbook. (Effective retroactively from January 1, 2015)

Laws 2015, Chapter 12 reduces the annual amount of withholding tax collections that are deposited to the job creation withholding clearing account, from $31.5 million in FY 2015 to $26.5 million in FY 2016 and $21.5 million in subsequent years. Money in the job creation clearing account is ultimately used to fund operating costs of the Arizona Commerce Authority and for grants to attract, expand or retain business. (Effective from July 3, 2015)

Laws 2015, Chapter 47 expands the public school extracurricular activity fee credit to contributions for standardized tests for college credit and readiness, testing preparation courses and career and technical assessments at public schools. Prior to this legislation, a credit could only 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. The legislation does not have an estimated fiscal impact. (Effective retroactively from January 1, 2015)

Laws 2015, Chapter 91 makes inflation indexing of the tax brackets permanent, beginning in TY 2016. Tax year brackets will be adjusted for inflation in the prior calendar year, as measured by the Metropolitan Phoenix Consumer Price Index. Laws 2014, Chapter 10 had provided a one-time inflation adjustment for TY 2015, which was estimated to result in a one-time revenue loss of $(6.1) million in FY 2016. The revenue reduction under Chapter 91 is estimated to be an additional $(9.3) million in FY 2017, followed by another $(9.3) million reduction in FY 2018.

Laws 2015, Chapter 208 repeals the National Guard Relief Fund and the option for a taxpayer to designate an amount of their income tax refund as a voluntary contribution to the fund. The legislation transfers the remaining balance in the fund to the Department of Veterans' Services to be and used in providing financial assistance to Arizona National Guard members and their families. (Effective from July 3, 2015)

Laws 2015, Chapter 217 allows public school extracurricular activity fee credits that are earned for qualifying contributions made by the fifteenth day of the fourth month of a tax year to be applied to either the current or preceding tax year. (Effective from July 3, 2015)

Laws 2015, Chapter 227 conforms Arizona tax statutes to the Internal Revenue Code (IRC) as of January 1, 2015, including federal provisions that became effective in 2014, but excluding any change to the IRC after January 1, 2015. In December 2014, the federal Tax Increase Prevention Act of 2014 was signed into law, which retroactively extended a number of expiring federal tax provisions for one more year, through TY 2014. One provision under the act allows individual and corporate taxpayers to take a tax deduction of up to $500,000 for qualifying business investments purchased and placed in service in 2014. Absent the federal tax extension, the business expensing limit would have reverted to $25,000 for TY 2014. By conforming to the $500,000 federal business expensing allowance, Chapter 227 is estimated to result in a $(30.8) million reduction in General Fund revenue, beginning in FY 2015. For information on conformity to federal business expensing and bonus depreciation allowances, see the *Accelerated Depreciation Allowances* section. (Effective retroactively from January 1, 2015)

Laws 2015, Chapter 250 expands the foster care charitable contributions tax credit to include donations made to qualifying charitable organizations that provide services to under-21-year-old former foster youth in the transitional independent living program. The foster care tax credit allows individuals to claim up to $400 annually, or $800 for a joint return, for donations to qualifying charities dollar-for-dollar against the state individual income tax. The bill is estimated to reduce revenue annually by $(40,000), beginning in FY 2016. (Effective from July 3, 2015)

Laws 2015, Chapter 301 allows an S corporation to receive an income tax credit for cash contributions made to a STO that provides scholarships to "low income" or "displaced or disabled" students. Prior to this law, only businesses classified as C corporations were allowed to receive credits for such contributions. In order to be used for tax purposes, credits earned by an S corporation must be pro-rated, passed through to the business owners and applied to each owner's individual income tax liability. The new law does not have an estimated impact, as existing caps on tax credit-eligible contributions for scholarships to low income or displaced or disabled students are fully utilized. For additional information on school tuition tax credits, see *Appendix B* in the Tax Handbook. (Effective retroactively from January 1, 2015)

2014 LAWS

Laws 2014, Chapter 8 creates a new individual and corporate income tax credit for any company that makes an investment of at least $300 million in a new renewable energy facility that produces energy that is primarily used in Arizona for the company's own manufacturing processes. The credit has an aggregate individual and corporate income tax cap of $10 million a year. While the credit can be taken in FY 2015, it is anticipated that the credit will not be used until FY 2016. The credit is estimated to reduce General Fund revenues by $(10) million, beginning in FY 2016. (Effective from July 24, 2014)

Laws 2014, Chapter 10 requires DOR to adjust Arizona's taxable individual income brackets one time in TY 2015 for prior year price increases measured by the Phoenix Consumer Price Index (CPI). This adjustment would prevent inflation-based increases in income from being taxed at the higher marginal rate of a successive bracket. Brackets will not be decreased if the CPI decreases. The act requires DOR to reduce brackets in TY 2016 to remove the TY 2015 inflation adjustment.

Laws 2014, Chapter 43 permits non-resident taxpayers to exclude, from their non-resident individual income tax liability, any wages earned while participating in disaster recovery efforts in Arizona. (Effective from January 1, 2015)

Laws 2014, Chapter 68 requires individual taxpayers to provide the Department of Revenue a valid social security number (SSN) to claim the Proposition 301 Sales Tax Credit, otherwise known as the Increased Excise Taxes Paid Credit (IETC). An individual income tax filer can claim a $25 credit to offset the 0.6% sales tax increase resulting from Proposition 301 passed in November 2000. For taxpayers filing as single or as married person filing separately, the income requirement for claiming the credit is $12,500 or less. Individual taxpayers had previously been able to also claim this credit using a federally-issued individual taxpayer identification number. The SSN requirement is effective January 1, 2015 and is projected to reduce the use of the credit, thereby increasing individual income tax collections by $1.5 million annually, beginning in FY 2016.

Laws 2014, Chapter 168 includes several income tax (individual and corporate) provisions. The act's individual income tax provisions are summarized below.

<u>Change to 2nd and 3rd Year Requirement of New Employment Tax Credit</u>

Chapter 168 changes the requirement for the New Employment Tax Credit by providing that 2nd and third year credits can be claimed irrespective of whether the same employee remains employed as long as the employer replaces the vacant position with another qualified employee within 90 days. The provision, which is effective retroactively from January 1, 2014, is estimated to reduce income tax collections by $(882,000) in FY 2015, followed by an additional $(405,000) in FY 2016, and $(381,000) in FY 2017. (Effective retroactively from January 1, 2014)

Revisions to Small Business Investment Tax Credit
Chapter 168 extends the final year that Small Business Investment Tax Credits may be authorized, from 2016 to 2021, and extends the final year that credits may be used to reduce tax liability, from 2019 to 2024. The law also increases the maximum amount of investment that is eligible for the credit, from $250,000 to $500,000 per calendar year. Chapter 168 does not change the program's $20 million lifetime cap. (Effective retroactively from January 1, 2014)

Requirements for Research and Development Tax Credit
The act requires that basic research payments used in determining a tax payer's credit must first be certified by the Arizona Commerce Authority. Chapter 168 also includes various other new requirements for research and development credit applicants to meet. (Effective from January 1, 2015)

Laws 2014, Chapter 223 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, 2014. (Effective retroactively from January 1, 2014)

Laws 2014, Chapter 245 was the annual correction bill that made technical, conforming, and clarification changes to the Arizona Revised Statutes. The bill removed statutory references for previously expired individual income tax credits including Water Conservation Systems, Agricultural Preservation Districts and Construction Materials credits. The Water Conservation Systems credit may still be carried forward up to 5 years and used no later than TY 2016. (Effective beginning January 1, 2015)

2013 LAWS

Laws 2013, Chapter 65 conforms Arizona tax statutes to the Internal Revenue Code (IRC) as of January 3, 2013 and establishes a tax credit for Tax Year 2013 in lieu of conforming to the retroactive provision of the Federal Aviation Administration (FAA) Modernization and Reform Act relating to rollover of amounts received in airline carrier bankruptcy. Chapter 65 is estimated to result in an income tax revenue gain of $4.6 million in FY 2013, $13.7 million in FY 2014, $17.6 million in FY 2015, and $15.6 million in FY 2016.

Laws 2013, Chapter 114 was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. (Contained various effective dates)

Laws 2013, Chapter 236 includes several income tax (individual and corporate), TPT and property tax provisions. The act's individual income tax provisions are summarized below while *Table 13* shows the fiscal impact by tax provision and year.

Expands Working Poor Credit to Non-Itemizers
Chapter 236 removes the requirement that an individual income tax filer itemizes deductions in order to claim the working poor tax credit. This provision is estimated to reduce individual income tax collections by $(18.0) million annually, beginning in FY 2014.

Increased 529 College Savings Plan Deductions
Chapter 236 increases the 529 college savings plan contributions that are deductible from state income tax from $1,500 to $4,000 for married couples filing joint returns and from $750 to $2,000 for all other filers. This provision, which is retroactive to January 1, 2013, is expected to result in an annual individual income tax reduction of $(4.0) million, beginning in FY 2014.

Exempts Enterprise Zone Credit Certification Requirement
Chapter 236 provides that businesses, which were certified by ACA and then claimed first year credits under the now repealed Enterprise Zone (EZ) Credit program, be exempt from the requirement to file for certification in order to claim second or third year credits. This provision, which is retroactive to July 1, 2011, is estimated to reduce income tax revenue by $(500,000) in FY 2014 and $(300,000) in FY 2015.

Table 13

General Fund Impact of Tax Provisions in Laws 2013, Chapter 236 (SB 1179)
($ in Millions)

Description (Effective Date)	Tax	FY 14	FY 15	FY 16
Exempts qualified destination management companies from state TPT (Effective retroactively from January 1, 2002) [1/]	Sales	Unknown	Unknown	Unknown
Exempts the leasing or renting of certified interlock devices from state and municipal TPT (Effective retroactively from September 1, 2004) [1/]	Sales	(0.6)	(0.6)	(0.6)
Exempts energy drinks from state TPT (Effective September 13, 2013)	Sales	Unknown	Unknown	Unknown
Expands Class 6 to include property that is used to manufacture motor vehicle biofuel and its by-products (Effective September 13, 2013) [2/, 3/]	Property	Unknown	Unknown	Unknown
Increases the 529 college savings plan contributions that can be subtracted from taxable income from $1,500 to $4,000 for couples filing joint returns and from $750 to $2,000 for single filers (Effective retroactively from January 1, 2013)	Individual Income	(4.0)	(4.0)	(4.0)
Eliminates the requirement that a person itemizes deductions in order to claim the working poor tax credit (Effective September 13, 2013)	Individual Income	(18.0)	(18.0)	(18.0)
Allows a regionally accredited institution of higher education with at least 1 campus on which 2,000 or more students reside to reduce their tax liability by using a different sales factor calculation for educational services (Effective January 1, 2014)	Corporate Income	Unknown	Unknown	Unknown
Exempts taxpayers from the annual certification requirement with the Arizona Commerce Authority for purposes of claiming second and third year credits under the repealed Enterprise Zone Tax Credit program (Effective retroactively from July 1, 2011).	Individual & Corporate Income	(0.5)	(0.3)	0.0
Total General Fund Impact [4/]		**$(23.1)**	**$(22.9)**	**$(22.6)**

Notes:

1/ Total amount of refundable claims from prior years is limited to $10,000.

2/ At present time, JLBC Staff is only aware of one production plant that would be affected by this provision. The annual K-12 basic state aid cost associated with this plant is estimated to be $20,000. This cost, however, could increase in future years.

3/ Property tax provisions affect state spending rather than state revenue.

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

Laws 2013, Chapter 256 removes the $25,000 cap on deductions from state income tax for qualified business equipment purchases under Section 179 of the Internal Revenue Code (IRC), beginning in tax years starting after December 31, 2012. Section 179 allows individual and corporate taxpayers to deduct, for income tax purposes, 100% of their qualified business expenses (up to a stipulated amount) in the year that the equipment was purchased rather than in smaller installments over several years according to a federal depreciation schedule. The act is estimated to result in a one-time income tax revenue loss of $(24.8) million in FY 2014. The maximum Section 179 deduction decreased to $25,000 in taxable year 2014 and later, though Congress and the President may choose to extend the existing deduction. The *Accelerated Depreciation Allowances* section includes more details on the Section 179 allowance.

Laws 2013, 1st Special Session, Chapter 9 expands (retroactive to January 1, 2013) the existing working poor credit to include qualifying foster care charitable organizations. The maximum credit for cash contributions to qualifying foster care organizations is $400 for individuals filing as single or head of household and $800 for married couples filing joint returns. A qualifying foster care organization must spend at least 50% of its budget providing services to at least 200 foster children in this state. The foster care credit is estimated to result in an annual individual income tax reduction of $(850,000), beginning in FY 2014.

2012 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 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 IRC to include all 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, 2nd 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 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 14* below, 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 federal law, businesses that place qualified property in service in 2012 or 2013 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 or 2013. 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 2013. The *Accelerated Depreciation Allowances* section includes more details on bonus depreciation allowances.

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, 2nd 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.

Table 14

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

Description (Effective Date)	Tax	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19
Phases in (over 3 years) a 25% reduction of long-term capital gains on assets purchased after CY 2011 (TY 2013) [1/]	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) [2/]	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) [3/]	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 $3,000 job tax credit (TY 2013)	Individual & Corporate Income	(1.8)	(3.6)	(5.4)	(5.4)	(5.4)	(5.4)
Total General Fund Impact [4/]		**$ (28.4)**	**$ (53.0)**	**$ (74.8)**	**$ (83.7)**	**$ (91.9)**	**$(107.8)**
Revenue Impact [5/]		$ (27.5)	$ (52.1)	$ (73.9)	$ (82.8)	$ (91.0)	$(106.9)
Spending Impact [5/]		$ 0.9	$ 0.9	$ 0.9	$ 0.9	$ 0.9	$0.9

Notes:

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

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

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

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

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

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)

2011 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, 2nd 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*).

2010 LAWS

Laws 2010, 6th 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 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.

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.

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 LAWS

Laws 2009, 1st 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.

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.

Arizona Withholding Rates and Effective Dates

1/1/05 to 4/30/09	5/1/09 to 12/31/09	1/1/10 to 6/30/10
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)

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.pdf

		2013	2012	2011	2010	2009	2008	2007	2006	2005
Agricultural Pollution Control Equipment	# of claims		5			3	5			
	credit available	Data Not Available	$27,350	Data Not Releasable	Data Not Releasable	$16,569	$14,331	Data Not Releasable	Data Not Releasable	Data Not Releasable
	credit used		$27,350			$13,306	$14,087			
	carry forward		$0			$3,263	$244			
Agricultural Preservation District REFUNDABLE	# of claims									0
	credit available									$0
	credit refunded									$0
	carry forward									
Agricultural Water Conservation	# of claims		89	96	114	141	139	137	138	137
	credit available	Data Not Available	$6,205,697	$6,281,311	$5,842,594	$6,377,016	$8,607,672	$8,912,273	$8,880,517	$8,868,257
	credit used		$1,420,014	$1,020,611	$729,979	$1,011,846	$1,509,358	$1,853,588	$1,873,866	$1,905,338
	carry forward		$4,111,979	$4,967,965	$4,670,024	$4,542,186	$6,351,460	$6,333,995	$6,202,735	$6,409,360
Clean Elections	# of claims		28,320	25,275	24,908	26,088	33,966	34,358	33,046	31,075
	credit available		$593,442	$640,462	$712,628	$691,600	$830,123	$875,909	$831,486	$811,007
	credit used		$537,541	$596,451	$644,314	$633,415	$773,000	$815,625	$817,591	$801,435
	carry forward									
Commerical & Industrial Solar Energy	# of claims			119	129	81	53	15	5	
	credit available	Data Not Available	Data Not Available	$917,184	$910,731	$549,543	$428,724	$75,549	$27,507	
	credit used			$504,027	$543,109	$325,054	$279,874	$54,558	$18,086	
	carry forward			$413,157	$367,622	$224,489	$148,850	$20,991	$9,421	
Contributions To Charities Providing Help To Working Poor	# of claims		78,736	66,396	61,602	49,915	36,568	18,280	29,202	25,587
	credit available	Data Not Available	$22,128,648	$18,191,993	$16,899,920	$13,556,228	$11,077,991	$5,877,831	$7,988,039	$6,637,500
	credit used		$21,835,458	$18,012,263	$16,727,074	$12,889,895	$11,059,408	$5,860,953	$7,939,507	$6,589,000
	carry forward					$666,333				
Defense Contracting	# of claims			0	0	0	0	0	0	0
	credit available			$0	$0	$0	$0	$0	$0	$0
	credit used			$0	$0	$0	$0	$0	$0	$0
	carry forward			$0	$0	$0	$0	$0	$0	$0
Donations to the Military Family Relief Fund	# of claims	2,936	2,967	3,007	3,052	3,185	3,070			
	credit available	$989,606	$989,868	$996,695	$995,849	$998,331	$982,575			
	credit used	$989,606	$989,868	$996,695	$995,849	$998,331	$982,575			
	carry forward									
Employing National Guard Members	# of claims									
	credit available	Data Not Available	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable
	credit used									
	carry forward									
Employment of TANF Recipients	# of claims				3	0		5	0	
	credit available	Data Not Available	Data Not Releasable	Data Not Releasable	$21,929	$0	Data Not Releasable	$24,606	$0	Data Not Releasable
	credit used				$20,822	$0		$12,666	$0	
	carry forward				$1,107	$0		$11,940	$0	
Enterprise Zone	# of claims			77	100	110	140	151	197	193
	credit available	Data Not Available	Data Not Available	$692,740	$1,189,074	$1,421,439	$1,766,320	$1,632,256	$2,158,246	$2,296,501
	credit used			$340,268	$650,253	$676,791	$896,056	$1,003,582	$1,642,905	$1,458,081
	carry forward			$487,642	$698,825	$946,666	$862,776	$593,280	$397,705	$713,499
Environmental Technology	# of claims					3				0
	credit available	Data Not Available	Data Not Releasable	Data Not Releasable	Data Not Releasable	$12,352	Data Not Releasable	Data Not Releasable	Data Not Releasable	$0
	credit used					$1,921				$0
	carry forward					$10,431				$0

		2013	2012	2011	2010	2009	2008	2007	2006	2005
Family Income Tax Credit	# of claims	536,788	520,448	533,345	516,513	515,867	501,013	518,820	472,266	439,056
	credit available	$43,789,385	$43,457,960	$45,490,320	$44,548,440	$44,711,520	$42,060,538	$42,706,477	$39,733,177	$36,737,292
	credit used	$5,006,579	$5,399,635	$5,905,317	$5,594,106	$5,270,319	$5,811,534	$6,784,150	$7,166,327	$7,661,867
	carry forward									
Healthy Forest Enterprise and Ecological Restoration Workforce Training	# of claims		0	0	0	0	0	0	0	0
	credit available	Data Not Available	$0	$0	$0	$0	$0	$0	$0	$0
	credit used		$0	$0	$0	$0	$0	$0	$0	$0
	carry forward		$0	$0	$0	$0	$0	$0	$0	$0
Income Taxes Paid To Other States or Countries	# of claims	36,948	32,281	39,174	36,535	30,125	31,103	27,706	34,880	34,664
	credit available	$65,414,586	$93,394,010	$82,151,564	$84,093,029	$75,216,168	$78,837,292	$105,315,257	$124,937,274	$119,416,310
	credit used	$65,414,586	$93,394,010	$82,151,564	$84,093,029	$75,216,168	$78,837,292	$105,315,257	$124,937,274	$119,416,310
	carry forward									
Increased Excise Taxes Paid	# of claims	635,106	638,208	672,009	656,524	664,675	605,599	579,464	536,940	546,678
	credit available	$32,843,364	$33,367,298	$35,659,215	$35,278,230	$35,928,030	$32,308,185	$30,444,007	$28,751,332	$29,358,243
	credit used	$32,843,364	$33,367,298	$35,659,215	$35,278,230	$35,928,030	$32,308,185	$30,444,007	$28,751,332	$29,358,243
	carry forward									
Investment in Qualified Small Business	# of claims			223	220	208	128	84		
	credit available	Data Not Available	Data Not Available	$3,142,853	$2,746,899	$1,823,893	$867,689	$415,766		
	credit used			$853,710	$766,806	$574,434	$411,156	$296,115		
	carry forward			$2,289,143	$1,980,385	$1,249,498	$456,644	$119,736		
Military Reuse Zone	# of claims					0	0	0	0	0
	credit available	Data Not Available	Data Not Available	Data Not Releasable	Data Not Releasable	$0	$0	$0	$0	$0
	credit used					$0	$0	$0	$0	$0
	carry forward					$0	$0	$0	$0	$0
Motion Picture Production and Infrastructure	# of claims	0	3	4	7	8	10	4	0	
	credit available	$0	$11,423	$184,398	$400,258	$328,603	$513,567	$153,184	$0	
	credit used	$0	$11,423	$54,053	$182,637	$99,935	$292,098	$128,165	$0	
	carry forward	$0	$0	$11,423	$217,621	$228,668	$221,469	$25,019	$0	
Neighborhood Electric Vehicle	# of claims								80	395
	credit available								$237,622	$1,866,584
	credit used								$67,977	$809,199
	carry forward								$0	$1,057,385
New Employment Credit	# of claims		0	0						
	credit available	Data Not Available	$0	$0						
	credit used		$0	$0						
	carry forward		$0	$0						
Pollution Control Device	# of claims		9		3		5	10	14	23
	credit available	Data Not Available	$221,039	Data Not Releasable	$5,844	Data Not Releasable	$18,492	$30,247	$31,327	$79,082
	credit used		$221,039		$2,466		$5,731	$7,962	$14,412	$71,574
	carry forward		$0		$2,661		$12,756	$22,767	$16,860	$7,508
Private School Tuition Organization (ORIGINAL)	# of claims	77,790	73,854	71,792	62,940	73,430	78,434	76,065	73,617	69,239
	credit available	$54,789,445	$51,892,576	$49,100,712	$43,183,534	$50,879,153	$55,260,728	$54,304,968	$51,012,326	$42,196,206
	credit used	$54,789,445	$51,892,576	$49,100,712	$43,183,534	$50,879,153	$55,260,728	$54,304,968	$51,012,326	$42,196,206
	carry forward									
Private School Tuition Organization (SWITCHER)	# of claims	28,592	15,994							
	credit available	$22,998,240	$12,579,495							
	credit used	$22,998,240	$12,579,495							
	carry forward									

		2013	2012	2011	2010	2009	2008	2007	2006	2005
Property Tax	# of claims	18,865	18,767	18,503	17,526	17,366	15,675	16,810	13,247	13,943
	credit available	$7,256,390	$7,222,443	$7,183,778	$6,750,770	$6,606,391	$5,722,697	$5,979,296	$4,776,863	$4,977,070
	credit used	$7,256,390	$7,222,443	$7,183,778	$6,750,770	$6,606,391	$5,722,697	$5,979,296	$4,776,863	$4,977,070
	carry forward									
Public School Extra Curricular Activity	# of claims	253,842	253,134	250,216	250,004	239,031	233,450	214,356	218,664	215,369
	credit available	$50,972,856	$51,287,359	$48,442,987	$43,718,717	$42,657,087	$45,164,366	$44,069,896	$43,230,433	$35,416,279
	credit used	$50,972,856	$51,287,359	$48,442,987	$43,718,717	$42,657,087	$45,164,366	$44,069,896	$43,230,433	$35,416,279
	carry forward									
Qualified Facilities	# of claims	0								
	credit available	$0								
	credit used	$0								
	carry forward	$0								
Qualified Health Insurance Plans	# of claims		0							
	credit available	Data Not	$0							
	credit used	Available	$0							
	carry forward		$0							
Recycling Equipment	# of claims		0	0	0	0	0	0	0	0
	credit available	Data Not	$0	$0	$0	$0	$0	$0	$0	$0
	credit used	Available	$0	$0	$0	$0	$0	$0	$0	$0
	carry forward		$0	$0	$0	$0	$0	$0	$0	$0
Renewable Energy Industry-Investment and Employment	# of claims	0	0	0	0					
	credit available	$0	$0	$0	$0					
	credit used	$0	$0	$0	$0					
	carry forward	$0	$0	$0	$0					
Renewable Energy Production	# of claims	0	0	0						
	credit available	$0	$0	$0						
	credit used	$0	$0	$0						
	carry forward	$0	$0	$0						
Research & Development	# of claims		173	535	492	359	350	281	280	200
	credit available	Data Not	$20,175,592	$20,221,602	$17,763,119	$13,073,520	$12,540,901	$9,775,459	$10,260,991	$8,450,439
	credit used	Available	$5,176,831	$6,961,536	$6,697,689	$4,764,421	$5,076,953	$3,627,129	$4,351,193	$3,353,682
	CREDIT REFUNDED		$41,824	$423,942	$270,828	$0	$0	$0	$0	$0
	ltd carry forward		$272,617	$272,617	$350,062	$382,810	$427,187	$530,475	$757,727	$854,668
	unltd carry forward		$14,622,516	$12,080,782	$10,381,565	$7,909,928	$7,036,761	$5,617,855	$5,152,071	$4,242,089
(Additional) Research & Development for University Research	# of claims	0	0							
	credit available	$0	$0							
	credit used	$0	$0							
	carry forward	$0	$0							
School Site Donation	# of claims		10	20	30	30	55	72	89	80
	credit available	Data Not	$566,257	$609,307	$1,110,173	$1,003,782	$2,010,294	$6,255,914	$10,553,076	$8,889,390
	credit used	Available	$35,054	$89,461	$224,989	$76,427	$321,623	$2,819,579	$7,812,958	$6,029,585
	carry forward		$93,470	$521,717	$759,483	$357,500	$1,639,328	$3,217,277	$2,534,946	$2,859,896
Solar Energy	**# of claims**			8,200	11,440	8,530	5,129	2,560	4,241	3,729
	credit available	**Data Not**	**Data Not**		$8,446,971	$6,287,754	$3,213,801	$1,604,336	$2,575,111	$1,945,208
	credit used	Available	Available	$5,300,000	$5,857,614	$5,067,783	$2,513,327	$1,218,593	$2,062,822	$1,588,034
	carry forward				$2,589,357	$1,219,971	$699,130	$385,384	$511,408	$356,337

		2013	2012	2011	2010	2009	2008	2007	2006	2005
Solar Hot Water Plumbing Stub Outs & Electric Vehicle Recharge	# of claims	Data Not Available	*13*	24	15	16	11	3	6	22
	credit available		*$1,125*	$2,025	$2,119	$2,850	$1,053	$225	$525	$18,538
	credit used		*$1,125*	$1,876	$1,662	$1,568	$930	$225	$525	$9,687
	carry forward		*$0*	$149	$457	$1,282	$123	$0	$0	$8,851
Solar Liquid Fuel Research & Development	# of claims	*0*	0	0						
	credit available	*$0*	$0	$0						
	credit used	*$0*	$0	$0						
	carry forward	*$0*	$0	$0						
Technology Training REFUNDABLE	# of claims									0
	credit available									$0
	credit refunded									$0
	carry forward									
Water Conservation Systems Credit	# of claims	Data Not Available	Data Not Available	*185*	232	213	214	61		
	credit available			*$96,165*	$118,326	$122,258	$121,593	$42,238		
	credit used			*$86,178*	$104,780	$104,402	$108,710	$36,227		
	carry forward			*$9,987*	$13,546	$17,856	$12,833	$6,011		
TOTAL	**# of claims**	***1,590,867***	***1,663,016***	***1,689,212***	***1,642,396***	***1,629,388***	**1,545,120**	**1,489,245**	**1,416,915**	**1,380,397**
	credit available	***$279,053,872***	***$344,124,128***	***$320,171,253***	***$314,767,841***	***$302,278,843***	**$302,364,589**	**$318,501,092**	**$335,994,852**	**$307,965,558**
	credit used	***$240,271,066***	***$285,401,065***	***$263,298,113***	***$252,790,723***	***$243,803,386***	**$247,350,578**	**$264,634,222**	**$286,479,999**	**$261,659,325**
	credit refunded	***$0***	***$41,824***	***$423,942***	***$270,828***	***$0***	**$0**	**$0**	**$0**	**$0**
	carry forward	***$0***	***$18,827,965***	***$20,910,496***	***$21,689,046***	***$17,383,033***	**$17,457,131**	**$16,357,972**	**$14,830,544**	**$15,703,214**
	ltd carry forward	*$0*	*$272,617*	*$272,617*	*$350,062*	*$382,810*	$427,187	$530,475	$757,727	$854,668

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 and will be provided on a later report.
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 is 6.0% of taxable income in TY 2015. 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% of total General Fund base revenue in FY 2015. However, Laws 2011, 2nd Special Session, Chapter 1 reduces the tax rate over a period of 4 years beginning in TY 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].

Table 1

COLLECTIONS

Fiscal Year	State General Fund	Fiscal Year	State General Fund
2015	$663,003,020	2005	$701,859,285
2014	$575,180,221	2004	$494,044,869
2013	$662,026,399	2003	$389,406,300
2012	$643,771,845	2002	$346,280,400
2011	$560,235,683	2001	$541,173,600
2010	$413,193,307	2000	$523,180,000
2009	$592,157,255	1999	$545,389,000
2008	$784,510,885	1998	$535,295,300
2007	$986,169,564	1997	$600,890,500
2006	$874,219,473	1996	$448,039,400

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 revenue from 2 years prior is distributed to cities and towns. This distribution is based on the population of each city and town as determined by the most recent U.S. decennial census [A.R.S. § 43-206] or by a special census [A.R.S. § 42-5033]. *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

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].

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 that 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.
(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

REVENUE 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 current tax rate for corporate income tax is 6.0% of a corporation's net Arizona taxable income or $50, whichever is greater [A.R.S. § 43-1111]. Laws 2011, 2nd Special Session, Chapter 1 reduces the corporate tax rate from 6.968% to 4.9% over 4 years, beginning in TY 2014. Prior to Chapter 1, a 6.968% flat tax was in effect from January 1, 2001 through December 31, 2013 (*Table 2* below displays historical corporate income tax rates). The $50 minimum tax was effective beginning January 1, 1988.

Table 2

HISTORICAL CORPORATE INCOME TAX RATES 1/2/

Taxable Income	TY 1965	TY 1967	TY 1974 2/	TY 1990	TY 1994	TY 1998	TY 2000	TY 2001
$ 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%

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

Table 3 below displays corporate tax rates for TY 2014 through TY 2017 pursuant to Laws 2011, 2nd Special Session, Chapter 1.

Table 3

FUTURE CORPORATE INCOME TAX RATES 1/ 2/

Tax Year	
2014	6.5%
2015	6.0%
2016	5.5%
2017	4.9%

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

Any corporation that has income from business activity that is taxable both within the state and outside of the state (hereafter referred to as "multistate corporation") is required to allocate a portion of the income to Arizona for purposes of computing its Arizona taxable income [A.R.S. § 43-1132]. The method of allocation depends on whether the income is classified as "business income" or "nonbusiness income," as described below.

Allocation of Business Income

Business income arises from transactions and activity in the course of the corporation's regular trade or business operations [A.R.S. § 43-1131]. Any multistate corporation (other than a commercial airline) can elect to allocate its business income based on what is commonly referred to as either the "Standard Apportionment Formula" or the "Enhanced Apportionment Formula." Commercial airlines are required to use a separate allocation method for business income commonly referred to as the "Air Carrier Apportionment Formula" [A.R.S. § 43-1139].

Both the Standard and Enhanced Apportionment Formulas allocate a corporation's business income based on the proportion of its property, payroll, and sales in Arizona relative to other states. These proportions are referred to as respectively the "property factor," "payroll factor," and "sales factor." The apportionment ratio used for the allocation of business income to Arizona is determined by calculating the weighted average of the 3 factors. Under the Standard Apportionment Formula, the sales factor is assigned a weight of 50% whereas the property factor and payroll factor is each given a weight of 25%.

The Enhanced Apportionment Formula, which was established by Laws 2005, Chapter 289, increased the weight of the sales factor to 60% in TY 2007, 70% in TY 2008, and 80% in TY 2009 and subsequent years. This formula was further modified by Laws 2011, 2nd Special Session, Chapter 1, which increases the weight of the sales factor to 85% in TY 2014, 90% in TY 2015, 95% in TY 2016, and 100% in TY 2017 and subsequent years. The phase-in of the increased weight of the sales factor enacted in 2005 and 2011 was simultaneously offset by a commensurate reduction of the weights for the property and payroll factors [A.R.S. § 43-1139 - A.R.S. § 43-1145].

