

STATE OF ARIZONA



1995 Tax Handbook

JLBC

Prepared by the Staff
of the Joint Legislative Budget Committee

STATE OF ARIZONA TAX HANDBOOK 1995 EDITION

Prepared for

*Arizona Legislature's
Taxation Committees*

Senate Finance Committee
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Chairman

House Ways and Means Committee
Representative Lori Daniels
Chairman

*and the entire
Arizona Legislature*

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FOREWORD

Tax reform and tax reduction have dominated state tax policy thus far in the 1990's. The 2nd Regular Session of the 41st Legislature lowered the income tax rate for both individuals and corporations. The 1st Special Session of the 42nd Legislature again lowered the income tax rate for individuals and set aside revenues for a future property tax reduction. The 42nd Legislature will also be addressing the issue of public school finance with one eye on the Arizona Supreme Courts' ruling in *Roosevelt v. Bishop*. The challenge of balancing public needs with economic and taxpayer concerns is greater than ever. To prepare adequately for policy making, the Arizona Legislature needs a reliable handbook containing all of the state's taxes presented in a practical format that allows information to be obtained quickly. It is with this guiding principle that the JLBC Staff has revised the Arizona Tax Handbook.

Since our first edition in 1970, the JLBC Staff has continued to expand the coverage of Arizona's system of taxation. The last edition was published in 1990. This 1995 edition incorporates tax law revisions through Laws 1995, 2nd Special Session of the 42nd Legislature. The JLBC Staff's intent is to publish a new edition every 5 years with annual updates, which will focus on the interim tax law changes, for subsequent incorporation into the next Arizona Tax Handbook. As such, readers are encouraged to preserve this edition. We hope that legislators, agencies, the business community, and all interested readers will find the Arizona Tax Handbook helpful, and welcome your suggestions for making this report more useful.

The Arizona Tax Handbook is intended only as a reference tool. Information contained in the handbook does not carry the effect of law and is not a guide for making tax payments. Specific tax laws are found in the Arizona Revised Statutes and agency tax regulations. Readers who require particular information for tax payment purposes should consult the agency administering the respective taxes.

December 1995

ACKNOWLEDGEMENTS

The 1995 Arizona Tax Handbook is the product of many peoples' time and effort. Significant contributions came from representatives of state agencies and other legislative offices, as well as the JLBC Staff.

Much gratitude goes to Frank Chow, Senior Economist for the JLBC, for his superb work in updating and improving the 1990 Arizona Tax Handbook. His advice and guidance on the presentation of the 1995 edition has been invaluable. The 1995 edition is truly a reflection of the time Frank spent on the 1990 edition. Frank was a major contributor to the 1995 edition, updating both the Individual and Corporate Income Tax sections and reviewing the final draft.

Lastly, but with utmost appreciation, I thank my colleagues on the JLBC Staff for their assistance. Justin Garosi for his contributions, especially for his help on the General Property Tax section. Kent Ennis for his assistance with the graphics. The various fiscal analysts for their assistance in data collection. Renée Bahl for her assistance on the Underground Storage Tank Tax section. Hank Reardon for presenting me with the challenge and providing review and guidance. Ted Ferris and Richard Stavneak for their invaluable input and excellent review comments. Linda Monsanto, Jan Belisle, Sharon Savage and Cheryl Blunden for their assistance in editing and proofreading the final draft of the handbook. Lettie Phillips for the time she spent in the production and publishing of the Handbook. Finally, my deepest gratitude extends to Adele Garcia for her tireless efforts in typing, editing and proofreading the various drafts of the Handbook. Adele worked many hours to ensure the completion of the Handbook which is a reflection of her diligence as much as anyone else.

Dennis C. Doby, Editor

HOW TO USE THIS HANDBOOK

The 1995 edition of the Arizona Tax Handbook has been structured to allow practical usage by its readers. Under each chapter, the taxes are displayed in order of the largest contributor to tax collections. When possible, an effort was made to follow the sequential order of the Arizona Revised Statutes in writing the text on current tax laws. The 1995 edition follows the basic structure of the 1990 edition and incorporates new material. The following list is provided to help readers understand the basic structure of the Arizona Tax Handbook :

- (1) The Arizona Revised Statutes (A.R.S.) citations are placed at the beginning of each specific tax feature, so that readers desiring more detail can easily follow along with the statutes.
- (2) The HISTORY section is located at the end of each chapter while the text describing the current tax law appears first.
- (3) For complicated tax base or tax rate calculations, there is a TAX COMPUTATION section.
- (4) Historical Tax Rate Charts have been incorporated into the text for certain major taxes.
- (5) A system of acronyms for the effective dates of tax provisions since 1985 was instituted to improved the historical presentation. The list of acronyms and their definitions are shown below:
 - E - Effective
 - EFA - Effective From and After
 - ER - Effective Retroactive to
 - R - Retroactive to
 - RFA - Retroactive From and After
 - ETYBFA - Effective to Taxable Years Beginning From and After
 - RTYBFA - Retroactive to Taxable Years Beginning From and After
 - ERTYBFA - Effective Retroactively to Taxable Years Beginning From and After
- (6) A new "TAX YIELDS—TABLES AND GRAPHS" chapter has been added.
- (7) A new " TAXES REPEALED SINCE 1990" chapter for tax laws repealed or are no longer contributing tax revenues since the 1990 edition of the Arizona Tax Handbook.
- (8) A Summary table of Major Tax Yields (those above \$1 million) from FY 1985 to FY 1995 listed in the order of highest FY 1995 yield has been incorporated into Chapter 1.
- (9) A Graphical Presentation of Major Tax Yields (those above \$90 million) from FY 1986 to FY 1995 providing the over-the-year change and percent change listed in the order of highest FY 1995 yield has been incorporated into Chapter 1.

We hope the above modifications will facilitate our readers' study of the Arizona tax system. We cordially ask any reader who finds an error or has a suggestion for further improvement of the Arizona Tax Handbook to please call JLBC at (602) 542-5491.

CHAPTER I

TAX YIELDS TABLES AND GRAPHS

TABLES

TAX YIELD SUMMARY-ALPHABETICAL
FY 1995 CHANGE FROM PRIOR YEAR

(\$ Millions)

<u>TAXES</u>	<u>FY1994</u>	<u>FY 1995</u>	<u>AMOUNT CHANGE</u>	<u>PERCENT CHANGE</u>
Aircraft License	\$1.461	\$1.508	\$0.047	3.2%
Alcoholic Beverage	3.496	3.744	0.248	7.1
Aviation Fuel	0.691	0.443	(0.248)	(35.9)
Bingo	0.924	0.910	(0.014)	(1.5)
Boulder Canyon Projects	0.300	0.300	0.000	0.0
Boxing	0.021	0.010	(0.011)	(52.4)
Commercial Nuclear Generating	0.870	0.859	(0.011)	(1.3)
Corporate Income	302.617	416.711	114.094	37.7
Estate	40.617	48.771	8.154	20.1
Flight Property	12.279	13.785	1.506	12.3
Individual Income	1,405.483	1,479.588	74.105	5.3
Insurance Premium	123.739	124.595	0.856	0.7
Intrastate Utility Corporation	6.416	6.448	0.032	0.5
Jet Fuel Excise & Use	5.693	5.113	(0.580)	(10.2)
Luxury-Controlled Substances	0.018	0.063	0.045	250.0
Luxury-Cigarettes	53.077	109.189	56.112	105.7
Luxury-Liquor	42.263	42.034	(0.229)	(0.5)
Motor Carrier	118.530	92.103	(26.427)	(22.3)
Motor Vehicle	341.252	351.039	9.787	2.9
Other Property	4.860	0.206	(4.654)	(95.8)
Pari-Mutuel	8.507	8.535	0.028	0.3
Private Car	1.037	1.240	0.203	19.6
Real Property	174.249	170.605	(3.644)	(2.1)
Rental Occupancy	0.098	0.099	0.001	1.0
Severance-Minerals	23.454	37.614	14.160	60.4
Severance-Timber	0.266	0.261	(0.005)	(1.9)
Telecommunication Services	8.716	10.687	1.971	22.6
Transaction Privilege	2,178.689	2,391.006	212.317	9.7
Underground Storage Tank	25.072	24.947	(0.125)	(0.5)
Unemployment Insurance	195.023	230.902	35.879	18.4
Unsecured Property	7.085	7.848	0.763	10.8
Use	97.493	104.481	6.988	7.2
Use Fuel	87.913	108.790	20.877	23.7
Vehicle License	377.594	426.019	48.425	12.8
Voluntary Contributions-Districts	4.156	4.220	0.064	1.5
Voluntary Contributions-Municipalities	0.588	0.588	0.000	0.0
Voluntary Contributions-Game & Fish	0.000	0.003	0.003	0.0
Water Use	1.638	1.654	0.016	1.0
Watercraft License	1.317	1.544	0.227	17.2
Workers' Compensation	11.655	10.513	(1.142)	(9.8)
TOTALS	<u>\$5,669.157</u>	<u>\$6,238.975</u>	<u>\$569.818</u>	<u>10.1%</u>

TAX YIELD SUMMARY-HIGHEST TO LOWEST
FY 1995 CHANGE FROM PRIOR YEAR

(\$ Millions)

<u>TAXES</u>	<u>FY 1994</u>	<u>FY 1995</u>	<u>AMOUNT CHANGE</u>	<u>PERCENT CHANGE</u>
Transaction Privilege	2,178.689	2,391.006	212.317	9.7%
Individual Income	1,405.483	1,479.588	74.105	5.3
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Worker's Compensation	11.655	10.513	(1.142)	(9.8)
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Unsecured Property	7.085	7.848	0.763	10.8
Intrastate Utility Corporation	6.416	6.448	0.032	0.5
Jet Fuel Excise & Use	5.693	5.113	(0.580)	(10.2)
Voluntary Contributions-Districts	4.156	4.220	0.064	1.5
Alcoholic Beverages	3.496	3.744	0.248	7.1
Water Use	1.638	1.654	0.016	1.0
Watercraft License	1.317	1.544	0.227	17.2
Aircraft License	1.461	1.508	0.047	3.2
Private Car	1.037	1.240	0.203	19.6
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Boxing	0.021	0.010	(0.011)	(52.4)
Voluntary Contributions-Game & Fish	0.000	0.003	0.003	0.0
TOTALS	<u>\$5,669.157</u>	<u>\$6,238.975</u>	<u>\$569.818</u>	<u>10.1%</u>

SUMMARY OF MAJOR TAX YIELDS

FY 1985 TO FY 1995

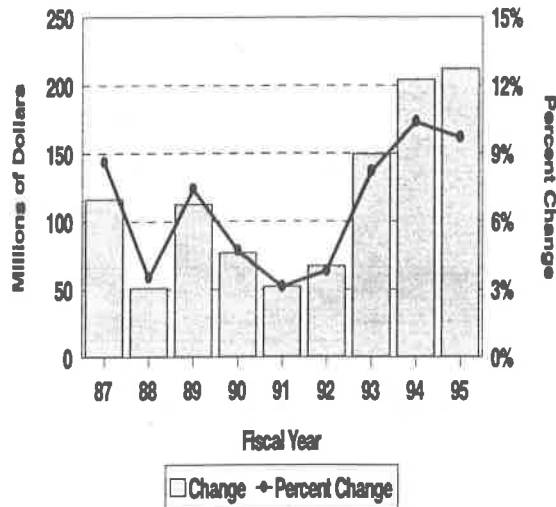
(Millions of Dollars)