For the 2015 taxable year, a multistate corporation may choose (for purposes of allocating its business income to Arizona) either the 50% sales factor under the Standard Apportionment Formula or the 90% sales factor under the Enhanced Apportionment Formula. The corporation is likely to choose the formula that reduces its Arizona tax liability the most. For example, a business with 10% of its total sales and 20% of its total property and payroll in Arizona would benefit from the 90% sales factor. In calculating the proportion of the corporation's business income allocated to Arizona, the 10% sales factor would receive a weight of 90% whereas the 20% property and payroll factors would each receive a weight of 5%. After applying the weights under the Enhanced Apportionment Formula, 11% of the total multistate business income would be allocated to Arizona. Under the Standard Apportionment Formula, the corporation would have to allocate 15% of its total business income to Arizona.

The proportion of sales allocated to Arizona (for purposes of calculating the sales factor) is determined differently for sales of tangible personal property ("goods") than for sales other than tangible personal property ("services") as described below:

- Sale of tangible personal property is 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 is allocated to Arizona if either of the following applies: (1) the income producing activity is performed solely in the state, or (2) the income producing activity is performed both in and outside the state, but a greater proportion of the activity is performed in Arizona than in any other state. Beginning in TY 2014, Laws 2012, Chapter 2 provides multistate service providers the option to treat sales from services as being in this state based on a combination of income producing activity sales and market sales. For the 2014 taxable year, Chapter 2 provided an option for corporations that sold 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 increases this figure to 90% in TY 2015, 95% in TY 2016, and 100% in TY 2017 and subsequent years. Thus, beginning in TY 2017, the location of sales will account for 100% of the sales factor for multistate service providers [A.R.S. § 43-1147]. Laws 2013, Chapter 236 expanded eligibility of this provision by broadening the definition of a multistate service provider to include regionally accredited institutions of higher education with at least one university campus in Arizona on which at least 2,000 students reside.

Allocation of Nonbusiness Income

Nonbusiness income refers to all income other than business income and typically includes rents and royalties from real property or tangible personal property, capital gains, interest and dividends, and patent and copyright royalties. Nonbusiness income is generally allocated to Arizona to the extent that 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 DOR may require, an alternative method of allocation [A.R.S. § 43-1148].

Net Operating Loss. A net operating loss (NOL) is incurred when a corporation's allowable deductions exceed its taxable income within the same taxable year. Under current law, a corporation is allowed to apply prior years' net operating losses against it current year's Arizona income. Pursuant to Laws 2012, Chapter 343, the net operating loss incurred in one taxable year can 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.

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:

Table 4

REFUNDABLE INCOME TAX CREDITS

Name of Credit	Type of Credit
Research and Development (R&D) Credit 1/	Individual and Corporate
Renewable Energy Investment Credit 2/	Individual and Corporate
Qualified Facility Credit 3/	Individual and Corporate

Notes:

1/ 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.

2/ Credit is subject to an aggregate cap of $70 million annually, which it shares with the qualified facility credit. Laws 2014, Chapter 8 limits a taxpayer from claiming both this credit and the Renewable Manufacturing Facility Credit for the same facilities (see *Appendix A* for details).

3/ 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).

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].

Income tax credits available to corporate taxpayers are described below. The value of tax credits used and carried forward through calendar year 2012 (the latest year available) is summarized by the Arizona Department of Revenue (DOR) report attached at the end of this section. *Table 5* on the following page is a summary of the DOR report.

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. In addition to tax credit provisions, the state permits individual and corporate income tax filers to accelerate depreciation of certain qualified asset purchases, for purposes of calculating state income tax liability. The *Accelerated Depreciation* sub-section to the *Individual Income Tax* section of the Tax Handbook includes more details.

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].

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].

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].

Enterprise Zones. Businesses located in an enterprise zone were able to claim a credit for net increases in employment of persons who qualify as economically disadvantaged under the Job Training Partnership Act. *(See Laws 1989, Chapter 194 for changes in the amount of credit allowed.)* To qualify, at least 35% of the full-time equivalent employees claimed must reside in an enterprise zone. 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 non-refundable credit may not be claimed for more than 200 employees. Laws 2013, Chapter 236 provides that businesses that were certified by ACA and then claimed first year credits under the now repealed credit program, be exempt from the requirement to file for certification in order to claim second or third year credits. Though new credits may not be earned after tax year 2011, previously earned credits may be carried forward up to 5 years and used no later than tax year 2016.

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 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 was available to businesses that provided qualifying health insurance plans to each enrolled employee. The credit is equal to $360 for every employee that enrolled in a health insurance plan offered by the business. To qualify, the business was required to offer High Deductible Health Insurance Plans with catastrophic coverage under a Health Savings Account. To receive the credit, businesses were required to have between 2 and 50 employees, have provided health insurance within 90 days of offering the plan, and offered the plan to every employee for at least 1 year. Although new credits may not be earned after tax year 2014, previously earned credits may be carried forward up to 3 years and used no later than tax year 2017 [A.R.S. § 43-1185].

Table 5

CORPORATE INCOME TAX CREDITS

Credit	Effective	Annual Cost [1/2/]
Agricultural Pollution Control Equipment	1999 -	$0
Commercial and Industrial Solar Energy Devices	2006 - 2018	183,000
Employing National Guard Members	2006 -	6,000
Employing TANF Recipients	1998 -	87,500
Environmental Technology	1993 -	3,669,700
Enterprise Zone [3/]	1990 - 2011	2,966,400
Healthy Forest Enterprise	2005 - 2024	0
Military Reuse Zone	1993 -	100
Motion Picture Production and Infrastructure [4/]	2006 - 2010	1,054,300
New Employment [5/]	2011 - 2022	3,714,100
Pollution Control Device	1995 -	1,872,300
Recycling Equipment [6/]	1993 - 1999	0
Renewable Energy Investment [7/]	2010 - 2019	0
Renewable Energy Production [8/]	2011 - 2020	N/R
Research & Development - Nonrefundable	2001 -	72,026,700
Research & Development - Refundable [9/]	2010 -	4,184,400
Additional Research & Development - University Research [10/]	2012 -	N/R
Private School Tuition Organizations - Low-Income Students [11/]	2006 -	51,597,800
Private School Tuition Organizations - Disabled/Displaced Students [12/]	2009 -	5,000,000
School Site Donation	2001 -	N/R
Solar Hot Water Stub Outs	1998 -	0
Coal Consumed in Electric Power Generation	1998 -	2,182,200
Solar Liquid Fuel	2011 - 2021	0
Water Conservation System [13/]	2007 - 2011	0
TOTAL VALUE OF CORPORATE INCOME TAX CREDITS		**$148,544,500**

1/ Amounts represent the annual credit use during the last reported year, which is primarily in tax years 2010-2012.
2/ "N/R" indicates that the information is not releasable due to Arizona confidentiality laws.
"N/A" denotes that credit data is not yet available from DOR.
3/ Credit was effective through 6/30/2011, but earned credits have a 5-year carry forward.
4/ Credit was effective through TY 2010, but earned credits have a 5-year carry forward.
5/ Statute does not permit the Arizona Commerce Authority to authorize new credits after June 30, 2017. Given a maximum 5-year schedule, the credit may not be claimed after TY 2022.
6/ Credit was effective through TY 1999, has a 15-year carry forward for credits earned, but is limited to use through TY 2005.
7/ Credit is capped at $70 million annually between corporate and individual income taxpayers.
8/ Credit is capped at $20 million annually between corporate and individual income taxpayers.
9/ Credit is capped at $5 million annually between corporate and individual income taxpayers.
10/ Credit is capped at $10 million annually between corporate and individual income taxpayers.
11/ Estimate is based on the total amount of donations by corporations and insurers for FY 2016, as reported by DOR. Credit is capped at $51.6 million in FY 2016 between corporate income and insurance premium taxpayers, and increases by 20% annually.
12/ Estimate is based on the total amount of donations by corporations and insurers for FY 2016, as reported by DOR. Credit is capped at $5 million annually between corporate income and insurance premium taxpayers.
13/ Credit was effective through TY 2011, but earned credits have a 5-year carry forward.

SOURCE: Department of Revenue Report – *Arizona Corporate Income Tax Credits (November 2014).*

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].

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].

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. Though new credits may not be earned after tax year 2010, previously earned credits may be carried forward up to 5 years and used no later than tax year 2015.

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 associated with 1 net new job can be claimed for 3 years. A company may claim 1st year credits for separate new jobs for up to 3 consecutive years. Since 2nd and 3rd year credits may be claimed against each of the new positions, the taxpayer may claim credits for up to a total of 5 consecutive 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) [A.R.S. § 43-1074]. The Arizona Commerce Authority (ACA) is authorized to issue 1st year credits for up to 10,000 new employees ($30 million) in each year (A.R.S. § 41-1525). Statute does not permit the ACA to authorize new credits after June 30, 2017. Given the maximum 5-year schedule outlined above, businesses may claim credits through TY 2022. In TY 2013 and later years, Laws 2012, Chapter 343 eliminates the requirement (provided by Laws 2011, 2nd 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 applied 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). Laws 2014, Chapter 168 changes the requirement for the New Employment Tax Credit program by providing that second and third year credits can be claimed irrespective of whether the same employee remains employed as long as the employer replaces the vacant position with another qualified employee within 90 days.

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].

Recycling Equipment. Taxpayers were able to claim a credit for placing recycling equipment in service after December 31, 1992. This credit was in lieu of any deductions taken for depreciation. The credit was equal to 10% of the installation cost, but not to exceed the lesser of 25% of the tax liability for that year or $5,000. Certain recapture provisions applied when the recycling equipment ceased operation or was transferred. Though new credits may not be earned after tax year 2002, previously earned credits may be carried forward up to 15 years and used no later than tax year 2017.

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 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]. Pursuant to Laws 2014, Chapter 8, this credit cannot be claimed against the same facilities that are also claimed under the Renewable Manufacturing Facility Credit [A.R.S. § 43-1164.05]. For additional information on renewable energy incentives, see *Appendix A*.

Renewable Energy Manufacturing Facility. A credit is allowed for companies that make substantial investments in new facilities that produce renewable energy to be used in a company's manufacturing processes or for a company's certified "International Operations Center" (IOC). A company may earn up to $5 million in credits per year, for up to 5 years for each qualifying renewable energy facility. Prior to Laws 2015, Chapter 6, only manufacturing facilities could qualify for a credit of $1 million per year for each facility, for up to 5 years.

The credit program includes different criteria to qualify as a manufacturer than as a certified IOC. To qualify for credits, a manufacturing company must invest a minimum of $300 million within 3 years of applying for the credit, or by December 31, 2017, whichever is earlier. Each of a manufacturer's renewable energy facilities requires at least a $30 million investment, production of at least 40,000 megawatt hours of energy annually, and use of at least 90% of the energy produced at the facility for self-consumption in the state and for manufacturing. To qualify for the credit, an IOC must invest at least $100 million in renewable energy facilities within 3 years of applying for the credit, or by December 31, 2018, whichever is earlier. At least 51% of energy produced by an IOC renewable energy facility must be used for self-consumption by the fifth year of operation. A company's facility must meet additional investment requirements pursuant to A.R.S. § 41-1520 to be certified by the Arizona Commerce Authority as an International Operations Center.

The credit program is non-refundable, is subject to an annual, aggregate individual and corporate income tax credit cap of $10 million, and may be carried forward up to 5 years. The lifetime limit on the amount of tax credits claimed by an IOC is $25 million. This credit cannot be claimed against the same facilities that are used to claim the Renewable Energy Production Credit [A.R.S. § 43-1083.02 and A.R.S. § 43-1083.04]. 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 statutory changes under *Impact of Statutory 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 statutory changes under *Impact of Statutory Changes*). Laws 2010, 2nd 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. Laws [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 corporation (and an insurer) may claim a tax credit, up to the full amount of the donation, for contributions made to a school tuition organization (STO) that provides education scholarships and tuition grants either to students of low-income families pursuant to A.R.S. § 43-1183 (and A.R.S. § 20-224.06) or to disabled students or students in foster care ("displaced students") pursuant to A.R.S. § 43-1184 (and A.R.S. § 20-224.07). Laws 2015, Chapter 301 expands the "low-income" and "disabled/displaced" STO credits to include businesses organized as S corporations pursuant to Section 1361 of the Internal Revenue Code, beginning in TY 2015. Since tax credits earned by an S corporation are pro-rated and passed through to the owners, such credits are claimed against the individual income tax rather than the corporate income tax (*see the Individual Income Tax section for more details on Laws 2015, Chapter 301*).

The total 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 credit cap is $51.6 million in FY 2016 and increases to $61.9 million in FY 2017, and $74.3 million in FY 2018. Due to the aggregate credit cap, all corporations and insurers must be pre-approved for the credit. There is no cap on the amount of contributions made by individual corporations and insurers.

The full amount of the disabled/displaced student 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 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). From 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 that 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*.

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. This non-refundable credit, which was effective for tax years 2007 through 2011, was for the installation of water conservation systems to encourage the re-use of “graywater,” or wastewater for irrigation purposes. The credit was equal to 25% of the cost of the water conservation system up to a maximum of $1,000. The maximum aggregate amount that could be claimed in a taxable year was $250,000. Though new credits may not be earned after tax year 2011, previously earned credits may be carried forward up to 5 years and used no later than tax year 2016.

PAYMENT SCHEDULE

<u>Period Covered by the Taxable Year</u>

Every taxpayer (individual, business entity, etc.) must figure its taxable income based on an annual accounting period called a tax year. For individual income taxpayers the calendar year is also their tax year. Other taxpayers, such as corporations or partnerships may use a fiscal year as their tax year.

A calendar year is 12 consecutive months beginning on January 1 and ending on December 31. Taxpayers that adopt the calendar year as their tax year must maintain their books and records and report their income and expenses from January 1 through December 31 of each year.

A fiscal year is 12 consecutive months ending on the last day of any month except December 31. Taxpayers that adopt a fiscal year must consistently maintain their books and records and report their income and expenses using the period (fiscal year) adopted.

The federal filing due date for C and S Corporations is the 15th day of the 3rd month following the close of the tax year. The corresponding Arizona state filing due date is the 15th day of the 4th month following the close of the tax year [A.R.S. § 43-501]. For example, for a corporation whose tax year is the same as the calendar year, the federal filing due date is March 15 whereas the state filing due date is April 15. The reason for the additional 1-month period to file the state return is to accommodate multistate corporations since such tax returns tend to be more complex. For partnership returns, the federal and state filing due dates are the same, namely the 15th day of the 4th month following the close of the tax year.

A filing extension may be granted if 90% of the corporation's 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].

The *Table 6* below provides 3 examples of when a corporation's 2015 tax return is due. The due date depends on the corporation's elected tax year (calendar year or fiscal year) as well as whether the corporation files for a 6-month extension or not.

Table 6

FILING DUE DATE FOR CORPORATE INCOME TAX RETURN

Accounting Period	Corporation's Taxable Year	Federal Filing Due Date	Arizona Filing Due Date	Federal Extension Due Date	Arizona Extension Due Date	Income Tax Return Year
1/1/2015 – 12/31/2015	CY 2015	3/15/2016	4/15/2016	9/15/2016	10/15/2016	2015
7/1/2015 – 6/30/2016	FY 2016	9/15/2016	10/15/2016	3/15/2017	4/15/2017	2015
12/1/2015 – 11/30/2016	FY 2016	2/15/2017	3/15/2017	8/15/2017	9/15/2017	2015

As indicated in the table above, a corporation's 2015 state tax return could be filed as early as April 15, 2016 and as late as September 15, 2017 depending on: (1) the corporation's elected tax year (calendar year or fiscal year) and (2) whether the corporation requests a 6-month extension or not. According to the Department of Revenue, large corporations typically file for the 6-month extension.

Estimated Tax Payments

Corporations that expect an Arizona income tax liability for the taxable year of $1,000 or more must make Arizona estimated tax payments during the year. Corporations whose Arizona income tax liability for the preceding taxable year was $20,000 or more must make their estimated payments via electronic fund transfer ("EFT"). Any corporation that fails to make the required estimated tax payments is subject to a penalty on any payment that is late or underpaid [A.R.S. § 43-582]. The required annual payment of the estimated tax is the smaller of:

- 90% of the corporation's Arizona tax liability for the current taxable year, or
- 100% of the corporation's Arizona tax liability for the prior taxable year.

Large corporations (defined as having a federal tax liability of $1 million or more for any 1 of the preceding 3 taxable years) are required to make total estimated payments of 90% of the current year's tax liability.

Calendar year and fiscal year basis taxpayers are required to make their Arizona corporate estimated tax payments by the 15th day of the 4th, 6th, 9th, and 12th months of the taxable year. If the installment due date falls on a weekend or legal holiday, the payment is considered timely if made on the next business day.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

2015 LAWS

Laws 2015, Chapter 6 expands the renewable energy manufacturing facility credit to investments in facilities certified by the Arizona Commerce Authority as an "International Operations Center" (IOC) and increases the annual credit amount. Laws 2014, Chapter 8 provides an individual and corporate income tax credit for investments in new renewable energy facilities that produce energy that is used for self-consumption if the power is used primarily in manufacturing operations. Under Laws 2015, Chapter 6, the requirements to qualify for the credit are lower for an IOC than a manufacturer. Chapter 6 increases the credit amount from $1 million to $5 million per year (for 5 years) for each qualifying renewable energy facility. For additional information on the renewable energy investment credit, see *Appendix A* in the Tax Handbook. (Effective retroactively from January 1, 2015)

Laws 2015, Chapter 301 allows an S corporation to receive an income tax credit for cash contributions made to a private School Tuition Organization (STO) that provides scholarships to "low-income" or "displaced or disabled" students pursuant to A.R.S. § 43-1183 and A.R.S. § 43-1184. Prior to Chapter 301, only businesses classified as C corporations were allowed to receive credits for such contributions. For tax purposes, credits earned by an S corporation must be pro-rated, passed through to the co-owners and applied against each owner's individual income tax liability. Chapter 301 is not expected to have any additional revenue impact since existing caps on tax credit-eligible contributions for scholarships to low-income or displaced/disabled students are already fully utilized. For additional information on school tuition tax credits, see *Appendix B* in the Tax Handbook. (Effective retroactively from January 1, 2015)

2014 LAWS

Laws 2014, Chapter 8 creates a new corporate income tax credit for any company that makes an investment of at least $300 million in a new renewable energy facility that produces energy that is primarily used in Arizona for the company's own manufacturing processes. The credit has an aggregate corporate income tax cap of $10 million a year. While the credit can be taken in FY 2015, it is anticipated that the credit will not be used until FY 2016. The credit is estimated to reduce General Fund revenues by $(10) million, beginning in FY 2016 [A.R.S. § 43-1164.05]. (Effective from July 24, 2014)

Laws 2014, Chapter 168 changes the requirement for the New Employment Tax Credit by providing that second and third year credits can be claimed irrespective of whether the same employee remains employed as long as the employer replaces the vacant position with another qualified employee within 90 days. The provision, which is effective retroactively from January 1, 2014, is estimated to reduce income tax collections by $(882,000) in FY 2015, followed by an additional $(405,000) in FY 2016, and $(381,000) in FY 2017 [A.R.S. § 43-1164.05].

Laws 2014, Chapter 223 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, 2014. (Effective retroactively from January 1, 2014)

Laws 2014, Chapter 245 was the annual correction bill that made technical, conforming, and clarification changes to the Arizona Revised Statutes. The bill removed statutory references for previously expired individual income tax credits including Water Conservation Systems, Agricultural Preservation Districts and Construction Materials credits. The Water Conservation Systems credit may still be carried forward up to 5 years and used no later than TY 2016. (Effective beginning January 1, 2015)

2013 LAWS

Laws 2013, Chapter 65 conforms Arizona tax statutes to the Internal Revenue Code (IRC) as of January 3, 2013 and establishes a tax credit for Tax Year 2013 in lieu of conforming to the retroactive provision of the Federal Aviation Administration (FAA) Modernization and Reform Act relating to rollover of amounts received in airline carrier bankruptcy. Chapter 65 is estimated to result in an income tax revenue gain of $4.6 million in FY 2013, $13.7 million in FY 2014, $17.6 million in FY 2015, and $15.6 million in FY 2016.

Laws 2013, Chapter 114 was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. (Contained various effective dates)

Laws 2013, Chapter 236 includes several income tax (individual and corporate), TPT and property tax provisions. The act's corporate income tax provisions are summarized below. The *Individual Income Tax* section of the Tax Handbook (*2013 Law Changes*) shows the fiscal impact by tax provision and year.

<u>Allows Institutions of Higher Education to Use an Alternative Sales Factor</u>
Chapter 236 allows a regionally accredited institution of higher education to elect to treat sales of educational services as being in Arizona based on a combination of income-producing activity sales and market sales. As a result, academic institutions with at least 1 campus on which 2,000 or more students reside will be able to reduce their Arizona corporate income tax liability by using an alternative sales factor calculation for educational services. This provision, which is effective January 1, 2014, has an unknown revenue impact.

<u>Exempts Enterprise Zone Credit Certification Requirement</u>
Chapter 236 provides that businesses, which were certified by ACA and then claimed first year credits under the now repealed Enterprise Zone (EZ) Credit program, be exempt from the requirement to file for certification in order to claim second or third year credits. This provision, which is retroactive to July 1, 2011, is estimated to reduce income tax revenue by $(500,000) in FY 2014 and $(300,000) in FY 2015.

Laws 2013, Chapter 256 removes the $25,000 cap on deductions from state income tax for qualified business equipment purchases under Section 179 of the Internal Revenue Code (IRC), beginning in tax years starting after December 31, 2012. Section 179 allows individual and corporate taxpayers to deduct, for income tax purposes, 100% of their qualified business expenses (up to a stipulated amount) in the year that the equipment was purchased rather than in smaller installments over several years according to a federal depreciation schedule. The act is estimated to result in a one-time income tax revenue loss of $(24.8) million in FY 2014. The maximum Section 179 deduction decreased to $25,000 in taxable year 2014 and later, though Congress and the President may choose to extend the existing deduction. The *Accelerated Depreciation Allowances* section includes more details on the Section 179 allowance.

2012 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. 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, 2nd 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 Law Changes*) shows the fiscal impact by tax provision and year. The act's corporate income tax provisions are summarized below.

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.

Deduction of Federal Bonus Depreciation

Under federal law, businesses that place qualified property in service in 2012 or 2013 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 and 2013. The act is expected to result in a one-time individual and corporate 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 2013. The *Accelerated Depreciation* sub-section to the *Individual Income Tax* section of the Tax Handbook includes more details on bonus depreciation allowances.

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, 2nd 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 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, 2nd 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.

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 was 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 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.

Table 7

General Fund Impact of Tax Provisions in Laws 2011, 2nd 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 3/			(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 3/						(2.4)	(2.7)
Reduce Homeowner Rebate costs by limiting to primary residence & requiring affidavits	Property 3/		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 3/			(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 4/		(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Changes personal property exemption inflation factor to cost employment index	Property 3/		-	-	-	-	-	-
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
SUBTOTAL		**($6.7)**	**$14.8**	**($20.6)**	**($151.3)**	**($263.4)**	**($397.6)**	**($506.5)**
Diverts withholding tax to Arizona Commerce Authority, beginning in FY 2012	Individual Income 5/6/	(31.5)	(31.5)	(31.5)	(31.5)	(31.5)	(31.5)	(31.5)
Total General Fund Impact		**($38.2)**	**($16.7)**	**($52.1)**	**($182.8)**	**($294.9)**	**($429.1)**	**($538.0)**

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 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.

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 LAWS

Laws 2009, 2nd 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, 1st 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 statutory 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.

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.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at
www.azleg.gov/jlbc/15taxbook/15taxbk.pdf

		2012	2011	2010	2009	2008	2007	2006	2005	2004
Agricultural	# of claims	0	0	0	0	0	0		0	
Pollution	credit available	$0	$0	$0	$0	$0	$0	Data Not	$0	Data Not
Control	credit used	$0	$0	$0	$0	$0	$0	Releasable	$0	Releasable
Equipment	carry forward	$0	$0	$0	$0	$0	$0		$0	
Agricultural	# of claims								0	0
Preservation	credit available								$0	$0
District	credit used								$0	$0
REFUNDABLE	credit refunded								$0	$0
Agricultural	# of claims								0	
Water	credit available								$0	Data Not
Conservation	credit used								$0	Releasable
	carry forward								$0	
Alternative	# of claims									
Fuel Delivery	credit available									Data Not
System	credit used									Releasable
NONREFUNDABLE	carry forward									
Alternative	# of claims									3
Fuel	credit available									$659,570
Vehicles	credit used									$2,837
NONREFUNDABLE	carry forward									$0
Clean	# of claims	*257*	255	260	228	329	227	122	102	93
Elections	credit available	*$1,355*	$1,635	$2,842	$1,292	$22,558	$2,615	$684	$2,019	$597
	credit used	*$1,355*	$1,635	$2,842	$1,292	$22,558	$2,615	$684	$2,019	$597
	carry forward									
Commerical &	# of claims	*17*	11	13	10	7				
Industrial Solar	credit available	*$265,650*	$274,620	$244,779	$206,102	$85,550	Data Not	Data Not		
Energy Credit	credit used	*$183,016*	$181,978	$129,528	$87,163	$74,899	Releasable	Releasable		
	carry forward	*$82,634*	$92,642	$115,251	$118,939	$10,651				
Consolidated	# of claims							52	28	32
Filer	credit available							$31,647,046	$36,327,939	$38,635,451
	credit used							$0	$4,680,893	$2,307,512
REFUNDABLE	credit refunded							$31,647,046		
	carry forward							$0	$31,647,046	$36,327,939
Construction	# of claims									
Materials	credit available									Data Not
	credit used									Releasable
	carry forward									
Contributions to	# of claims	*88*	83	67	69	74	62	57	5	
School Tuition	credit available	*$28,412,131*	$15,369,786	$11,714,780	$10,778,757	$9,180,214	$11,625,278	$10,625,940	$530,000	
Organizations	credit used	*$24,819,172*	$12,900,592	$8,474,718	$8,872,088	$6,147,240	$10,823,475	$10,369,546	$526,260	
	carry forward	*$3,592,959*	$2,464,583	$3,200,062	$1,933,036	$3,032,974	$801,803	$256,394	$3,740	
Contributions to	# of claims	*4*	3							
School Tuition	credit available	*$272,550*	$170,000	Data Not	Data Not					
Organizations for Disabled/	credit used	*$272,550*	$170,000	Releasable	Releasable					
Displaced Students	carry forward	*$0*	$0							

		2012	2011	2010	2009	2008	2007	2006	2005	2004
Defense	# of claims		0	0						
Contracting	credit available		$0	$0	Data Not	Data Not	Data Not	Data Not	Data Not	Data Not
	credit used		$0	$0	Releasable	Releasable	Releasable	Releasable	Releasable	Releasable
	carry forward		$0	$0						
Employing	# of claims	*5*	5	8	6	5		3		
National Guard	credit available	*$6,000*	$7,000	$17,900	$14,900	$9,000	Data Not	$5,000		
Members	credit used	*$6,000*	$7,000	$17,900	$7,000	$3,100	Releasable	$5,000		
	carry forward	*$0*	$0	$0	$7,900	$5,900		$0		
Employment of	# of claims	*9*	8	7	12	10	12	11	13	14
TANF	credit available	*$164,692*	$134,244	$120,533	$132,312	$60,870	$53,978	$54,562	$124,397	$491,175
Recipients	credit used	*$87,548*	$64,550	$61,289	$43,178	$29,006	$45,064	$40,804	$99,575	$485,190
	carry forward	*$77,144*	$69,694	$59,244	$89,134	$31,864	$8,914	$13,758	$24,822	$5,985
Enterprise	# of claims	*50*	70	89	94	102	103	105	120	119
Zone	credit available	*$8,168,607*	$10,768,994	$11,779,985	$12,644,707	$11,827,212	$10,262,113	$11,383,658	$11,682,526	$12,647,800
	credit used	*$2,966,440*	$5,759,396	$6,229,916	$6,248,427	$7,081,503	$6,910,484	$9,112,221	$7,887,049	$7,647,392
	carry forward	*$4,545,700*	$4,705,162	$5,495,773	$6,284,261	$4,651,832	$3,230,105	$2,269,212	$3,302,824	$4,345,843
Environmental	# of claims	*3*		3	3	3	3			
Technology	credit available	*$8,907,204*	Data Not	$20,441,586	$21,393,328	$22,373,917	$44,084,293	Data Not	Data Not	Data Not
Facility	credit used	*$3,669,723*	Releasable	$685,266	$1,139,140	$1,108,346	$13,821,008	Releasable	Releasable	Releasable
	carry forward	*$4,259,637*		$12,851,683	$20,254,188	$21,265,571	$30,263,285			
Healthy Forest Enterprises	# of claims	*0*	0	0				0	0	
and Ecological	credit available	*$0*	$0	$0	Data Not	Data Not	Data Not	$0	$0	
Workforce Training	credit used	*$0*	$0	$0	Releasable	Releasable	Releasable	$0	$0	
	carry forward	*$0*	$0	$0				$0	$0	
Military	# of claims	*3*	3	3						
Reuse	credit available	*$158,170*	$149,720	$102,570	Data Not	Data Not	Data Not	Data Not	Data Not	Data Not
Zone	credit used	*$100*	$5,100	$1,600	Releasable	Releasable	Releasable	Releasable	Releasable	Releasable
	carry forward	*$149,120*	$131,670	$70,020						
Motion Picture	# of claims	4	5	11	5	11	7			
Production and	credit available	$1,560,611	$4,312,794	$9,400,775	$2,107,372	$7,551,568	$6,802,746	Data Not		
Infrastructure	credit used	$1,054,346	$3,825,900	$8,579,472	$1,639,943	$7,377,180	$1,189,442	Releasable		
	carry forward	$506,265	$486,894	$821,303	$467,429	$174,388	$5,613,304			
Neighborhood	# of claims								4	10
Electric Vehicles	credit available							Data Not	$680,915	$791,263
	credit used							Releasable	$3,041	$11,380
	carry forward								$677,874	$779,883
New Employment	# of claims	*9*								
Credit	credit available	*$3,939,000*	Data Not							
	credit used	*$3,714,100*	Releasable							
	carry forward	*$224,900*								
Pollution	# of claims	*20*	17	20	17	18	17	21	24	24
Control Device	credit available	*$7,074,995*	$6,585,467	$7,562,350	$6,630,139	$5,409,982	$4,680,154	$5,959,906	$8,482,008	$7,384,937
	credit used	*$1,872,337*	$1,364,968	$2,617,517	$1,956,688	$1,418,256	$2,304,062	$1,997,280	$2,119,047	$1,206,299
	carry forward	*$5,202,658*	$4,685,391	$4,422,930	$4,260,463	$3,981,691	$2,279,572	$3,805,825	$5,730,493	$5,853,665

		2012	2011	2010	2009	2008	2007	2006	2005	2004
Qualified Health Insurance Plans Credit	# of claims									
	credit available	Data Not Releasable								
	credit used									
	carry forward									
Recycling Equipment	# of claims									
	credit available								Data Not Releasable	Data Not Releasable
	credit used									
	carry forward									
Renewable Energy Industry - Investment and Employment	# of claims	0	0	0						
	credit available	$0	$0	$0						
	credit used	$0	$0	$0						
	carry forward	$0	$0	$0						
Renewable Energy Production	# of claims									
	credit available	Data Not Releasable	Data Not Releasable							
	credit used									
	carry forward									
Research & Development	# of claims	*303*	318	301	270	260	254	250	225	218
	credit available	*$727,136,025*	$649,087,347	$534,503,361	$431,109,332	$376,644,499	$335,638,942	$283,124,016	$220,209,755	$134,843,810
	credit used	*$72,026,666*	$81,859,853	$59,049,979	$33,140,096	$49,765,561	$58,276,040	$57,113,033	$49,146,730	$37,403,128
	CREDIT REFUNDED	*$4,184,353*	$3,939,816	$4,015,985	$0	$0	$0	$0	$0	$0
	ltd carry forward	*$383,117,125*	$421,973,824	$469,231,356	$482,470,939	$500,613,808	$507,841,038	$518,873,948	$534,732,880	$538,741,851
	carry forward	*$647,290,570*	$559,203,359	$466,808,398	$394,730,865	$323,504,367	$272,941,443	$221,296,496	$161,744,627	$104,817,690
(Additional) Research & Development for University Research	# of claims									
	credit available	Data Not Releasable								
	credit used									
	carry forward									
School Site Donation	# of claims						0	6	5	3
	credit available	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	$0	$2,756,579	$1,273,681	$616,473
	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
Solar Liquid Fuel Research & Development	# of claims	*0*	0							
	credit available	*$0*	$0							
	credit used	*$0*	$0							
	carry forward	*$0*	$0							
Taxes Paid for Coal Consumed In Generating Electrical Power	# of claims			4	4		4	3	3	3
	credit available	Data Not Releasable	Data Not Releasable	$7,308,193	$6,301,508	Data Not Releasable	$3,947,740	$3,245,536	$3,051,835	$3,038,101
	credit used			$2,182,237	$658,252		$1,052,556	$929,098	$843,909	$908,990
	carry forward			$4,782,371	$5,286,784		$2,534,816	$1,956,007	$1,870,939	$1,799,204
Technology Training	# of claims								3	3
	credit available								$46,356	$39,963
	credit used								$46,356	$36,268
REFUNDABLE	credit refunded								$0	$3,695

		2012	2011	2010	2009	2008	2007	2006	2005	2004
Underground	# of claims									0
Storage	credit available									$0
Tanks	credit used									$0
	carry forward									
Vehicle Refueling	# of claims									
Apparatus &	credit available									Data Not
Infrastructure	credit used									Releasable
NONREFUNDABLE	carry forward									
Water	# of claims	0	0	0	*0*	0				
Conservation	credit available	$0	$0	$0	*$0*	$0	Data Not			
Plumbing Stub	credit used	$0	$0	$0	*$0*	$0	Releasable			
Outs	carry forward	$0	$0	$0	*$0*	$0				
TOTAL	# of claims	*787*	*792*	790	726	829	697	640	538	536
	credit available	*$801,104,791*	*$706,933,421*	$603,495,959	$492,592,572	$439,751,401	$432,328,047	$401,406,769	$322,883,031	$266,169,987
	credit used	*$115,370,075*	*$115,666,663*	$88,242,364	$54,797,715	$73,353,015	$107,567,957	$109,814,864	$66,636,378	$51,097,373
	credit refunded	*$4,184,353*	*$3,939,816*	$4,015,985	*$0*	*$0*	*$0*	$31,647,046	$0	$3,695
	carry forward	*$675,772,092*	*$578,629,297*	$498,713,240	$433,626,724	$362,194,653	$319,432,580	$253,900,770	$236,844,799	$211,660,781
	ltd carry forward	*$383,117,125*	*$421,973,824*	$469,231,356	$482,470,939	$500,613,808	$507,841,038	$518,873,948	$534,732,880	$538,741,851

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 and will be provided on a later report.
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 for renewable energy investment, production, and installation. The state also allows for property tax incentives and sales or use tax exemptions for the purchase of certain renewable energy equipment or facilities.

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 million annually. Recipients must receive their credit in 5 equal portions over 5 consecutive tax years. The annual cap of $70 million is shared with the Qualified Facility Income Tax Credit. While no credits were claimed in TY 2013 or prior years, the Arizona Commerce Authority (ACA) reports that it gave final approval for a total of $2.0 million credits in 2013 and 2014. This amount must be taken in equal installments over 5 years, or approximately $400,000 a year.

To be eligible to receive the credit, a company must meet at least 1 of the following requirements for investments and job creation:

- 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. § 41-1511, and A.R.S. § 43-1083.01].

Renewable Energy Manufacturing Facility. A credit is allowed for companies that make substantial investments in new facilities that produce renewable energy to be used in a company's manufacturing processes or for a company's certified "International Operations Center" (IOC). A company may earn up to $5 million in credits per year for up to 5 years for each qualifying renewable energy facility. Prior to Laws 2015, Chapter 6, only manufacturing facilities could qualify for a credit of $1 million per year for up to 5 facilities, up to 5 years.

The credit program includes different criteria to qualify as a manufacturer than as a certified IOC. To qualify for credits, a manufacturing company must invest at least $300 million within 3 years of applying for the credit or by December 31, 2017, whichever is earlier. Each of a manufacturer's renewable energy facilities requires at least a $30 million investment, production of at least 40,000 megawatt hours of energy annually, and use of at least 90% of the energy produced at the facility for self-consumption in the state and for manufacturing.

To qualify for the credit, an IOC must invest at least $100 million in renewable energy facilities within 3 years of applying for the credit or by December 31, 2018, whichever is earlier. At least 51% of energy produced by an IOC's renewable energy facility must be used for self-consumption by the fifth year of operation. To be certified as an IOC by the ACA, the owner or operator of the IOC must also make a minimum annual investment of $100 million in new capital assets in each of 10 consecutive taxable years and make at least $1.25 billion in total new capital investments on or before the 10th anniversary of certification [A.R.S. § 41-1520; A.R.S. § 43-1083.04, and A.R.S. § 43-1164.05].

The credit is not refundable, has an aggregate individual income and corporate income tax cap of $10 million a year, and may be carried forward up to 5 years. The lifetime limit on tax credits that an IOC may claim is capped at $25 million. This credit cannot be claimed against the same facilities that are used to claim the Renewable Energy Production Credit [A.R.S. § 43-1083.02].

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 was originally forecast to be $10 million in FY 2012 and grow to $20 million annually by FY 2013. DOR has not been able to release complete credit use data due to confidentiality restrictions. A 5-year carry-forward of the credit is allowed. This credit cannot be claimed against the same facility investments that are used to claim the Renewable Energy Manufacturing Facility Credit [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 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]. DOR's most recently reported credit data indicates that the credit has not been used since established.

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, and 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 from January 1, 1997 through December 31, 2016. [Laws 2011, Chapter 294; Laws 2000, Chapter 214; A.R.S. § 42-5075].

Electricity and Natural Gas Exemption for International Operations Centers. Gross proceeds from sales of electricity and natural gas to an International Operations Center (IOC) are exempt from the Transaction Privilege Tax. To be certified by the ACA as an IOC, an owner or operator must make minimum capital investments of at least $100 million per year for 10 years, make a total capital investment of at least $1.25 billion over 10 years, and use at least 51% of self-generated renewable energy for self-consumption by the fifth year of the operation (See the *Renewable Energy Manufacturing Facility* credit for information on renewable energy facility requirements). [A.R.S. § 41-1520; A.R.S. § 42-5063; A.R.S. § 43-1083.04, and A.R.S. § 43-1164.05].

Mixed Waste Processing Facility. Gross proceeds from building a mixed waste processing facility are exempt from the prime contracting tax. To qualify for this Transaction Privilege Tax exemption, a facility must be located on a municipal landfill and constructed for the purposes of recycling solid waste or producing renewable energy from landfill waste. The exemption is effective retroactively from January 1, 2013. [Laws 2014, Chapter 228; A.R.S. § 42-5075].

Renewable Energy Investment. Qualifying renewable energy companies that build headquarters or manufacturing facilities in the state will receive a class 6 property designation, which reduces the assessment ratio to 5% instead of the current class 1 assessment ratio of 18.5%. Laws 2011, 2nd 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 1

SUMMARY OF MAIN TAX CREDIT PROVISIONS

Tax Credit	Value of Credit	Annual Aggregate Credit Cap	Annual Revenue Impact	Qualifications
Renewable Energy Investment	10% of Total Capital Investment	$70.0 million	$(5.0) million 1/	$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
Renewable Energy Manufacturing Facility	$5.0 million per qualifying facility	$10.0 million	$(10.0) million 2/	*Manufacturer*: $300 million investment in new renewable energy facilities that produce energy used in company's own manufacturing. Individual facilities must produce at least 40,000 megawatt hours of energy, annually. Investment must be made by December 31, 2017. *IOC*: $100 million investment in renewable energy facilities within 3 years of applying for the credit and no later than December 31, 2018. At least 51% of renewable energy produced must be used for self-consumption by the fifth year of operation.
Renewable Energy Production	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	$20.0 million	$(20.0) million 2/3/	Energy must be produced from a qualified generator that did not first produce energy before January 1, 2011 or after December 31, 2020
Solar Liquid Fuel	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	None	None 4/	Fuel and research must be solar liquid fuel related
Commercial and Industrial Solar Energy Devices	10% of the installed cost of a solar device used in the business	None	$(686,000) 4/	Qualified solar device that is utilized for business purposes
Residential Solar Energy Devices	25% of the purchase price for a solar energy device	None	$(5.3) million 4/	Qualified solar device for residential use

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1/ Based solely on the budgeted estimate. ACA reports $2.0 million in credits have received final approval since the program began. The Arizona Department of Revenue (DOR) reports $0 in credit use through TY 2013.

2/ Based solely on the budgeted estimates. No actual data is available.

3/ Estimated to grow from $(10.0) million in FY 2012 to $(20.0) million in FY 2013 and later years.

4/ Reflects the latest credit use reported by DOR.

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

Table 2

ESTIMATED IMPACT OF TAX CREDITS AND EXEMPTIONS

Description	**Year of Estimate**	**Revenue Impact**
Credits		
Renewable Energy Investment	CY 2009	$ (5,000,000) 1/
Renewable Energy Manufacturing Facility	CY 2014	(10,000,000) 2/
Renewable Energy Production	CY 2010	(20,000,000) 2/3/
Solar Energy Devices of Commercial and Industrial Purposes	CY 2011	(686,000) 4/
Solar Energy Devices of Residential Purposes	CY 2011	(5,300,000) 4/
Subtotal		**$(40,986,000)**
Exemptions		
Electricity and Natural Gas Sold to International Operations Centers	CY 2015	$ (1,300,000) 2/
Installation of Solar Energy Devices by Registered Contractors	CY 2000	(102,000) 2/
Solar Energy Devices for Commercial and Industrial Purposes (TPT Exemption)	CY 2013	(23,536,000) 4/
Subtotal		**$(24,938,000)**

1/ Based solely on the budgeted estimate. ACA reports $2.0 million in credits have received final approval since the program began. DOR reports $0 in credit use through TY 2013.
2/ Based solely on the budgeted estimates. No actual data is available.
3/ Estimated to grow from $(10.0) million in FY 2012 to $(20.0) million in FY 2013 and later years.
4/ Reflects the latest credit or exemption use reported by DOR.

APPENDIX B

Appendix B

COMPARISON OF PUBLIC AND PRIVATE SCHOOL TAX CREDITS

Table A: Statutes, Caps & Data

Type	Category	Statute		Cap	# of STOs [1/] (that received donations)	Donations [1/]			Scholarships [1/]	
		STO	Tax Credit			$	#	Average	#	Average
Individual	Public School Extracurricular	NA	A.R.S. § 43-1089.01	$200 single/ $400 married filing jointly	--	$51.0 M	266,087	$192	--	--
Individual	Private School Original	A.R.S. § 43-1601 through 43-1605	A.R.S. § 43-1089	$535 single/ $1,070 married filing jointly [2/]	48	$55.4 M	77,970	$711	25,720	$1,927
Individual	Private School "Switcher" [3/]	A.R.S. § 43-1601 through 43-1605	A.R.S. § 43-1089.03	$532 single/ $1,064 married filing jointly [2/]	48	$19.6 M	25,740	$761	4,668	$1,089
Corporate & Insurance Premium	Private School Low-Income Student	A.R.S. § 43-1501 through 1507 (except 1505)	A.R.S. § 43-1183 & 20-224.06	$51.6 M [4/]	25	$51.6 M	273	$189,000	Not yet available	Not yet available
Corporate & Insurance Premium	Private School Displaced/Disabled Student	A.R.S. § 43-1501 through 1507 (except 1504)	A.R.S. § 43-1184 & 20-224.07	$5.0 M	8	$5.0 M	38	$131,600	Not yet available	Not yet available

1/ Public school tax credit data are for *calendar* year 2014; private school data are for *fiscal* year 2013 (individual income tax) and *fiscal* year 2016 (corporate income tax).
2/ Adjusted annually for inflation. Figures shown are for Tax Year 2015.
3/ Referred to as the "Switcher" credit in Department of Revenue publications, since it is limited mostly to students switching from public to private schools (A.R.S. § 43-1603E)
4/ For FY 2016 (increases 20% annually pursuant to A.R.S. § 43-1183.C1).

Note: "Empowerment Scholarship Accounts" (ESA's) authorized by A.R.S. § 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 that law, 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 armed forces member or member who was killed in the line of duty, are/were a ward of the court, previously received an ESA, are the sibling of a current or previous ESA recipient, or live on an Indian reservation; and 2) attended public school full time for at least the first 100 days of the prior school year or had an ESA in the prior year unless they are an incoming Kindergartner or preschool disabled pupil or their parent or guardian was killed in line of active military duty. ESA's are funded with "… an amount that is equivalent to 90% of the sum of the base support level and additional assistance prescribed in A.R.S. § 15-185 and 15-943 for that particular pupil if that student were attending charter school" (A.R.S. §15-2402C). ADE may retain up to 5% of program funding for 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 2015, approximately 1,200 students received $16.2 million in total ESA funding.

Table B: Program Restrictions

Type	Category	Donors	Recipients	Use of Funds [1/]	Earmarking	Other
Individual	Public School Extracurricular	Individual income tax filers	Public schools	Extracurricular activities, character education, and college or industry testing fees	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.
	Original	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.
	"Switcher"	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 the "Original" program. All restrictions for "Original" also apply to "Switcher." In addition, "Switcher" scholarships may only be awarded to public school transfers, kindergartners, preschool disabled students, military dependents, or pupils who received a corporate STO or "Switcher" 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.
Corporate and Insurance Premium	Low-Income Student	Corporations, Insurers & S Corporations	Private school students from "low income" households	Private school scholarships	Not allowed	1. 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 $83,000 for a family of four for FY 2016). 2. The student receiving the scholarship must meet one of the following: a. 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. b. Enroll in a private school kindergarten or preschool disabled program. c. Be a military dependent. d. Received an individual or corporate STO scholarship in the prior year and continues to attend a qualified private school. 3. The total scholarship amount per pupil from each STO increases each year by $100. In FY 2016, a STO can not issue a scholarship in an amount that exceeds: a. $5,200 for students in kindergarten through grade 8 b. $6,500 for students in grades 9 through 12.
	Displaced/ Disabled Student	Corporations, Insurers & S Corporations	Private school students with disabilities or foster care history	Private school scholarships	Not allowed	1. 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. 2. 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.

1/ All STOs must allocate at least 90% of their tax credit-related revenues for scholarships or grants, so STOs 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, 2020
Healthy Forest Enterprise & Healthy Forest Restoration Workforce Training	Individual/Corporate	December 31, 2024
Military Family Relief Fund	Individual	December 31, 2018
New Employment	Individual/Corporate	June 30, 2017 1/
Renewable Energy Investment	Individual/Corporate	December 31, 2019
Renewable Energy Manufacturing Facility	Individual/Corporate	December 31, 2025 2/
Renewable Energy Production	Individual/Corporate	December 31, 2020 3/
Small Business (“Angel”) Investment	Individual	December 31, 2024 4/
Solar Energy Devices for Commercial and Industrial Purposes	Individual/Corporate	December 31, 2018
Solar Liquid Fuel	Individual/Corporate	December 31, 2021

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1/ Statute prevents the Arizona Commerce Authority from authorizing new credits after June 30, 2017. Credits associated with 1 net new job can be claimed for 3 years. A company may claim 1st year credits for separate new jobs for up to 3 consecutive years. Since 2nd and 3rd year credits may be claimed against each of the new positions, the taxpayer may claim credits for up to a total of 5 consecutive years. Credits therefore, may be claimed through TY 2022.

2/ Credit authorization is only allowed through December 31, 2025. Thus, no new credits can be generated after this date.

3/ Statute provides 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, no new credits can be generated after December 31, 2020.

4/ Credit authorization is only allowed through June 30, 2021. 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 18.5%, 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 COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
2015	$36,515,876	2005	$25,245,622
2014	$25,611,186	2004	$33,266,987
2013	$13,202,508	2003	$19,433,856
2012	$15,887,896	2002	$29,153,274
2011	$20,333,501	2001	$32,942,815
2010	$20,269,632	2000	$34,682,874
2009	$18,244,500	1999	$36,121,502
2008	$20,041,338	1998	$38,136,020
2007	$24,486,025	1997	$51,211,398
2006	$24,998,760	1996	$188,296,312

SOURCE: DOR 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.

Table 2

PRIMARY AND SECONDARY COMBINED PROPERTY TAX LEVIES

Jurisdiction	FY 2015	FY 2014	FY 2013	FY 2012	FY 2011
State [1/]	$313,103,318	$288,408,092	$279,280,130	$278,394,257	$275,380,386
Counties	$1,278,247,459	$1,190,471,779	$1,237,298,343	$1,327,378,045	$1,396,381,579
Cities & Towns	$562,115,941	$531,909,899	$536,665,393	$566,020,186	$649,572,472
School Districts	$3,451,988,449	$3,342,423,307	$3,373,308,055	$3,370,964,408	$3,539,427,827
Special Districts	$438,199,544	$419,212,129	$400,393,757	$412,750,679	$446,530,321
Community Colleges	$813,216,510	$783,369,756	$752,556,343	$739,199,445	$735,390,630
TOTAL	**$6,856,871,221**	**$6,555,794,962**	**$6,579,502,021**	**$6,694,707,020**	**$7,042,683,215**

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.

SOURCE: Arizona Tax Research Association (ATRA).

WHO PAYS

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].

REVENUE BASE

Since 1980, the state has used 2 distinct valuation bases for levying property taxes and for this reason each property is assigned 2 values: limited property value and full cash value. The former is also referred to as primary value and the latter as secondary value.

Full Cash Value (FCV)

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 [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. § 42-11054E].

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 (LPV)
A property's limited value is the value determined as provided by Article 9, Section 18 of the Arizona Constitution, and further defined by Section 42-13301, 42-13302, and 42-13304 of Arizona Revised Statutes. The limited value can equal but not exceed the full cash value of a property. Limited property valuations are derived on an individual parcel basis by using one of the following methods:

- *Through TY 2014*: For a parcel in existence in the previous year that did not undergo any modification through construction, destruction, split, assemblage or change in use, the parcel's limited value is established at its previous year's LPV increased by up to the greater of either 10% or 25% of the difference between its current year's FCV and its previous year's LPV. The property's LPV can never exceed its FCV [A.R.S. § 42-13301].

- *Beginning in TY 2015*: For a parcel in existence in the prior year that did not undergo any modification through construction, destruction, split, assemblage or change in use, the parcel's limited value is established at its previous year's LPV increased by up to 5%. The property's LPV can never exceed its FCV [A.R.S. § 42-13301].

- For a parcel that was subject to modification through construction, destruction, or change in use, and for a new parcel (including one that resulted from a split or assemblage), the parcel's limited 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 legal classification [A.R.S. § 42-13302].

The limit on increases in property values, as described above, does not apply to: (1) personal property other than mobile homes and (2) centrally valued property [A.R.S. § 42-13304]. The limited and full cash values of personal property (except mobile homes) and most centrally valued property are the same.

Proposition 117
On November 6, 2012, voters approved Proposition 117, which provides 2 significant changes to the Arizona Constitution, beginning in TY 2015. First, Proposition 117 reduces the maximum year-over-year increase of limited property value from 10% (or an amount equal to 25% of the difference between the current year's full cash value and the previous year's limited value, whichever is greater) to 5%, as noted above. Second, Proposition 117 provides that limited property value be the basis for levying all property (i.e., both primary and secondary) taxes. Through TY 2014, limited property value was the basis for levying primary taxes whereas full cash value was the basis for levying secondary taxes.

Laws 2013, Chapter 66 conformed Arizona Revised Statutes to the voter-approved constitutional amendments under Proposition 117. Among the conforming changes included in Chapter 66 was the removal of any statutory reference to the terms "primary net assessed valuation" and "secondary net assessed valuation." To reflect the use of a single tax base, these terms were replaced by the generic term "net assessed valuation." Note, however, that Chapter 66 retained the statutory terms "primary property taxes" and "secondary property taxes." Additionally, Chapter 66 clarified that limited value is the basis for levying both primary and secondary taxes on all property except locally assessed personal property (other than mobile homes) and centrally valued property. Instead, full cash value is the basis for levying primary and secondary taxes on such property [A.R.S. § 42-13304].

Net Assessed Value (NAV)
A property's assessed value is derived by multiplying the property's full cash value and limited value by the applicable assessment ratio, which depends on the legal classification of the property as shown in *Table 3*. NAV is obtained by subtracting any applicable exemption from the property's assessed value.

A property's tax liability is determined by multiplying the applicable tax rate with the NAV 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 limited property value as determined by the county assessor or DOR, (2) the assessment ratio based on the use of the property, and (3) the tax rate as set by the taxing jurisdiction (see *Tax Rate* section).

Table 3

PROPERTY TAX CLASSES AND TAX YEAR 2014 ASSESSMENT RATIOS

Class	Assessment Ratio	Property Usage
1	18.5%	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, 2nd Special Session Chapter 1 reduces the assessment ratio to 19.5% in TY 2013, 19.0% in TY 2014, 18.5% in TY 2015, and 18.0% in TY 2016, when fully implemented.
2	16%	Agricultural property, properties of nonprofit organizations, and vacant land. [A.R.S. § 42-12002]. Note that Laws 2011, 2nd Special Session Chapter 1 reduces the assessment ratio to 15% in TY 2016.
3	10%	Primary residential property. [A.R.S. § 42-12003].
4	10%	Non-primary residential property as well as leased or rented residential property. [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	18.5% 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].

Table 4

STATEWIDE PRIMARY AND SECONDARY NET ASSESSED VALUATION

Tax Year	Primary Net Assessed Valuation	Secondary Net Assessed Valuation
2015	$54,840,074,052	$62,635,586,917
2014	$53,541,003,785	$55,352,051,074
2013	$52,136,742,880	$52,594,377,492
2012	$55,855,088,365	$56,271,814,583
2011	$60,900,480,130	$61,700,292,915

SOURCE: ATRA and 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 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. DOR 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 appropriately valued [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.

Table 5

PROPERTY TAX EXEMPTIONS AUTHORIZED BY THE ARIZONA CONSTITUTION

Article	Section	Exemption
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 1/
	2	Property of cemeteries
	2	Property of widows
	2.1	Property of widowers
	2.2	Property of disabled persons

1/ Pursuant to A.R.S. § 42-11127(B), the maximum amount of the exemption is increased each year to account for inflation. For TY 2015, the maximum amount of the exemption is $146,973. Laws 2012, Chapter 343 changed the calculation of the maximum exemption amount, beginning in TY 2013. Under Chapter 343, the maximum exemption 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, this amount is calculated as if Chapter 343 had been continuously in effect since 1997. As a result of Chapter 343, the maximum exemption increased from $68,079 in TY 2012 to $133,868 in TY 2013.

Table 6

PROPERTY TAX EXEMPTIONS FURTHER DEFINED BY ARIZONA REVISED STATUTES

Title	Section	Exemption
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
	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.

RATE

The tax rates for primary and secondary property taxes are determined by each individual taxing jurisdiction in the state. The rates vary considerably among the state's taxing authorities, 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 of NAV [A.R.S. § 42-17151]).

Table 7

TOTAL COMBINED PRIMARY AND SECONDARY AVERAGE TAX RATE PER $100 NAV

County	TY 2014	TY 2013	TY 2012	TY 2011	TY 2010	TY 2009	TY 2008	TY 2007
Apache	$5.87	$5.47	$5.37	$6.01	$6.51	$6.94	$7.05	$7.69
Cochise	$12.72	$11.37	$11.06	$10.40	$10.48	$10.89	$10.93	$12.16
Coconino	$9.23	$9.14	$8.36	$8.20	$7.54	$6.68	$7.29	$7.37
Gila	$13.95	$13.50	$12.50	$12.38	$11.03	$10.41	$11.08	$11.44
Graham	$12.10	$12.04	$10.67	$7.20	$7.88	$9.19	$9.11	$9.41
Greenlee	$3.94	$4.31	$3.84	$4.60	$4.06	$2.86	$2.74	$3.90
Maricopa	$12.41	$12.46	$11.71	$10.68	$9.19	$8.68	$8.64	$9.35
Mohave	$11.26	$10.87	$10.27	$9.83	$8.57	$8.54	$7.98	$8.65
Navajo	$10.20	$9.96	$9.16	$8.60	$8.21	$8.71	$8.31	$8.66
Pima	$15.79	$14.91	$14.05	$13.59	$12.86	$12.54	$12.87	$13.82
Pinal	$15.69	$15.72	$14.31	$14.29	$13.11	$11.97	$12.55	$14.49
Santa Cruz	$13.11	$12.85	$11.74	$11.53	$11.31	$11.80	$11.66	$12.23
Yavapai	$11.20	$11.09	$10.15	$9.19	$7.98	$7.61	$7.49	$8.62
Yuma	$12.33	$12.47	$11.56	$11.55	$9.84	$10.13	$11.00	$12.35
La Paz	$10.77	$9.96	$9.44	$9.25	$8.50	$8.83	$8.64	$9.37
State of Arizona	**$12.67**	**$12.54**	**$11.75**	**$10.94**	**$9.67**	**$9.20**	**$9.23**	**$10.04**

SOURCE: 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, 7th Special Session, Chapter 2]. However, statute requires that the counties levy and collect certain primary property taxes, which are transmitted to the state in order to aid in school financial assistance. First, each county is required (pursuant to A.R.S. § 15-991.01) to levy a primary tax on property not located in a school district ("unorganized district") at a rate equal to 50% of the qualifying tax rate (QTR) used to calculate state equalization assistance for unified school districts. Second, each county is also required (pursuant to A.R.S. § 15-992) to levy an additional primary tax in school districts that are ineligible for state equalization assistance ("zero-aid districts"). This additional tax rate, referred to as the minimum qualifying tax rate (MQTR), is determined based on the difference between the levy that would be produced by 50% of the zero-aid district's applicable QTR and its "equalization base." (Under the statutory K-12 funding formula, each school district is provided a certain amount of funding based on its student count and other factors. This funding amount is referred to as the district's equalization base.) If the levy produced by 50% of the district's applicable QTR is equal to or less than its equalization base, the MQTR will not be levied in such zero-aid district. Otherwise, the MQTR will be levied at a rate such that the additional tax generates an amount equal to the difference between 50% of the zero-aid district's QTR and its equalization base. Although the additional taxes levied in unorganized districts and certain zero-aid school districts are collected by the counties, these monies are later transmitted to the state for deposit into the General Fund.

In addition to the additional primary tax levied on property in unorganized districts and some zero-aid school districts, each county is also required to levy and collect the "state equalization assistance property tax" on all property within the county [A.R.S. § 15-994]. The monies collected from this state-mandated tax are apportioned to each school district within the county. The state equalization tax along with qualifying tax comprises the "local share" of the statutory K-12 funding formula. The K-12 tax rates used in the statutory school funding ("Basic State Aid") formula are shown in *Table 8* below.

Table 8

K-12 TAX RATES PER $100 NAV

	Qualifying Tax Rate (QTR)		State Equalization Rate
Fiscal Year	Unified School Districts	Non-Unified School Districts	All School Districts [1/]
2016	$4.1954	$2.0977	$0.5054
2015	$4.2246	$2.1123	$0.5089
2014	$4.2530	$2.1265	$0.5123
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

1/ 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 FY 2015 school district primary tax levy for primary residential properties (Class 3) by 43.559%, 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.

Beginning in FY 2012, Laws 2010, 7th 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, 2nd Special Session, Chapter 1 increases the Homeowner's Rebate percentage for FY 2014 through FY 2018 by an amount to be determined by DOR. 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. As a result of this act, the Homeowner's Rebate percentage is increased from 41.852% in FY 2014 to 43.559% in FY 2015.

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, 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:

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) "special program" overrides, and (3) capital overrides. M&O and "special program" 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 "special program" overrides and capital overrides must be spent only on "special programs" 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 9, Section 8.1 of the State Constitution caps a unified school district's bonded indebtedness at 30% of its NAV for secondary tax purposes, but A.R.S. § 15-1021D further caps its "Class B" bonds (bonds issued after December 31, 1999) at 10% of its NAV. The corresponding constitutional (Article 9, Section 8) and statutory (A.R.S. § 15-1021B) caps for non-unified school districts are 15% and 5% of NAV, respectively. Laws 2013, 1st Special Session, Chapter 3 increases the Class B bonding capacity cap for unified school districts from 10% to 20% of NAV. The Class B bonding capacity cap for non-unified school districts is increased from 5% to 10% of NAV. 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 NAV. The voters of a county, elementary or high school district may authorize additional debt for up to 15% of NAV. (Pursuant Article 9, Section 8.1, unified school districts are allowed additional debt for up to 30% of NAV.) The voters of a city or town may approve additional debt for up to 20% of 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 tax purposes is not allowed to exceed 1% of the parcel's limited property value. Through FY 2015, the combined primary property taxes on a parcel of residential property that exceeded this limit was reduced through a commensurate increase in additional state aid to schools [A.R.S. § 15-972]. Beginning in FY 2016, Laws 2015, Chapter 15 caps the state's cost of the 1% Cap program to $1 million per county. Additionally, Chapter 15 requires the Property Tax Oversight Commission to allocate the loss of state 1% Cap funding among local taxing jurisdictions based on its determination of their pro rata shares of the overall 1% Cap exceedance.
- 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 *Revenue 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 2015, the income cannot exceed $35,184 for single owners and $43,980 for 2 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, 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 TY 2005. Any unused taxing capacity accumulated after TY 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 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 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 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 net assessed valuation of existing property for primary tax purposes 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.

Elderly Assistance Fund

The Board of Supervisors in a county with a population of more than 2 million is authorized by statute to establish a fund to reduce the property tax of qualified elderly taxpayers [A.R.S. § 42-17107]. In February 2007, the Maricopa County Board of Supervisors established the Elderly Assistance Fund (EAF), which has since been administered by the Maricopa County Treasurer's Office. Qualified applicants of the tax relief program are those who have limited income, live within an organized school district, and have enrolled in the Seniors Valuation Protection Program.

Through FY 2015, the EAF received its funding from some of the proceeds resulting from the Arizona tax lien sales held in February of each year by the Maricopa County Treasurer's Office. Beginning in FY 2016, Laws 2015, Chapter 324 disallows this funding mechanism but permits existing monies in EAF to be used to fund the Elderly Assistance program.

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 2016 is summarized in *Table 9* below.

Table 9

PROPERTY VALUATION AND TAXATION CALENDAR

Type of Property	Valuation Year 2014 & 2015 (When Tax Base Is Determined)	Tax Year 2015 (When Tax Rate Is Determined)	Fiscal Year 2016 (When Tax Is Due and Payable)
Locally Assessed Real Property (Old Construction)	January 1, 2014	August 17, 2015	October 1, 2015 and March 1, 2016
Locally Assessed Real Property (New Construction)	October 1, 2013 through September 30, 2014	August 17, 2015	October 1, 2015 and March 1, 2016
Locally Assessed Personal Property	January 1, 2015	August 17, 2015	October 1, 2015 and March 1, 2016
Centrally Valued Property	January 1, 2014	August 17, 2015	October 1, 2015 and March 1, 2016

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]. This means that for real property, the period between when the parcel's initial value is determined (January 1) and its tax is due and payable (March 1) is more than 2 years. 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 through a "Notice of Value" form 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, additions to, deletions from, or splits or consolidations of assessment parcels, or changes to the use of real property resulting in a change of legal classification, the county assessor is required to notify the property owners of the initial values through a "Notice of Change" form by September 30 of the valuation year. The Notice of Change applies to property changes that occurred after September 30 of the year preceding the valuation year and before October 1 of the valuation year. As with the Notice of Value, the valuation year for the Notice of Change is defined as the calendar year preceding the year in which taxes are levied [A.R.S. § 42-15105].

Within 25 days after the date of the assessor's Notice of Change, the owner may file an appeal to the County Board of Equalization or the State Board of Equalization, whichever is applicable. The Board of Equalization must issue a ruling on or before the third Friday in November. The taxpayer then has 60 days to appeal to the state tax court [A.R.S. § 42-16205].