Type of Tax	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	Average Compound Growth
Transaction Privilege	704.5	1,348.5	1,465.0	1,516.1	1,628.6	1,705.4	1,757.5	1,824.6	1,974.1	2,178.7	2,391.0	6.6%
Individual Income	626.2	703.0	761.4	854.0	912.2	996.4	1,243.7	1,237.5	1,367.6	1,405.5	1,479.6	9.0%
Vehicle License	169.8	202.2	228.8	251.9	267.3	297.3	311.8	314.9	333.5	377.6	426.0	9.6%
Corporate	202.3	168.7	198.9	150.7	200.9	178.1	191.7	211.4	239.3	302.6	416.7	7.5%
Motor Vehicle Fuel	195.6	222.7	269.0	271.5	292.3	294.1	305.8	318.0	322.6	341.3	351.0	6.0%
Unemployment Insurance	145.3	143.5	130.8	129.3	124.2	121.0	113.6	118.4	147.3	195.0	230.9	4.7%
Real and Secured Property	47.1	50.8	53.9	62.3	84.4	115.4	153.8	155.2	186.7	174.2	170.6	13.7%
Insurance Premium	60.6	71.9	80.3	86.8	91.0	121.3	100.3	111.7	115.2	123.7	124.6	7.5%
Luxury - Cigarettes	49.5	50.8	51.2	52.4	50.5	46.9	51.8	52.5	53.6	53.1	109.2	8.2%
Use Fuel	31.8	38.8	44.9	47.6	50.8	52.9	65.2	61.9	72.0	87.9	108.8	13.1%
Use	27.4	59.4	52.5	61.8	64.8	61.7	82.6	83.0	84.4	97.5	104.5	14.3%
Motor Carrier	78.1	86.8	92.7	98.7	104.7	104.3	108.7	109.6	120.3	118.5	92.1	1.7%
Estate and Generation Skipping Transfer	14.7	13.2	25.7	31.0	24.1	23.9	29.0	25.7	39.7	40.6	48.8	12.7%
Luxury - Liquor	37.9	40.8	40.8	41.0	40.5	40.3	39.8	41.1	40.9	42.3	42.0	1.0%
Severance Tax - Metalliferous Minerals	10.1	14.0	12.0	19.3	31.0	29.6	30.1	27.9	27.9	23.5	37.6	14.0%
Underground Storage Tank	--	--	--	--	--	--	17.3	18.4	18.6	24.8	23.1	7.5%
Flight Property	2.7	3.6	5.6	6.9	8.4	8.6	10.6	6.9	11.3	12.3	13.8	17.7%
Lieu Tax on Workers' Compensation	9.2	12.7	20.3	19.7	20.6	21.7	21.4	22.8	20.7	11.7	10.5	1.3%
Pari-Mutuel	11.5	12.0	10.8	10.2	10.1	9.3	7.9	8.1	8.1	8.5	8.5	-3.0%
Unsecured Property	7.8	4.9	5.4	5.1	5.7	7.2	7.3	7.9	9.2	7.1	7.8	0.0%
Intrastate Utility Corporation	4.5	5.2	5.2	5.9	5.9	5.9	7.4	6.4	6.5	6.4	6.4	3.6%
911 Excise	1.2	1.3	1.9	3.6	3.7	3.6	3.8	4.6	5.0	5.3	5.7	16.9%
Telecommunications Devices	--	0.5	0.5	0.6	1.2	1.7	1.8	2.2	3.1	3.4	4.9	28.9%
Jet Fuel Excise	--	--	--	--	--	--	--	5.2	6.9	5.2	4.7	-3.3%
SRP Contribution	2.3	2.3	2.4	2.8	3.4	3.8	3.9	4.0	4.1	4.2	4.2	6.2%
Alcoholic Beverage License	2.7	3.1	3.4	3.1	3.3	3.2	3.3	3.1	3.1	3.4	3.7	3.2%
Water Use	--	--	--	--	--	--	0.8	1.5	1.5	1.6	1.7	20.7%
Aircraft License	2.5	2.6	1.3	1.2	1.1	1.3	1.4	1.4	1.4	1.5	1.5	-5.0%
Watercraft License	0.8	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.6	1.3	1.5	6.5%
Lieu Tax on Private Car Companies	0.8	1.0	0.7	0.5	0.7	0.7	0.8	0.9	0.9	1.0	1.2	4.1%

GRAPHS

TRANSACTION PRIVILEGE TAX COLLECTIONS

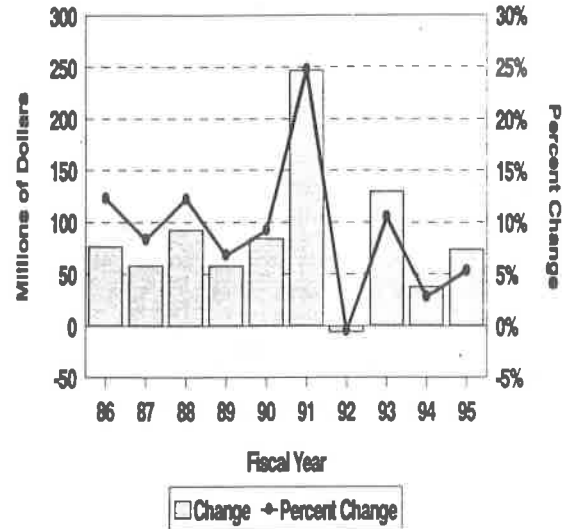
Over-the-Year Change and Percent Change



NOTE: Does not include Use, Severance, Rental Occupancy or Jail Fuel Taxes.
SOURCE: Department of Revenue, Annual Reports.

INDIVIDUAL INCOME TAX COLLECTIONS

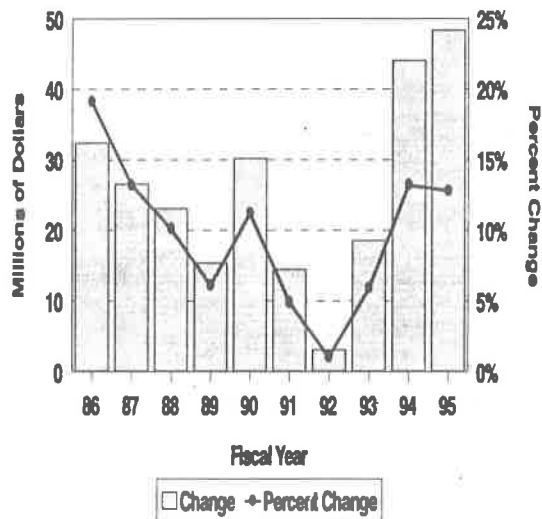
Over-the-Year Change and Percent Change



SOURCE: Department of Revenue, Annual Reports.

VEHICLE LICENSE TAX COLLECTIONS

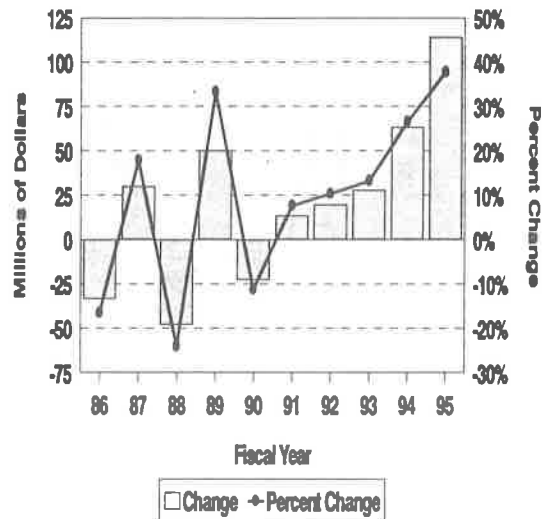
Over-the-Year Change and Percent Change



SOURCE: Department of Transportation, Office of Fiscal Planning

CORPORATE INCOME TAX COLLECTIONS

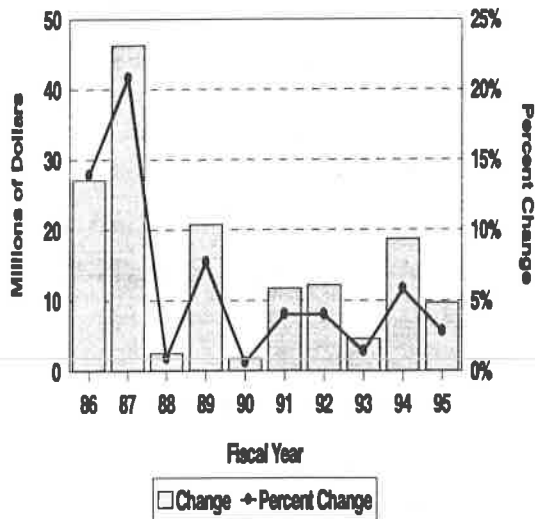
Over-the-Year Change and Percent Change



SOURCE: Department of Revenue, Annual Reports.

MOTOR VEHICLE FUEL TAX COLLECTIONS

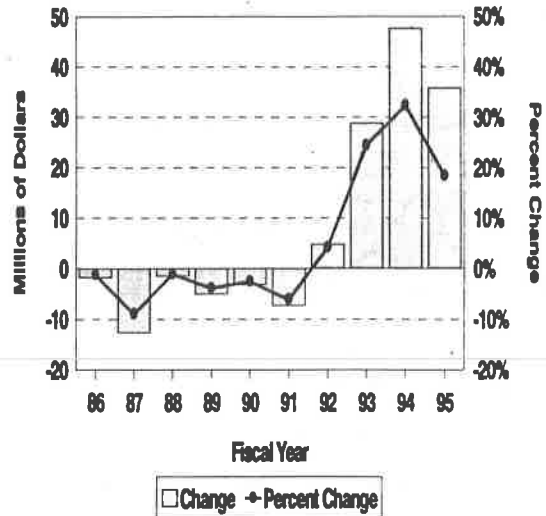
Over-the-Year Change and Percent Change



SOURCE: Department of Transportation, Office of Fiscal Planning

UNEMPLOYMENT INSURANCE TAX COLLECTIONS

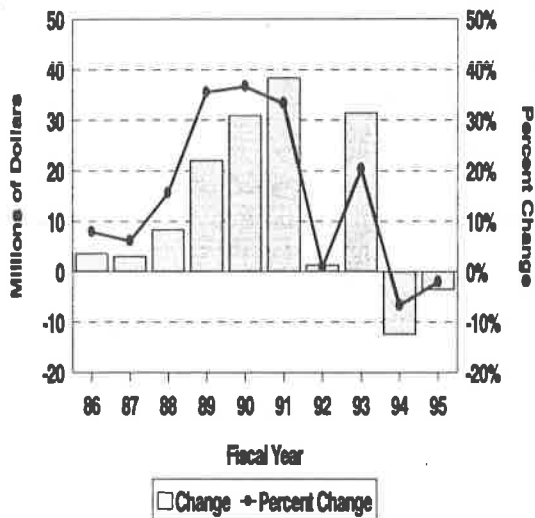
Over-the-Year Change and Percent Change



SOURCE: Department of Economic Security, Unemployment Insurance Administration

REAL AND SECURED PROPERTY TAX COLLECTIONS

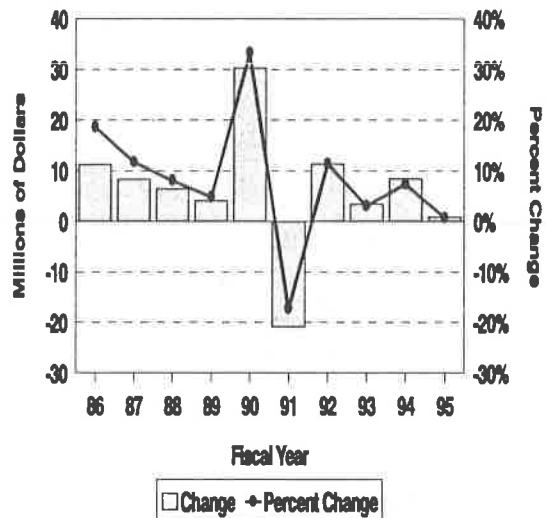
Over-the-Year Change and Percent Change



SOURCE: Department of Revenue, Annual Reports, and State Treasurer's Office

INSURANCE PREMIUM TAX COLLECTIONS

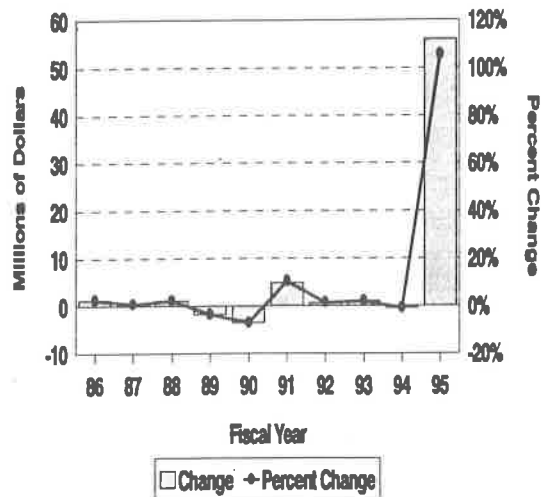
Over-the-Year Change and Percent Change



SOURCE: Department of Insurance

CIGARETTE LUXURY TAX COLLECTIONS

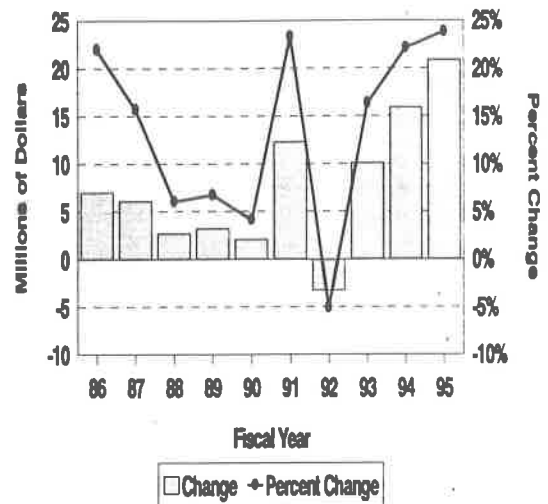
Over-the-Year Change and Percent Change



NOTE: The tax rate on cigarette and tobacco products increased on November 28, 1994.
SOURCE: Department of Revenue, Annual Reports.

USE FUEL TAX COLLECTIONS

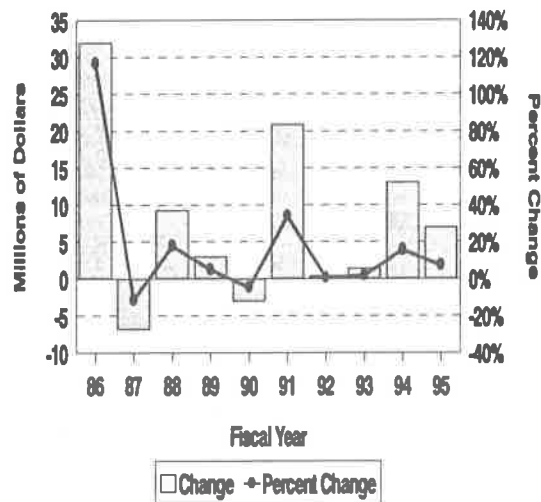
Over-the-Year Change and Percent Change



SOURCE: Department of Transportation, Office of Fiscal Planning

USE TAX COLLECTIONS

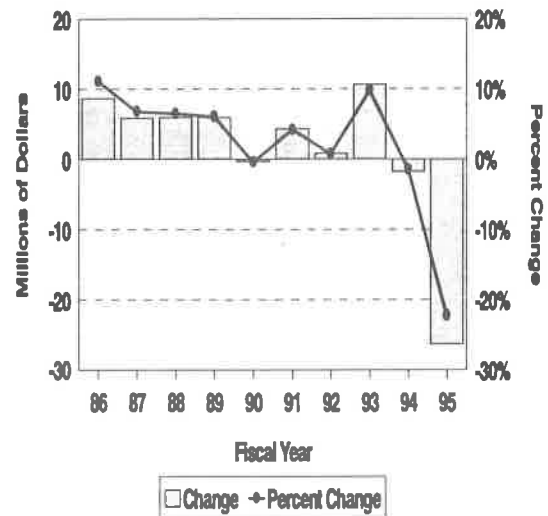
Over-the-Year Change and Percent Change



SOURCE: Department of Revenue, Annual Reports.

MOTOR CARRIER TAX COLLECTIONS

Over-the-Year Change and Percent Change



SOURCE: Department of Transportation, Office of Fiscal Planning

CHAPTER II

DISTRIBUTION BASE AND NON-SHARED TAXES

OVERVIEW

Laws 1985, Chapter 298 consolidated the tax rates of the Transaction Privilege Tax, Education Excise Tax, Special Excise Tax for Education and the Temporary Business Transaction Taxes for each taxable activity into 1 Transaction Privilege Tax rate. Also, these and other taxes collected in the same manner and time as the Transaction Privilege Tax were combined into a single distribution system. The tax collections for each taxable activity were divided by statutorily defined percentages into (1) a Distribution Base and (2) a Non-Shared portion. Tax collections in the Distribution Base, which include parts of the Transaction Privilege Tax, the Severance Tax, the Rental Occupancy Tax, and Jet Fuel Excise Tax are shared between counties (38.08%), municipalities (25%) and the state (36.92%).

Laws 1994, 8th Special Session, Chapter 8 changed the distribution formula with counties receiving 40.51%, municipalities 25%, and the state 34.49%. The Non-Shared portion, which is allocated solely to the state General Fund, consists of those taxes comprising the Distribution Base and 100% of tax receipts from the Use Tax and Transaction Privilege Tax License Fees.

Table A below depicts the taxable activities under this consolidated distribution system together with their corresponding percentage allocations and tax rates. All taxes listed in this section appertain to this system and all are gross receipts taxes, except for the Severance Taxes and Jet Fuel Taxes.

<u>TABLE A</u>			
<u>Taxable Activities</u>	<u>Distribution Base</u>	<u>Non-Shared State</u>	<u>FY 1996 Tax Rate</u>
Use Tax	0.00%	100.00%	5%
Job Printing	20.00%	80.00%	5%
Owner Builder Sales	20.00%	80.00%	5%
Pipeline	20.00%	80.00%	5%
Prime Contracting	20.00%	80.00%	5%
Private Car Line	20.00%	80.00%	5%
Publication	20.00%	80.00%	5%
Telecommunications	20.00%	80.00%	5%
Transporting	20.00%	80.00%	5%
Utility	20.00%	80.00%	5%
Pre-5/83 Contracting	25.00%	75.00%	4%
Pre-5/74 Contracting	26.67%	73.33%	3.75%
Mining	32.00%	68.00%	3.125%
Amusement	40.00%	60.00%	5%
Jet Fuel: 1st 10 Millions Gallons	40.00%	60.00%	3.05¢/gal.
Membership Camping	40.00%	60.00%	5%
Personal Property Rental	40.00%	60.00%	5%
Restaurant	40.00%	60.00%	5%
Retail	40.00%	60.00%	5%
Transient Lodging	50.00%	50.00%	5.5%
Commercial Lease ^{1/}	53.33%	46.67%	2%
Rental Occupancy	66.67%	33.33%	3%
Severance: Metalliferous Mining	80.00%	20.00%	2.5%
Severance: Timbering-Ponderosa Pine	80.00%	20.00%	\$2.13 per 1,000 board-feet
Severance: Timbering - Other	80.00%	20.00%	\$1.51 per 1,000 board-feet

^{1/} The Commercial Lease Tax rate will phase down to 1% for FY 1997 and is eliminated from and after 6/30/97.

HISTORICAL TAX RATES UNDER THE CONSOLIDATED SYSTEM

<u>Taxable Activities</u>	<u>Laws 1985 Chapter 298</u>	<u>FY 1996</u>
Transient Lodging ^{1/}	4%	5.5%
Amusement	5%	5%
Job Printing	5%	5%
Membership Camping ^{2/}	--	5%
Owner Builder Sales	5%	5%
Personal Property Rental	5%	5%
Pipeline	5%	5%
Prime Contracting	5%	5%
Private Car Line	5%	5%
Publication	5%	5%
Restaurant	5%	5%
Retail	5%	5%
Telecommunications	5%	5%
Transporting	5%	5%
Use Tax	5%	5%
Utility	5%	5%
Pre-5/83 Contracting	4%	4%
Pre-5/74 Contracting	3.75%	3.75%
Mining	3.125%	3.125%
Rental Occupancy	3%	3%
Severance: Metalliferous	2.5%	2.5%
Commercial Lease ^{3/}	3.75%	2%
Severance: Timber-Ponderosa Pine ^{4/}	1.5%	\$2.13 per 1,000 board-feet
Severance: Timber-Other ^{4/}	1.5%	\$1.51 per 1,000 board-feet
Jet Fuel ^{5/}	--	3.05¢/gal.
Jet Fuel over 10 Million Gallons ^{6/}	--	--
Agricultural Equip. & Machinery ^{7/}	3%	--
Advertising ^{8/}	1.25%	--
Feed ^{9/}	0.46875%	--

^{1/} The rate was increased from 4% to 5.5% from and after July 31, 1988 by Laws 1988, Chapter 271.

^{2/} Added from and after June 30, 1991 by Laws 1991, Chapter 31.

^{3/} The rate was increased from 3.75% to 5% from and after July 31, 1988 by Laws 1988, Chapter 271. The rate was decreased to 4.75% for Calendar 1991 and to 4.5% for Calendar 1992 by Laws 1990, 3rd Special Session, Chapter 3. The rate will be phased out by Laws 1993, 2nd Special Session, Chapter 9 according to the following schedule: 4% in FY 1994, 3% in FY 1995, 2% in FY 1996, 1% in FY 1997, and 0% thereafter.

^{4/} Changed by Laws 1995, Chapter 264 retroactive to January 1, 1995..

^{5/} Added from and after September 30, 1991 by Laws 1991, Chapter 224.

^{6/} Added from and after September 30, 1991 by Laws 1991, Chapter 224. The tax on jet fuel over 10 million gallons was phased out from and after June 30, 1994 by Laws 1992, Chapter 221.

^{7/} Temporary, added effective April 17, 1985 and phased out from and after June 30, 1988 by Laws 1985, Chapter 104.

^{8/} Phased out from and after December 31, 1985 by Laws 1985, Chapter 298.

^{9/} Repealed from and after September 30, 1994 by Laws 1994, Chapter 307.

NOTE: For historical tax rates prior to consolidation see the appendix of the 1985 Arizona Tax Handbook.

TAX COLLECTIONS UNDER THE CONSOLIDATED SYSTEM
DISTRIBUTION BASE PLUS NON-SHARED COLLECTIONS BY CLASS

<u>Classification</u> ^{1/}	<u>FY 1994</u>	<u>FY 1995</u>	<u>Change</u>	<u>% Change</u>
Retail	1,120,837,562	1,253,122,575	132,285,013	11.8%
Contracting	270,223,083	319,634,972	49,411,889	18.3
Utilities	210,546,367	219,565,924	9,019,557	4.3
Restaurants and Bars	192,300,342	207,556,480	15,256,138	7.9
Rentals of Personal Property	91,219,498	106,364,528	15,145,030	16.6
Commercial Lease ^{2/}	112,532,133	88,780,461	(23,751,672)	(21.1)
Use Tax	97,492,637	104,480,933	6,988,296	7.2
Hotel/Motel	63,604,769	69,993,999	6,389,230	10.0
Communications	57,243,474	64,204,052	6,960,578	12.2
Mining Severance	23,454,340	37,614,263	14,159,923	60.4
Amusements	26,176,715	27,630,785	1,454,070	5.6
Printing	18,076,480	18,725,966	649,486	3.6
Nonmetal Mining, Oil and Gas	4,985,260	5,140,832	155,572	3.1
Publishing	4,792,745	4,742,084	(50,661)	(1.1)
Jet Fuel Tax	5,202,583	4,691,944	(510,639)	(9.8)
Transporting and Towing	2,259,197	2,861,858	602,661	26.7
Railroads and Aircraft	1,713,568	1,228,511	(485,057)	(28.3)
Private Car and Pipelines	838,155	776,751	(61,404)	(7.3)
License Fees	558,074	538,016	(20,058)	(3.6)
Jet Fuel Use Tax	490,721	421,116	(69,605)	(14.2)
Timbering Severance	265,689	260,643	(5,046)	(1.9)
Feed Wholesale ^{3/}	672,926	121,533	(551,393)	(81.9)
Rental Occupancy Tax	98,229	99,276	1,047	1.1
Membership Camping	75,535	90,707	15,172	20.1
NSF	54,235	49,106	(5,129)	(9.5)
Utilities Credit Reimbursement	2	4,025	4,023	--
Local Advertising ^{4/}	1,934	2,906	972	50.3
Agricultural Equipment	509	0	(509)	(100.0)
Seizure/Sales Fees	262	0	(262)	(100.0)
Subpoena Fees	25	0	(25)	(100.0)
Telecommunications Service Assistance	(23,579)	(130,404)	(106,825)	453.1
TOTAL	<u>\$2,305,693,470</u>	<u>\$2,538,573,842</u>	<u>\$232,880,372</u>	<u>10.1%</u>

DISTRIBUTION

Net to State General Fund ^{5/}	\$1,787,908,736	\$1,962,326,326	174,417,590	9.8%
Net to Counties ^{6/}	304,745,483	356,339,290	51,593,807	16.9
Net to Cities	200,069,251	219,908,226	19,838,975	9.9
Disease Control	2,970,000	0	(2,970,000)	(100.0)
Property Tax Relief	10,000,000	0	(10,000,000)	(100.0)
TOTAL	<u>\$2,305,693,470</u>	<u>\$2,538,573,842</u>	<u>\$232,880,372</u>	<u>10.1%</u>

- ^{1/} Distribution base and non-shared classifications as reported by the Department of Revenue.
^{2/} Commercial Lease is being phased out and the rate was 4% in FY 1994 and 3% in FY 1995.
^{3/} Feed Wholesale dropped to 0% effective July 17, 1994 and was repealed effective October 1, 1994.
^{4/} Local Advertising was phased out on January 1, 1986.
^{5/} The state share of the Distribution Base was reduced from 36.92% to 34.49% in FY 1995.
^{6/} The county share of the Distribution Base was increased from 38.08% to 40.51% in FY 1995.