On or before February 10, each county assessor is required to provide the staff of JLBC and the Governor's Office of Strategic Planning and Budgeting (OSPB) the property values used to compute the TNT Rates for Equalization Assistance to School Districts [A.R.S. § 42-17052C].
On or before February 10, the governing board of each fire district is required to transmit to the Property Tax Oversight Commission the total assessed value of all property annexed by the district in the preceding calendar year [A.R.S. § 42-17052D].

Collections. The lieu taxes on private car companies and airline flight property are collected by DOR [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 15th 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.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009. As noted previously, due to the repeal of the state property tax in 1996 (Laws 1996, 7th 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.

2015 LAWS

Laws 2015, Chapter 49 exempts property leased to a religious institution by an educational, religious, or charitable organization and used primarily for religious worship from taxation. Additionally, Chapter 49 provides that property leased by any other entity to a religious institution and used primarily for religious worship be assessed as Class 9 property, which uses a 1% assessment ratio. Chapter 49 is expected to increase ADE expenditures by an estimated $300,000, beginning in FY 2017. (Effective July 3, 2015)

Laws 2015, Chapter 98 alters various dates regarding notice of the establishment or change in taxing boundaries. (Effective July 3, 2015)

Laws 2015, Chapter 221 requires the Property Tax Oversight Commission to review secondary property tax levies for each county, city, town, and community college district. (Effective January 1, 2016)

Laws 2015, Chapter 324 removes a provision that requires county treasurers in counties with an established Elderly Assistance Fund (EAF) to deposit a portion of the monies received from the proceeds of tax lien sales into the EAF. Although Chapter 324 effectively removes the funding mechanism for EAF, it includes an intent clause that allows existing monies in the fund to be used to fund the Elderly Assistance program. (Effective July 3, 2015)

2014 LAWS

Laws 2014, Chapter 209 requires each county school superintendent to certify in writing to the Property Tax Oversight Commission on or before July 25 of each year the amount of the minimum qualifying tax levied for each school district in the upcoming fiscal year. The Property Tax Oversight Commission is required to review the accuracy of the minimum qualifying tax rate and levy calculated by the county school superintendent. (Effective July 24, 2014)

Laws 2014, Chapter 264 modifies the calculation of depreciated cost for the purpose of determining the value of renewable energy equipment. Additionally, Chapter 264 also limits the assessed value of land with abandoned renewable energy equipment. The reduction in property values resulting from the legislation is estimated to increase General Fund expenditures for the ADE by $300,000, beginning in FY 2016. (Effective July 24, 2014)

2013 LAWS

Laws 2013, Chapter 66 conforms Arizona Revised Statutes to the amendments to Article 9, Section 18 of the Arizona Constitution approved by voters in November 2012 under Proposition 117. (Effective January 1, 2015)

Laws 2013, Chapter 226 prescribes a method that DOR is required to use when determining the valuation of the distribution and transmission property of an electric distribution cooperative. Distribution cooperatives are member-owned nonprofit entities providing electrical distribution services in predominantly rural areas. (Effective January 1, 2014)

Laws 2013, Chapter 236 expands Class 6 to include property that is used to manufacture motor vehicle biofuel and its by-products. (Effective September 13, 2013)

2012 LAWS

Laws 2012, Chapter 124 authorizes DOR 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 exits. 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*).

Laws 2012, Chapter 350 eliminates the affidavit requirement to qualify for Homeowner's Rebate provided by Laws 2011, 2nd 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 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 NAV 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, 2nd 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 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 TY 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.

Tax Year	Class 1 Assessment Ratio Under Current Law	Class 1 Assessment Ratio Under Previous Law
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 DOR 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 Laws*).

2010 LAWS

Laws 2010, Chapter 158 exempts 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 clarifies that an accommodation school governing board cannot levy primary and secondary property taxes, and that the Property Tax Oversight Commission 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 requires the Property Tax Oversight Commission to increase Pinal County's TY 2009 maximum allowable levy limit by $3,626,600. (Effective retroactively from July 1, 2010)

2009 LAWS

Laws 2009, Chapter 87 provides 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 provides income and property tax incentives for qualifying renewable energy companies that build headquarter or manufacturing facilities in the state from TY 2010 to 2014. An income tax credit is 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 modifies 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 establishes 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 NAV. For TY 2010, fire districts are allowed to levy secondary property taxes that are 16% greater than the amount levied in TY 2008.

Laws 2009, Chapter 169 reduces the minimum value of personal property owned by telecommunications companies from 20% to 10% of cost. The act also requires DOR 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)

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.pdf.

PAYMENTS IN LIEU OF PROPERTY TAXES

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].

Table 1

COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
2015	$3,484,442	2005	$1,312,163
2014 1/	$(1,061,682)	2004	$1,335,056
2013 2/	$3,698,193	2003	$1,485,996
2012	$1,065,773	2002	$1,506,625
2011	$1,283,026	2001	$1,349,685
2010	$1,335,091	2000	$1,476,728
2009	$1,435,069	1999	$1,441,440
2008	$1,615,246	1998	$1,494,821
2007	$1,709,362	1997	$1,525,854
2006	$1,426,435	1996	$1,641,634

1/ Absent a refund of $(2,473,651) to correct for an error from FY 2013, collections would have been $1,411,969 in FY 2014.
2/ This figure includes $2,473,651 that should have been deposited to Flight Property Tax.

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS

The tax is paid by private railroad car companies in Arizona.

REVENUE 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 TY 2015 assessment ratio for this type of property is 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 for TY 2014 was $12.67 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].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this tax in 2009 to 2015.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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 projects 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.

Table 1

COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
2015	$1,445,224	2005	$2,653,117
2014	$1,490,121	2004	$1,769,124
2013	$243,985	2003	$2,030,685
2012	$767,569	2002	$3,431,652
2011	$422,596	2001	$4,606,361
2010	$84,855	2000	$5,315,929
2009	$708,972	1999	$5,919,047
2008	$1,053,210	1998	$5,983,913
2007	$2,037,640	1997	$6,086,339
2006	$2,490,685	1996	$16,953,919

SOURCE: Arizona Department of Administration's Finance Division, Revenue Codes, the State Treasurer's Office, and the Salt River Project.

WHO PAYS

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.

REVENUE BASE AND RATE

The revenue 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]:

(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 of the net contributions for 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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this revenue category from 2009 through 2015.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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, but excludes electronic cigarettes and vapor products. 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:

<u>Tax on Cigarettes</u>

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.
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].

<u>Tax on Tobacco, Cavendish, and Cigars</u>

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.

Table 1

COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Corrections Fund	TTHCF 1/	TPTF 2/	ECDHF 3/	SFAF 4/	Total
2015	$23,645,756	$5,230,839	$67,071,278	$93,055,529	$122,239,828	$2,848,986	$314,092,216
2014	$25,810,507	$5,100,324	$61,694,151	$91,923,081	$124,371,662	$2,918,213	$311,817,939
2013	$24,530,414	$5,041,634	$65,750,954	$91,044,441	$125,771,470	$2,956,134	$315,095,047
2012	$24,931,105	$5,142,535	$65,665,913	$90,953,118	$129,391,158	$3,043,448	$319,127,277
2011	$25,066,894	$5,230,772	$68,781,910	$95,586,289	$130,083,235	$3,058,479	$327,807,579
2010	$25,810,438	$5,307,048	$69,089,344	$96,335,427	$133,118,902	$3,888,483	$333,549,642
2009	$29,080,647	$5,129,852	$76,972,057	$108,934,079	$151,363,815	$2,868,990	$374,349,440
2008	$32,467,344	$6,206,674	$83,868,465	$116,127,254	$164,805,113	$3,946,308	$407,421,158
2007	$37,558,776	$6,206,673	$100,500,062	$137,624,178	$74,445,246	$1,778,847	$358,121,881
2006	$39,578,709	$6,206,674	$106,821,045	$145,399,774			$298,006,202
2005	$38,360,552	$6,206,608	$102,310,127	$138,521,611			$285,398,898
2004	$36,757,081	$6,206,674	$98,163,310	$133,563,168			$275,104,562
2003	$41,174,667	$6,206,674	$105,027,137	$59,938,321			$212,346,799
2002	$43,206,460	$6,206,674	$108,177,154				$157,590,288
2001	$43,124,883	$6,206,674	$108,709,176				$158,040,733
2000	$43,446,233	$6,196,674	$109,786,025				$159,428,932
1999	$43,895,551	$6,206,674	$112,735,957				$162,838,182
1998	$44,443,108	$6,206,674	$114,104,507				$164,754,289
1997	$43,676,616	$6,206,675	$115,961,006				$165,844,297
1996	$45,461,621	$6,206,673	$119,127,689				$170,795,983

1/ Tobacco Tax and Health Care Fund (Proposition 200 in 1994. The distribution was altered in Laws 2007, Chapter 150).
2/ Tobacco Products Tax Fund (Proposition 303 in 2002).
3/ Early Childhood Development and Health Fund (Proposition 302 in 2006).
4/ Smoke-Free Arizona Fund (Proposition 201 in 2006).

SOURCE: Department of Revenue, Luxury Tax Section.

WHO PAYS

Licensed distributors of cigars and other tobacco products besides cigarettes submit tax payments together with a monthly return [A.R.S. § 42-3501]. 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. § 42-3401 and § 42-3452]. 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 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

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

1/ 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.*

REVENUE BASE AND RATE

The revenue 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]:

Table 3

TOBACCO PRODUCT TAX RATES

Item	General Tax Rate	1994 TTHCF [1/]	2002 TPTF [1/]	2006 ECDHF	2006 SFAF	Total Tax Rate
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¢

1/ 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]. Additionally, electronic cigarettes and vapor products are not subject to this tax, based on a July 30, 2014 Attorney General legal opinion.

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. § 42-3452]. 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. § 42-3501].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this tax in 2009, 2010, and 2012.

2015 LAWS

Laws 2015, Chapter 85 reorders various state tobacco statutes, separating other tobacco products from cigarettes and roll-your-own tobacco products.

2014 LAWS

Laws 2014, Chapter 160 made changes to the luxury tax and tobacco Master Settlement Agreement (MSA) Escrow Account statutes to bolster Escrow Account enforcement and better comply with the MSA.

2013 LAWS

Laws 2013, Chapter 222 prohibits the use of tobacco vending machines for commercial purposes and assesses a new fine. Additionally, the law makes changes to the escrow account that manufacturers that were not part of a federal settlement are required to deposit monies into for the purpose of settling lawsuits.

2011 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.

A listing of tax law changes prior to the 2009 legislative session is available on the JLBC website located at www.azleg.gov/jlbc/15taxbook/15taxbk.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].

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 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. § 42-3354A].
- Every farm winery, microbrewery or craft distiller 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].

REVENUE BASE AND RATE

The following is the revenue 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:

- *Spirituous 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 made from apples, pears and other pome fruit that does not exceed an alcohol content of 7%.

Table 1

COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund [1/]	Corrections Fund	Wine Promotional Fund[2/]	Corrections Revolving Fund	Drug Treatment & Education Fund	Total Collections
2015	$33,101,191	$25,446,032	$0	$3,630,371	$9,092,642	$71,270,235
2014	$32,901,156	$25,496,628	$0	$3,636,704	$9,111,608	$71,146,096
2013	$31,654,182	$24,686,455	$0	$3,520,472	$8,822,750	$68,683,859
2012	$31,425,990	$24,635,454	$0	$3,512,658	$8,805,069	$68,379,171
2011	$28,532,514	$23,221,811	$0	$3,307,459	$8,303,445	$63,365,229
2010	$29,541,822	$23,918,010	$0	$3,407,130	$8,551,873	$65,418,835
2009	$28,797,539	$23,587,644	$0	$3,358,868	$8,434,654	$64,178,705
2008	$28,562,812	$23,976,492	$29,003	$3,411,936	$8,576,309	$64,556,552
2007	$28,277,919	$23,273,991	$35,965	$3,313,708	$8,323,288	$63,188,906
2006	$27,192,240	$22,636,747	$38,481	$3,221,929	$8,096,444	$61,147,360
2005	$26,085,548	$22,068,568	$34,667	$3,139,770	$7,894,513	$59,223,067
2004	$24,543,937	$20,938,588	$27,995	$2,978,318	$7,490,976	$55,979,814
2003	$23,412,284	$20,419,376	$25,497	$2,902,721	$7,306,966	$54,066,844
2002	$22,863,127	$19,836,567	$23,391	$2,820,269	$7,098,014	$52,641,368
2001	$22,443,910	$19,294,778	$21,278	$2,743,924	$6,903,464	$51,407,354
2000	$21,989,911	$19,274,703	$21,197	$2,739,633	$6,897,717	$50,923,161
1999	$20,874,947	$18,176,293	$14,595	$2,583,453	$6,502,823	$48,152,111
1998	$19,986,517	$17,435,389	$9,306	$2,477,227	$6,235,814	$46,144,253
1997	$23,663,919	$17,051,956	$9,542	$1,242,158	$3,124,761	$45,092,336
1996	$27,791,380	$16,947,743	$10,233			$44,749,356

1/ Includes funds to be used for state school aid.
2/ Monies collected for this fund were transferred quarterly by the General 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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this tax in 2009, 2010, 2011, 2012, 2013 and 2015.

2014 LAWS

Laws 2014, Chapter 110 defines cider to include vinous liquor made from pears and other pome fruits along with apples. Previously, only cider made from apples was taxed at the same rate as malt liquor - $0.16 per gallon – whereas cider made from other fruit was taxed at the rate of vinous liquor - $0.84 per gallon.

Laws 2014, Chapter 253 creates new license classifications for craft distillery, craft distillery festival, and craft distillery fair. The bill further renames the domestic microbrewery license and domestic farm winery license to microbrewery license and farm winery license, respectively.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at www.azleg.gov/jlbc/15taxbook/15taxbk.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].

All Other Licenses. Except for the above club, special event, and some restaurant license fees, two-thirds of license fees are deposited in the Liquor Licenses Fund. Any revenues of this two-thirds of license fees in excess of the amount appropriated to the Liquor Licenses Fund are deposited into 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 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 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].

REVENUE 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.

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, or reissuance of any revoked or reverted 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

COLLECTIONS AND DISTRIBUTION

Fiscal Year	Total	General Fund	Department of Economic Security	Department of Health Services	Counties	Audit Surcharge	Enforcement Surcharge	Liquor Department 1/	Liquor Licenses Fund
2015	$7,651,662	$3,187,414	$47,775	$66,725	$440,228	$169,080	$777,940	$0	$2,962,500
2014	$6,379,186	$1,932,468	$54,550	$64,725	$442,258	$170,680	$782,305	$0	$2,932,200
2013	$6,476,642	$2,064,997	$59,025	$57,800	$448,900	$166,800	$767,820	$0	$2,911,300
2012	$5,989,607	$1,716,990	$45,550	$57,850	$427,877	$164,220	$761,520	$0	$2,815,600
2011	$8,760,692	$4,660,056	$55,650	$54,675	$404,971	$165,030	$761,610	$0	$2,658,700
2010	$6,110,927	$2,913,632	$46,200	$45,275	$385,795	$144,300	$662,025	$0	$1,913,700
2009	$6,559,069	$5,040,087	$56,400	$49,175	$530,252	$158,730	$724,425	$0	
2008	$6,333,680	$4,871,121	$49,600	$45,775	$483,938	$162,186	$721,060	$0	
2007	$6,042,559	$4,661,571	$47,750	$45,975	$448,928	$155,040	$683,295	$0	
2006	$5,903,308	$4,431,909	$49,275	$51,250	$446,672	$152,580	$673,290	$98,332	
2005	$5,581,198	$4,206,281	$48,850	$47,775	$458,487	$151,650	$668,155		
2004	$5,473,828	$4,219,995	$49,100	$44,500	$369,358	$147,180	$643,695		
2003	$5,018,445	$3,826,968	$53,800	$42,350	$327,837	$143,480	$624,010		
2002	$4,746,146	$3,776,390	$54,850	$40,100	$333,901	$97,380	$443,525		
2001	$4,933,818	$3,876,428	$44,175	$47,950	$346,375	$93,840	$525,050		
2000	$4,278,445	$3,323,418	$50,975	$41,050	$347,272	$93,080	$422,650		
1999	$4,293,893	$3,365,016	$53,075	$39,550	$349,182	$83,520	$403,550		
1998	$4,453,507	$3,698,779	$53,050	$38,500	$358,598	$88,880	$215,700		
1997	$4,398,612	$3,634,188	$59,200	$40,150	$369,524	$86,600	$208,950		
1996	$3,222,863	$3,222,863	$58,675	$38,425	$311,742	$82,920	$198,650		

1/ See Laws 2005, Chapter 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]

Issuance fees for original licenses:

Table 2

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.	Microbrewery license	300
4.	Wholesalers of spirituous liquors	1,500
5.	State, and 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.	Farm winery	100
14.	Clubs	1,000
15.	Out-of-state winery selling 240 or fewer cases of wine in a calendar year	25
16.	Craft distiller	Not Specified

[A.R.S. § 4-209B]

Annual License Fees:

Table 3

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.	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 1/
13.	Farm winery	100
14.	Clubs	150
15.	Out-of-state winery selling 240 or fewer cases of wine in a calendar year	25
16.	Craft distiller	Not Specified

1/ 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 Laws 2006, Chapter 383 and Laws 2008, Chapter 256 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]

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 are $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 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 wine festival license fee is $15 per day [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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

2015 LAWS

Laws 2015, Chapter 131 includes the following provisions:

- Increases the maximum amount of beer that can be produced by a microbrewery from 1,240,000 gallons per location to a total of 6,200,000 gallons from all microbreweries under the control of any one person.
- Allows microbreweries to sell beer from other microbreweries if the amount of beer sold from other microbreweries is not more than 20% of all beer sold at the premises.
- Microbreweries that sell beer from other microbreweries must purchase the beer through a wholesaler if the other microbrewery has a distribution relationship with a wholesaler.
- Allows a microbrewery to hold a combined total of up to 7 on premise or remote retail licenses for bars, beer and wine bars, and restaurants, except that a microbrewery that produces more than 1,240,000 gallons of beer annually may not hold a remote retail license.
- Prohibits a microbrewery that produces more than 1,240,000 gallons of beer annually from selling or delivering beer to a retailer, except if that retailer is owned by the microbrewery and on the premises.
- Prohibits a microbrewery that is otherwise engaged as a distiller, vintner, brewer, rectifier, blender or other producer from holding a remote retail license.

2014 LAWS

Laws 2014, Chapter 253 includes the following provisions:

- Eliminates the requirement for county or city or town approval for a special event license held fully within the licensed premises.
- Prohibits no more than 12 special event licenses per calendar year at 1 physical location, unless owned, operated, leased, managed or controlled by the U.S., Arizona, or a city, town or county of Arizona.
- Allows the Director of the Department of Liquor Licenses and Control to issue a special event license concurrently with a wine festival license and a craft distillery festival license.
- Allows a nonprofit organization to receive spirituous liquor donation from a farm winery, microbrewery or producer.
- Increases the number of wine festival licenses from 25 to 50 and the number of days from 75 to 150.
- Changes the farm winery festival and farm winery fair fees to per day fees of $15.
- Requires common carriers of spirituous liquor to keep records and make them available to the department for review, excluding railroads.
- Adds state agency, state board and state commission to the governing bodies permitted to receive a government license.
- Requires a farm winery to hold a winery permit from the U.S. Alcohol and Tobacco Tax and Trade Bureau (TTB) or has a custom crush contract on fruit grown on at least 5 producing acres for at least 3 consecutive years.
- Allows the Director to approve applications for grouping 2 or more farm winery licenses at 1 location under a plan of alternating proprietorship.
- Allows for custom crush arrangements.
- Allows the Director to authorize a farm winery license holder to operate up to 2 remote tasting locations.
- Permits a farm winery license holder to hold a craft distillery license if the spirituous liquor production is less than 1,000 gallons per year.
- Creates a new craft distiller license classification which allows the production of up to 20,000 gallons of spirituous liquor per year.
- Creates a new craft distillery festival license classification and permits the Director to issue up to 25 craft distillery licenses per year.
- Specifies that 2 appraisals are necessary to determine fair market value of a license.
- Exempts an unfenced golf course from the 300 foot rule, which prohibits a retail liquor license from being issued to a location that is within 300 feet of a church, school, or fenced recreational area adjacent to a school at the time of the original application.
- Exempts a beer and wine license at a nonprofit performing arts theatre with a seating capacity of at least 250.
- Allows the Director to suspend, revoke or refuse to renew a license if a serious act of violence occurs on the licensed premises.
- Allows the Director to suspend, revoke or refuse to renew a license if the licensee fails to report a serious act of violence.
- Requires a wholesaler to sell to a qualified retail cooperative at prices established by quantity, and specifies qualified retail cooperative to mean a retail cooperative of 2 retail licensees.
- Allows and defines channel pricing, which allows a wholesaler to sell to on-sale license holders at a different price than off-sale license holders as long as sale is based on the volume of the product delivered in a 24-hour period, and as long as the discount is made available to each retailer in that retailer's channel.
- Stipulates all forms of identification must be unexpired.
- Adds licenses issued by Washington, D.C. and any U.S. territory, and a valid resident alien card as valid identification.
- Stipulates that identification issued to a person under 21 years of age is no longer valid 30 days after the person turns 21.
- Stipulates a border crossing card and a Mexican voter identification card are not valid forms of identification.
- Allows up to 72 ounces of beer and 2 ounces of distilled spirits per person per day for sampling.
- Permits credit transactions between wholesalers and producers.
- Exempts beer produced for personal consumption from state alcohol regulations.

- Stipulates that medicinal purposes do not include ethyl alcohol or spirituous liquor that contains marijuana.
- Stipulates that it is an unlawful act to allow patrons to use any item for the consumption of vaporized spirituous liquor.
- Removes the requirement for a person to hold a concealed carry permit to carry a concealed handgun on the premises of a license holder.

2013 LAWS

Laws 2013, Chapter 47 allows the Director of the Department of Liquor Licenses and Control to issue a license for a domestic microbrewery on the same parcel of land as a domestic farm winery. The bill further requires that the licenses be held by different persons and be in different buildings; allows the brewery and winery to share a common tasting room and other premises for consumption of their products; and prohibits the licensees from holding any other liquor license.

2012 LAWS

Laws 2012, Chapter 336 includes the following provisions:

- 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 Board to cancel a hearing if the reason for a filed argument is clearly removed or deemed satisfied by the Director of the Department of Liquor Licenses and Control.
- 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 1 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 1 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.
- 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 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.
- 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 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 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.

Laws 2009, 3rd Special Session, Chapter 7 established the Liquor Licenses Fund and diverted $2,841,000 of General Fund liquor license fee revenues to the Liquor License Fund in FY 2010. The law limits the annual revenues received by the fund to the amount appropriated from the fund.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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) and insurance companies formed under the laws of another state within the United States or another country ("out-of-state" insurance carriers).

Insurance premium tax also includes "retaliatory" taxes, which are taxes owed by out-of-state 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

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].

Out-of-state insurers pay the greater of the Arizona insurance premium tax or the tax imposed by their home state on Arizona insurers. For example, if an out-of-state insurer operating in Arizona pays a 2% insurance premium tax to the Department of Insurance (DOI), but an Arizona insurer operating in the out-of-state insurer's home state pays a 3% premium tax, the out-of-state insurer must also pay DOI a 1% retaliatory tax that equals the difference in rates charged in the 2 states. Arizona provides an exemption from retaliatory tax, if the out-of-state insurer's home state does not charge retaliatory taxes on Arizona insurers. Retaliation applies to taxes, fees, assessments or other charges levied in the insurance company's home state [A.R.S. § 20-230].

Table 1

INSURANCE PREMIUM COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Transfer to Public Safety Retirement System	Transfer to Cities and Fire Districts	Total
2015	$450,670,642	$18,212,445	$13,343,767	$482,226,854
2014	$411,760,685	$16,942,842	$14,481,050	$443,184,577
2013	$386,776,104	$16,185,326	$13,141,283	$416,102,713
2012	$393,990,499	$15,720,974	$12,606,341	$422,317,814
2011	$413,765,850	$15,978,058	$12,514,392	$442,258,300
2010	$405,612,042	$16,696,764	$13,492,671	$435,801,477
2009	$411,370,853	$17,507,607	$12,480,006	$441,358,466
2008	$407,035,082	$17,569,437	$13,361,461	$437,965,980
2007	$399,850,367	$17,861,557	$12,652,891	$430,364,815
2006	$373,703,789	$17,057,414	$11,842,931	$402,604,134
2005	$358,752,402	$16,234,673	$12,459,164	$387,446,239
2004	$308,967,921	$15,441,384	$11,677,878	$336,087,183
2003	$226,648,800	$14,009,100	$10,588,600	$251,246,500
2002	$195,036,900	$12,633,600	$8,148,700	$215,819,200
2001	$183,394,700	$11,419,500	$7,187,100	$202,001,300
2000	$160,723,567	$10,953,470	$5,670,876	$177,344,423
1999	$150,697,201	$10,735,299	$5,178,291	$166,614,522
1998	$124,603,122	$10,208,838	$5,090,836	$139,960,268
1997	$120,518,800	$9,761,100	$5,418,300	$135,697,400
1996	$114,153,900	$8,904,400	$5,627,300	$128,673,900

SOURCE: Department of Insurance.

REVENUE 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].

The insurance premium tax rate on life, vehicle, and other property and casualty lines of insurance is 2.0% in calendar year (CY) 2015 and will gradually decrease to 1.7% by CY 2026 (*See Table 2*). 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 other types of insurance is 2.0% 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, non-profit military mutual aid associations, 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].

Table 2

FUTURE INSURANCE PREMIUM TAX RATES 1/2/

Calendar Year	Rate
2015	2.00%
2016	1.99
2017	1.98
2018	1.95
2019	1.92
2020	1.89
2021	1.86
2022	1.83
2023	1.80
2024	1.77
2025	1.74
2026	1.70

1/ As enacted by Laws 2015, Chapter 220.
2/ Rates apply to life, vehicle, and other property and casualty lines of insurance.

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, 2nd 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 must be submitted 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 $4.2 million in credits were claimed in CY 2012 and $3.9 million in CY 2013. 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 associated with 1 net new job can be claimed for 3 years. A company may claim first year credits for separate new jobs for up to 3 consecutive years. Since second and third year credits may be claimed against each of the new positions, the taxpayer may claim credits for up to a total of 5 consecutive 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) [A.R.S. § 41-1525]. The Arizona Commerce Authority (ACA) is authorized to issue first year credits for up to 10,000 new employees ($30 million) in each year. Statute does not permit ACA to authorize new credits after June 30, 2017 (A.R.S. § 41-1525). Given the maximum 5-year schedule outlined above, businesses may claim credits through tax year (TY) 2022. In TY 2013 and later years, Laws 2012, Chapter 343 eliminates the requirement (provided by Laws 2011, 2nd Special Session, Chapter 1) that no employer can claim more than 400 new jobs in the first year of credit use, 800 jobs in the second year, and 1,200 jobs in the third year. The cap applied 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). Laws 2014, Chapter 168 changes the requirement for the New Employment Tax Credit program by providing that second and third year credits can be claimed irrespective of whether the same employee remains employed as long as the employer replaces the vacant position with another qualified employee within 90 days.

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 3*:

Table 3

FY 2015 INSURANCE PREMIUM TAX CREDIT USE

CREDITS:	Effective Calendar Years	Annual Cost
Health Insurance Premium 1/	2007 -	$ 3,707,800
Military Reuse Zone	1993 -	0
New Employment	2011 -	3,165,000
Private School Tuition Organization – Low Income Students 2/	2006 -	17,963,800
Private School Tuition Organization – Disabled/Displaced Students 3/	2009 -	2,988,400
Total Value of Credits		**$27,825,000**

1/ Credit is capped at $5 million annually.

2/ Credits claimed by corporations are separately reported under corporate income tax credits. Credit was capped at $43.0 million in FY 2015 between corporate income and insurance premium taxpayers, and will increase by 20% annually.

3/ Credits claimed by corporations are separately reported under corporate income tax credits. The credit is capped at $5 million annually between corporate income and insurance premium taxpayers.

SOURCE: Department of Insurance, *Report of Insurance Premium Tax Credits*.

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 15th 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]. *Table 4* lists the dates and descriptions of insurance premium tax payments due in FY 2016.

Table 4

FY 2016 Insurance Premium Tax Payment Schedule

Due Date	Payment Description
July 15, 2015	CY 2015 Installment Payment (15% of CY 2014 Liability)
August 15, 2015	CY 2015 Installment Payment (15% of CY 2014 Liability)
March 1, 2016	Final Payment (Refund) of CY 2015 Liability
	Retaliatory Tax Payment for CY 2015
March 15, 2016	CY 2016 Installment Payment (15% of CY 2015 Liability)
April 15, 2016	CY 2016 Installment Payment (15% of CY 2015 Liability)
May 15, 2016	CY 2016 Installment Payment (15% of CY 2015 Liability)
June 15, 2016	CY 2016 Installment Payment (15% of CY 2015 Liability)

AHCCCS health contractors make separate quarterly estimated payments for taxes on Medicaid premiums. Estimated payments are due on March 15, June 15, September 15 and December 15 of each year. DOI bills (refunds) the insurer for any balance of liability (overpayment) that remains on April 1 of the following year. [A.R.S. § 36-2944.01].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

2015 LAWS

Laws 2015, Chapter 8 requires DOI to report to the Directors of JLBC and the Governor's Office of Strategic Planning and Budgeting the amount of insurance premium tax credits that were used during a given fiscal year, within 3 months of the end of a fiscal year. (Effective beginning July 3, 2015)

Laws 2015, Chapter 184 provides an exemption from Arizona's insurance premium retaliatory tax to out-of-state insurers doing business in Arizona, if the insurer's home state does not charge retaliatory taxes on Arizona insurers. Retaliatory taxes are owed by out-of-state insurers to the extent that the sum of insurance premium tax 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. The exemption is estimated to reduce General Fund revenue by $(1.5) million annually, beginning in FY 2016. (Effective beginning January 1, 2016)

Laws 2015, Chapter 220 gradually reduce the insurance premium tax rate from 2.0% in calendar year (CY) 2015 to 1.7% in CY 2026 and subsequent years (*See Table 2*). The rate reduction applies to life, vehicle, and other property and casualty lines of insurance. The law is estimated to reduce insurance premium tax collections to the General Fund by $(1.3) million in FY 2017 and an additional $(0.2) million in FY 2018. The revenue loss is estimated to grow to $(35.2) million in FY 2027, once the rate is reduced to 1.7% in CY 2026. (Effective beginning July 3, 2015)

2014 LAWS

Laws 2014, Chapter 168 changes a requirement for the new Job Tax Credit program by providing that second and third year credits may be claimed irrespective of whether the same employee remains employed as long as the employer replaces the vacant position with another qualified employee within 90 days. (Effective retroactively from January 1, 2014)

2013 LAWS

Laws 2013, Chapter 181 exempts non-profit military mutual aid associations from statutes regulating insurers, including insurance premium tax statutes. (Effective beginning September 13, 2013)

Laws 2013, 1st Special Session, Chapter 10 expands Medicaid coverage for adults up to 133% of the federal poverty level, beginning January 1, 2014. Premiums paid to insure additional enrollees are estimated to increase insurance premium revenues to the General Fund by $7.3 million in FY 2014, $34.2 million in FY 2015, and $36.4 million in FY 2016. (Effective beginning September 12, 2013)

2012 LAWS

Laws 2012, Chapter 3 made conforming changes and deletes obsolete language for the New Employment Tax Credit. (Contained various effective dates)

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 ACA 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. (Effective beginning January 1, 2013)

2011 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 DOI 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. (Effective beginning July 20, 2011)

Laws 2011, 2nd 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.

A summary of all the Chapter 1 fiscal impact provisions is displayed in the Corporate Income Tax section of the Tax Handbook. (Effective beginning July 1, 2011)

2010 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. (Effective beginning July 29, 2010)

Laws 2010, Chapter 292 prohibits insurance premium tax donations to charter schools as part of the School Tuition Organization (STO) Tax Credit program. (Effective retroactively from July 1, 2010)

2009 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. (Effective beginning September 30, 2009)

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. (Effective beginning September 30, 2009)

Laws 2009, 2nd 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. (Effective beginning August 26, 2009)

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbook.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].