SOURCE: Department of Revenue, Annual Reports.

CONSOLIDATED TRANSACTION PRIVILEGE TAX

DESCRIPTION

Arizona does not have a traditional sales tax where the tax is imposed upon the buyer for purchases of goods and services. Instead, the tax is levied directly on the seller or vendor for the privilege of engaging or continuing in business within Arizona. Whether the seller includes the tax in the purchase price or absorbs the tax, the seller is responsible for remitting to the state the entire amount of tax collected based on the gross proceeds or income of the business at the appropriate rate which varies depending on the business activity. The current tax rate and distribution structure is derived from Laws 1985, Chapter 298, which consolidated the previous Transaction Privilege Tax, Education Excise Tax, Special Education Excise Tax, and Retail Business Transaction and Non-Retail Business Excise Taxes (formerly Temporary Business Transaction Taxes) into one Transaction Privilege Tax. For distribution purposes, the Transaction Privilege, Severance, Rental Occupancy, and Jet Fuel Excise taxes form a tax base which is divided into two portions called, Distribution Base and Non-Shared.

YIELD

<u>Fiscal Year</u>	<u>Gross Collections Net of Refunds</u>
1994-95	\$2,397,283,795
1993-94	2,184,077,418
1992-93	1,978,923,912
1991-92	1,829,449,247
1990-91	1,761,078,779
1989-90	1,754,903,506 ^{1/}
1988-89	1,628,557,484
1987-88	1,516,058,858
1986-87	1,464,987,774
1985-86	1,385,481,228 ^{2/}
1984-85	704,547,092
1983-84	559,048,669
1982-83	350,608,354
1981-82	339,048,243
1980-81	315,333,779
1979-80	344,755,193
1978-79	302,170,198
1977-78	247,570,254
1976-77	215,606,461
1975-76	187,305,066

^{1/} FY 1990-91 was the first year taxpayers with an annual tax liability of \$100,000 or more were required to make estimated payments. [See PAYMENT SCHEDULE section for details]

^{2/} FY 1985-86 was the first year under the consolidated tax rate, which consist of total collections from Distribution Base and Non-Shared minus the Rental Occupancy Tax, Use Tax, Severance Taxes, and Jet Fuel Excise and Use Taxes. Prior fiscal years include only the Transaction Privilege Tax Collections minus the Severance Taxes.

SOURCE: Department of Revenue, Annual Reports.

(Continued)

Consolidated Transaction Privilege Tax

DEDICATION

A.R.S. § 42-1306. *Purposes:*

- Liquidate outstanding obligations of the state and county governments.
- Defray the necessary and ordinary expenses of the state, counties, and municipalities.
- Reduce or eliminate property taxes.

Any funds remaining after payments for the above-stated purposes, shall be paid to the State School Fund for educational purposes. Generally, funds are absorbed by the above stated purposes and no deposits are made to the State School Fund.

WHO PAYS THE TAX

A.R.S. § 42-1301. *Definition.* Person or company engaging or continuing in business in the state. This consists of individuals, firms, partnerships, joint ventures, associations, corporations, estates or trusts, the state and any of its political subdivisions except school districts, or any other group or combination acting as a unit.

A.R.S. § 42-1305. *License Requirement.* Every person receiving gross proceeds or income upon which a Privilege Tax is imposed must apply for a Privilege License accompanied by a \$12 fee. Persons engaged in or conducting business in two or more locations shall procure a license for each location. When ownership or location of a business is changed, the license must be surrendered to DOR and a new license will be reissued upon payment of the \$12 fee.

A.R.S. § 42-1305.01. *Bond Requirement.* A Surety Bond is required for each licensed contractor or those who are regulated by the Office of Manufactured Housing, if their principal place of business is out-of-state or the business has been conducted in this state for less than one year. The bond shall be maintained for a period of at least two years.

TAX BASE AND RATE

A.R.S. § 42-1329. *General Definition.* The tax base is the gross proceeds of sales or gross income derived by a person from a taxable business.

A.R.S. § 42-1301. *Inclusions.* "Gross proceeds of sales" means the value received from the sale of tangible personal property with no deduction for losses, expenses, or cost of property sold. "Gross income" means the total amount (gross receipts) of retail sale, lease or rental price, or services derived from the business or trade and the value received from the sale of tangible property or services with no deduction for losses, expenses, or cost of property sold.

A.R.S. § 42-1301. *Exclusions.* "Business" does not include casual activities or sales. Cash discounts, full refunds for property or goods returned, and the value of merchandise trade-ins which is deducted from the sales price are excluded from the tax base.

A.R.S. § 42-1302. *Other Exclusions and Exemptions.* The amount of 1) state and local Transaction Privilege or Sales Tax and 2) certain freight costs collected by a retailer for tangible personal property shipped directly to the purchaser are also excluded from the tax base. The tax base is further adjusted by exemptions which are specifically granted for each taxable business classification. [There have been a number of new exemptions passed in recent legislative sessions. The reader is advised to check the A.R.S. exemption statute listed on the following page.]

A.R.S. § 41-1317. *Tax Rates.* Once the net tax base is computed, it is multiplied by the applicable rate to derive the total tax due. The tax rates vary depending on the business classification of the taxable activity. The following table lists the types of business classifications, their corresponding exemption statute, if any, and the applicable tax rate:

(Continued)

Consolidated Transaction Privilege Tax

<u>Classification</u>	<u>A.R.S. Exemption Statute</u>	<u>Tax Rate</u>
Retail	42-1310.01	5%
Transportation	42-1310.02	5%
Utilities	42-1310.03	5%
Telecommunications	42-1310.04	5%
Publication	42-1310.05	5%
Job Printing	42-1310.06	5%
Pipeline	42-1310.07	5%
Private Car Line	None	5%
Commercial Lease	42-1310.09	2% ^{1/}
Transient Lodging	42-1310.10	5.5%
Personal Property Rental	42-1310.11	5%
Mining	42-1310.12	3.125%
Amusement	42-1310.13	5%
Restaurant	42-1310.14	5%
Animal Feed	42-1310.15	-- ^{2/}
Prime Contracting	42-1310.16	5%
Owner Builder Sales	42-1310.17	5%
Membership Camping	42-1310.18	5%

^{1/} Tax rate for commercial leases was phased down to 4.75% for CY 1991, 4.5% for CY 1992, 4% for FY 1994, 3% for FY 1995. The rate will phase down to 2% for FY 1996, 1% for FY 1997, and is phased out by FY 1998.

^{2/} Repealed from and after 9/30/94.

TAX REFUNDS

A.R.S. § 42-1322.01. *Motion Picture Production Company Production Activity Expenditures Refund.* Motion picture production companies which expend greater than \$1,000,000 and commercial advertising production companies which expend greater than \$250,000 in this state within a 12-month period, in connection with filming or production of movies or commercials, may apply for a refund of 50% of the Transaction Privilege and Use Taxes imposed.

TAX CREDITS

A.R.S. § 42-1322.02. *Telecommunications Service Assistance Program.* Local exchange telephone companies may claim a tax credit for rate reductions given to elderly low-income persons under such a program. [See A.R.S. § 46-701 to A.R.S. § 46-704]

A.R.S. § 42-1322.03. *Electric and Natural Gas Utility Assistance Program.* Repealed by Laws 1990, Chapter 156, effective July 1, 1991.

A.R.S. § 42-1322.04. *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. Laws 1990, 3rd Special Session, Chapter 3 repealed the accounting and reporting tax credit. Laws 1994, Chapter 346 reinstated the allowance effective July 1, 1995.

(Continued)

Consolidated Transaction Privilege Tax

PAYMENT SCHEDULE

A.R.S. § 42-1322. *Due Dates.* Transaction Privilege Taxes are due and payable monthly on or before the 20th day of the month after the month in which the tax accrues.

Delinquency Dates. Those taxpayers filing by mail must be postmarked no later than the 25th day of each month or received by the Department of Revenue on or before the next-to-the-last business day of the month. When filing in person, the payment must be received by the Department on or before the next-to-the-last business day.

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

- Estimated annual tax liability of \$200 or less may pay on an annual basis.
- Estimated annual tax liability between \$200 and \$500 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 tax liability in the preceding calendar year of \$100,000 or more must remit a single estimated payment in June of each year. The estimated payment is equal to either (1) One-half of the actual tax liability of May of the current year, or (2) the actual tax liability for the first 15 days of June. The due and delinquent dates are the same as the regular payments explained above, except that payments are delinquent if not postmarked on or before June 20th.

A.R.S. § 42-1451. *Collection.* The Director of the Department of Revenue (DOR) may enter into agreements with cities, towns and recreation center districts which levy Transaction Privilege Taxes to provide for unified or coordinated licensing, collection and auditing programs. DOR collected transaction privilege and use tax for some 73 Arizona cities and towns in FY 1995 (see Arizona Department of Revenue, 1995 Annual Report).

DISTRIBUTION

A.R.S. § 42-1341. *Distribution.* The Department of Revenue transmits all revenues collected from this tax to the State Treasurer, separately accounting for revenues collected under the transient lodging classification. Revenues are then transmitted to the State Treasurer who credits the monies into the Transaction Privilege and Severance Tax Clearing Account, separately accounting for the monies designated as Distribution Base. Before distribution of these monies, warrants drawn against this account are deducted. The percentage of tax revenues allocated to the Distribution Base depends on the business classification of each taxable activity. [See A.R.S. § 42-1317 and Table A] The remaining monies (Non-Shared) are not included in the Distribution Base and are credited to the state General Fund.

The distribution formula was changed by Laws 1994, 8th Special Session, Chapter 8. Incorporated municipalities continued to receive 25%, the state share was reduced from 36.92% to 34.49% and the counties share was increased from 38.08% to 40.51%, and the distribution to the counties was changed from a property valuation formula to a population formula.

Monthly allocations from the Distribution Base:

- 25% is paid to municipalities in proportion to their population based on the last U.S. decennial or special census.
- 40.51% is paid to counties in the following proportions:
 - (1) 38.08% is paid by averaging (a) the proportion that the population of each county bears to the total state population and (b) the proportion that the distribution base monies collected during the calendar month in each county bear to the total distribution base monies collected for the calendar month.

(Continued)

Consolidated Transaction Privilege Tax

- (2) 2.43% is distributed to counties receiving less under the population formula than under the old property valuation formula, to hold them harmless from the change in distribution methods. Any amount left after this distribution is distributed based on the new formula.
- The remainder (34.49%) is credited to the state General Fund. From this amount, the following appropriations are required by statute (the Legislature, however, may choose to appropriate a different amount each year):
 - (1) The Department of Revenue—monies sufficient to cover administrative expenses.
 - (2) The Department of Economic Security—for purposes stated in Title 46, Chapter 1.
 - (3) The Tourism Fund: (a) \$2,000,000 and (b) 75% of the annual fiscal year growth from a one-half percentage point of the total tax rate imposed on the transient lodging classification.
 - (4) The Water Quality Assurance Revolving Fund—2,900,000.

A.R.S. § 42-1341(E). *Minimum County Distribution*. The minimum distribution expired on June 30, 1992.

A.R.S. § 42-1342. *Usdane Shift - Retail Sales Portion*. Repealed by Laws 1994, Chapter 41, effective July 17, 1994.

DISTRIBUTION OF TRANSACTION PRIVILEGE TAX

<u>Fiscal Year</u>	<u>State General Fund</u> ^{1/}	<u>Counties</u>	<u>Cities</u>
1994-95	\$1,842,158,595	\$343,277,696	\$211,847,504
1993-94	1,692,586,785	296,702,018	197,788,615
1992-93	1,529,916,165	271,056,040	177,951,707
1991-92	1,414,529,526	250,477,853	164,441,868
1990-91	1,363,136,485	240,228,956	157,713,338

^{1/} A portion of the amount distributed to the state General Fund is earmarked for specific purposes defined in A.R.S. § 42-1341.

SOURCE: Department of Revenue, Annual Reports.

HISTORY

Laws 1933, Chapter 90 levied the first Arizona Transaction Privilege Tax. The tax was levied on the gross proceeds of businesses at the following rates:

- (1) Mining, quarrying, smelting, extracting, manufacturing, compounding or otherwise preparing articles or substances for sale or use .5%
- (2) Producing for sale or use livestock, poultry and other products of the ranch, farm, grove, or garden .5%
- (3) Selling tangible personal property at wholesale .5%
- (4) Selling tangible personal property at retail 2%
- (5) Furnishing electricity, electric lights, current, power or gas to consumers for industrial purposes and for pumping water for irrigation .5%
- (6) Furnishing electricity, electric lights, current, power or gas to consumers for other purposes 2%
- (7) Owning or operating a telegraph or telephone business .5%
- (8) Transporting freight or passengers for hire by railroad .5%
- (9) Transporting oil or gas by pipeline .5%

(Continued)

Consolidated Transaction Privilege Tax

- | | |
|---|-----|
| (10) Transporting freight or passengers for hire by motor vehicle | .5% |
| (11) Engaging in any other business, profession, trade or calling | 2% |

Persons engaged in the businesses outlined above were allowed to deduct \$1,200 from the amount of gross receipts subject to taxation. The tax was paid to the State Tax Commission on or before the 15th day of the month following the month in which the tax accrued. Of the amount collected, 3/4 was deposited in the state General Fund and 1/4 was deposited in the County Privilege Tax Fund for distribution among the counties. The Governor was authorized to expend 10% of the state's share to relieve unemployment or for any other public welfare relief, whenever an emergency existed. An amount not to exceed 5% of any one month's revenue was also appropriated from the state's share for enforcement of this act. (EFA - After April 30, 1933)

Laws 1933, 1st Special Session, Chapter 17 established a new Transaction Privilege Tax which replaced the tax established by Laws 1933, Chapter 90. The new tax was levied on the gross proceeds of business. Under the provisions of this law, Privilege Tax payment were delinquent 5 days after the monthly due date. The distribution of Privilege Taxes was also changed. The new distribution allowed the State Tax Commission to deduct its expenses for administering the tax from the total monthly collections. The amount deducted was not to exceed 4% of monthly collections and was deposited in the License Fee and Privilege Tax Administration Fund. Of the amount remaining, 15% was deposited in the Governor's Relief Fund, 63.75% was deposited in the state's General Fund and 21.25% was deposited in the County Privilege Tax Fund for distribution to the counties. The provisions of this law expired on March 1, 1935. (E - July 1, 1933)

Laws 1935, Chapter 77 reenacted the Transaction Privilege Tax that expired on March 1, 1935. The tax was extended to several new categories of business, the rates were changed for categories already taxable, and the distribution of tax proceeds was modified. Under the new law, the amount that remained after deducting refunds and the State Tax Commission's share was distributed as follows (E - May 1, 1935):

- (1) 15% to the Governor's Relief Fund
- (2) 85% to the state General Fund

Laws 1937, 1st Special Session, Chapter 2 reduced the tax rate on manufacturing and otherwise preparing articles and substances for sale or use. The rate levied on the preparation and/or sale of tangible personal property at wholesale was repealed. Businesses operating motion picture shows as the principal attraction were taxed at the 2% rate that applied to all other forms of amusement. Under Laws 1935, Chapter 77 these businesses had been taxed at a rate of 1%. Three new taxable categories of business were also established. In addition, the law modified the distribution of Transaction Privilege Taxes. Under the new law, the amount that remained after deducting refunds and the State Tax Commission's share was distributed as follows (E - June 11, 1937):

- (1) 15% to the State Board of Social Security and Welfare
- (2) 85% to the state General Fund and the several counties of the state with the General Fund receiving 40% of this amount and the counties receiving 60%.

NOTE: An initiative measure approved at the election of November 3, 1942 changed the distribution of the Transaction Privilege Tax again. Under this initiative, municipalities received 10% of total Transaction Privilege Taxes in proportion to their populations. The amount distributed to municipalities came from the portion of Privilege Taxes formerly shared by the state General Fund and the several counties of the state. After deducting the municipalities' share, 40% of the balance was distributed to the state General Fund and 60% was distributed to the counties. (E - December 1, 1942)

Laws 1943, Chapter 13 enacted another change in the distribution of Transaction Privilege Taxes. Under this law, an amount equal to 4% of the Transaction Privilege Tax was deposited in the "License Fee and Privilege Tax Administration Fund." Any amount deposited in the fund not appropriated for the use of the State Tax Commission was reverted to the state General Fund. The amount received by the State Board of Social Security and Welfare was also changed. The Board's new allocation was 15%

(Continued)

Consolidated Transaction Privilege Tax

of total Privilege Taxes. Formerly, the board had received 15% of the amount that remained after deducting refunds and the Tax Administration Fund's share. Municipalities continued to receive 10% of total collections and the balance after all other shares had been allocated was distributed as in the past: By statute, 40% to the state General Fund and 60% to the several counties. (E - July 1, 1943)

Laws 1943, Chapter 16 exempted materials purchased by contractors for incorporation into a structure. This law was subsequently declared unconstitutional by the Arizona Supreme Court.

Laws 1950, 1st Special Session, Chapter 57 repealed the tax on gross income from manufacturing, and otherwise preparing articles or substances for sale or use. (E - June 18, 1950)

Laws 1952, Chapter 11 provided that the amount received by businesses as state sales tax collections is excluded from the gross receipts of the business in computing the tax owed to the state. (E - March 6, 1952)

Laws 1952, Chapter 100 exempted sales of materials to licensed contractors from the Transaction Privilege Tax. (E - March 24, 1952)

Laws 1954, Chapter 136 imposed a 1% rate upon gross proceeds from sales or gross income from businesses engaged in intrastate transportation for hire by aircraft. The law also established an exemption for the gross proceeds of most service occupations. (E- July 9, 1954)

Laws 1956, 2nd Special Session, Chapter 2 broadened exemptions from certain transactions involving sales to the United States Government. (E- July 1, 1956)

Laws 1959, Chapter 11 deleted adjustment and credit bureaus and collection agencies from the list of businesses subject to taxation. (E- June 20, 1959)

Laws 1959, Chapter 61 imposed a 1/4 of 1% rate upon vitamins and other additives to stock and chicken feeds. (E- March 18, 1959)

NOTE: An initiative measure enacted in the election of November 8, 1960 increased the percent of Transaction Privilege Tax collections distributed to municipalities. Under this law, municipalities received 25% of total collections. The State Tax Commission continued to receive 4% of total collections and the State Board of Social Security and Welfare continued to receive 15%. The balance after all other shares had been allocated was distributed as before: By statute, 40% to the state General Fund and 60% to the several counties. (E- July 1, 1961)

Laws 1962, Chapter 64 exempted tangible personal property purchased in Arizona by a nonprofit charitable hospital. (E- June 21, 1962)

Laws 1965, 3rd Special Session, Chapter 3 increased from 1% to 2%, the tax rate levied upon gross proceeds from sales or gross income of persons engaged in the business of preparing food for human consumption. (E - June 29, 1965)

Laws 1966, Chapter 23 exempted gross proceeds or gross income of events sponsored by the Arizona State Fair or County Fair Commissions. (E- July 23, 1966)

Laws 1967, Chapter 56 exempted gross proceeds or gross income from sales of thermal energy or electrical energy sold to distributors. (E- March 14, 1967)

Laws 1967, 3rd Special Session, Chapter 2 added an exemption for gross proceeds or gross income from the sale of 8 categories of machinery used in manufacturing, mining, telephone and telegraph communications, electrical power production and

(Continued)

Consolidated Transaction Privilege Tax

transmission, transportation by pipeline of oil, gas, water or coal slurry, airline operations, railroad operations and oil and gas production. (E - July 1, 1968)

Laws 1967, 3rd Special Session, Chapter 3 increased the types of property subject to the 2% tax on rentals of real property. Properties leased or rented under a long-term contract entered into prior to December 1, 1967 were exempted until December 1, 1972 provided that the terms of the contract were not changed. This law also imposed a 2% tax on rentals of tangible personal property. Before enactment of this provision, the tax on rentals of personal property applied to automobile rentals only. (E - March 22, 1968)

Laws 1967, 3rd Special Session, Chapter 8 exempted gross proceeds from sales or gross income from sales of prescription drugs. (E- March 22, 1968)

Laws 1972, Chapter 15 exempted from the Transaction Privilege Tax, job printing, engraving, embossing, and copying sold to persons possessing Transaction Privilege Tax licenses, which were issued in this state to resell such property. (EFA - June 30, 1972)

Laws 1972, Chapter 93 exempted from the Transaction Privilege Tax sales of electricity, current, natural or artificial power or gas, and water to a distributor who possessed a Transaction Privilege Tax License, issued in this state to resell such property. (E - August 13, 1972)

Laws 1972, Chapter 142 established the Department of Economic Security and provided that the share of privilege taxes formerly allocated to the State Board of Social Security and Welfare was dedicated instead to the new Department. (Effective by Executive Order of the Governor, but no later than July 1, 1973)

Laws 1972, Chapter 190 exempted the gross income derived from the use of certain coin-operated equipment from the Transaction Privilege Tax. (E- August 13, 1972)

Laws 1973, Chapter 123 created the Department of Revenue and transferred the responsibility for the tax collection from the State Tax Commission to the new Department. (E - July 1, 1974)

Laws 1974, Chapter 149 reinstated the exemption for properties leased or rented under a long-term contract entered into prior to December 1, 1967. Property owners were only allowed to claim the exemption if a Rental Occupancy Tax had been paid on the property. (EFA - December 31, 1974)

Laws 1974, 1st Special Session, Chapter 2 exempted leasing or renting lodging facilities which have been occupied 90 consecutive days by the same persons. A 2% tax was still applicable to rents paid during the first 90 days of residence. The 1/4% tax on the gross receipts of persons in the business of slaughtering, packing and processing of meat for human consumption was repealed. (E - July 1, 1974)

Laws 1975, Chapter 17 exempted proceeds from the manufacture and publication of books from the Transaction Privilege Tax. (E - September 12, 1975)

Laws 1975, Chapter 43 exempted the amount which a landlord charges a tenant for utilities from the Transaction Privilege Tax, when the charge is based on an individual utility meter reading. (E - September 12, 1975)

Laws 1976, Chapter 49 exempted the sale price of land from the Transaction Privilege Tax on contracting. (E - May 26, 1976)

Laws 1976, Chapter 158 changed the payment due date for taxpayers whose estimated annual Transaction Privilege Tax liability is \$200 or less. (E - January 1, 1977)

(Continued)

Consolidated Transaction Privilege Tax

Laws 1977, Chapter 42 exempted solar energy devices from the Transaction Privilege Tax on retail sales. This exemption expired after December 31, 1984. (E - August 27, 1977)

Laws 1977, Chapter 108 provided that sales of \$1,000 or less made to residents of Mexico shall be exempt from the Transaction Privilege Tax until December 31, 1979 if made within 30 miles of the Mexican border. (E - August 27, 1977)

Laws 1977, Chapter 152 exempted buses sold to or purchased by bus companies holding certificates of convenience. An exemption was also added for airplanes and related equipment sold to foreign governments or non-residents for use outside this state. (E - August 27, 1977).

Laws 1977, Chapter 172 granted an exemption from the Transaction Privilege Tax for tangible personal property purchased by nonprofit licensed hospitals, nursing care institutions, and residential care institutions. (E - January 1, 1978)

Laws 1978, Chapter 33 exempted sales of tangible personal property by non-profit charitable organizations from the Transaction Privilege Tax. Personal property leased to licensed hospitals, nursing care institutions and residential care institutions was also exempted by this law, when the institutions were not used or held for profit. (E - September 3, 1978)

Laws 1978, Chapter 97 replaced the 1% Transaction Privilege Tax on contracting in general with a 1% Transaction Privilege Tax on prime contractors. Subcontractors were exempted from taxation on services performed for a prime contractor. A standard deduction of 35% of gross receipts was established as the means of excluding payments to labor from a contractor's taxable income. (Contracting labor was originally exempted from the privilege tax under Laws of 1937, 1st Special Session, Chapter 2.) Persons operating as an owner-builder were no longer subject to the tax on contracting, as long as they did not sell the property under construction for at least 24 months after completion. Instead, these individuals were subject to a separate 1% tax on tangible personal property purchased for incorporation into a structure, development or other realty improvement. (Effective for contracts entered into on or after January 1, 1979)

Laws 1978, Chapter 121 established exemptions from the Transaction Privilege Tax for the sale of prosthetic devices, insulin, syringes purchased with insulin, eyeglasses, and similar purchases. (E - September 3, 1978)

Laws 1978, Chapter 195 exempted buses or other urban mass transit vehicles when purchased by bus companies operated by a government entity or otherwise used in a government-controlled mass transportation program. (E - September 3, 1978)

Laws 1978, Chapter 211 repealed the 90-day tax on receipts from the rental of properties which serve as the lessee's principal place of residence. (E - January 1, 1979)

Laws 1979, Chapter 78 imposed a tax on dealers of manufactured housing similar in effect to the tax on prime contractors. (E - July 21, 1979)

Laws 1979, Chapter 146 exempted gross proceeds or gross income received by prime contractors from sales of solar energy devices. This exemption remained in effect until December 31, 1989. Under this law, the exemption for retail sales of solar energy devices was extended through December 31, 1989. (E - July 21, 1979)

Laws 1979, Chapter 200 exempted the sale of tangible personal property to non-residents when the property was used outside the state and the vendor shipped or delivered the property out of this state. (E - July 21, 1979)

Laws 1980, 2nd Special Session, Chapter 8 repealed the state Transaction Privilege Tax on food items intended for "home consumption", and established a method for reimbursing the cities and counties for their share of the revenue loss. Enactment of these provisions was conditional on the passage of Laws of 1980, 2nd Special Session, Chapter 9 and 4 Constitutional amendments that were approved by the voters in a special election held on June 3, 1980. (EFA - June 30, 1980)

(Continued)

Consolidated Transaction Privilege Tax

Laws 1980, 3rd Special Session, Chapter 2 established an exemption for sales of use fuel that are subject to the Use Fuel Tax. (RTYBFA - December 31, 1976)

Laws 1980, Chapter 62 included newspaper subscription income into the publication category and exempted sales of solar energy devices until December 31, 1989. (Applied retroactively to tax periods beginning from and after December 31, 1975.)