Table 1

COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
2015	$507,211	2005	$610,055
2014	$521,583	2004	$624,501
2013	$519,998	2003	$626,770
2012	$508,145	2002	$629,680
2011	$504,905	2001	$634,384
2010	$520,655	2000	$677,036
2009	$531,588	1999	$717,830
2008	$558,330	1998	$750,970
2007	$619,387	1997	$774,129
2006	$623,480	1996	$791,848

SOURCE: Department of Revenue, Annual Report.

WHO PAYS

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].

REVENUE 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 per year. 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 per year. 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 per year. There are 12 reporting periods coinciding with each month of the license's term.

RATE

The following fees and tax are assessed for the different license classes [A.R.S. § 5-414]:

License Class	Local Governing Body Fee	License Fee	Bingo Tax
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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this tax from 2009 to 2015.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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].

Table 1

COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
2015	$200,000	2005	$200,000
2014	$200,000	2004	$200,000
2013	$200,000	2003	$200,000
2012	$200,000	2002	$200,000
2011	$200,000	2001	$200,000
2010	$200,000	2000	$200,000
2009	$200,000	1999	$200,000
2008	$200,000	1998	$400,000
2007	$200,000	1997	-
2006	$200,000	1996	$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

Department of the Interior - Bureau of Reclamation.

REVENUE 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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this tax in the period from 2009 to 2015.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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].

Table 1

COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
2015	$2,404,010	2005	$1,168,550
2014	$2,269,086	2004	$1,036,085
2013	$2,153,517	2003	$1,012,992
2012	$1,782,028	2002	$940,611
2011	$1,812,420	2001	$924,778
2010	$1,569,091	2000	$945,935
2009	$1,523,108	1999	$926,814
2008	$1,440,492	1998	$880,824
2007	$1,367,248	1997	$878,374
2006	$1,198,087	1996	$850,091

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS

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.

REVENUE 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].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to the commercial nuclear generating station assessment in 2010, 2012, and 2014.

The following statutory 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.

2015 LAWS

Laws 2015, Chapter 132 levies an assessment of $2,404,010 in FY 2016 and $2,412,474 in FY 2017. (Effective April 1, 2015)

2013 LAWS

Laws 2013, Chapter 13 levies an assessment of $2,153,517 in FY 2014 and $2,269,086 in FY 2015. (Effective March 28, 2013)

2011 LAWS

Laws 2011, Chapter 132 levied an assessment of $1,812,420 in FY 2012 and $1,782,028 in FY 2013. (Effective April 15, 2011)

2009 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)

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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, § 33-1704G].

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.

Table 1

Unclaimed Property Distributions

Fiscal Year	General Fund	Housing Trust Fund	DOR Admin. Fund	Racing Funds	VCAF [1/]	UAF [2/]	PSF [3/]	DHS SMIHTF [4/]	Total
2015	$54,052,200	$2,509,300	$24,500,000	$0	$683,200	$0	$737,100	$2,000,000	$84,481,800
2014	$49,186,400	$2,511,100	$24,500,000	$0	$864,600	$0	$234,600	$2,000,000	$79,296,700
2013	$60,899,600	$2,500,000	$25,014,700 [5/]	$0	$612,500	$0	$356,900	$2,000,000	$91,383,700
2012 [6/]	$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 [7/8/]	$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 [9/10]	$58,020,600	$33,684,300		$12,248,800	$173,100	$26,300	$11,200	0	$104,164,300
2007 [11/]	$12,346,200	$40,972,900		$14,899,200	$1,250,300	$2,550,700	$408,600	0	$72,427,900
2006 [11/]	$22,825,000	$26,004,600		$9,456,200	$128,300	$855,500	$408,700	0	$59,678,300
2005 [11/]	$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

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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/ Includes one-time revenues of $514,700 from General Fund Unclaimed Property collections to cover retention payments and rent expenses.

6/ 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 $24.5 million 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.

7/ 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.

8/ Laws 2009, 4th 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.

9/ 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.

10/ Laws 2007, Chapter 218 eliminated the Utility Assistance Fund and required a utility to transmit all abandoned utility deposits to a qualified fuel fund entity for the purpose of assisting low-income residents in making utility deposits or owner repairs or replacement of utility-related appliances or systems.

11/ 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, A.R.S. § 38-722, A.R.S. § 12-881]:

1 Year
- Life or endowment insurance policy or an annuity that is payable on proof of death - 1 year after the insured has attained, or would have attained, the limiting age on the mortality table on which the reserve is based.
- Life or endowment insurance policy or an annuity not matured by actual proof of death is deemed matured - 1 year after the insured has attained, or would have attained, the limiting age on the mortality table on which the reserve is based.
- Property that is distributable by a business association or financial organization in a course of dissolution – 1 year after the property becomes distributable
- 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.

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, 4th Special Session, Chapter 3 required holders of property presumed abandoned to file the report before June 1, 2010 for the period that covered the last 12 months before July 1, 2009.

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 *(for more detail, refer to Laws 2007, Chapter 260)*. 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.

Table 2

Unclaimed Property Refunds

Fiscal Year	Refund	Fiscal Year	Refund
2015	$42,673,900	2005	$16,241,200
2014	$34,059,200	2004	$10,093,800
2013	$40,013,500	2003	$10,333,100
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

SOURCE: DOR, Annual Reports.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009. There were no changes enacted in 2013, 2014 and 2015.

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.

2009 LAWS

Laws 2009, 4th 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, 4th 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.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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].

Table 1

COLLECTIONS

Fiscal Year	Aviation Fund	Fiscal Year	Aviation Fund
2015	$6,986,349	2005	$5,577,258
2014	$7,326,085	2004	$5,748,210
2013	$7,374,472	2003	$4,360,187
2012	$8,802,691	2002	$3,543,819
2011	$7,733,417	2001	$3,176,180
2010	$7,582,645	2000	$3,094,727
2009	$6,900,648	1999	$2,365,498
2008	$7,413,608	1998	$2,043,058
2007	$7,748,524	1997	$1,825,858
2006	$5,980,022	1996	$1,800,630

SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning.

WHO PAYS

The tax is paid by owners of aircraft registered in the state, unless an exemption is provided [A.R.S. § 28-8324].

REVENUE BASE AND RATE

The revenue base is aircraft based in the state and registered with the Arizona Department of Transportation (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].
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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this tax in the period from 2009 through 2015.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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, 1st 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

COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Aviation Fund	Total
2015	$0	$9,727,092	$9,727,092
2014	$0	$12,939,012	$12,939,012
2013	$0	$8,084,374	$8,084,374
2012	$0	$10,585,261	$10,585,261
2011	$0	$9,709,712	$9,709,712
2010	$0	$9,451,430	$9,451,430
2009	$0	$11,712,920	$11,712,920
2008	$0	$13,821,790	$13,821,790
2007	$0	$15,300,127	$15,300,127
2006	$0	$13,685,936	$13,685,936
2005	$0	$13,180,039	$13,180,039
2004	$6,320,722	$6,320,723	$12,641,445
2003	$6,715,536	$6,026,213	$12,741,749
2002	$6,528,347	$6,528,347	$13,056,694
2001	$6,693,589	$6,693,590	$13,387,179
2000	$6,709,386	$6,709,385	$13,418,771
1999	$7,367,078	$7,489,832	$14,856,910
1998	$7,582,939	$7,582,939	$15,165,878
1997	$0	$17,679,764	$17,679,764
1996	$0	$18,564,298	$18,564,298

SOURCE: Department of Transportation, Office of Financial Planning.

WHO PAYS

The tax is paid by airline companies operating within the state [A.R.S. § 42-14255].

REVENUE 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 equal to the ratio that the total *net assessed valuation* of all taxable property for primary and secondary tax purposes in Class 1 (commercial/industrial) and Class 6, paragraph 3 (military reuse zones), and personal property in Class 2 (agricultural/non-profit/golf courses) bears to the total *limited valuation* of such property [A.R.S. § 42-15005].

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 2015, the assessment ratio has varied between 15% and 26%. The TY 2015 assessment ratio for this type of property is 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.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009. There were no changes enacted to this tax from 2009 through 2015.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.pdf.

Table 2

HISTORICAL AVERAGE PROPERTY TAX RATES PER $100 OF ASSESSED VALUATION

Tax Year	Sum of Average State Tax Rates	Primary Tax Rate 1/	Secondary Tax Rate
2014	$12.67	$8.75	$3.92
2013	$12.54	$8.52	$4.02
2012	$11.75	$7.89	$3.87
2011	$10.94	$7.28	$3.67
2010	$9.67	$6.32	$3.35
2009	$9.20	$6.13	$3.07
2008	$9.23	$6.24	$2.99
2007	$10.04	$6.75	$3.29
2006	$10.99	$7.24	$3.75
2005	$11.56	$7.81	$3.75
2004	$11.81	$8.09	$3.72
2003	$12.18	$8.36	$3.82
2002	$12.49	$8.56	$3.93
2001	$12.55	$8.54	$4.01
2000	$12.68	$8.56	$4.12
1999	$12.80	$8.67	$4.13
1998	$12.79	$8.58	$4.21
1997	$12.70	$8.57	$4.13
1996	$12.52	$8.54	$3.98
1995	$13.27	$9.45	$3.82

1/ 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).

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 Property Taxes) [A.R.S. § 17-272E].

Table 1

COLLECTIONS

Fiscal Year	Net Collections [1/]
2015	$18,127
2014	$16,286
2013	$35,242
2012	$10,776
2011	$11,141
2010	$11,482
2009	$10,799
2008	$10,369
2007	$12,630
2006	$12,382
2005	$12,009
2004	$12,229
2003	$12,485
2002	$12,485
2001	$12,363
2000	$11,910
1999	$11,438
1998	$12,000
1997	$165,500
1996	$183,500

1/ Laws 1996, 7th 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.

SOURCE: Arizona Game and Fish Department, Habitat Branch.

WHO PAYS

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:

- 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].

REVENUE 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 Property Taxes) [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 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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this revenue category in the period from 2009 to 2012 or in 2014 or 2015.

2013 LAWS

Laws 2013, Chapter 197 removed the Waterfowl Conservation Fund from the list of funds from which the voluntary contributions may be made. (Effective May 7, 2013)

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.pdf.

WATERCRAFT REGISTRATION 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.

Table 1

COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
2015	$4,348,579	2005	$2,317,368
2014	$4,432,379	2004	$1,061,931
2013	$4,146,344	2003	$2,327,090
2012	$4,301,047	2002	$2,259,952
2011	$4,450,746	2001	$2,074,784
2010	$5,120,398	2000	$2,028,111
2009	$5,468,067	1999	$1,735,862
2008	$4,955,124	1998	$1,683,698
2007	$5,398,134	1997	$1,634,369
2006	$4,338,741	1996	$1,596,016

SOURCE: Game and Fish Department

WHO PAYS

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].

REVENUE BASE AND RATE

The watercraft registration fee is levied on watercraft based on 7 different watercraft length ranges [A.R.S. § 5-321 and A.R.S. § 5-327].

The fees for watercraft are as follows:

	Registration	NBSIF
Twelve feet and less	$20	$80
Twelve feet one inch through sixteen feet	$22	$88
Sixteen feet one inch through twenty feet	$30	$192
Twenty feet one inch through twenty-six feet	$35	$224
Twenty-six feet one inch through thirty-nine feet	$39	$253
Thirty-nine feet one inch through sixty-four feet	$44	$286
Sixty-four feet one inch and over	$66	$429

Pursuant to Laws 2013, Chapter 197, the Arizona Game and Fish Commission is authorized to establish by rule new registration fees for watercraft owned by residents and non-residents of Arizona. The commission ruled that residents and non-residents shall now be charged the same watercraft registration fee; however, non-residents are still required to pay an additional boating safety infrastructure fee (NBSIF).

The commission held public meetings on the proposed new watercraft registration fees, which became effective January 1, 2014.

Chapter 197 stipulated that the total amount of watercraft registration fees collected in any fiscal year does not exceed 50% more than the amount appropriated from the Watercraft Licensing Fund in FY 2013 (which was $4,504,200).

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.
(5) Documented watercraft numbered in accordance with the regulations of the United States Coast Guard.

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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this fee in 2010, 2011, 2012, 2014, and 2015.

2013 LAWS

Laws 2013, Chapter 197 provides that the Arizona Game and Fish Commission shall establish license, permit, tag, and stamp fees by rule and repealed statutory language relating to fees for licenses, permits, tags, and stamps. This provision includes the watercraft registration fee. (Effective May 7, 2013)

2009 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)

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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 Possessory Interest section).* GPLET is a local excise tax that is based on the square footage of a building rather than its property 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].

Grandfather Provisions

Laws 2010, Chapter 321 provided new requirements for all leases subject to GPLET that were entered into on or after June 1, 2010. The act provided new tax rates, as well as new abatement and reporting requirements. Additionally, the act grandfathered 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 excise 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.

Table 1

COLLECTIONS

Fiscal Year	Net Collections 1/	Fiscal Year	Net Collections 1/
2015 2/	NIA	2005	$2,696,092
2014 2/	NIA	2004	$2,898,944
2013 2/	NIA	2003	$3,013,352
2012 2/	NIA	2002	$2,721,824
2011	$7,310,714	2001	$2,230,063
2010	$5,672,312	2000	$2,379,198
2009	$3,091,291	1999	$1,935,671
2008	$3,204,870	1998	$988,269
2007	$3,108,195	1997	$977,226
2006 3/	$2,921,164	1996	$0

1/ The state does not collect any monies from GPLET.
2/ No information is available.
3/ The Act became effective December 1, 1996.

SOURCE: League of Arizona Cities and Towns

WHO PAYS

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.
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.

Tax Abatement

As noted in *Table 2*, a city or town is allowed to fully abate the tax on a government property improvement in the first 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).

REVENUE BASE AND RATE

Grandfathered Leases
The tax rates applied to a government property improvement subject to a pre-June 2010 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
- $1.00 per square foot for any other building
- $100 per parking space for parking garages

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.

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 2015 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]:

- $2.25 per square foot for 1-story office buildings
- $2.59 per square foot for office buildings with 2 to 7 stories
- $3.49 per square foot for office buildings with 8 or more stories
- $2.82 per square foot for retail buildings
- $2.25 per square foot for hotel/motel buildings
- $1.52 per square foot for warehouse or industrial buildings
- $0.85 per square foot for residential rental buildings
- $2.25 per square foot for any other building
- $224.99 per parking space for parking garages

The GPLET rates above apply to Tax Year 2015. 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 excise tax is due and payable to the county treasurer annually on or before December 1 [A.R.S. § 42-6204].

POSSESSORY INTEREST

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 federal, state, county, and municipal government property be 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.

Table 2

TAX RATES FOR GRANDFATHERED PRE-JUNE 2010 LEASES

Location of Property	**Start Date of Lease**	**Years Since Date of Issuance of Original Certificate of Occupancy (COO)**	**Percentage of "Base" Excise Tax Rate (by age of COO)**
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%
		30 – 40	20%
		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%

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this tax in 2011, 2013 and 2014.

2015 LAWS

Laws 2015, Chapter 10 requires county treasurers to report to JLBC by February 15 of each year the amount of GPLET collected in the preceding calendar year. Current statutes require the county treasurers to report the same exact information to the Department of Revenue and each government lessor. Chapter 10 amends Laws 2010, Chapter 321 by removing the provision that requires JLBC to determine the average aggregate ad valorem property tax levy per square foot by property type (*for more detail, see description under Laws 2010, Chapter 321*). Moreover, Chapter 10 limits the required JLBC analysis under Laws 2010, Chapter 321 to a representative sample of properties rather than all properties subject to the new GPLET rates.

2012 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 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%.

Chapter 321 requires JLBC to conduct an analysis of the effectiveness of the new excise tax rates by December 15, 2016. The analysis is required to include information regarding: (1) the amount of tax revenue that would be produced by the properties to counties, cities, community college districts, and school districts if the properties were taxed under the ad valorem property tax, (2) the actual amount of GPLET collected and distributed to counties, cities, community college districts, and school districts, (3) the amount of tax revenue previously received from vacant or underutilized property that is being redeveloped, and (4) the estimated average aggregate ad valorem property tax levy per square foot for various property types for purposes of comparing these figures to the comparable new GPLET rates under Chapter 321.

2009 LAWS

Laws 2009, 3rd 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 statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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 distributed to the Arizona Highway User Revenue Fund (HURF). This ***2015 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 $1.3 billion in FY 2015. This was an increase of 4.0% from FY 2014 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 2015:

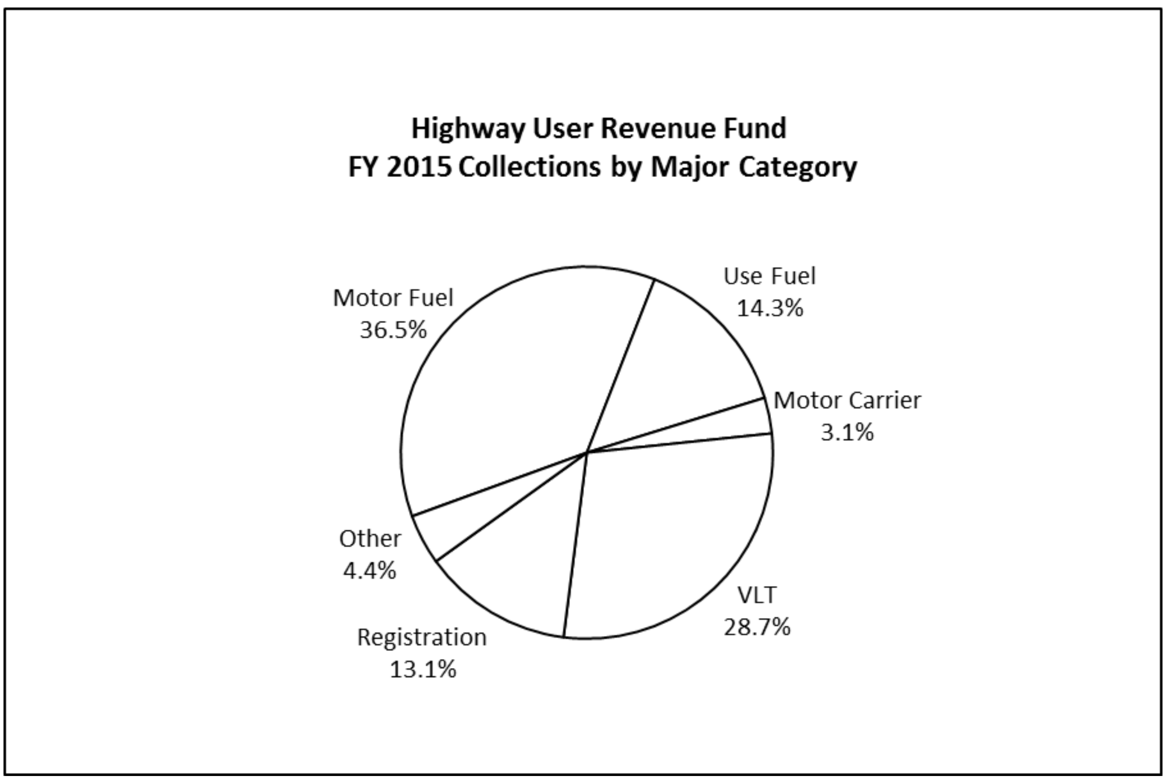

Table 1 summarizes HURF collections by major category over the last 10 years.

Table 1

HURF COLLECTIONS
($ in Thousands)

Fiscal Year	Motor Vehicle Fuel Tax	Use Fuel Tax	Vehicle License Tax [1/]	Motor Carrier Fee	Registration Fees	Other Fees	Total
2015	$470,903	$184,500	$369,719	$40,227	$168,589	$56,502	$1,290,439
2014	$457,415	$176,368	$348,509	$38,842	$163,715	$56,484	$1,241,332
2013	$453,851	$177,240	$326,541	$37,310	$157,801	$57,280	$1,210,024
2012	$454,769	$180,242	$320,979	$37,350	$158,124	$59,122	$1,210,586
2011	$456,299	$178,684	$322,017	$36,300	$156,148	$55,626	$1,205,073
2010	$455,436	$171,308	$329,915	$35,808	$152,236	$49,714	$1,194,417
2009	$456,812	$173,931	$357,498	$40,483	$167,565	$52,294	$1,248,583
2008	$492,536	$207,859	$385,186	$40,177	$162,765	$55,953	$1,344,477
2007	$497,702	$210,282	$393,497	$45,226	$177,788	$57,979	$1,382,474
2006	$489,081	$213,460	$373,864	$40,504	$158,805	$55,911	$1,331,625
2005	$481,284	$194,368	$328,232	$37,980	$154,122	$49,567	$1,245,553

1/ 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) $1,000,000 is allocated to the Economic Strength Project Fund [A.R.S. § 28-6534].
(2) 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 “notwithstood” 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) are 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.

- 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

HURF DISTRIBUTION
($ in Thousands)

Fiscal Year	State Highway Fund	County Controlled Access	Cities and Towns	Counties	DPS	Economic Strength Project	Other	Total
2015	$496,230	$92,975	$374,413	$233,241	$86,445	$1,000	$6,136 1/	$1,290,439
2014	$474,132	$84,985	$342,230	$213,192	$120,208	$1,000	$5,585 2/	$1,241,332
2013	$460,839	$82,603	$332,234	$206,965	$122,320	$1,000	$4,063 3/	$1,210,024
2012	$328,879	$58,949	$304,092	$193,524	$125,607	$1,000	$198,535 4/	$1,210,586
2011	$441,554	$79,147	$342,892	$213,605	$81,615	$1,000	$45,260 5/	$1,205,073
2010	$437,848	$78,482	$339,823	$211,693	$81,118	$1,000	$44,453 6/	$1,194,417
2009	$442,020	$79,229	$356,458	$222,056	$86,912	$1,000	$60,908 7/	$1,248,583
2008	$565,381	$101,341	$404,434	$251,942	$12,913	$1,000	$7,465	$1,344,477
2007	$584,531	$104,775	$418,114	$260,465	$12,983	$1,000	$607	$1,382,474
2006	$539,865	$96,768	$386,128	$240,538	$66,693	$1,000	$633	$1,331,625

1/ 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. The transfer totaled $1.2 million in FY 2015. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% 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 $4.3 million in FY 2015. Other distributions included $651,800 for the Registration Compliance program.

2/ 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. The transfer totaled $1.2 million in FY 2014. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% 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 $3.7 million in FY 2014. Other distributions included $671,500 for the Registration Compliance program and $4,500 for the Automated Projects Fund.

3/ 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. The transfer totaled $1 million in FY 2013. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% 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 $3.2 million in FY 2013. Other distributions included $624,800 for the Registration Compliance program and $(765,200) for reversions.

4/ Laws 2011, Chapter 24 transferred $105.8 million from the 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 Motor Vehicle Division 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% of the fees collected under A.R.S. § 28-4802A and 60% 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.

5/ Laws 2010, 7th 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% of the fees collected under A.R.S. § 28-4802A and 60% 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.

6/ Laws 2009, 3rd 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, 5th Special Session, Chapter 1 transferred $0.6 million from SETIF to the General Fund in FY 2010, which is done via the VLT.

7/ Laws 2008, Chapter 285 and Laws 2009, 1st 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, 1st 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.

SOURCE: ADOT, Office of Financial Planning.

Table 2 above 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 2016 Appropriations Report* for a more detailed explanation of the distribution of HURF revenues. It should be noted that the FY 2015 amounts in *Table 2* vary slightly from those presented in the Appropriations Report. The numbers in *Table 2* below reflect actual collections, while the numbers in the *FY 2016 Appropriations Report* were based on estimated collections.

Table 3 below summarizes HURF actual distribution percentages for FY 2015 after the DPS, Economic Strength Project, and other distributions noted above.

Table 3

PERCENTAGE DISTRIBUTION OF HURF MONIES

Cities	31.8%
Counties	19.8%
Controlled Access	7.4%
State Highway Fund	41.0%
Total	**100.0%**

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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to HURF in 2009 or 2010.

2015 LAWS

Laws 2015, Chapter 10 requires, as session law, $30 million of HURF revenues in FY 2015, FY 2016 and FY 2017 to be allocated directly to counties, cities and towns in percentages reflecting the current non-state distribution of HURF revenues. The legislation repeals the requirement for a $60 million allocation in FY 2017 as required by Laws 2014, Chapter 9. The language specifies that these HURF revenues may only be spent on direct construction/repair and right-of-way expenditures.

Laws 2015, Chapter 17 suspends, as session law, the statutory cap of $10,000,000 established by A.R.S. § 28-6537 governing HURF revenues available to fund DPS' Highway Patrol costs.

2014 LAWS

Laws 2014, Chapter 9 requires, as session law, $30 million of HURF revenues in both FY 2015 and FY 2016 and $60 million of HURF revenues in FY 2017 to be allocated directly to counties, cities and towns in percentages reflecting the current non-state distribution of HURF revenues. The language specifies that these HURF revenues may only be spent on direct construction/repair and right-of-way expenditures. These additional HURF monies are due to a reduction of an equal amount of HURF in the DPS budget; the General Fund replaced the reduced HURF funding in the DPS budget.

Laws 2014, Chapter 12 suspends, as session law, the statutory cap of $10,000,000 established by A.R.S. § 28-6537 governing HURF revenues available to fund DPS' Highway Patrol costs. This same suspension has been enacted in other session laws in prior years, but the suspension had also applied to SHF.

2013 LAWS

Laws 2013, 1st Special Session, Chapter 5 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 SHF revenues available to fund DPS'costs. This same suspension has been enacted in other session laws in prior years.

2012 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 SHF revenues available to fund DPS' Highway Patrol costs. This same suspension has been enacted in other session laws in prior years.

2011 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 SHF revenues available to fund DPS' 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 SHF 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. Almost all of 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*. 1.6% of the motor vehicle fuel tax collections is 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.* 0.55% 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

COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
2015	$492,554,392	2005	$496,340,649
2014	$476,475,676	2004	$478,829,323
2013	$470,658,374	2003	$463,864,197
2012	$471,264,772	2002	$452,550,965
2011	$471,346,375	2001	$436,073,531
2010	$471,232,029	2000	$424,486,824
2009	$474,008,922	1999	$410,037,087
2008	$512,094,400	1998	$376,348,116
2007	$516,208,893	1997	$375,136,487
2006	$503,210,580	1996	$370,080,263

SOURCE: ADOT, Office of Financial Planning.

WHO PAYS

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].

Table 2

DISTRIBUTION OF COLLECTIONS

Fiscal Year	Highway User Revenue Fund [1/]	State Aviation Fund	State Lake Improvement Fund	Watercraft Fuel Tax Administration Fund	Off-Highway Vehicle Recreation Fund	Refunds to Taxpayers	Net Collections
2015	$470,902,624	$329,326	$7,622,992	$77,000	$2,646,872	$10,975,578	$492,554,392
2014	$457,415,366	$313,075	$6,950,066	$70,203	$2,568,523	$9,158,443	$476,475,676
2013	$453,851,444	$358,677	$4,612,282	$46,589	$2,535,753	$9,253,630	$470,658,374
2012	$454,769,542	$312,914	$4,621,612	$46,683	$2,540,883	$8,973,138	$471,264,772
2011	$456,298,591	$383,655	$4,637,151	$46,840	$2,549,426	$7,430,712	$471,346,375
2010	$455,435,953	$339,980	$5,968,615	$60,289	$2,552,093	$6,875,099	$471,232,029
2009	$456,811,694	$380,429	$7,939,017	$80,192	$2,570,709	$6,226,881	$474,008,922
2008	$492,536,307	$420,915	$8,559,882	$86,463	$2,771,749	$7,719,084	$512,094,400
2007	$497,702,087	$460,470	$8,649,659	$87,370	$2,800,820	$6,508,486	$516,208,893
2006	$489,080,644	$462,598	$7,171,053	$72,435	$2,744,880	$3,678,970	$503,210,580
2005	$481,284,019	$499,136	$7,056,736	$71,280	$2,701,122	$4,728,355	$496,340,649
2004	$463,530,904	$572,686	$6,796,435	$68,651	$2,601,486	$5,259,161	$478,829,323
2003	$446,890,929	$646,314	$9,231,999	$93,253	$2,523,066	$4,478,637	$463,864,197
2002	$434,817,721	$510,378	$8,982,587	$90,733	$2,454,903	$5,694,643	$452,550,965
2001	$418,399,657	$456,476	$8,643,418	$87,307	$2,362,209	$6,124,464	$436,073,531
2000	$409,137,312	$481,594	$6,352,370	$64,165	$2,298,186	$6,153,196	$424,486,824
1999	$397,463,146	$671,799	$6,171,114	$62,335	$2,232,611	$3,436,082	$410,037,087
1998	$366,376,609	$485,333	$5,692,654	$57,502	$2,059,511	$1,676,507	$376,348,116
1997	$363,953,159	$514,687	$7,390,313	$74,650	$2,054,097	$1,149,581	$375,136,487
1996	$358,961,184	$512,328	$7,288,948	$73,626	$2,025,923	$1,218,254	$370,080,263

1/ Use Fuel Tax collections excluded.

REVENUE BASE AND RATE

The revenue 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]

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 27th day of the succeeding calendar month to ADOT [A.R.S. § 28-5925].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this tax in 2009, 2010, 2011, 2014 and 2015.

2013 LAWS

Laws 2013, Chapter 90, eliminates the requirement that a survey be conducted to determine the amount of motor vehicle fuel used to propel a watercraft. The language instead permanently sets the portion of the motor vehicle fuel tax derived from watercraft at 1.6% and deposits it in the State Lake Improvement Fund.

2012 LAWS

Laws 2012, Chapter 210, in addition to other provisions, removes the requirement that the state grants a refund or credit for the motor vehicle fuel tax paid while operating a motor vehicle on a public-private partnership roadway project.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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

COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
2015	$184,499,917	2005	$194,368,181
2014	$176,367,953	2004	$179,002,025
2013	$177,240,384	2003	$166,744,147
2012	$180,242,229	2002	$161,507,309
2011	$178,684,336	2001	$155,859,243
2010	$171,308,245	2000	$156,598,568
2009	$173,930,895	1999	$160,311,953
2008	$207,859,050	1998	$142,166,607
2007	$210,281,755	1997	$124,748,225
2006	$213,460,036	1996	$114,779,960

SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning.

WHO PAYS

The use 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 use fuel in order to recover it from the consumer [A.R.S. § 28-5606].

REVENUE BASE AND RATE

The revenue 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 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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this tax in 2009, 2010, 2011, 2013, 2014, and 2015.

2012 LAWS

Laws 2012, Chapter 210, in addition to other provisions, removes the requirement that the state grants a refund or credit for 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.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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

In addition to these statutory distributions, session law may distribute VLT for other purposes, as shown in the footnotes of *Table 2.*

(See *HURF Overview* at the beginning of this section for distribution of HURF monies.)

Table 1

COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
2015	$823,916,863	2005	$747,013,406
2014	$776,650,468	2004	$695,325,929
2013	$728,290,689	2003	$633,788,189
2012	$716,086,941	2002	$601,666,653
2011	$719,280,662	2001	$570,769,364
2010	$735,972,889	2000	$583,199,118
2009	$796,683,787	1999	$594,224,410
2008	$858,975,998	1998	$586,835,092
2007	$875,746,210	1997	$552,348,715
2006	$831,950,743	1996	$480,300,608

SOURCE: ADOT, Office of Financial Planning.