Laws 1980, Chapter 70 change the due date for payment of the Transaction Privilege Tax to the 1st day of the second month following the month in which the tax accrues. A delinquency date was established to be 5 days after the due date. The Department was given authority to adjust the payment period for taxpayers with annual tax liabilities of less than \$500. The interest rate imposed on deficient tax payments was increased from 6% to 12% per year. (EFA - August 1, 1980)

Laws 1980 Chapter 111 provided that the Transaction Privilege Tax on the leasing or renting of real property will be levied only once monthly per individual piece of property. In the past, each lease and sublease was taxed, leading to a pyramid effect. (EFA - June 30, 1980)

Laws 1980, Chapter 149 changed the definition of the Transaction Privilege Tax base to exclude amounts paid for sales taxes imposed by municipalities in this state. (E - July 31, 1980)

Laws 1981, Chapter 110 removed the requirement that a contractor be licensed by the Registrar of Contractors to qualify for an exemption from the Transaction Privilege Tax on purchase of tangible personal property. (E - July 25, 1981)

Laws 1981, Chapter 130 changed the provision that exempts sales of fuel from the Transaction Privilege Tax when a Use Fuel Tax or Motor Vehicle Fuel Tax has been paid. Effectively, the change authorized the Department of Revenue to collect the tax on sales of fuel used in off-road vehicles, when the Use Fuel Tax or Motor Vehicle Fuel Tax has been paid but is refundable to taxpayers. (E - July 1, 1982)

Laws 1981, Chapter 190 provided that amounts charged by auto leasing firms for Vehicle License Taxes and Fees may be excluded from their taxable gross receipts when these amounts are separately billed and paid by the lessee. (E - July 25, 1981)

Laws 1981, Chapter 321 extended the coverage of the Transaction Privilege Tax to include the taxable activities of the state and any of its counties, cities, towns, districts and other political subdivisions, except public school districts. The law also established new exemptions for the following (E - July 25, 1981):

- (1) Sales by bookstores of textbooks required by state universities and community colleges.
- (2) Sales of food by a state university or its designee when the sales are made on-campus to students with validated meal tickets or to patients purchasing or consuming food at the Arizona Health Sciences Center.

Laws 1981, 2nd Special Session, Chapter 2 provided for a further distribution of the state's share of Transaction Privilege Taxes. The distribution is based on the state's share of tax collections from the sale of autos and auto-related products. The tax on sales of autos and auto-related products is represented by 23% of the tax on retail sales. When growth in taxable retail sales exceeds 7% per year, the amount received from growth in excess of 7% per year is distributed to the Highway User Revenue Fund in the following year. Originally, the amount transferred under this provision was used to reduce the gas tax rate, but this requirement was repealed by Laws 1982, Chapter 5. (EFA - June 30, 1983 but, in fiscal year 1982-83, an absolute amount will be transferred from the state's share of the Transaction Privilege Tax to the Highway User Revenue Fund.)

Laws 1982, Chapter 7 exempted food purchased by an employer and provided to employees during work without charge.

Laws 1982, Chapter 163 exempted sales of food and drink from the Transaction Privilege Tax when purchased by public schools for preparation and consumption on the premises during school hours. (E- July 24, 1982)

(Continued)

Consolidated Transaction Privilege Tax

Laws 1982, Chapter 173 exempted sales of food and drink from the Transaction Privilege Tax when these items are sold by community colleges to students using a validated meal ticket. (E - July 24, 1982)

Laws 1982, Chapter 186 established a Transaction Privilege Tax exemption for the sale and installation of groundwater measuring devices that are required by law in groundwater management areas and irrigation non-expansion areas. (E - July 24, 1982)

Laws 1982, Chapter 188 provided for a delayed repeal of the 1% Transaction Privilege Tax on local advertising. The repeal is to be effective from and after December 31, 1985. The law also eliminated the Transaction Privilege Tax on publications sold to retailers for resale. This provision was retroactive to tax periods beginning from and after December 1, 1977.

Laws 1982, Chapter 230 established a Severance Tax on mining and on felling timber and repealed the 1% Transaction Privilege Tax on the production of timber and metalliferous mineral products. The Transaction Privilege Tax on smelting was also repealed by this law. The provisions of this law were effective beginning January 1, 1983.

Laws 1982, Chapter 305 authorized the Department of Revenue to withhold \$11,555.55 per month from the amount of Transaction Privilege Taxes distributed to Gila and Santa Cruz Counties. This amount was withheld each month to reimburse the state for appropriations made to alleviate financial emergencies in the two counties. (E - Beginning September of 1982 and Ending in August of 1985).

Laws 1983, Chapter 4 changed the due date for payment of the Transaction Privilege Tax to the 20th day of the month following the month in which the tax accrues. The delinquent date was moved to the day preceding the last day of the month in which they were due (E - April 1, 1983). The law also changed the interest rate on delinquent tax payments to equal the rate established by section 6621 of the Internal Revenue Code, compounded annually. (E - February 11, 1983)

Laws 1983, Chapter 13 authorized the Department of Revenue to withhold any amount in excess of \$120,000 per month from the amount of Transaction Privilege Taxes distributed to Greenlee County. This amount was withheld each month in order to reimburse the state for an appropriation made to alleviate a financial emergency within the county. The amount withheld was not to exceed \$25,000 in any 1 month. (E - March 1, 1984)

Laws 1983, Chapter 42 exempted the gross receipts of lightweight motor vehicles subject to the Motor Carrier Use Tax. (ER - July 1, 1982)

Laws 1983, Chapter 121 exempted sales of animals used as breeding or production stock. The exemption also applied to sales of breeding or ownership of shares in breeding animals. (E - July 27, 1983)

Laws 1983, Chapter 126 exempted the gross revenue from certain fees that are charged for access to utility services. (ERTYBFA - December 31, 1982)

Laws 1983, Chapter 230 relieved state agencies from payment of sales taxes that were unpaid or paid under protest as of January 1, 1983. This provision only applied to state agencies funded by General Fund appropriations. (E - April 22, 1983)

Laws 1983, Chapter 298 provided that \$24,999,996 was distributed from the state's share of the Transaction Privilege Tax to the counties during fiscal year 1983-84. The distribution was made in 12 equal monthly installments. A formula was included to determine each counties share of the total. (E - for the 1983-84 fiscal year)

Laws 1984, Chapter 7 redefined "local advertising" for purposes of transaction privilege and affiliated excise taxes. Applied retroactively from and after April 10, 1979. (E - March 9, 1984)

Laws 1984, Chapter 84 was enacted to clarify the confusion regarding the proper classification of fast food establishments for purposes of Transaction Privilege Taxes. As of June 1, 1984 and thereafter, all fast food establishments will be classified under

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Consolidated Transaction Privilege Tax

the "restaurants and bars" category. Thus, there will no longer be a distinction made between sales of food consumed off the premises (previously classified as a "retail" activity) versus food consumed on the premises (treated as a "restaurants and bars" activity). (E - April 12, 1984)

Laws 1984, Chapter 120 prescribed new delinquency dates for transaction privilege and affiliated excise and use taxes. Tax liabilities are delinquent, and thus subject to interest and penalties, if not postmarked on or before the 25th day of the month next succeeding the month of accrual or not received by the Department of Revenue on or before the day preceding the last day of that month next succeeding the month of accrual. (E - August 3, 1984)

Laws 1984, Chapter 134 altered the expiration date of the exemption from transaction privilege and affiliated excise and use taxes for solar energy devices. The exemption expired April 30, 1984. (E - August 3, 1984)

Laws 1984, Chapter 152 prescribed the application of transaction privilege and affiliated excise taxes to owner-builders. Certain owner-builders will be treated as prime contractors for the purpose of taxing the sale of improvements incorporated into real property. The sale of such improvements must be made within 24 months after the improvement is completed to qualify for prime contractor treatment. (E - August 3, 1984)

Laws 1984, Chapter 153 exempted from transaction privilege and affiliated excise taxes the leasing or renting of real property by a parent corporation to a subsidiary or by a subsidiary corporation to another subsidiary of the same parent corporation. (E - August 3, 1984)

Laws 1984, Chapter 170 exempted from the Transaction Privilege Tax sales of food and drink by congressionally chartered veterans organizations. The exemption applies to food and drink prepared for consumption on the premises of the organization. (E - August 3, 1984)

Laws 1984, Chapter 315 exempted from the Transaction Privilege Tax state publications which encourage tourism and travel in Arizona. (E - May 1, 1984)

Laws 1984, Chapter 343 provided an exclusion from transaction privilege tax and affiliated excise taxes for the gross income derived from purchases of telephone or telegraph services which will be used by other persons in providing telephone or telegraph services to final users. Such taxes were levied upon providers of intrastate telephone or telegraph services to final users by persons other than those engaged in the business of transmitting telephone or telegraphic messages from one point to another point in the state. Also, excluded federal excise taxes paid from the gross income from retail sales of heavy trucks.

Laws 1984, Chapter 370 provided a credit against transaction privilege and affiliated excise taxes and use taxes for accounting and reporting expenses. (EFA - June 30, 1985)

Laws 1984, Chapter 371 established a statutory definition of hotels and motels and imposed a 2% Transaction Privilege Tax on such businesses. As of June 1, 1984 the total state transaction privilege and affiliated excise tax rate on hotels and motels was increased from 3.75% to 4.00%. (E - May 5, 1984)

Laws 1985, Chapter 47 identified a new delinquency date for Transaction Privilege Tax reporting. Return must be either: 1) received by the Department of Revenue by the second-to-last business day of the month by mail or hand delivery, or 2) postmarked by the 25th day of the month. (E - April 9, 1985)

Laws 1985, Chapter 104 established a Temporary Transaction Privilege and Use Tax rate for certain new farm crop machinery and equipment. The tax rate was 3% effective April 17, 1985 through June 30, 1986, and declined to 2% for FY 1987 and 1% for FY 1988 at which time the tax was phased-out on June 30, 1988. New machinery and equipment consisting of tractors, tractor-drawn implements, self-powered implements, and drip irrigation lines were exempt. (E - April 17, 1985)

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Consolidated Transaction Privilege Tax

Laws 1985, Chapter 298 combined the various tax categories into one Consolidated Transaction Privilege Tax. There have been no actual tax rate changes although the method of distribution has changed. Previously, the Transaction Privilege Tax was distributed as: 41.40% to the state General Fund, 33.60% to the counties, and 25.00% to the cities. A portion of the state share was then paid to the counties for food tax reimbursement. Now, the funds are split between the "Distribution Base" and the "Non-Shared" categories. The "Distribution Base," which combined the Transaction Privilege Tax and the distributed portion of the Rental Occupancy Tax and Severance Taxes is disbursed as: 36.92% to the state General Fund, 38.08% to the counties, and 25.00% to the cities. The difference adjusts for the counties no longer receiving food tax reimbursements from the state share. The state "Non-Shared" portion combines Education Excise, Special Education Excise, Temporary Business Transaction, and Use Taxes under the new Consolidated Transaction Privilege Tax system. This act applied retroactively to July 1, 1985.

Laws 1985, Chapter 366 established a general 4-year statute of limitations for most taxes. The filing period for a tax protest was set at 45 days after receiving notice for those taxes administered under Title 42 and 43, except the Individual Income Tax which is allowed 90 days after notice is mailed. A Tax Refund Fund was established to handle all tax refunds. Any amount remaining in this fund at the end of each fiscal year in excess of \$500,000 is transferred to the state General Fund. (EFA - June 30, 1986)

Laws 1986, Chapter 111 authorized the Department of Revenue to require a taxpayer whose business is of a transient character to file a return and remit Transaction Privilege Taxes on a daily, weekly, or a transaction-transaction basis. (E - August 13, 1986)

Laws 1986, Chapter 135 raised the fee from \$5 to \$12 when applying for a Transaction Privilege License. Also, the new fee applies to a reissue of such license due to change in ownership or location. (E - August 13, 1986)

Laws 1986, Chapter 151 provided for the use of revisions to the federal census certified by the U.S. Census Bureau in distributing Transaction Privilege Tax revenues among cities and towns. (E - August 13, 1986)

Laws 1986, Chapter 152 exempted churches, fraternal benefit societies, and other non-profit organizations as defined in U.S. Internal Revenue Code Section 501 from the Transaction Privilege Tax on food and drink sales. (E - August 13, 1986)

Laws 1986, Chapter 161 exempted from state and local transaction privilege or sales and use taxes those items purchased with USDA Food Stamps. This was effective from and after September 30, 1986 unless the U.S. Secretary of Agriculture delayed the effective date of section 1505 of the Food Security Act of 1985. As a result of such delay, the effective date was September 30, 1987.

Laws 1986, Chapter 335 transferred the balance of the Tax Protest Fund on June 30, 1986 into the newly established Tax Protest Resolution Fund. The Tax Protest Fund was repealed on July 1, 1986. (E - May 9, 1986)

Laws 1986, Chapter 351 allowed a city or town prior to January 1, 1987 to request the use of the 1980 Decennial Census instead of a special census for the apportionment of the Distribution Base of the Transaction Privilege Tax and various transportation taxes, fees, and fines. (E - August 13, 1986)

Laws 1986, Chapter 361 established a Telecommunication Service Assistance Program for low-income elderly consumers. This bill also provided a Transaction Privilege and Use Tax credit for local telephone companies equal to the amount of reduction attributable to the assistance provided under this program. This act was originally repealed from and after June 30, 1989, but has been extended through June 30, 1991. (EFA - June 30, 1987)

Laws 1986, Chapter 362 established an Electric and Natural Gas Utility Assistance Program for low-income elderly consumers. This bill provided a Transaction Privilege and Use Tax credit for an electric or natural gas utility company equal to the amount of reductions attributable to the rate assistance provided under this program. The annual assistance given under this program shall not exceed \$3,500,000. This act was originally repealed from and after June 30, 1989, but has been extended through June 30, 1991. (EFA - June 30, 1987)

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Consolidated Transaction Privilege Tax

Laws 1986, Chapter 371 exempted from Transaction Privilege and Use Taxes the expendable materials used directly in the production of semiconductor products. New or used spare or replacement parts which are not normally expected to last more than 1 year are not exempted. Also clarified that Transaction Privilege and Use Taxes are assessed on nuclear fuel at the value of the purchased price of uranium oxide used in producing such fuel. (E - August 13, 1986)

Laws 1986, Chapter 402 instituted a Taxpayer Assistance Office within the Department of Revenue and defined its responsibilities. Also, a Taxpayer's Bill of Rights was established. (E - August 13, 1986)

Laws 1987, Chapter 32 allowed a holder of an in-state producer's license to sell beer as a retailer if this manufacturer also holds an on-sale retail license and sells only the produced beer through his own on-sale retail premises which must be located on or adjacent to the production site. Also, subjected this manufacturer-retailer to the Luxury and Privilege Tax for such sales. (E - August 18, 1987)

Laws 1987, Chapter 34 exempted from state and local Transaction Privilege and Use Taxes the items purchased with food instruments issued under the Child Nutrition Act which is the Special Supplemental Food Program for Women, Infants, and Children. (EFA - September 30, 1987)

Laws 1987, Chapter 44 allowed a corporation with at least 80% ownership in its subsidiaries to lease or rent tangible personal property to its subsidiaries or between subsidiaries of the same parent without incurring Transaction Privilege Taxes. This is possible provided taxes were paid on the gross proceeds or income accruing from the initial sale of the personal tangible property. (E - August 18, 1987)

Laws 1987, Chapter 69 exempted from Transaction Privilege Tax and Use Tax ice and dry ice used for packing, shipping, or transporting food. (E - August 18, 1987)

Laws 1987, Chapter 183 exempted from Transaction Privilege Tax the sale of job printing, engraving, embossing, or copying to a person who has a Transaction Privilege License who either resells or distributes such work free in connection with the publication of newspapers or magazines.

Laws 1987, Chapter 203 required licensed housing contractors and manufacturers whose principal business is out of state or whose business in this state has been conducted less than one year to post a Surety Bond to ensure payment of Transaction Privilege Taxes. Exempted a licensee who renews, transfers, or applies for a license from posting bond if, for the two years prior to application, Transaction Privilege Tax payments were made on time. (E - August 18, 1987)

Laws 1987, Chapter 265 reduced the amount allowed as a credit against Transaction Privilege Tax for accounting and reporting purposes. The credit is equal to 8/10% of the tax due, or \$5,000, whichever amount is less. Previously, the credit was the lesser of 8/10% of tax due or \$10,000. (E - August 18, 1987)

Laws 1987, Chapter 268 provided that remote property of a city or town used to acquire water is considered taxable property for determining the state sales tax distribution to counties and the levy limit of those counties that pay certain voluntary contributions in lieu of property taxes. (E - August 18, 1987)

Laws 1987, Chapter 352 exempted from Transaction Privilege Tax ambulances or ambulance services certified by the Department of Health Services or provided by municipalities in counties with population less than 150,000. (ER - July 1, 1982)

This bill also exempted from Transaction Privilege Tax the retail sales of precious metal bullion whose value depends on its contents and not on its form and monetized bullion that is or has been used as a medium of exchange. However, the sale of coins or other forms of money for manufacture into jewelry or works of art is subject to the tax. (ER - July 1, 1987)

Laws 1987, 2nd Special Session, Chapter 4 exempted from Transaction Privilege and Use Taxes certain utility, contracting, and construction activities connected to federal research projects with an initial construction cost in excess of \$2 billion within

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Consolidated Transaction Privilege Tax

Arizona. This legislation was conditional on the federal superconducting super collider locating in this state by January 1, 1990. This law was never enacted as the super collider was located in Texas.

Laws 1987, 3rd Special Session, Chapter 1 placed a 63.35% cap on any county's share of the distribution to counties from Transaction Privilege Tax revenues. Any amount that exceeds this percentage will be allocated to the other counties according to a two-step distribution formula. In another provision, a county that is not part of a community college district and has less than a 1% share of the Transaction Privilege Tax Distribution Base shall have the state pay for its non-resident community college services; subsequently, that county's portion of the Transaction Privilege Tax revenues will be reduced by the amount paid by the state. The 63.35% cap was removed under Laws 1990, Chapter 391. (E - July 22, 1987)

Laws 1988, Chapter 56 extended the termination of the bill that established the Telecommunication Service Assistance Program to June 30, 1990 from June 30, 1989. This bill (Laws 1986, Chapter 361) allowed a credit against the Transaction Privilege and other Affiliated Excise Taxes for phone companies that provided rate assistance to certain elderly and low income customers. (E - September 30, 1988)

Laws 1988, Chapter 93 excluded the amount of federal excise tax on use fuel for off-road purposes in defining the gross proceeds or income from such sales under the retail classification. (E - May 20, 1988)

Laws 1988, Chapter 161 provided for court injunctions against delinquent taxpayers, thus preventing them from doing business until such taxes are paid or a Surety Bond is posted. Required out-of-state prime contractors to post a Surety Bond for payment of tax due on contracts of \$50,000 or more unless a continuous operated facility has been maintained in Arizona with at least one full-time employee for 12 consecutive months. Also recodified existing statutes into appropriate business classifications to provide greater clarity. (E - July 1, 1989)

Laws 1988, Chapter 271 was the Omnibus Revenue Bill for FY 1989. The following provisions affected the Transaction Privilege Tax:

- (1) Reduced the maximum monthly accounting allowance from \$5,000 to \$500. (EFA - June 30, 1988)
- (2) Raised the tax rate on businesses under the transient lodging classification (hotels/motels) from 4% to 5.5% starting from and after July 31, 1988.
- (3) Designated \$2,000,000 to the Tourism Fund from the state's share of the Distribution Base. (E - July 1, 1988)
- (4) Increased tax rate on rentals of real property from 3.75% to 5%. Clarified that tax under this classification applies to commercial rentals or leases of real property with one or more lease agreements. (EFA - July 31, 1988)
- (5) Repealed the Transaction Privilege and Use Tax exemption for expendable materials used in the production of semiconductor products. (EFA - July 31, 1988)

Laws 1988, Chapter 303 exempted the gross receipts from admission fees charged by non-profit musical, dramatic or dance groups, a museum, zoo, or botanical garden. Certain non-profit health care organizations are also exempted from the Transaction Privilege Tax on tangible personal property. This bill clarified the exemption of non-profit charitable organizations leasing or purchasing property exclusively for training, job placement or rehabilitation programs, or testing for mentally or physically handicapped persons, though these taxes have historically never been collected. (E - September 30, 1988)

Laws 1988, Chapter 332 exempted the sale of motor vehicles from taxation under the retail classification if the purchaser's resident state does not allow a corresponding Use Tax exemption and a Special 30-Day Non-Resident Registration has been secured. This bill also exempted the sale of a motor vehicle to an enrolled Indian tribe member who resides on that respective reservation. (E - July 13, 1988) Clarified that Dial-A-Ride and special needs transportation services are exempt from the Transaction Privilege Tax. (R - June 30, 1982)

Laws 1989, Chapter 132 was the Tax Correction Bill for 1989. The corrections affecting the Transaction Privilege Tax were (E - May 3, 1989):

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Consolidated Transaction Privilege Tax

- (1) Raised tax rate under the commercial lease classification from 3.75% to 5%.
- (2) Raised tax rate under the transient lodging classification from 4% to 5.5%.

Laws 1989, Chapter 244 exempted the leasing of real property for boarding horses. Also, retroactively exempted the recreational leasing of animals, hayrides, animal-drawn amusement rides, and motor vehicle tours until December 31, 1988; but after this date, these activities are subject to the Transaction Privilege Tax. Any tax, penalties, or interest paid before January 1, 1989 will not be refunded unless the taxpayer provides proof that the taxes paid will be returned to customers. (RFA - December 31, 1988)

Laws 1989, Chapter 299 exempted qualified nonprofit organizations associated with major league baseball teams from the retail, amusement, restaurant, and commercial lease classifications of the transaction privilege and affiliated excise taxes. (RFA - June 30, 1985) From and after December 31, 1989, a municipality or special taxing district is prohibited from levying a transaction privilege, sales, use, or similar tax on exhibition events of such organizations.

Laws 1989, 2nd Special Session, Chapter 1 required taxpayers, with an annual liability of \$100,000 or more in the preceding calendar year or who can reasonably expect to reach this amount in the current year, to make an estimated payment for the first 15 days of each month. The estimated payment can be either:

- (1) One-half of the previous month's actual liability.
- (2) The actual tax liability for the first 15 days of current month.

The due date is the 20th day of each month, while the delinquency date is the 25th day if mailed or the business day preceding the last business day of the month. The balance for the month is paid when filing the normal monthly return. (E - May 1, 1990)

Laws 1990, Chapter 103 prescribed certain commodities traded on a commodities futures market as exempt from Transaction Privilege, Use, and Property Taxes. The commodity must be consigned for resale in a warehouse in Arizona in which it is deliverable on a futures contract. (E - April 23, 1990)

Laws 1990, Chapter 156 extended the repeal of the Telecommunications Service Assistance Program and the Electric and Natural gas Utility Assistance Program and their coincident sales tax credits from June 30, 1990 to June 30, 1991. (E - April 30, 1990)

Laws 1990, Chapter 239 exempted from the Transaction Privilege Tax nonprofit organizations associated with national touring professional golf tournaments or rodeos. The exemption is retroactive to reporting periods from and after December 31, 1985, for golf tournaments and July 1, 1984 for rodeos. Municipalities are prohibited from imposing a similar tax on such organizations.