Table 2

DISTRIBUTION

Fiscal Year	State General Fund	State Highway Fund	MVD 3rd Parties 1/	Local Governments	Dept. of Public Safety Parity Comp Fund	Net Collections
2015 2/	$6,956,810	$158,315,406	$23,469,044	$632,404,919	$2,770,684	$823,916,863
2014 3/	$6,401,486	$149,551,575	$21,821,576	$596,259,670	$2,616,160	$776,650,468
2013 4/	$6,091,579	$141,182,351	$19,696,323	$558,873,217	$2,447,220	$728,290,689
2012 5/	$111,110,374	$86,559,610	$18,666,754	$497,354,125	$2,396,078	$716,086,941
2011 6/	$47,278,118	$121,085,125	$17,436,109	$531,081,982	$2,399,328	$719,280,662
2010 7/	$45,955,022	$126,415,528	$16,046,738	$545,063,803	$2,491,798	$735,972,889
2009 8/	$68,637,851	$129,031,249	$16,060,465	$580,992,141	$1,962,081	$796,683,787
2008 9/	$2,269,219	$175,782,821	$16,304,558	$661,705,985	$2,913,415	$858,975,998
2007	$684,102	$180,569,892	$15,524,579	$675,984,843	$2,982,792	$875,746,210
2006	$585,136	$172,515,319	$13,901,699	$642,162,540	$2,693,307	$831,950,743
2005 10/	$135,073,829	$36,758,445	$11,329,742	$563,851,390		$747,013,406
2004	$800,278	$148,436,587	$9,667,114	$536,421,948		$695,325,929
2003 11/	$6,556,895	$134,596,889	$8,154,054	$484,480,321		$633,788,159
2002	$70,213	$130,128,937	$6,571,119	$464,896,384		$601,666,653
2001	$475,007	$130,047,925	$4,389,182	$435,857,252		$570,769,364
2000	$24,265,823	$140,307,371	$3,899,329	$414,726,595		$583,199,118
1999	$90,592,289	$132,866,068	$2,378,247	$368,387,805		$594,224,410

1/ Laws 1998, Chapter 200 and Laws 2001, Chapter 326 provide for the reimbursement of authorized Motor Vehicle Division (MVD) 3rd parties for their services performed. The majority of reimbursement monies come from the State Highway Fund.

2/ In FY 2015, there was a distribution in the amount of $5.5 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 $1.2 million for school financial assistance and $305,400 from the MVD Registration Compliance program

3/ In FY 2014, there was a distribution in the amount of $4.9 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 $892,100 for school financial assistance and $600,700 from the MVD Registration Compliance program.

4/ In FY 2013, there was a distribution in the amount of $4.2 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 $855,900 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.

5/ 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.

6/ 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.

7/ 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.

8/ 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.

9/ 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.

10/ 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.

11/ 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

Owners of vehicles that are registered for operation on the highways of Arizona [Arizona Constitution, Article 9, Section 11]

REVENUE 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:

<u>Classes 1 through 8</u>
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.

<u>Class 9 and Class 10</u>
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 through 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].

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].

EXEMPTIONS

A veteran who is a resident of Arizona and whose vehicle, or replacement of such vehicle, is acquired by financial aid from the U.S. Department of Veterans Affairs 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 U.S. Department of Veterans Affairs 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 resident with a disability.

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].

Beginning January 1, 2016, a spouse or dependent of emergency personnel killed in the line of duty since April 5, 1933 is exempted from VLT and the registration fee. The exemption ends when the spouse remarries or dies, or when the dependent turns 18 (or 23 if a full-time student), and is limited to 1 vehicle per claimant [Laws 2015, Chapter 186].

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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009:

There were no changes enacted to this tax in 2012, 2013 and 2014.

2015 LAWS

Laws 2015, Chapter 186 allows a VLT and registration exemption for a spouse or dependent of emergency personnel killed in the line of duty since April 5, 1933. The exemption ends when the spouse remarries or dies, or when the dependent turns 18 (or 23 if a full-time student), and is limited to 1 vehicle per claimant.

2011 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 LAWS

Laws 2010, 7th 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 LAWS

Laws 2009, 4th 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.

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, 1st 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, 1st 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.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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.

Table 1

COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
2015	$40,226,982	2005	$37,980,023
2014	$38,841,688	2004	$34,617,452
2013	$37,310,404	2003	$32,856,325
2012	$37,349,582	2002	$29,346,709
2011	$36,299,755	2001	$32,677,923
2010	$35,807,490	2000	$36,562,768
2009	$40,483,421	1999	$34,139,960
2008	$40,177,453	1998	$63,845,891
2007	$45,226,185	1997	$90,186,000
2006	$40,504,406	1996	$85,433,269

SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning.

All 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

A person who operates or causes to be operated a motor vehicle on a public highway [A.R.S. § 28-5851].

REVENUE 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].

Table 2

FEE SCHEDULE

Vehicle Weight	Fee	Vehicle Weight	Fee
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 of ADOT 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].

In addition to a commercial registration fee of $4 and a gross weight fee, each light motor vehicle pays an annual fee of $64. A light motor vehicle is a self-propelled motor driven vehicle that has a declared gross weight of 12,000 or fewer pounds and used to transport for hire persons, freight or property. The light motor vehicle fee exempts the vehicle from transaction privilege tax or similar taxes related to transporting for hire [A.R.S. § 28-5492].

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].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this fee in 2009, 2010, 2011, 2013, and 2015.

2014 LAWS

Laws 2014, Chapter 60 revises the definitions of special permit conditions for a tractor-semitrailer, including the special permit tractor-semitrailer weight and length, the number of trailers a special permit tractor-semitrailer may haul, and the routes a special permit tractor-semitrailer may travel. The legislation specifies a fee of $75 for a single trip or 30-day special permit, $360 for an annual special permit if the overweight load is no more than 123,500 pounds, and $600 for an annual special permit if the overweight load is more than 123,500 pounds but no more than 129,000 pounds. The bill also allows the ADOT director to issue an envelope permit to any 2 axel vehicles if they are less than 34,000 pounds.

2012 LAWS

Laws 2012, Chapter 210, in addition to other provisions, removes the requirement that the state grants a refund or credit for the motor carrier fee paid while operating a motor vehicle on a public-private partnership roadway project.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.pdf.

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.

Table 1

COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
2015	$329,326	2005	$499,136
2014	$313,075	2004	$572,686
2013	$358,677	2003	$646,314
2012	$312,914	2002	$510,378
2011	$383,655	2001	$456,476
2010	$339,980	2000	$481,594
2009	$380,429	1999	$671,799
2008	$420,915	1998	$485,333
2007	$460,470	1997	$514,687
2006	$462,598	1996	$512,328

SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning.

WHO PAYS

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].

REVENUE BASE AND RATE

The revenue 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].

PAYMENT SCHEDULE

The tax that is accrued in any calendar month is to be paid on or before the 27th day of the next succeeding calendar month to ADOT [A.R.S. § 28-5925].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this tax in the period from 2009 through 2015.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.pdf.

HOSPITAL ASSESSMENT

DESCRIPTION

The Arizona Health Care Cost Containment System (AHCCCS) is required to establish, administer and collect a hospital assessment for state costs that are not otherwise covered by voter-approved tobacco revenues and other state funds for the Proposition 204 and Adult Expansion populations, on and after January 1, 2014. [A.R.S. § 36-2901.08]

Proposition 204, also known as the "Healthy Arizona Initiative," was a voter-approved ballot initiative in year 2000 that expanded AHCCCS eligibility for childless adults, parents, and other Proposition 204 populations (i.e., aged, blind and disabled individuals) with incomes that exceed the limits for the Traditional population, but are not above 100% of the federal poverty level (FPL). However in July 2011, enrollment for Proposition 204 childless adults was suspended to address the FY 2012 budgetary shortfall. Other Proposition 204 populations retained coverage and their enrollment continued unaffected.

Beginning January 1, 2014, the federal Affordable Care Act (ACA) required mandatory expansion of Medicaid eligibility to children up to 133% FPL, while making expansion of adult eligibility up to 133% FPL an option of the state. Arizona opted to restore its prior Proposition 204 childless adult coverage along with expanding participation to all adults with incomes up to 133% FPL. *(See the JLBC Staff's January 1, 2014 Expansion of Medicaid Eligibility and the Affordable Care Act Program Summary for more information.)* [A.R.S. § 36-2901.01, A.R.S. § 36-2901.07]

A hospital assessment was enacted to pay for the state's share of acute care costs of Proposition 204 Childless Adult Restoration (0-100% FPL), other Proposition 204 populations and Adult Expansion (100-133% FPL). Hospital assessment monies are matched with increased Federal Medical Assistance Percentages (FMAP) to cover AHCCCS costs incurred by the Proposition 204 Childless Adult Restoration and the Adult Expansion populations. Hospital assessment monies that fund state costs of other Proposition 204 populations in AHCCCS receive the regular 2 to 1 federal match rate.

COLLECTIONS

In FY 2015, the hospital assessment generated an estimated $270.4 million in collections. In FY 2016, AHCCCS projects that assessment collections will be $250.4 million. *Table 1* below provides historical assessment collections since the assessment's initial implementation in FY 2014.

Table 1

COLLECTIONS

Fiscal Year	Amount
2016*	$250,435,512
2015*	$270,442,115
2014	$75,193,195

* AHCCCS' preliminary assessment estimate.

SOURCE: Arizona Health Care Cost Containment System, Hospital Assessment Reports.

DISTRIBUTION

Hospital assessment collections may be used to fund acute care costs of Proposition 204 Childless Adult Restoration (0-100% FPL), other Proposition 204 populations and Adult Expansion (100-133% FPL). These costs are included within the AHCCCS budget.

Under the ACA, the federal government provides an increased federal match rate for Proposition 204 childless adults. The increased match rate started at 83.6% in FY 2014, increased to 85.48% in FY 2015, and increases to 89.05% in FY 2016. Hospital assessment funding for other Proposition 204 populations receives a regular 2 to 1 match rate.

The federal government pays 100% of the cost of the Adult Expansion (including parents and childless adults whose incomes are between 100-133% FPL) through January 1, 2017. As a result, the assessment does not cover a state match amount for this population until FY 2017. The increased federal match rate the state receives for the Adult Expansion population is scheduled to decrease from 100% in 2016, to 95% in 2017 and 94% in 2018. Assessment funds distributed to AHCCCS are not remitted to the General Fund, do not lapse and are continuously appropriated. [A.R.S. § 36-2901.09]

WHO PAYS

A.R.S. § 36-2901.08A allows AHCCCS the option to levy the assessment on a participating hospital's revenues, discharges or bed days to fund the state share of AHCCCS costs that are incurred for the Proposition 204 and Adult Expansion populations after December 31, 2013. [A.R.S. § 36-2901.01, A.R.S. § 36-2901.07] Statute also permits AHCCCS to establish the amount, method, modifications or exemptions to the assessment, such as the size of the hospital, the specialty services available to patients and the geographic location of the hospital. [A.R.S. § 36-2901.08C] Federal regulations require that assessments be broad based and uniformly applied to all providers within a specified class of providers.

Table 2 lists the hospital providers (by peer hospital classification) that contributed to the FY 2015 assessment and the respective percentage amounts to the total funds AHCCCS collected in FY 2015.

Table 2

Hospital Provider Peer Group (# of hospitals) 1/	**FY 2015 Subtotals**	**% of Total**
Urban Acute Providers (26)	$ 164,627,234	60.9%
Critical Access Hospital (CAH) Providers (10)	3,284,435	1.2%
Non-CAH Rural Acute Providers (14)	32,563,725	12.0%
Long-Term Care Provider (8)	364,588	0.1%
Large Psychiatric Provider (4)	1,828,328	0.7%
Pediatric-Intensive General Acute Hospitals (2)	20,513,024	7.6%
Medium Pediatric Intensive General Acute Hospitals (5)	47,260,782	17.5%
TOTAL	**$ 270,442,115**	**100.0%**

* AHCCCS' preliminary assessment estimate.

1/ In FY 2015, 69 hospitals participated in the hospital assessment.

REVENUE BASE AND RATE

AHCCCS determines the amount of the assessment to collect based on the estimated state funding needed to cover the Proposition 204 and Adult Expansion populations. Each hospital's share of the FY 2016 assessment is calculated by multiplying discharges reported on the hospital's 2012 Medicare Cost Report by the FY 2016 hospital's per-inpatient discharge rate. Although rates differ among hospital peer groups, each hospital must agree to the discharge rate before it can be imposed. *Table 3* on the following page outlines each peer hospital group's discharge rate on a per-inpatient basis for FY 2015 and FY 2016.

Since its January 1, 2014 implementation, the total hospital assessment liability has been split among hospitals according to their number of reported discharges and the per-inpatient discharge rate. Although there is no statutory requirement to use the same assessment methodology developed in the prior fiscal year, each assessment request requires the federal Centers for Medicare & Medicaid Services (CMS) approval before the assessment can be imposed. Each hospital's inpatient discharge rate is verified to comply with federal regulations for permissible health care-related taxes outlined in federal regulations 42 CFR 433.68.

Table 3

Hospital Provider Peer Group (# of hospitals)	FY 2015 Discharge Rate 1/	FY 2016 Discharge Rate
Urban Acute Providers (26)	$449.00	$416.00
Critical Access Hospitals (CAH) (10)	449.00	416.00
Non-CAH Rural Acute Providers (14)	449.00	416.00
Long-Term Care Provider (8)	112.25	104.00
Large Psychiatric Provider (4) 1/	112.25	104.00
Pediatric-Intensive General Acute Hospitals (2)	359.25	332.75
Medium Pediatric Intensive General Acute Hospitals (5)	404.00	374.50
WEIGHTED AVERAGE	**$369.18**	**$339.58**

1/ Rates represent the annual average of quarterly rates assessed in FY 2015. AHCCCS increased rates during the last quarter of FY 2015 in order to increase the annual assessments collected from the originally planned $232.9 million amount to an estimated $270.4 million.
2/ Within this peer group is the psychiatric sub-providers peer group. Psychiatric sub-providers discharge rates were $112.25 in FY 2015 and will be $104.00 in FY 2016.

PAYMENT SCHEDULE

Payments are made on a quarterly basis and are collected by AHCCCS. The funds are then held within the Hospital Assessment Fund before Federal Funds are drawn into the state for deposit at the time of payment. Total payments are based on the state matching monies and various federal match rates before the total fund amount is distributed to managed care organizations and service providers.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of all statutory changes that have been enacted by the Legislature. The first legislation was in 2013.

2013 LAWS

Laws 2013, 1st Special Session, Chapter 10 requires AHCCCS to establish an assessment on hospital revenue, discharges, or bed days for the purpose of funding the state match portion of the Medicaid expansion (adults from 100%-133% of FPL) and the entire Proposition 204 population beginning January 1, 2014. In addition, Chapter 10 allows AHCCCS to establish modifications or exemptions to the assessment, such as the size of the hospital, the specialty services available to patients and the geographic location of the hospital. The AHCCCS Director is required to present the methodology to the JLBC before the implementation of the assessment and thereafter, if the methodology is modified.

The legislation additionally repeals the hospital assessment if: 1) the federal matching rate for adults from 100%-133% FPL or childless adults is less than 80%; 2) the federal ACA is repealed; or 3) the maximum amount that can be assessed and still retain a federal match, along with any other appropriated monies, is insufficient to pay for the Childless Adult Restoration to 100% of FPL and the Adult Expansion between 100% and 133% of FPL. (Effective September 12, 2013)

INSURANCE GUARANTY FUND ASSESSMENTS

DESCRIPTION

The Department of Insurance manages 2 Guaranty Funds - the Arizona Property and Casualty Insurance Guaranty Fund, and the Life and Disability Insurance Guaranty Fund [A.R.S. § 20-662 and § 20-683]. These 2 funds serve as a safeguard in the event that a certified insurance provider becomes insolvent or is placed under a court order of rehabilitation. The Property and Casualty Insurance Guaranty Fund covers policies on property insurance, casualty insurance and workers' compensation insurance. The Life and Disability Insurance Guaranty Fund covers policies on life insurance, disability insurance and annuities. Each Guaranty Fund is administered by a separate Board of Directors with members appointed by the Governor [A.R.S. § 20-662, A.R.S. § 20-664, A.R.S. § 20-684, and A.R.S. § 20-685].

DISTRIBUTION

Each Guaranty Fund is broken into 3 accounts

Arizona Property and Casualty Insurance Guaranty Fund [A.R.S. § 20-662]

- Automobile insurance account
- Workers' compensation insurance account
- Account for all other insurance covered by the fund

The Board of Directors levies assessments for each account and spends money only for the purposes of that account. The Board of Directors can levy an additional assessment for administrative costs [A.R.S. § 20-664 and A.R.S. § 20-666F].

Life and Disability Insurance Guaranty Fund [A.R.S. § 20-683]

- Life insurance account
- Disability insurance account
- Annuity account

The obligations of the fund are not allowed to exceed the amount to which the impaired or insolvent member insurer is contractually liable. However, there are caps on the amount of obligations that the fund can pay, even if the insolvent or impaired insurer is contractually liable for an amount above the cap. The cap on obligations is $300,000 for life insurance death benefits, or $100,000 for net cash withdrawal or net cash surrender for life insurance. The cap on obligations is $300,000 for disability income and long term care insurance; $500,000 for surgery, basic medical, and major medical insurance; and $100,000 for coverages not defined as disability income, long term care, basic medical, surgery, or major medical insurance. The cap on obligations to the annuity account is $250,000 in present value annuity benefits. [A.R.S. § 20-682E]

If an individual, firm or corporation owns multiple policies, the fund's obligation cannot exceed $5 million. [A.R.S. § 20-682F]

Table 1

COLLECTIONS – ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND [1/]

Fiscal Year	Automobile Account	Worker's Compensation Account [2/]	Other Account	Total Net Collections
1998	$3,949,018	$0	$1,446,788	$5,395,806

1/ Since FY 1996, assessments were only levied in FY 1998.
2/ Laws 2014, Chapter 186 moved the workers' compensation account from the Industrial Commission Special Fund to the Arizona Property and Casualty Insurance Guaranty Fund.

SOURCE: Department of Insurance

Table 2

COLLECTIONS – LIFE AND DISABILITY INSURANCE GUARANTY FUND [1/]

Fiscal Year	Life Account	Disability Account	Annuity Account	Total Net Collections
1997	$13,542,000	$0	$10,089,000	$23,631,000
1996	$2,302,000	$636,000	$5,599,000	$8,537,000

1/ No assessment has been levied since FY 1997

SOURCE: Department of Insurance

WHO PAYS

Arizona Property and Casualty Insurance Guaranty Fund: Member insurers pay the assessment. A member insurer under the Arizona Property and Casualty Insurance Guaranty Fund is a person who is licensed to write any kind of insurance, unless that person only writes life, title, surety, disability, credit, mortgage guaranty or ocean-marine insurance [A.R.S. § 20-661 and A.R.S. § 20-666A].

Life and Disability Insurance Guaranty Fund: Member insurers pay the assessment. A member insurer is any insurer that holds a certificate of authority and transacts life, disability or annuity insurance in the state and may include member insurers who may have had the certificate of authority suspended, revoked, not renewed or voluntarily withdrawn [A.R.S. § 20-681 and A.R.S. § 20-686A].

As shown in *Table 1* and *Table 2*, the guaranty fund assessments have not been levied since 1998.

REVENUE BASE

The assessments for each Guaranty Fund are determined by each fund's respective Board of Directors. The amount owed by member insurers is based on the proportion of premiums written by a member insurer to total premiums written for all member insurers by insurance type for each subaccount. For example, if a member insurer receives 25% of all life insurance premiums in the state, then that member insurer will be responsible for 25% of the life insurance account assessment under the Life and Disability Insurance Guaranty Fund [A.R.S. § 20-666 and A.R.S. § 20-686].

The Arizona Property and Casualty Insurance Guaranty Fund assessment cannot exceed 1% of a member insurer's net direct premiums from the preceding calendar year on the type of insurance in the subaccount. In addition to the assessments for each subaccount, the board of directors may levy an additional assessment on each member insurer for operating expenses not to exceed $200 annually [A.R.S. § 20-666B and A.R.S. § 20-666F].

The Life and Disability Insurance Guaranty Fund is made up of 2 types of assessments, Class A and Class B. Class A assessments are set at a level by fund administrators to pay for administration expenses. Class B assessments are divided into the 3 accounts. The amount of a Class B assessment that goes to a particular account is proportional to the share of an insolvent or impaired insurer's total premiums that are covered under that particular account. For example, if 10% of an impaired insurer's premiums are covered by the disability insurance account, then 10% of the assessment levied to member insurers as a result of the impaired insurer will go to the disability insurance account under the Life and Disability Insurance Guaranty Fund. The total from both classes of assessments imposed on a member insurer in 1 calendar year cannot exceed 2% of the average of total premiums collected during the 3 years before the offending member insurer became insolvent [A.R.S. § 20-686].

PREMIUM TAX OFFSET

Under both guaranty funds, member insurers who pay the assessment offset their premium tax liability by 20% of the assessment in the year of the assessment and by 20% in each of the succeeding 4 years. However, the total amount of the premium tax offset cannot exceed 100% of the assessment [A.R.S. § 20-674 and A.R.S. § 20-692].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009. There were no changes enacted to these assessments in the period from 2009 to 2012, or in 2015.

2014 LAWS

Laws 2014, Chapter 186 establishes the Workers' Compensation Insurance Account as part of the Arizona Property and Casualty Insurance Guaranty Fund (Guaranty Fund) within the Department of Insurance. The law transfers the rights and obligations related to payment of workers' compensation claims on insolvent insurers from the Special Fund, administered by the Industrial Commission, to the Department of Insurance's Guaranty Fund effective July 1, 2015. The law requires the Industrial Commission to transfer $222,848,153 in assets from the Special Fund to the Guaranty Fund for deposit in the Workers' Compensation Insurance Account no less than 30 days before July 1, 2015.

The Workers' Compensation Insurance Account is to be used to continue workers' compensation benefits for claimants of insolvent carriers and bankrupt self-insured employers.

In the event of an insolvency or bankruptcy, the Department of Insurance may cover the cost of claims on that insurer or employer by levying an assessment of up to 1% on the other solvent workers' compensation insurers' premiums from all policies issued during the preceding calendar year. The assessment revenue is deposited into the Workers' Compensation Insurance Account for payment of those claims.

2013 LAWS

Laws 2013, Chapter 214 includes the following provisions in regards to the Life and Disability Insurance Guaranty Fund:

- Distinguishes between impaired insurer and insolvent insurer by creating a separate definition for insolvent insurer.
- Amends the definition of member insurer to include insurers with a certificate of authority that has been suspended, revoked, not renewed, or voluntarily withdrawn.
- Stipulates when the fund does and does not provide coverage.
- Increases the maximum coverage amounts to $300,000 for life insurance, $500,000 for disability insurance, and $250,000 for annuity benefits.
- Stipulates that assessments must be paid within 30 days of notice by the fund.
- Stipulates that combined assessments on all 3 accounts cannot exceed 2% of the insurer's average total premiums collected during the 3 years before the offending member insurer became insolvent.

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.

Laws 2015, Chapter 10 repeals the tax effective January 1, 2016.

DISTRIBUTION

The job training employer tax is deposited in the Arizona Job Training Fund [A.R.S. § 23-769].

Table 1

COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
2015	$14,248,827	2007	$15,973,538
2014	$12,637,422	2006	$14,653,279
2013	$13,600,391	2005	$13,317,153
2012	$15,990,851	2004	$12,350,720
2011	$11,784,372	2003	$12,549,532
2010	$12,041,812	2002	$13,371,382
2009	$14,878,923	2001	$6,478,539
2008	$16,226,493		

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 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:

(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 job training employer tax.

REVENUE BASE AND RATE

The revenue 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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this tax in 2009, 2010, 2012, 2013, and 2014.

2015 LAWS

Laws 2015, Chapter 10 repeals the job training employer tax effective January 1, 2016. Previously, the tax was scheduled to sunset on January 1, 2017. The bill does not impact the previous sunset date of January 1, 2017 for the Job Training Program.

2011 LAWS

Laws 2011, 2nd 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 employer tax was extended from January 1, 2012 to January 1, 2017. 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.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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. Beginning July 2015, the Department of Racing will become the Division of Racing within the Department of Gaming [A.R.S. § 5-101.01A]. The Division of Racing will continue to collect 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. Since FY 2013, all proceeds are distributed to the Racing Regulation Fund.

Table 1

COLLECTIONS

Fiscal Year	Pari-Mutuel Taxes	Licenses	Total Collections
2015	$184,917	$331,330	$516,247
2014	$215,500	$372,400	$587,900
2013	$234,600	$350,500	$585,100
2012	$254,801	$182,088	$436,889
2011	$284,817	$130,200	$415,017
2010	$314,021	$73,600	$387,621
2009	$326,590	$80,356	$406,946
2008	$429,600	$168,600	$598,200
2007	$431,400	$53,500	$484,900
2006	$527,860	$61,426	$589,286
2005	$483,901	$194,954	$655,914
2004	$565,204	$130,900	$696,104
2003	$628,564	$111,750	$740,314
2002	$750,354	$158,988	$909,342
2001	$1,802,280	$91,558	$1,893,838
2000	$2,549,046	$59,506	$2,608,552
1999	$2,945,419	$166,829	$3,112,248
1998	$2,943,787	$88,530	$3,032,317
1997	$2,606,325	$58,126	$2,664,451
1996	$2,802,122	$173,655	$2,975,775

SOURCE: Arizona Department of Racing.

WHO PAYS

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 700,000 persons may simultaneously hold a permit for the same kind of racing in another county having a population of over 700,000 [A.R.S. § 5-108.03].

REVENUE BASE AND RATE

The revenue 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 Division of Racing issues annual licenses and assessments to facilities and personnel involved in the racing industry. The Division of Racing 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 Division of Racing charges an annual licensing fee of $150 to the following individuals representing permit applicants, where appropriate: racetrack owners with a stake of 10% or greater, corporate officers, and racetrack general managers. 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 Division of Racing and the state [A.R.S. § 5-107D]. Each pari-mutuel permit holder must also make a refundable $5,000 deposit with the Division of Racing 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]:

- 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 Division of Racing and included in Table 2 on the following page 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 2014. The tables also provide actual and estimated amounts for the Hardship Tax Credit during FY 2015. Yavapai Downs was not in operation in FY 2015 and is not expected to reopen in FY 2016. Apache Greyhound Park currently takes wagers on simulcast races, but does not conduct any live racing.

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 Division of Racing.

Determination of the FY 2015 Hardship Tax Credit Based on the FY 2014 Dollars Wagered

Table 2		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
Track	Base Year	Base Year Amount	Tax Rate	FY 14 Actual Amount Wagered	FY 14 Amount Wagered Subject to Pari-Mutuel Tax	FY 14 Pari-Mutuel Tax owed before Hardship Credit	FY 14 Amount Wagered on Charity Days	FY 14 Allowable Hardship Credits	FY 14 Pari-Mutuel Tax paid after Hardship Credit	Carryover from FY 14 Hardship Credit	FY 14 Percent Change	FY 15 Tax due based on Percent Decrease	FY 15 Hardship Credit based on Prior Year Tax Rate	FY 15 Tax Credit with FY 14 Carryover
						=b*d			=e-f-g	=g-e	=(c-a)/a	=e*|j|	=3*k	=i+l
Turf	FY 1994	$101,467,993	2.0% 1/	$116,595,373	$11,155,612	$223,112 1/	$7,594 3/	$0 4/	$215,518	$14,564 4/	14.91%	$0 6/	$0	$14,564 4/
Rillito	FY 1990	$3,887,981	2.0% 1/	$664,023	$664,023	$13,280 1/	$0	$266,649	0 5/	$253,369	-82.92%	$11,012	$33,036	$286,405
Apache	FY 1990	$12,262,396	5.5%	$14,679,516	$0 2/	$0	$0	$360,850	0 5/	$360,850	19.71%	NA	$0	$360,850
Tucson	FY 1990	$38,110,346	5.5%	$11,827,967	$5,294,588	$291,202	$0	$4,222,939	0 5/	$3,931,736	-68.96%	$200,813	$602,439	$4,534,176

1/ 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].

2/ Apache Greyhound track conducts only simulcast races; no live races are held at the Apache racetrack. Wagering on simulcasts of out-of-state races is not subject to pari-mutuel tax [A.R.S. § 5-111].

3/ 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 public. Monies received from horse and dog races held on charity days are exempt from pari-mutuel tax [A.R.S. §5-111].

4/ The Turf racetrack does not follow the standard formula for calculating Allowable Hardship Credits because the track did not have a negative percentage change (see footnote 6); therefore the allowable hardship credit for the Turf track will remain as the carryover from the previous year until the Turf track has a negative percentage change.

5/ If the resulting amount in column (h) is negative, the track does not pay the pari-mutuel tax but rather that amount is subtracted from the Allowable Hardship Credit in column (g).

6/ A hardship tax credit is determined based on the percentage decrease in pari-mutuel wagering [A.R.S. § 5-111I]. Since the Turf track did not experience a decrease in pari-mutuel racing for FY 2014 (see column (j)), the Turf track is ineligible to use its hardship credit; therefore column (k) has been zeroed out for the Turf track.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009. There were no changes enacted to this tax in 2010 and 2013.

2015 LAWS

Laws 2015, Chapter 15 merges the Arizona Department of Racing into the Arizona Department of Gaming, establishing a Division of Racing effective July 1, 2015. The bill transfers all administrative matters, contract, and judicial action to the Division of Racing, within the Department of Gaming. The Division of Racing will continue to collect fees for licenses and regulatory assessments relating to the racing industry.

2014 LAWS

Laws 2014, Chapter 277 provides various changes to the state's racings laws**.** The bill authorizes Advanced Deposit Wagering (ADW), which permits wagering on live and simulcast horse and dog racing either by telephone or over the internet. The bill would have transferred $1.2 million to each of the Arizona Breeders' Award Fund and to the County Fair Racing Fund from the Estate and Unclaimed Property Fund resulting in a $(2.4) million fiscal impact to the state General Fund in FY 2015. These transfers, however, were line item vetoed by the Governor, thereby eliminating the $2.4 million in transfers. That amount will continue to be deposited into the General Fund.

2012 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 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 LAWS

Laws 2009, Chapter 3, 4th 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)

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.pdf.

TELECOMMUNICATIONS SERVICES EXCISE TAX

DESCRIPTION

The state is levying 3 separate taxes on telecommunications services. The *Emergency Telecommunication Services Tax* and the *Prepaid Wireless Telecommunications E911 Excise Tax* are levied for the purpose of financing 911 emergency telephone services for political subdivisions of the state and are both deposited in the *Emergency Telecommunication Services Revolving Fund.* The *Telecommunications Provider Proceeds Tax* is levied to finance telecommunication devices for deaf, severely hearing impaired, and severely speech impaired residents of the state and is deposited in the *Telecommunication Fund for the Deaf.*

DISTRIBUTION

Table 1 below provides a 20-year history of the distribution of the taxes levied on telecommunications services. As noted above, the current taxes levied on telecommunications services are deposited in either the *Emergency Telecommunication Services Revolving Fund* or the *Telecommunication Fund for the Deaf.* Prior to Laws 2006, Chapter 351, collections from the *Telecommunications Provider Proceeds Tax* were shared with the Poison Control System within the Department of Health Services (DHS), the Arizona State Schools for the Deaf and the Blind (ASDB), and the Teratogen Information Program administered by the University of Arizona Health Sciences Center.

Table 1

COLLECTIONS AND DISTRIBUTION

Fiscal Year	Emergency Telecomm. Svcs. Revolving Fund	Telecomm. Fund for the Deaf	Poison Control Fund 1/	AZ State Schools for the Deaf & the Blind 1/	Teratogen Information Program 1/
2015	$17,850,677	$4,852,778	-	-	-
2014	$17,109,403	$4,865,666	-	-	-
2013	$16,425,768	$4,587,729	-	-	-
2012	$16,481,762	$4,857,379	-	-	-
2011	$16,606,135	$6,452,762	-	-	-
2010	$16,453,500	$6,086,692	-	-	-
2009	$17,774,128	$6,274,404	-	-	-
2008	$17,332,349	$6,581,940	-	-	-
2007	$23,074,167	$6,744,231	-	-	-
2006	$28,736,951	$3,860,508	$1,128,620	$ 867,140	$48,678
2005	$27,245,559	$4,035,765	$1,066,833	$1,363,179	$53,771
2004	$25,691,865	$5,091,661	$1,437,566	$1,362,312	-
2003	$23,510,706	$6,338,095	$2,340,528	-	-
2002	$21,927,338	$6,395,057	$2,365,295	-	-
2001	$11,337,064	$5,514,542	$2,039,625	-	-
2000	$9,353,630	$4,960,224	$1,834,603	-	-
1999	$9,266,210	$5,158,289	$1,907,860	-	-
1998	$8,375,062	$4,908,914	$1,815,626	-	-
1997	$6,668,099	$4,284,353	$1,584,624	-	-
1996	$6,068,018	$5,355,897	-	-	-

1/ Prior to Laws 2006, Chapter 351, 1.1% of the public service corporations' gross proceeds of sales or gross income from wired telephone lines (i.e., Telecommunications Provider Proceeds Tax) were distributed as follows: 0.68% to the Telecommunication Fund for the Deaf, 0.25% to the Poison Control Fund, 0.16% to the Arizona State Schools for the Deaf and the Blind Telecommunications Fund, and 0.01% to the Teratogen Information Program Fund.

SOURCE: Department of Revenue, Annual Reports

WHO PAYS

The *Emergency Telecommunication Services Tax* and *Telecommunications Provider Proceeds Tax* are both levied on the "provider." A "provider" is either of the following: (1) a public service corporation that provides exchange access services to a local telecommunications network, (2) a supplier of wireless services, or (3) a supplier of any combination of wire and wireless services [A.R.S. § 42-5251].

The *Prepaid Wireless Telecommunications E911 Excise Tax* is levied on the "seller." A "seller" is any business or person that sells prepaid wireless telecommunications service to a consumer. Prepaid wireless telecommunications service is a commercial mobile radio service that is paid in advance and sold in a predetermined amount, and which allows the caller to dial 911 to access the emergency system [A.R.S. § 42-5401].

REVENUE BASE AND RATE

BASE

The *Emergency Telecommunication Services Tax* is imposed on each activated wire and wireless service account, including Voice Over Internet Protocol (VoIP) [A.R.S. § 42-5252A].

The *Telecommunications Provider Proceeds Tax* 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. § 42-5252B]. Exchange services are essentially wired telephone or telecommunication exchange lines that provide access from the customer to the local telecommunications network. This tax does not apply to wireless and VoIP.

The *Prepaid Wireless Telecommunications E911 Excise Tax* is imposed on the seller's gross proceeds of sales or gross income derived from the retail sale of prepaid wireless telecommunications services [A.R.S. § 42-5402A].

RATE

Emergency Telecommunication Services. Beginning in FY 2008, the monthly rate is 20¢ per activated wire and wireless service account. The corresponding rate was 28¢ in FY 2007, and 37¢ in the period from FY 2001 through FY 2006 [A.R.S. § 42-5252A].

Telecommunications Provider Proceeds. An amount equal to 1.1% of the public service corporations' monthly gross proceeds of sales or gross income from wired telephone lines [A.R.S. § 42-5252B].

Prepaid Wireless Telecommunications E911. Beginning January 1, 2014, an amount of 0.8% of the monthly gross proceeds of sales or gross income derived from the retail sale of prepaid wireless telecommunications services [A.R.S. § 42-5402A].

PAYMENT SCHEDULE

Each provider remits the tax monthly to the Department of Revenue in the same manner and time as the Transaction Privilege Tax (TPT). The seller of prepaid wireless telecommunications services is allowed to retain 3% of the amount of tax collected before remitting the tax to the department [A.R.S. § 42-5402B].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009. There were no changes enacted to this revenue category from 2009 through 2011, and 2013 through 2015.

2012 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.

A listing of tax law changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.pdf.

UNDERGROUND STORAGE TANK TAX

DESCRIPTION

The tax applies to gasoline, diesel fuel, and aviation fuel. The tax finances the Underground Storage Tank (UST) Revolving Fund to provide partial coverage for corrective action costs incurred by the Department of Environmental Quality (DEQ), owners, operators, or political subdivisions. This 1¢ excise tax on petroleum products and hazardous substances became effective July 1, 1990. The tax is deposited in the UST Revolving Fund, which finances leak prevention programs and corrective action costs related to leaking underground storage tanks incurred by the department, owners, operators, or political subdivisions.

Laws 2015, Chapter 247 established a newly-revised corrective action program and extended the 1¢ excise tax to January 1, 2024, on which date the tax will be repealed. The bill repealed the following: the State Assurance Account (SAF), the Regulated Substances Fund (RSF), the Grant Account, the UST Policy Commission, and the UST Technical Appeals Panel. UST Revolving Fund's allowable uses are redefined, and all unexpended and unencumbered monies from these accounts are transferred to the reorganized UST Revolving Fund.

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 [A.R.S. § 49-1036]. (This statute related to remission and disposition of revenues was modified by Laws 2015, Chapter 247.)

Laws 2004, Chapter 273 repealed the UST Program and the associated 1¢ excise tax no later than December 31, 2013, and created the Regulated Substance Fund (RSF) as a funding source for corrective action. Laws 2013, Chapter 244 extended the UST tax to December 31, 2015. The monies from the underground storage tank account were transferred into the RSF. The law established that, after the transfer of $60.0 million to the RSF, any amounts in excess of $60.0 million were to be deposited in the State Highway Fund (SHF). During FY 2014, the RSF reached $60.0 million in deposits. Monies deposited to the RSF in excess of $60.0 million were transferred to the State Highway Fund (SHF). Laws 2014, Chapter 14 eliminated the transfer of monies to the SHF effective January 1, 2015. A total of $27.7 million was transferred to the SHF before the transfer was eliminated. Laws 2015, Chapter 247 extended the 1¢ excise tax to January 1, 2024.

Regulated Substance Fund. Tax monies in this account were transferred to the UST Revolving Fund at the beginning of FY 2016 in accordance with Laws 2015, Chapter 247.

Assurance Account. Tax monies in this account were transferred to the UST Revolving Fund at the beginning of FY 2016 in accordance with Laws 2015, Chapter 247.

UST Revolving Fund. Tax monies in this account can be used in the following manner [A.R.S. § 49-1015]:

- Reimbursement 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. [A.R.S. § 49-1053].
- Provide grant monies. [A.R.S. § 49-1071].
- Reimburse DEQ for costs in taking corrective actions [A.R.S. § 49-1017].
- Reimburse DEQ for "reasonable" administration costs. [A.R.S. § 49-1015].

(For more information, please see the Impact of Statutory Changes section under Laws 2015, Chapter 247.)

Reimbursable Costs. The UST Revolving Fund may be used to reimburse costs of corrective actions incurred in soil and groundwater remediation. Corrective action cost reimbursements are limited to releases reported prior to

January 1, 2023. Applications for preapproval must be submitted no later than December 31, 2029 and reimbursement of eligible costs must be submitted no later than December 31, 2030.

Table 1

COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
2015	$29,853,233	2005	$30,759,200
2014	$28,579,676	2004	$28,090,000
2013	$29,023,072	2003	$27,769,100
2012	$28,233,058	2002	$27,819,100
2011	$28,644,426	2001	$30,025,500
2010	$28,703,900	2000	$28,963,800
2009	$28,652,200	1999	$27,761,100
2008	$31,581,700	1998	$26,829,600
2007	$32,092,000	1997	$23,056,300
2006	$36,174,100	1996	$24,624,400

SOURCE: Department of Environmental Quality

WHO PAYS

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]. *A.R.S. 49-1031B related to the imposition of the UST tax is extended to January 1, 2024 by Laws 2015, Chapter 247.*

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].

REVENUE 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] through January 1, 2014.

"Regulated substance" means petroleum or a substance defined in the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) of 1980, 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 new programs by paying the UST Tax [A.R.S. § 49-1057].

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].

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. The Director of DEQ may extend the filing time for "good cause" provided that at least 90% of the tax liability is paid upon the extension request [A.R.S. § 49-1033].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

2015 LAWS

Laws 2015, Chapter 247 suspends the administrative cap established in A.R.S. § 49-1051 for FY 2016 and authorizes DEQ to transfer up to $6,531,000 from the UST Revolving Fund for administrative costs.

Laws 2015, Chapter 247 includes the following provisions:

- Amends Laws 2013, Chapter 244 to extend the UST tax to January 1, 2024.
- Amends Laws 2014, Chapter 14 to establish a newly-revised corrective action program.
- Repeals the State Assurance Account (SAF), the Regulated Substances Fund (RSF), the Grant Account, the UST Policy Commission, and the UST Technical Appeals Panel.
- Reorganizes the UST Revolving Fund, redefines its allowable uses, and transfers all the unencumbered, unexpended monies from abolished funds and accounts to the reorganized UST Revolving Fund.
- Establishes a 7-year baseline period beginning January 1, 2016 and requires DEQ to establish standards for conducting a baseline assessment.
- Allows UST owners and operators to request grants of up to $100,000 per facility for the cost of a baseline assessment and other non-corrective actions specified in Laws 2015, Chapter 247.
- Establishes a new preapproval process, which will allow DEQ to reimburse certain owners and operators that implement preapproved corrective action with monies from the UST Revolving Fund.
- Limits preapproved corrective action cost reimbursements to releases reported prior to January 1, 2023.
- Establishes reimbursement mechanisms for previously time-barred claims for releases reported by certain dates.
- Limits reimbursement for previously time-barred claims to $500,000 per facility for applicants using a financial responsibility (FR) mechanism other than insurance and $1.0 million per faculty for applicants using insurance as an FR mechanism.
- Provides eligibility for preapproved corrective action reimbursement for certain owners and operators through a cost sharing obligation payment of the first $50,000 per facility for work conducted beginning January 1, 2016.
- Removes the requirement for the Director of DEQ to submit an annual recommendation to the Legislature regarding any revision to the tax rate necessary to maintain the fund and, instead, requires DEQ to compile and submit a report on the status of the UST program by December 31, 2017 and every 3 years thereafter.
- Transfers statutes related to intergovernmental agreements with Indian tribes.
- Makes technical and conforming changes to statute.

2014 LAWS

Laws 2014, 1st Special Session, Chapter 13 suspends the administrative cap established in A.R.S. § 49-1051 B2 and B3 for FY 2015 and authorizes DEQ to transfer a combined $6,531,000 from the Assurance Account of the UST Revolving Fund and the RSF for administrative costs.

Laws 2014, Chapter 14 includes the following provisions:

- Amends Laws 2013, Chapter 244 and eliminates the transfer of monies to the State Highway Fund effective January 1, 2015. After that date, any deposits will remain in the UST Assurance Account. (This provision was later amended by Laws 2015, Chapter 247, which abolished the UST Assurance Account and transferred all monies to the UST Revolving Fund.)
- Repeals the previous Laws 2013, Chapter 244 provision extending eligibility for corrective action coverage from the UST Assurance Account for releases that could not have been reasonably reported prior to July 1, 2006. (This provision was later amended by Laws 2015, Chapter 247 extending corrective action coverage.)
- Changes the provision from Laws 2013, Chapter 244 that the department is not required to take any action until after the committee report to when a new revised UST corrective action program is effective.
- Extends "stop order" authority on delivery of regulated substance to an underground storage tank if owner has not submitted a statement of financial responsibility.
- Offered a legislative intent statement that the UST account monies be used to fund a new and revised corrective action program and the existing UST Leak Prevention Program.

Laws 2014, Chapter 247 amended Laws 2014, Chapter 14 which offered legislative intent statement about the UST account monies being used to fund a new and revised corrective action program to include provisions stating that DEQ must allow an owner or operator an opportunity to demonstrate to DEQ that state and federal responsibility requirements are already being met as an alternative to possible mechanisms proposed in the legislative intent statement.

2013 LAWS

Laws 2013, 1st Special Session, Chapter 4 suspends the administrative cap established in A.R.S. § 49-1051 B2 and B3 for FY 2014 and authorizes DEQ to transfer a combined $6,531,000 from the Assurance Account of the UST Revolving Fund and the RSF for administrative costs.

Laws 2013, Chapter 244 includes the following provisions:

- Extended the UST tax to December 31, 2015 from December 31, 2013. (This provision was later amended by Laws 2015, Chapter 247 to extend the UST tax to January 1, 2024.)
- Reinstated the eligibility for corrective action for those releases that could not have been reasonably reported before July 1, 2006. (This provision was later amended by Laws 2015, Chapter 247 to also include releases reported on or after July 1, 2006 through January 1, 2016.)
- Established a UST Study Committee to consider and make recommendations in a report related to funding the UST program. The committee is required to report by December 31, 2013, and the legislation repeals the committee on February 28, 2014.
- Extended eligibility for assistance with corrective action for releases that could not have been reasonably reported before July 1, 2006, and an owner or operator can apply for preapproval of corrective action costs until December 31, 2014 or reimbursement for corrective action until December 31, 2015. (This provision was subsequently repealed by Laws 2014, Chapter 14 as amended by Laws 2015, Chapter 247.)
- Allows an owner or operator of a UST to apply for preapproval of corrective action costs until December 31, 2014, and extends reimbursement for corrective action until December 31, 2015. (This provision was later modified by Laws 2015, Chapter 247 by extending the application deadline for preapproval to December 31, 2019 and extending reimbursement for corrective action until December 31, 2030.)
- DEQ is not required to take action on any application of coverage until the committee releases its findings. Reimbursement is contingent upon available funding. (This provision was later amended by Laws 2014, Chapter 14 to state that the department is not required to take action until a new revised UST corrective action program is in effect.)
- If the UST Assurance Account does not have sufficient monies to pay for coverage of releases reported after July 1, 2006, priority will be given to those releases reported before July 1, 2006. (This provision was subsequently repealed by Laws 2014, Chapter 14.)
- After payment of claims, the legislation requires the department to transfer any monies remaining in the Assurance account to the RSF up to a maximum of $60.0 million, and any amounts in excess of $60.0 million will be deposited to the State Highway Fund. (The transfer to the SHF ended on January 1, 2015 as described

in the distribution section. Laws 2015, Chapter 247 abolishes the RSF and transfers the monies in the fund to the UST Revolving Fund.)

2012 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 RSF for administrative costs of the UST Leak Prevention Program and funding for the Used Oil Program.

2011 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 LAWS

Laws 2010, 7th 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 LAWS

Laws 2009, 3rd 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.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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 2015.

The state unemployment insurance taxes fund 26 weeks of benefits at a maximum of $240 per week. 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.

The Federal Emergency Unemployment Compensation (EUC) Program ended on December 28, 2013. The program had provided 100% federal funding for emergency benefits for an additional 37 weeks, as long as the state's 3-month average unemployment rate was at least 7%. New legislation has not been enacted to continue the EUC program.

In addition, an employer pays a net unemployment tax of 0.6% of the first $7,000 of each employee's wages in CY 2015. Arizona employers who timely pay their state taxes receive a tax credit equal to 5.4% on the standard federal unemployment tax (FUTA) rate of 6.0% for a net rate of 0.6%. In CY 2011, the FUTA rate 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 state, however, was unable to repay all outstanding federal loans by November 10, 2012, resulting in a 0.3% FUTA tax increase for CY 2012, or an additional UI tax against employers of $21 per employee. Laws 2013, Chapter 204 allowed the Department of Economic Security (DES) to issue up to $200 million in tax anticipation notes to repay its federal loan. By doing so, the state avoided (a) the continuation of the 0.3% FUTA rate increase from CY 2012 and (b) an additional 0.3% FUTA rate increase in CY 2014, resulting in a combined (0.6)% FUTA rate savings of $42 per employee in CY 2014. As of May 2015, the state had repaid all federal borrowing for the payment of unemployment insurance benefits.

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 2015:

- a base state unemployment tax of between 0.02% and 5.4% (with an average of 2.4%).
- a net FUTA rate of 0.6%

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].

Table 1

			COLLECTIONS		
Fiscal Year	Average State Contribution Rate 1/	Total Collections	Unemployment Tax Contributions	Reimbursement Payments in Lieu of Tax 2/	Federal Reimbursements
2015	2.40%	$711,205,617	$440,950,664	$18,962,246	$251,292,706
2014	2.40%	$918,177,420	$431,452,278	$22,607,013	$464,118,129
2013	2.40%	$1,101,706,097 4/	$415,808,516	$26,457,982	$659,439,599 6/
2012	2.90% 3/	$1,485,462,876 4/	$391,350,470	$37,569,725	$1,056,542,680 6/
2011	2.64% 3/	$2,257,212,580 5/	$354,688,388	$50,022,678	$1,852,501,515 7/
2010	2.08%	$1,755,552,142 5/	$277,863,738	$52,537,283	$1,425,151,121 7/
2009	1.36%	$587,359,403	$246,091,332	$21,889,172	$319,378,899 7/
2008	1.39%	$301,561,384	$282,038,804	$14,111,465	$5,411,115
2007	1.52%	$324,836,608	$304,835,124	$13,736,790	$6,264,694
2006	1.48%	$311,615,055	$288,389,906	$16,099,858	$7,125,290
2005	1.43%	$254,702,773	$228,222,848	$18,269,674	$8,210,251
2004	1.01%	$239,618,898	$162,309,395	$20,411,672	$56,897,831
2003	0.80%	$228,540,796	$135,055,266	$16,718,797	$76,766,733
2002	0.80%	$185,776,445	$137,021,529	$11,142,567	$37,612,349
2001	0.82%	$173,555,672	$161,067,162	$6,967,171	$5,521,339
2000	1.02%	$164,634,552	$153,057,470	$6,880,773	$4,696,309
1999	1.05%	$187,458,343	$175,626,310	$7,138,106	$4,693,927
1998	1.27%	$212,383,380	$199,086,932	$8,009,523	$5,286,925
1997	1.50%	$221,693,418	$206,596,749	$8,137,939	$6,958,730
1996	1.65%	$234,080,469	$216,800,153	$9,393,816	$7,886,500

1/ Contribution rates are based on calendar years. Represents effective average contribution rate after accounting for all adjustments.

2/ 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].

3/ 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.

4/ Includes funds received from the federal government for borrowing and emergency unemployment.

5/ Includes funds received from the federal government for borrowing, emergency unemployment, extended benefits, and the Reed Act.

6/ In FY 2012 - FY 2013, 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 the Unemployment Compensation Extension Act of 2008, by the American Recovery and Reinvestment Act of 2009 (ARRA), and most recently by the American Taxpayer Relief Act of 2012. All of these benefit extensions and increases are federally funded. In addition, these funds include monies received from the federal loan.

7/ 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 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 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].

REVENUE BASE

The revenue 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.

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* on the next page:

Table 2

EMPLOYER CONTRIBUTION RATES
POSITIVE RESERVE RATIO

Positive Reserve Ratio	Base Statutory Rate	2015 Adjusted Rate 1/
less than 3% 2/	2.60%	3.75%
3% to 4%	2.40%	3.46%
4% to 5%	2.15%	3.10%
5% to 6%	1.90%	2.74%
6% to 7%	1.65%	2.38%
7% to 8%	1.40%	2.02%
8% to 9%	1.15%	1.66%
9% to 10%	0.90%	1.30%
10% to 11%	0.65%	0.94%
11% to 12%	0.40%	0.58%
12% to 13%	0.15%	0.22%
13% or more	0.02%	0.03%

1/ Base rate adjusted to account for overall system solvency.
2/ At 0%, the Base Statutory Rate is 0%.

(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

Negative Reserve Ratio	Base Statutory Rate	2015 Adjusted Rate 1/
less than 3%	2.85%	4.11%
3% to 4%	3.05%	4.40%
4% to 5%	3.30%	4.76%
5% to 6%	3.55%	5.12%
6% to 7%	3.80%	5.48%
7% to 8%	4.05%	5.84%
8% to 9%	4.30%	6.20%
9% to 10%	4.55%	6.56%
10% to 11%	4.80%	6.93%
11% to 12%	5.05%	7.29%
12% to 13%	5.30%	7.65%
13% or more	5.40%	7.79%

1/ 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

Fund Ratio	Required Income Rate
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].

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 amended 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 was 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 0.0075%. 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 million - $17 million), and the net adjusted required tax yield would be $350.2 million

($367.2 million - $17 million). The $350.2 million is divided by the $322 million to derive a hypothetical adjustment factor of 1.0875.

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 was 0.8% (*see Laws 2011, Chapter 218*). The assessment was set at 0.5% in CY 2012, which was the final year of the assessment.

Statewide Effective Rate

After adjusting for all of these factors, the average effective state rate is approximately 2.4% in CY 2015.

Federal 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 was unable to repay its loan and had a negative federal account balance in January 2011 and January 2012. Under federal law, it was required to repay the federal loan by no later than November 10, 2012 or have its FUTA credit reduced. Since the state was unable to repay the federal UI loan before November 10, 2012, the FUTA tax rate credit was reduced by (0.3)% in CY 2012 and CY 2013. This reduction effectively increased employers' net federal tax rate from 0.6% to 0.9%. The state did not have a federal UI loan balance on January 1, 2014 so the net federal tax rate returned to 0.6% in CY 2014.

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 amended 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 were 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).

Laws 2015, Chapter 10 repeals the Job Training Employer Tax effective January 1, 2016.

Combined State and Federal Rate

The average combined state and federal rate is 3.0%, consisting of an average base state unemployment tax of 2.4%, and a net FUTA rate of 0.6%.

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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this tax in 2014.

2015 LAWS

Laws 2015, Chapter 211 requires DES to notify an unemployment insurance benefit claimant's most recent employing unit or employer when an initial claim for benefits has been filed, and also specifies that a notice be sent to all base-period employers when a claimant files a payable continued claim.

2013 LAWS

Laws 2013, Chapter 17 requires an individual filing an UI benefit claim to provide sufficient documentation of the individual's eligibility for benefits to DES. If an employer provides documentation that an individual either voluntarily resigned from employment or abandoned the individual's employment, the burden of providing documentation to determine an individual's eligibility for benefits shifts to the individual.

In the event of UI fraud, an individual is prohibited from receiving UI benefits until all overpayments are fully repaid to DES. This language adds the requirement that penalties and interest from fraud also be paid prior to receiving UI benefits.

Laws 2013, Chapter 18 excludes certain sports officials from the definition of employee for UI tax purposes.

Laws 2013, Chapter 204 allows the director of DES to issue UI tax anticipation notes, up to $200 million. These notes will repay the federal UI loan, pay UI benefits during FY 2014, and pay note-related expenses. The language also transfers all remaining monies from the UI Special Assessment to the UI Special Assessment Proceeds Fund, with the purpose of paying interest incurred on the loan and retiring the loan principal. When the director issues UI tax anticipation notes, monies in the UI Special Assessment Proceeds Fund may be transferred to the Debt Service Fund for the purposes of paying interest, expenses, and principal on the UI tax anticipation notes. After the UI tax anticipation notes are repaid in CY 2014, all monies in the UI Special Assessment Proceeds Fund and the Debt Service Fund will be transferred to the UI Compensation Fund.

DES is required to report to JLBC and OSPB after the issuance of the UI tax anticipation notes on the finalized debt issuance, including the principal amount, the interest rate, the debt service schedule, the length of term, the interest to be paid over the life of the loan, and the status of the bonds as taxable or non-taxable. DES is also required to submit a quarterly report to these entities on the status of the UI system in FY 2014.

In addition to other administrative changes, this legislation imposes a penalty of 15% of the amount received on claimants who fraudulently receive UI benefits. The penalty will be deposited in the UI Compensation Fund.

Laws 2013, Chapter 218, in addition to other technical changes, excludes from the definition of employment, persons working for a church educational or child care service provider or other religious organization that includes religious instruction.

2012 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 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.

2010 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 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.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.pdf.

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).

Public service corporations essentially refer to electric, gas, sewer, water, and telephone utilities not operated by municipalities. (Arizona Constitution, Article 15, Section 2)

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.

Table 1

COLLECTIONS AND DISTRIBUTION

Fiscal Year	Utilities Division Net Collections	RUCO Net Collections	Total Collections
2015	$15,280,100	$1,161,100	$16,441,200
2014	$22,886,000	$1,132,100	$24,018,100
2013	$12,997,700	$1,375,100	$14,372,800
2012	$13,655,900	$1,319,200	$14,975,100
2011	$13,226,800	$1,325,200	$14,552,000
2010	$17,548,800	$1,308,700	$18,857,500
2009	$14,702,300	$1,313,100	$16,015,400
2008	$14,702,300	$1,313,100	$16,015,400
2007	$13,787,200	$1,313,300	$15,100,500
2006	$12,225,000	$1,184,000	$13,409,000
2005	$11,100,900	$1,110,200	$12,211,100
2004	$11,158,000	$1,131,700	$12,289,700
2003	$8,418,500	$1,095,200	$9,513,700
2002	$10,622,575	$1,045,200	$11,667,775
2001	$8,882,000	$1,017,000	$9,899,000
2000	$7,511,900	$1,068,700	$8,580,600
1999	$7,237,090	$573,784	$7,810,874
1998	$6,649,080	$938,274	$7,587,354
1997	$6,021,300	$1,021,500	$7,042,800
1996	$5,603,000	$933,600	$6,536,600

SOURCE: Corporation Commission, Annual Reports.

WHO PAYS

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].

REVENUE 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].

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%.)

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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to the assessments in the period from 2009 through 2015.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.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). Through the WQARF Program, the Department of Environmental Quality (DEQ) identifies, assesses, and cleans up soil and groundwater that is contaminated with hazardous substances.

DISTRIBUTION

Table 1 below provides historical water use tax collections since FY 1996. 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-monies are detailed in A.R.S. § 49-282E.

Table 1

COLLECTIONS

Fiscal Year	WQARF	Fiscal Year	WQARF
2015	$2,208,595	2005	$2,156,683
2014	$2,428,062	2004	$2,195,590
2013	$2,427,127	2003	$2,150,995
2012	$2,545,748	2002	$2,213,435
2011	$2,377,136	2001	$2,120,483
2010	$2,392,765	2000	$2,081,879
2009	$2,375,423	1999	$1,957,725
2008	$2,550,646	1998	$1,891,072
2007	$2,449,270	1997	$1,909,981
2006	$2,403,644	1996	$1,842,707

SOURCE: Department of Revenue, Annual Report.

WHO PAYS

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 DEQ.

REVENUE BASE AND RATE

The revenue 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¢ 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].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this tax in the period from 2009 to 2015.

A listing of statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.pdf.

WORKERS' COMPENSATION INSURANCE PREMIUM TAX AND ASSESSMENT

DESCRIPTION

Both a tax and an assessment is levied on workers' compensation insurance premium. These levies are 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 of Arizona [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. 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 levy on workers' compensation insurance premiums is paid by insurance carriers issuing workers' compensation insurance, and employers providing workers' compensation insurance through the self-insurance method [A.R.S. § 23-961].

REVENUE BASE

The levy on workers' compensation insurance premiums is based 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. For self-insured employers, the levy is based on the premiums that would have been paid by the employer if fully insured under a plan available from 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].

RATE

There are 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) *Special Fund Assessment*. Effective July 1, 2015, the Special Fund assessment rate is not to exceed 1% and is to be set at a rate no more than necessary to keep the Special Fund actuarially sound but, for self-insured

employers, the minimum annual payment is $250. The Special Fund assessment rate may be adjusted downward by the Industrial Commission so that revenues received are no more than necessary to keep the Special Fund actuarially sound [A.R.S. § 23-1065]. Up to an additional 0.5% may be levied to cover Special Fund liabilities in excess of $6 million [A.R.S. § 23-1065F]. The Industrial Commission set a Special Fund total rate of 0.75% in CY 2015, which includes 0.58% for the base rate, and 0.17% for liabilities over $6 million.

Table 1

COLLECTIONS

Calendar Year	Net Collections Administrative Fund 1/	Net Collections Special Fund 2/	Special Fund Rate 2/	Total Net Collections
2015	NA	NA	0.75%	NA
2014	$19,752,400	$19,753,500	1.75%	$39,506,000
2013	$29,080,400	$23,783,100	2.25%	$52,863,500
2012	$27,721,800	$23,103,100	2.5%	$50,824,900
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

1/ Laws 1993, 2nd Special Session, Chapter 9, provides that collections for the Administrative Fund will be no more than necessary to cover actual expenses.

2/ Effective July 1, 2015, the Special Fund assessment is not to exceed 1% and is set at a rate no more than necessary to keep it actuarially sound. Up to an additional 0.5% may be levied to cover Special Fund liabilities in excess of $6 million.

SOURCE: Industrial Commission.

PAYMENT SCHEDULE

The revenue is due annually, on or before March 31 for self-insured employers, and on or before March 1 for all other covered insurance carriers [A.R.S. § 23-961].

Since the 1983 tax year, insurance carriers are required to make quarterly payments on the Administrative Fund tax and Special Fund assessment 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 month following the close of each quarter. All quarterly payments are deducted from the levy that is payable on the regular March due date [A.R.S. § 23-961]. The quarterly payments are to equal one of the following methods, applied to all 4 quarters in a tax year:

(1) The levy due on net premiums collected or contracted for during the preceding calendar quarter, or
(2) 25% of the levy paid or required to be paid for the preceding calendar year.

Any overpayment of levies resulting from the quarterly payments may be refunded by the Industrial Commission without interest [A.R.S. § 23-961].

The revenue for the Administrative and Special Fund is paid to the State Treasurer through the Industrial Commission [A.R.S. § 23-961].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2009.

There were no changes enacted to this revenue category in 2009, 2010, 2012, 2013, and 2015.

2014 LAWS

Laws 2014, Chapter 186 establishes the Workers' Compensation Insurance Account as part of the Arizona Property and Casualty Insurance Guaranty Fund (Guaranty Fund) within the Department of Insurance. The law transfers the rights and obligations related to payment of workers' compensation claims on insolvent insurers from the Special Fund, administered by the Industrial Commission, to the Department of Insurance's Workers' Compensation Insurance Account of the Arizona Property and Casualty Insurance Guaranty Fund effective July 1, 2015. The law requires the Industrial Commission to transfer $222,848,153 in assets from the Special Fund to the Guaranty Fund for deposit in the Workers' Compensation Insurance Account no less than 30 days before July 1, 2015.

The Workers' Compensation Insurance Account is to be used to continue workers' compensation benefits for claimants of insolvent carriers and bankrupt self-insured employers.

In the event of an insolvency or bankruptcy, the Department of Insurance may cover the cost of claims on that insurer or employer by levying an assessment of up to 1% on the other solvent workers' compensation insurers' premiums from all policies issued during the preceding calendar year. The assessment revenue is deposited into the Workers' Compensation Insurance Account for payment of those claims.

Also effective July 1, 2015, the Industrial Commission's Special Fund assessment rate is not to exceed 1% and is to be set at a rate no more than necessary to keep the Special Fund actuarially sound. Up to an additional 0.5% may be levied to cover Special Fund liabilities in excess of $6 million.

2011 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 statutory changes prior to the 2009 legislative session is available on the JLBC website located at http://www.azleg.gov/jlbc/15taxbook/15taxbk.pdf.

APPENDIX D

APPENDIX D

FISCAL IMPACT OF STATUTORY 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 statutory changes with a General Fund revenue impact.

The report includes individual tables for calendar years 1988 through 2015. The tables provide a listing of statutory 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 statutory changes for each fiscal year, which provides the estimated marginal dollar value of statutory 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 statutory changes enacted in prior years. As a result, cumulative totals for the marginal annual values of the statutory changes are not provided.

The estimated incremental value of statutory changes for FY 2016 is a $(125.7) million General Fund revenue decrease. This amount includes $(124.7) million of statutory changes enacted in prior years (primarily, the corporate tax rate reduction and single sales factor phase-in enacted in 2011). The remaining $(1.0) million impact reflects changes to the insurance premium tax enacted in calendar year 2015.

JLBC Staff
September 2015

Estimated Incremental Dollar Value of General Fund Tax Changes [1/]
($ in Thousands)

Fiscal Year	Sales Tax	Individual Income Tax	Corporate Income Tax	Property Tax	Other Taxes	Total [2/] Annual Changes
1989	23,100.0	35,400.0	29,000.0	28,200.0	6,000.0	121,700.0
1990	7,000.0	63,900.0	-	22,600.0	15,800.0	109,300.0
1991	(4,404.0)	118,680.0	30,900.0	49,640.0	13,560.0	208,376.0
1992	(377.5)	9,200.0	400.0	-	485.0	9,707.5
1993	(7,972.1)	(13,500.0)	-	(1,343.0)	3,472.0	(19,343.1)
1994	(12,243.5)	(10,776.0)	-	(1,200.0)	(1,233.0)	(25,452.5)
1995	(21,217.0)	(102,826.0)	4,200.0	(850.0)	-	(120,693.0)
1996	(46,151.9)	(202,260.5)	(18,000.0)	(18,256.0)	-	(284,668.4)
1997	(23,449.3)	(950.0)	(60.0)	(150,095.3)	-	(174,554.6)
1998	(59,907.9)	(114,969.0)	2,601.9	17.3	(105.0)	(172,362.7)
1999	(3,684.2)	(51,091.5)	(7,015.2)	-	(80,000.0)	(141,790.9)
2000	(8,402.3)	(27,177.9)	(13,982.3)	(51.6)	(55,000.0)	(104,614.1)
2001	(3,392.0)	(82,895.0)	(46,486.1)	(30.0)	(25,000.0)	(157,803.1)
2002	(2.1)	9,825.3	(40,759.6)	(2,234.9)	-	(33,171.3)
2003	(2.2)	11,384.5	21,567.0	(1,738.3)	(18,830.0)	12,381.0
2004	-	-	-	7,000.0	50,418.1	57,418.1
2005	-	(1,834.0)	-	(7,000.0)	3,892.0	(4,942.0)
2006	(600.0)	(14,200.0)	(3,250.0)	-	-	(18,050.0)
2007	(1,678.6)	(176,090.0)	(10,990.0)	-	(5,000.0)	(193,758.6)
2008	(100.0)	(185,510.0)	(31,900.0)	-	-	(217,510.0)
2009	-	1,310.0	(30,080.0)	-	-	(28,770.0)
2010	-	(9,000.0)	(33,410.0)	-	-	(42,410.0)
2011	918,000.0	13,000.0	(10,700.0)	-	-	920,300.0
2012	-	(900.0)	(16,600.0)	-	-	(17,500.0)
2013	-	4,590.0	(16,100.0)	-	-	(11,510.0)
2014	(922,800.0)	(56,850.0)	(21,900.0)	-	-	(1,001,550.0)
2015	(16,780.0)	(44,900.0)	(102,282.0)	-	-	(163,962.0)
2016	(4,200.0)	(12,000.0)	(108,500.0)	-	(983.4)	(125,683.4)

1/ 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.

2/ 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)

	FY 1988	FY 1989
INDIVIDUAL INCOME		
Elimination of Gasoline Deduction Ch. 271		10,000.0
Federal Income Tax Windfall Cap Ch. 271		25,400.0
TOTAL INDIVIDUAL INCOME		**35,400.0**
CORPORATE INCOME		
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
TOTAL CORPORATE INCOME		**29,000.0**
SALES AND USE		
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
TOTAL SALES AND USE		**23,100.0**
PROPERTY		
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
TOTAL PROPERTY		**28,200.0**
OTHER		
Increase Ins. Prem. Tax to 2.0% Ch. 4		6,000.0
TOTAL OTHER		**6,000.0**
TOTAL		**121,700.0**

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)

	FY 1989	FY 1990
INDIVIDUAL INCOME		
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
TOTAL INDIVIDUAL INCOME		**63,900.0**
CORPORATE INCOME		
None		
TOTAL CORPORATE INCOME		
SALES AND USE		
Taxation of Catalog Sales Ch. 312		7,000.0
TOTAL SALES AND USE		**7,000.0**
PROPERTY		
Minimum QTR School District Tax Ch. 312		26,000.0
Tax Reduction for Unorg. Districts Ch. 312		(3,400.0)
TOTAL PROPERTY		**22,600.0**
OTHER		
Minimum VLT to $30 Ch. 4		15,800.0
TOTAL OTHER		**15,800.0**
TOTAL		**109,300.0**

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)

	FY 1990	FY 1991
INDIVIDUAL INCOME		
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
TOTAL INDIVIDUAL INCOME		**118,680.0**
CORPORATE INCOME		
Federal Conformity Ch. 63		5,300.0
Tax Simplification - Widened Tax Base Ch. 3		25,600.0
TOTAL CORPORATE INCOME		**30,900.0**
SALES AND USE		
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)
TOTAL SALES AND USE		**4,404.0**
PROPERTY		
Minimum QTR School Dist. Tax Ch. 3		40,700.0
Assessment Ratio Changes Ch. 3		8,940.0
TOTAL PROPERTY		**49,640.0**
OTHER		
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
TOTAL OTHER		**13,560.0**
TOTAL		**208,376.0**

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 1991
($ in Thousands)

	FY 1991	FY 1992	FY 1993	FY 1994
INDIVIDUAL INCOME				
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
TOTAL INDIVIDUAL INCOME		**9,200.0**	**9,200.0**	**9,200.0**
CORPORATE INCOME				
Federal Conformity Ch. 146		400.0	400.0	400.0
TOTAL CORPORATE INCOME		**400.0**	**400.0**	**400.0**
SALES AND USE				
Membership Camping Tax Ch. 31		122.5	122.5	122.5
Medical Equipment Exemption Ch. 200		(500.0)	(500.0)	(500.0)
TOTAL SALES AND USE		**(377.5)**	**(377.5)**	**(377.5)**
PROPERTY				
Rental property; Assess. Reduction Ch. 134			(1,200.0)	(2,400.0)
TOTAL PROPERTY			**(1,200.0)**	**(2,400.0)**
OTHER				
Drano Tax Repeal Ch. 184		320.0	320.0	320.0
Groundwater Fees Ch. 211		165.0	165.0	165.0
TOTAL OTHER		**485.0**	**485.0**	**485.0**
TOTAL		**9,707.5**	**8,507.5**	**7,307.5**

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 1992

($ in Thousands)

	FY 1992	FY 1993
INDIVIDUAL INCOME		
Increased Exemptions Phase-in Ch. 290		(12,000.0)
Withhold Penalty Forgiveness Ch. 220		(1,500.0)
TOTAL INDIVIDUAL INCOME		**(13,500.0)**
CORPORATE INCOME		
None		
TOTAL CORPORATE INCOME		
SALES AND USE		
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)
TOTAL SALES AND USE		**(7,972.1)**
PROPERTY		
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
TOTAL PROPERTY		**(143.0)**
OTHER		
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
TOTAL OTHER		**3,472.0**
TOTAL		**(18,143.1)**

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 1993

($ in Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
INDIVIDUAL INCOME						
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)
TOTAL INDIVIDUAL INCOME		**(10,776.0)**	**(10,776.0)**	**(10,776.0)**	**(10,776.0)**	**(10,776.0)**
CORPORATE INCOME						
None						
TOTAL CORPORATE INCOME						
SALES AND USE						
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)
TOTAL SALES AND USE		**(12,243.5)**	**(30,443.5)**	**(51,443.5)**	**(74,743.5)**	**(100,443.5)**
PROPERTY						
None						
TOTAL PROPERTY						
OTHER						
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)
TOTAL OTHER		**(1,233.0)**	**(1,233.0)**	**(1,233.0)**	**(1,233.0)**	**(1,233.0)**
TOTAL		**(24,252.5)**	**(42,452.5)**	**(63,452.5)**	**(86,752.5)**	**(112,452.5)**

Notes:
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TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1994

($ in Thousands)

	FY 1994	FY 1995	FY 1996
INDIVIDUAL INCOME			
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)
TOTAL INDIVIDUAL INCOME		**(102,826.0)**	**(104,749.0)**
CORPORATE INCOME			
IRS Conformity Ch. 41		10,000.0	10,000.0
Lower Corporate Rate Ch. 41		(5,800.0)	(5,800.0)
Consolidated Returns [1/] Ch. 41			(13,400.0)
Pollution Control Credits Ch. 117			(1,000.0)
TOTAL CORPORATE INCOME		**4,200.0**	**(10,200.0)**
SALES AND USE			
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)
TOTAL SALES AND USE		**(3,017.0)**	**(27,368.9)**
PROPERTY			
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)
TOTAL PROPERTY		**(850.0)**	**(18,006.0)**
OTHER			
None			
TOTAL OTHER			
TOTAL		**(102,493.0)**	**(160,323.9)**

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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)

	FY 1995	FY 1996	FY 1997
INDIVIDUAL INCOME			
Income Tax Reduction Ch. 9		(200,000.0)	(200,000.0)
Summer Schools and Jobs Ch. 236		(337.5)	(337.5)
TOTAL INDIVIDUAL INCOME		**(200,337.5)**	**(200,337.5)**
CORPORATE INCOME			
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)
TOTAL CORPORATE INCOME		**(3,600.0)**	**(3,600.0)**
SALES AND USE			
Motion Picture Tax Refund Ch. 98		(100.0)	(100.0)
Sales Tax Amenities Ch. 267		(700.0)	(700.0)
TOTAL SALES AND USE		**(800.0)**	**(800.0)**
PROPERTY			
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)
TOTAL PROPERTY		**(1,100.0)**	**(1,178.0)**
OTHER			
None			
TOTAL OTHER			
TOTAL		**(205,837.5)**	**(205,915.5)**

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TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1996

($ in Thousands)

	FY 1996	FY 1997	FY 1998
INDIVIDUAL INCOME			
Income Tax Definitions Ch. 49		(860.0)	(860.0)
Neighborhood Protection Deductions Ch. 309		(90.0)	(90.0)
TOTAL INDIVIDUAL INCOME		**(950.0)**	**(950.0)**
CORPORATE INCOME			
Neighborhood Protection Act Ch. 309		(60.0)	(60.0)
Enterprise Zones: Tax Credits Ch. 344			(1,575.1)
TOTAL CORPORATE INCOME		**(60.0)**	**(1,635.1)**
SALES AND USE			
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)
TOTAL SALES AND USE		**(194.3)**	**(31,625.2)**
PROPERTY			
Property Tax Reductions Ch. 2 - Does not include $50M in spending		(150,000.0)	(150,000.0)
TOTAL PROPERTY		**(150,000.0)**	**(150,000.0)**
OTHER			
TOTAL OTHER			
TOTAL		**(151,159.3)**	**(184,210.3)**

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TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1997

($ in Thousands)

	FY 1997	FY 1998	FY 1999
INDIVIDUAL INCOME			
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)
TOTAL INDIVIDUAL INCOME		**(115,129.0)**	**(131,657.5)**
CORPORATE INCOME			
IRS Conformity Ch. 62		4,177.0	4,177.0
Welfare Reform; Arizona Works Ch. 300			(585.2)
TOTAL CORPORATE INCOME		**4,177.0**	**3,591.8**
SALES AND USE			
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)
TOTAL SALES AND USE		**(2,672.0)**	**(4,672.0)**
PROPERTY			
None			
TOTAL PROPERTY			
OTHER			
Agriculture Omnibus Ch. 228		(90.0)	(90.0)
Health Care Omnibus Ch. 268		(15.0)	(15.0)
TOTAL OTHER		**(105.0)**	**(105.0)**
TOTAL		**(113,729.0)**	**(132,842.7)**

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TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1998

($ in Thousands)

	FY 1998	FY 1999	FY 2000	FY 2001
INDIVIDUAL INCOME				
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)
TOTAL INDIVIDUAL INCOME	**160.0**	**(34,163.0)**	**(63,030.9)**	**(60,176.1)**
CORPORATE INCOME				
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)
TOTAL CORPORATE INCOME		**(11,600.0)**	**(23,317.3)**	**(23,317.3)**
SALES AND USE				
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)
TOTAL SALES AND USE	**(60.0)**	**(1,644.2)**	**(1,961.1)**	**(1,961.1)**
PROPERTY				
Telecommunications Ch. 220			(19.3)	(19.3)
Widow, Widowers Exemption Ch. 261			(32.3)	(32.3)
TOTAL PROPERTY			**(51.6)**	**(51.6)**
OTHER				
Tax Relief Act of 1998 - VLT Rate Reduction Ch. 3		(80,000.0)	(100,000.0)	(100,000.0)
TOTAL OTHER		**(80,000.0)**	**(100,000.0)**	**(100,000.0)**
TOTAL	**100.0**	**(127,407.2)**	**(188,360.9)**	**(185,506.1)**

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TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1999

($ in Thousands)

	FY 1999	FY 2000	FY 2001	FY 2002
INDIVIDUAL INCOME				
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)
TOTAL INDIVIDUAL INCOME	**(240.0)**	**2,130.0**	**(2,103.8)**	**(5,356.7)**
CORPORATE INCOME				
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
TOTAL CORPORATE INCOME	**5,170.0**	**2,920.0**	**(35,832.1)**	**(74,510.0)**
SALES AND USE				
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)
TOTAL SALES AND USE	**(100.0)**	**(8,167.0)**	**(11,500.0)**	**(11,500.0)**
PROPERTY				
Omni. Reconciliation - Personal Property (Expend.) Ch. 5 Does not include $21.4M spending			(30.0)	(30.0)
TOTAL PROPERTY			**(30.0)**	**(30.0)**
OTHER				
Omni. Reconciliation - VLT Cut Ch. 5		(35,000.0)	(60,000.0)	(60,000.0)
TOTAL OTHER		**(35,000.0)**	**(60,000.0)**	**(60,000.0)**
TOTAL	**4,830.0**	**(38,117.0)**	**(109,465.9)**	**(151,396.7)**

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TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2000

($ in Thousands)

	FY 2000	FY 2001	FY 2002	FY 2003
INDIVIDUAL INCOME				
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 1/ 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 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)
TOTAL INDIVIDUAL INCOME	**(680.0)**	**(82,073.0)**	**(54,385.0)**	**(28,315.5)**
CORPORATE INCOME				
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 1/ Ch. 405 (alt fuel vehicle credit)		(7,300.0)	(6,600.0)	(1,600.0)
TOTAL CORPORATE INCOME	**(15.0)**	**(7,279.0)**	**(8,732.7)**	**(3,758.7)**
SALES AND USE				
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)
TOTAL SALES AND USE	**(18.4)**	**(77.4)**	**(79.5)**	**(81.7)**
PROPERTY				
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)
TOTAL PROPERTY			**(2,234.9)**	**(3,973.2)**
OTHER				
None				
TOTAL OTHER				
TOTAL	**(713.4)**	**(89,429.4)**	**(65,432.1)**	**(36,129.1)**

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1/ 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)

	FY 2001	FY 2002	FY 2003
INDIVIDUAL INCOME			
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)
TOTAL INDIVIDUAL INCOME	**(123.0)**	**(14,732.8)**	**(14,937.8)**
CORPORATE INCOME			
IRS Conformity Ch. 296	(470.0)	(1,098.0)	(1,315.0)
Enterprise Zone Program; Extension Ch. 370 (impact can not be determined)			
TOTAL CORPORATE INCOME	**(470.0)**	**(1,098.0)**	**(1,315.0)**
SALES AND USE			
None			
TOTAL SALES AND USE			
PROPERTY			
None			
TOTAL PROPERTY			
OTHER			
None			
TOTAL OTHER			
TOTAL	**(593.0)**	**(15,830.8)**	**(16,252.8)**

Notes:
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TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2002 *

($ in Thousands)

	FY 2002	FY 2003	FY 2004	FY 2005
INDIVIDUAL INCOME				
IRS Conformity Ch. 344		(14,480.0)	(14,480.0)	(14,480.0)
TOTAL INDIVIDUAL INCOME		**(14,480.0)**	**(14,480.0)**	**(14,480.0)**
CORPORATE INCOME				
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
TOTAL CORPORATE INCOME		**16,810.0**	**16,810.0**	**16,810.0**
SALES AND USE				
None				
TOTAL SALES AND USE				
PROPERTY				
None				
TOTAL PROPERTY				
OTHER				
IRS Conformity - Estate Tax Ch. 344		(18,830.0)	(38,140.0)	(57,740.0)
TOTAL OTHER		**(18,830.0)**	**(38,140.0)**	**(57,740.0)**
TOTAL		**(16,500.0)**	**(35,810.0)**	**(55,410.0)**

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)

	FY 2003	FY 2004	FY 2005
INDIVIDUAL INCOME			
None			
TOTAL INDIVIDUAL INCOME			
CORPORATE INCOME			
None			
TOTAL CORPORATE INCOME			
SALES AND USE			
None			
TOTAL SALES AND USE			
PROPERTY			
Flight Property Tax Ch. 263		7,000.0	0.0
TOTAL PROPERTY		**7,000.0**	**0.0**
OTHER			
Remove Medicaid Exemption/Ins. Premium Tax Ch. 136		69,728.1	92,970.1
TOTAL OTHER		**69,728.1**	**92,970.1**
TOTAL		**76,728.1**	**92,970.1**

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)

	FY 2004	FY 2005
INDIVIDUAL INCOME		
IRS Conformity Ch. 196		(1,800.0)
Stillborn Children Exemption Ch. 214		(34.0)
TOTAL INDIVIDUAL INCOME		**(1,834.0)**
CORPORATE INCOME		
None		
TOTAL CORPORATE INCOME		
SALES AND USE		
None		
TOTAL SALES AND USE		
PROPERTY		
None		
TOTAL PROPERTY		
OTHER		
Liquor Fees Ch. 275		250.0
TOTAL OTHER		**250.0**
TOTAL		**(1,584.0)**

Notes:
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TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2005

($ in Thousands)

	FY 2005	FY 2006	FY 2007	FY 2008
INDIVIDUAL INCOME				
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 2/ Ch. 292				(250.0)
Small Business Investment Credit Ch. 316				3/
TOTAL INDIVIDUAL INCOME		**(14,200.0)**	**(32,990.0)**	**(28,200.0)**
CORPORATE INCOME				
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 2/ Ch. 292				(500.0)
Corporate Sales Factor 4/ Ch. 289				(32,000.0)
Corporate Consolidated Credit 5/ Laws 1994 Ch. 41				
TOTAL CORPORATE INCOME		**(3,250.0)**	**(3,040.0)**	**(32,540.0)**
SALES AND USE				
Motion Picture Tax Incentives Ch. 317		(600.0)	(1,200.0)	(1,300.0)
TOTAL SALES AND USE		**(600.0)**	**(1,200.0)**	**(1,300.0)**
PROPERTY				
Business Property Tax Reduction 6/ Ch. 302				
Increased Widows Property Tax Exemption 7/ Ch. 309				
TOTAL PROPERTY				
OTHER				
None				
TOTAL OTHER				
TOTAL		**(18,050.0)**	**(37,230.0)**	**(62,040.0)**

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)

	FY 2006	FY 2007	FY 2008
INDIVIDUAL INCOME			
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 [1/] Ch. 342			(12,200.0)
TOTAL INDIVIDUAL INCOME		**(157,300.0)**	**(346,300.0)**
CORPORATE INCOME			
IRS Conformity Ch. 357		(700.0)	(800.0)
Solar Energy Device Credit Ch. 333		(500.0)	(500.0)
School Tuition Tax Credit [2/] Chs. 14 & 325		(10,000.0)	(12,000.0)
TOTAL CORPORATE INCOME		**(11,200.0)**	**(13,300.0)**
SALES AND USE			
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)
TOTAL SALES AND USE		**(1,078.6)**	**(1,078.6)**
PROPERTY			
State Equalization Rate Suspension [3/] Ch. 354			
Nonprofit Hospital Property Tax Exemption [4/] Ch. 327			
TOTAL PROPERTY			
OTHER			
Health Insurance Premium Tax Credit Ch. 378		(5,000.0)	(5,000.0)
TOTAL OTHER		**(5,000.0)**	**(5,000.0)**
TOTAL		**(174,578.6)**	**(365,678.6)**

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 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)

	FY 2007	FY 2008	FY 2009
INDIVIDUAL INCOME			
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)
TOTAL INDIVIDUAL INCOME		**(1,300.0)**	**(4,480.0)**
CORPORATE INCOME			
IRS Conformity			
Ch. 1		(300.0)	60.0
TOTAL CORPORATE INCOME		**(300.0)**	**60.0**
SALES AND USE			
None			
TOTAL SALES AND USE			
PROPERTY			
Business Property Tax Reduction 1/			
Ch. 258			
Business Personal Property Accelerated Depreciation 2/			
Ch. 258			
TOTAL PROPERTY			
OTHER			
None			
TOTAL OTHER			
TOTAL		**(1,600.0)**	**(4,420.0)**

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/ 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)

	FY 2008	FY 2009	FY 2010	FY 2011
INDIVIDUAL INCOME				
IRS Conformity				
Ch. 94		(970.0)		
TOTAL INDIVIDUAL INCOME		**(970.0)**		
CORPORATE INCOME				
IRS Conformity				
Ch. 94		(80.0)		
Research and Development Credit				
Ch. 290				(5,700.0)
TOTAL CORPORATE INCOME		**(80.0)**		**(5,700.0)**
SALES AND USE				
None				
TOTAL SALES AND USE				
PROPERTY				
None				
TOTAL PROPERTY				
OTHER				
None				
TOTAL OTHER				
TOTAL		**(1,050.0)**		**(5,700.0)**

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)

	FY 2009	FY 2010	FY 2011	FY 2012
INDIVIDUAL INCOME				
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 1/				
Ch. 96				
TOTAL INDIVIDUAL INCOME		**(9,000.0)**	**(6,780.0)**	**(6,780.0)**
CORPORATE INCOME				
IRS Conformity				
Ch. 2		(4,410.0)	(100.0)	(100.0)
Renewable Energy Investment 1/				
Ch. 96			(5,000.0)	(5,000.0)
TOTAL CORPORATE INCOME		**(4,410.0)**	**(5,100.0)**	**(5,100.0)**
SALES AND USE				
None				
TOTAL SALES AND USE				
PROPERTY				
Renewable Energy Investment 1/				
Ch. 96				
TOTAL PROPERTY				
OTHER				
None				
TOTAL OTHER				
TOTAL		**(13,410.0)**	**(11,880.0)**	**(11,880.0)**

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)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
INDIVIDUAL INCOME					
IRS Conformity [1/] 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 [2/] Ch. 312		(5,000.0)	(5,000.0)	(5,000.0)	(5,000.0)
Renewable Energy Production Credit [3/] Ch. 312					
Out-of-State Filers Proportionality 6th SS, Ch. 3		22,000.0	22,000.0	22,000.0	22,000.0
TOTAL INDIVIDUAL INCOME	**0.0**	**13,900.0**	**13,900.0**	**13,900.0**	**13,900.0**
CORPORATE INCOME					
IRS Conformity [1/] Ch. 176					
Research and Development Refundable Credit [2/] Ch. 312					
Renewable Energy Production Credit [3/] Ch. 312			(10,000.0)	(20,000.0)	(20,000.0)
TOTAL CORPORATE INCOME	**0.0**	**0.0**	**(10,000.0)**	**(20,000.0)**	**(20,000.0)**
SALES AND USE					
TPT Increase - May Election 6th SS, SCR 1001 (May 2010 Election, Prop 100) [4/]		918,000.0	918,000.0	918,000.0	0.0
Estimated Payment Threshold 7th SS, Ch. 12 [5/]					
TOTAL SALES AND USE	**0.0**	**918,000.0**	**918,000.0**	**918,000.0**	**0.0**
PROPERTY					
None					
TOTAL PROPERTY					
OTHER					
None					
TOTAL OTHER					
TOTAL	**0.0**	**931,900.0**	**921,900.0**	**911,900.0**	**(6,100.0)**

Notes:
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- 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
INDIVIDUAL INCOME [1/]								
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 [2/] 2nd SS, Ch. 1		(4,000.0)	(4,000.0)	(4,000.0)	(4,500.0)	0.0	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 [3/]								
Eliminate Enterprise Zones 2nd SS, Ch. 1 [4/]								
TOTAL INDIVIDUAL INCOME	**0.0**	**(900.0)**	**(900.0)**	**(900.0)**	**(13,000.0)**	**(9,200.0)**	**(9,800.0)**	**(10,500.0)**
CORPORATE INCOME [1/]								
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 [5/]					(53,800.0)	(116,000.0)	(183,500.0)	(269,600.0)
100% Sales Factor 2nd SS, Ch. 1 [6/]					(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 [3/]			(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 [4/]		4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0
TOTAL CORPORATE INCOME	**0.0**	**3,400.0**	**(7,300.0)**	**(23,700.0)**	**(120,000.0)**	**(209,900.0)**	**(298,900.0)**	**(398,400.0)**
SALES AND USE								
None								
TOTAL SALES AND USE								
PROPERTY								
None								
TOTAL PROPERTY								
OTHER								
None								
TOTAL OTHER								
TOTAL	**0.0**	**2,500.0**	**(8,200.0)**	**(24,600.0)**	**(133,000.0)**	**(219,100.0)**	**(308,700.0)**	**(408,900.0)**

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/ The Chapter 1 "Jobs Bill" provisions are fully phased in by 2018. See the Corporate Income Tax section for additional information.
2/ Revised since 2013 Tax Handbook to correct an error.
3/ The university R&D credit impacts both individual and corporate income tax. The cumulative reduction is shown as a corporate income tax reduction for display purposes.
4/ 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.
5/ The impact of the corporate income tax rate reduction is estimated at $(116.0) million in FY 2016, $(183.5) million in FY 2017, and $(269.6) million in FY 2018. These reflect estimates at the time of enactment and have changed since that time.
6/ The impact of the 100% sales factor phase-in is estimated at $(47.3) million in FY 2016, $(67.8) million in FY 2017, and $(84.0) million in FY 2018. These reflect estimates at the time of enactment and have changed since that time.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2012

($ in Thousands)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
INDIVIDUAL INCOME								
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 1/								
Ch. 343	0.0	0.0	0.0	(4,200.0)	0.0	0.0	0.0	0.0
Eliminate Cap-New Employment 2/								
Ch. 343	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Qualified Facility Credit 3/								
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)
TOTAL INDIVIDUAL INCOME	**0.0**	**4,590.0**	**(12,910.0)**	**(40,110.0)**	**(51,910.0)**	**(56,810.0)**	**(61,010.0)**	**(64,710.0)**
CORPORATE INCOME								
Service Provider Corporate Sales Factor 1/								
Ch. 2	0.0	0.0	0.0	(3,000.0)	(3,500.0)	(3,900.0)	(4,400.0)	(4,400.0)
Eliminate Cap-New Employment 2/								
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 3/								
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)
TOTAL CORPORATE INCOME	**0.0**	**0.0**	**(5,800.0)**	**(14,600.0)**	**(20,900.0)**	**(25,300.0)**	**(29,800.0)**	**(42,000.0)**
SALES AND USE								
None								
TOTAL SALES AND USE								
PROPERTY								
None								
TOTAL PROPERTY								
OTHER								
None								
TOTAL OTHER								
TOTAL	**0.0**	**4,590.0**	**(18,710.0)**	**(54,710.0)**	**(72,810.0)**	**(82,110.0)**	**(90,810.0)**	**(106,710.0)**

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/ Revised since 2013 Tax Handbook to correct an error.
2/ 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.
3/ 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 for display purposes.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2013

($ in Thousands)

	FY 2013	FY 2014	FY 2015	FY 2016
INDIVIDUAL INCOME				
IRS Conformity				
Ch. 65	0.0	8,300.0	8,700.0	9,300.0
Working Poor Credit/Itemized Deduction				
Ch. 236	0.0	(18,000.0)	(18,000.0)	(18,000.0)
529 College Savings Plan Subtraction				
Ch. 236	0.0	(4,000.0)	(4,000.0)	(4,000.0)
Business Expensing Conformity 1/				
Ch. 256	0.0	(24,800.0)	0.0	0.0
Foster Care Credit				
1st SS Ch. 9	0.0	(850.0)	(850.0)	(850.0)
TOTAL INDIVIDUAL INCOME	**0.0**	**(39,350.0)**	**(14,150.0)**	**(13,550.0)**
CORPORATE INCOME				
IRS Conformity				
Ch. 65	4,600.0	5,400.0	8,900.0	6,300.0
ACA Certification/Enterprise Zone Credit				
Ch. 236	0.0	(500.0)	(300.0)	0.0
TOTAL CORPORATE INCOME	**4,600.0**	**4,900.0**	**8,600.0**	**6,300.0**
SALES AND USE				
Certified Interlock Device Rental				
Ch. 236	0.0	(600.0)	(600.0)	(600.0)
TPT Simplification				
Ch. 255	0.0	0.0	0.0	1,300.0
Data Center Exemption				
1st SS Ch. 9	0.0	(4,200.0)	(6,000.0)	(7,900.0)
TOTAL SALES AND USE	**0.0**	**(4,800.0)**	**(6,600.0)**	**(7,200.0)**
PROPERTY				
None				
TOTAL PROPERTY				
OTHER				
None				
TOTAL OTHER				
TOTAL	**4,600.0**	**(39,250.0)**	**(12,150.0)**	**(14,450.0)**

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/ Removed the state's $25,000 business expensing cap, beginning in TY 2013. As a result, the state effectively conformed its business expensing level to the amounts permitted by federal law. At the time of enactment, Chapter 256 was expected to have a one-time revenue impact of $(24.8) million in FY 2014. While Chapter 256 reduces both individual and corporate income tax, the entire impact is shown as an individual income tax reduction for display purposes. Laws 2015, Chapter 227 extends this provision.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2014

($ in Thousands)

	FY 2014	FY 2015	FY 2016	FY 2017
INDIVIDUAL INCOME				
Tax Bracket Inflation Adjustment				
Ch. 10	0.0	0.0	(6,100.0)	1/
Social Security Number Requirement				
Ch. 68	0.0	0.0	1,500.0	1,500.0
TOTAL INDIVIDUAL INCOME	**0.0**	**0.0**	**(4,600.0)**	**1,500.0**
CORPORATE INCOME				
Renewable Energy Facility Credit				
Ch. 8	0.0	0.0	(10,000.0)	(10,000.0)
Job Tax Credit				
Ch. 168	0.0	(882.0)	(882.0)	(882.0)
TOTAL CORPORATE INCOME	**0.0**	**(882.0)**	**(10,882.0)**	**(10,882.0)**
SALES AND USE				
Electricity/Natural Gas Exemption				
Ch. 7	0.0	(14,600.0)	(18,200.0)	(18,200.0)
Mixed Waste Processing Facility				
Ch. 228	0.0	(183.6)	(183.6)	(183.6)
Health Science Institution				
Ch. 276	0.0	(196.4)	(196.4)	(196.4)
TOTAL SALES AND USE	**0.0**	**(14,980.0)**	**(18,580.0)**	**(18,580.0)**
PROPERTY				
None				
TOTAL PROPERTY				
OTHER				
None				
TOTAL OTHER				
TOTAL	**0.0**	**(15,862.0)**	**(34,062.0)**	**(27,962.0)**

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 10 provided a one-time inflation adjustment of the income tax rate brackets for TY 2015. Laws 2015, Chapter 91 (see following page) made the inflation adjustment of the tax brackets permanent, beginning in TY 2016

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2015

($ in Thousands)

	FY 2015	FY 2016	FY 2017	FY 2018
INDIVIDUAL INCOME				
Tax Bracket Inflation Adjustment [1/]				
Ch. 91			(15,400.0)	(24,700.0)
Internal Revenue Code Conformity				
Ch. 227	(30,800.0)	(30,800.0)	(30,800.0)	(30,800.0)
TOTAL INDIVIDUAL INCOME	**(30,800.0)**	**(30,800.0)**	**(46,200.0)**	**(55,500.0)**
CORPORATE INCOME				
Renewable Energy Facility Credit [2/]				
Ch. 6	0.0	0.0	0.0	0.0
TOTAL CORPORATE INCOME	**0.0**	**0.0**	**0.0**	**0.0**
SALES AND USE				
Electricity/Natural Gas Exemption [3/]				
Ch. 6	0.0	0.0	(1,300.0)	(1,300.0)
TOTAL SALES AND USE	**0.0**	**0.0**	**(1,300.0)**	**(1,300.0)**
PROPERTY				
Religious Institution Exemption [4/]				
Ch. 49				
TOTAL PROPERTY				
OTHER				
Insurance Fraud Assessment	0.0	516.6	516.6	516.6
Ch. 10				
Retaliatory Insurance Premium Tax Exemption	0.0	(1,500.0)	(1,500.0)	(1,500.0)
Ch. 184				
Insurance Premium Tax Rate Reduction	0.0	0.0	(1,300.0)	(1,500.0)
Ch. 220				
TOTAL OTHER	**0.0**	**(983.4)**	**(2,283.4)**	**(2,483.4)**
TOTAL	**(30,800.0)**	**(31,783.4)**	**(49,783.4)**	**(59,283.4)**

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 91 made the one-time tax bracket inflation adjustment enacted by Laws 2014, Chapter 10 permanent, beginning in TY 2016.

2/ Laws 2014, Chapter 8 created a credit for investments in new renewable energy facilities that produce energy for self-consumption used in manufacturing operations. Laws 2015, Chapter 6 expanded the credit program to include "International Operations Centers" (IOC). Since the program's credit cap of $10 million is already "priced in" for manufacturers, there would be no additional revenue loss for IOCs under Chapter 6.

3/ Laws 2014, Chapter 7 established an electricity and natural gas sales tax exemption for manufacturers. Laws 2015, Chapter 6 expanded the exemption to include "International Operations Centers" (IOC).

4/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be $300,000 per year, beginning in FY 2017.