Laws 1990, Chapter 251 suspended through March 31, 1993 the transaction privilege and affiliated excise taxes on 1) single leases of historical property to the U.S. government and 2) leases of property to the U.S. Postal Service for use as a postal facility. (E - May 24, 1990)

Laws 1990, Chapter 316 exempted the gross proceeds of sales or gross income from food sales by a retailer to the following organizations: 1) licensed day care centers, 2) private or parochial K-12 schools, which may be attended in substitution for a public school, 3) certain adult care facilities and 4) certain non-profit organizations which provide food to persons at no or nominal charge. (R - July 1, 1980)

Laws 1990, Chapter 332 reduced each municipality or county's share of the state's Transaction Privilege or Severance Tax revenues if a court determines that such taxes were illegally collected and must be refunded. (E - September 27, 1990)

Laws 1990, Chapter 391 allocated 75% of the annual fiscal year growth in revenues from a one-half percentage rate portion of the total tax rate imposed on the transient lodging classification to the Tourism Fund. This amount will be taken from the state

(Continued)

Consolidated Transaction Privilege Tax

General Fund portion of the Distribution Base, beginning with FY 1991. Also, the maximum distribution of 63.35% to any single county was replaced with a provision which stipulates a minimum year-to-date distribution for any county equal to the amount such county received for the same period in FY 1986-87. This provision will expire on June 30, 1992. (E - July 3, 1990)

Laws 1990, 3rd Special Session, Chapter 3 was the state's Tax Reform Act of 1990. Three major provisions affected the Transaction Privilege Tax:

- (1) The accounting allowance offered to businesses for costs associated with accounting and reporting the Transaction Privilege and Severance Taxes was eliminated.
- (2) The tax rate for the commercial lease (rental of real property) classification will be phased down. The current rate is 5%, but beginning January 1, 1991 the rate decreases to 4.75% and in calendar year 1992 and thereafter, the rate will be 4.5%.
- (3) \$10,000,000 in FY 1991 and FY 1992 for a total of \$20,000,000 will be distributed to counties for property tax relief. The funds will be taken from the state General Fund portion of the Distribution Base. One-half of the monies shall be distributed on November 1st and ½ on May 1st in each fiscal year. [See General Property Taxes - Real and Secured]

Laws 1990, 3rd Special Session, Chapter 9 incorporated the distribution of the Rental Occupancy Tax into the Transaction Privilege Tax by requiring 2/3 of the revenues received be designated as Distribution Base and deposited into the Transaction Privilege and Severance Tax Clearing Account and eliminated the Special Rent Tax Account. The remaining 1/3 of revenues shall be credited to the state General Fund (E - September 27, 1990). Conformed the due and delinquent date for the estimated Transaction Privilege Tax payment to that of the regular payment which is the 20th and 25th day of the month, respectively. (EFA - April 30, 1990)

Laws 1991, Chapter 31 established a membership camping classification for Transaction Privilege Tax purposes. A tax rate of 5% is applied to the amount of periodic assessments, dues, charges, or fees collected from the owners of membership contracts. Membership camping does not include mobile home parks or camping and recreational facilities which are open to the general public for a fee based on use rather than membership. The tax is charged only on the portion of business income collected from owners of membership contracts whose primary residence is in Arizona. (ERFA - June 30, 1991)

Laws 1991, Chapter 82 repealed the termination of the Telecommunications Service Assistance Program which was set for June 30, 1991. This bill permanently establishes the telephone discount program for elderly low-income persons. Eligible recipients receive a 17% discount. (E - May 13, 1991)

Laws 1991, Chapter 128 clarified in statute that the Transaction Privilege Tax does not apply to sales of airplanes, navigational, and communication instruments and related equipment which is sold to a corporation provided the following requirements are met: (1) the corporation is not incorporated in Arizona, (2) the principal office is located out of this state, and (3) the sold property will not be used within Arizona, except for removing such property from this state. This act is retroactive to August 27, 1977. (E - September 21, 1991)

Laws 1991, Chapter 158 defined certain new machinery or equipment used for commercial production of agricultural, horticultural, viticultural, and floricultural crops in Arizona for Transaction Privilege and Use Tax exemption purposes. Under the retail classification each machinery that has never been sold and has been leased for less than two years are exempt. However, under the personal property rental classification, these new equipment which have been leased less than two years are not exempt from taxation. (E - September 21, 1991)

Laws 1991, Chapter 176 provided a sales tax exemption for solar energy devices which are (1) sold by a registered solar energy retailer or (2) supplied and installed by a registered solar energy contractor. The gross income or costs due to such devices can be deducted from the respective tax base. This exemption will expire from and after December 31, 1996. (E - September 21, 1991)

(Continued)

Consolidated Transaction Privilege Tax

Laws 1991, Chapter 196 prohibited the distribution of any refunds of taxes imposed by a law that was declared invalid by a final court judgement until the Legislature makes a specific appropriation for that purpose. State funds to counties for such invalid taxes collected are also subject to this provision. (E - September 21, 1991)

Laws 1991, Chapter 200 provided for the Transaction Privilege Tax and Use Tax exemption for (1) medical oxygen prescribed by a licensed medical, dental, or veterinarian physician and (2) certain durable equipment having a federal Health Care Financing Administration designation and prescribed by a licensed physician, podiatrist, or homeopathic physician. (RFA - December 31, 1979)

Laws 1991, Chapter 212 required cities and towns to make voluntary contributions to the state, county, school districts, and other taxing districts under Title 48 in lieu of property taxes on remote municipal property. Water may not be transported by a municipality from the remote property unless this voluntary contribution has been paid to the state beginning in the year the property was purchased or January 1, 1992, whichever is later. The Legislature intended to compensate counties or political subdivisions in which the remote property is located for their reduced taxing and bonding capacity due to the municipal property being removed from their tax rolls. Therefore, the total contribution collected is distributed each month beginning in September through June to "eligible political subdivisions" where the remote municipal property (water farm) is located. One-tenth of the contribution amount is distributed each month through the distribution base of the Transaction Privilege Tax. (E - September 21, 1991)

Laws 1991, Chapter 290 clarified the responsibility for payment of the Transaction Privilege Tax (TPT) under the prime contracting classification. If a person provides to a contractor a certificate which states that person is the prime contractor for a project and is liable for the Transaction Privilege Tax, then the contractor who is not responsible for the tax may exclude any amounts received for the project from the gross proceeds or income of the business. The Department of Revenue (DOR) shall prescribe the certificate form and may disregard any certificate which the contractor believes contains erroneous or incomplete information. DOR will not assess any penalty or interest on unreported tax liability from proceeds received from August 3, 1984 through June 30, 1991 due to construction of off-site improvements. The tax liability must be reported and paid by December 31, 1991 to DOR in a manner satisfactory to the Department. Another provision clarified that the TPT License Reissuance Fee apply only to a change in business address but not in the mailing address. (E - September 21, 1991)

Laws 1991, Chapter 296 directs the State Treasurer for FY 1992 to withhold \$87,543,100 from the counties' distribution of Transaction Privilege Taxes in order to pay for the one-time shift in funding responsibility for the Arizona Long-Term Care System (ALTCs). Adjustments were accordingly made to the county expenditure limitations and the state appropriation limitation. (E - June 28, 1991)

Laws 1991, 4th Special Session, Chapter 4 was 1 of 4 acts that implemented an AHCCCS Disproportionate Share Program which is subject to federal approval. Beginning after the effective date of this act, \$39,719,400 and \$7,777,800 in state Transaction Privilege Tax revenue-sharing will be withheld from Maricopa and Pima counties, respectively. The first \$26,554,050 shall be deposited in the state General Fund to reimburse the state General Fund for spending \$51,708,100 in FY 1992, while the remainder is reserved for FY 1993. Another provision required Maricopa and Pima counties to pay the state's portion of the Homeowner's Property Tax Rebate to school districts in their respective counties up to the same amounts withheld from their Transaction Privilege Tax distributions as stated above. Likewise, the first \$26,554,050 in savings will reimburse the state General Fund for spending in FY 1992 and the remainder is reserved for FY 1993. The net FY 1992 benefit to the state General Fund of \$5,000,000 will help balance the budget for FY 1992. This act was conditional on the enactment of House Bill 2004, 40th Legislature, 4th Special Session, Chapter 3. (E - March 16, 1992)

Laws 1992, 7th Special Session, Chapter 2 amended the original AHCCCS Disproportionate Share Program passed during the 4th Special Session in 1991. This bill provided an additional \$10,000,000 be placed in the state General Fund for FY 1992 instead of the FY 1993 holding fund and instructed the State Treasurer to deposit in the state General Fund instead of the FY 1993 holding fund an additional \$5,000,000 withheld from county shared Transaction Privilege Tax revenues. This act was conditional on the enactment of House Bill 2004, Chapter 3, 4th Special Session. (E - June 30, 1992)

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Laws 1992, Chapter 16 allowed the Department of Revenue to require tax payments by electronic funds transfer or other immediately available monies from any taxpayer who had a tax liability of \$20,000 or more (excluding Individual Income Tax) in the preceding taxable year. This applied for tax years or reporting period starting on or after January 1, 1993. Electronic funds transfer is required for the following (E - September 30, 1992):

- (1) Quarterly withholding tax payments by persons who had a quarterly withholding average during the prior year of \$100,000 or more.
- (2) Estimated income tax payments by corporations with a prior year tax liability of \$100,000 or more.

Laws 1992, Chapter 29 excluded from the commercial lease classification the lease or rental of real property and improvements primarily used for religious worship by nonprofit organizations whose earnings do not accrue to any individual or private shareholder, and is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. This bill effectively exempts such leases from the Transaction Privilege Tax. (RTYBFA - June 30, 1992)

Laws 1992, Chapter 48 broadened the Transaction Privilege Tax deduction for job printing to include sales by Arizona residents who ship or deliver materials for use out of state. Sales were defined to include job printing, engraving, embossing, and copying. Previous state law permitted this deduction only to nonresidents. (E - September 30, 1992)

Laws 1992, Chapter 61 allowed a city or town to conduct and certify an alternative special census prior to July 1, 1993 by contract with the U.S. Census Bureau for purposes of state shared revenues in the Transaction Privilege, income, highway user, and Vehicle License Taxes. The State Treasurer is not to accept another special census until after the year 2000. (E - September 30, 1992)

Laws 1992, Chapter 63 excluded from the tax base the manufacturers' cash rebate portion of gross sales proceeds from motor vehicles, if the buyer assigns the rights of the rebate to the retailer. (E - September 30, 1992)

Laws 1992, Chapter 96 provided a tax refund for motion picture production companies who, in the course of 12 months, produce one or more motion pictures and spend \$1,000,000 in Arizona toward production or filming. To qualify for the refund, companies must file pre- and post-filming applications. The refund is 50% of the Transaction Privilege Tax and Use Tax on tangible personal property purchased in Arizona, and paid by the motion picture production company. (RTYBFA - June 30, 1992)

Laws 1992, Chapter 135 provided an emergency Transaction Privilege Tax exemption for (1) sales of prosthetic appliances and certain durable medical equipment prescribed or recommended by licensed chiropractors, nurses, and naturopathic or homeopathic physicians, (2) sales of glucose test strips, (3) sales, lease, or rental of new semitrailers or semitrailer parts which are manufactured in Arizona and sold to persons licensed for interstate commerce, and (4) admission sales to football games operated by nonprofit organizations whose earnings do not accrue to any individual or shareholder. Also provided a Use Tax exemption for glucose test strips. (E - June 2, 1992)

Laws 1992, Chapter 162 exempted from Transaction Privilege and Use Tax seeds and other propagative material used by commercial crop producers in Arizona. This bill also changed the current Transaction Privilege Tax classification name of "animal feed" to "feed," clarified that the feed classification applies to livestock and poultry feed. The bill simplified the computation of a county's share of feed tax by deeming the taxpayer's place of business is in the county where the sale is made. The exemption for seeds and other propagative material applied retroactively to tax periods beginning from and after June 30, 1984. However, refunds are only allowed for sales tax paid during the period from April 1, 1992 until September 30, 1992. (E - September 30, 1992)

Laws 1992, Chapter 173 required that any additional charge collected from a customer to pay the Transaction Privilege Tax, or any excess charge which is identified as being imposed to cover the Transaction Privilege Tax must be remitted to the Arizona Department of Revenue. (E - September 30, 1992)

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Laws 1992, Chapter 215 expanded the exemption of reimbursements to the lessor for utility service on commercial leases by eliminating the requirement to install individual meters for each tenant. (E - September 30, 1992)

Laws 1992, Chapter 217 exempted the sale of used manufactured buildings from the Transaction Privilege Tax. Furthermore, subcontractors who can demonstrate that services performed pertaining to manufactured buildings was within the control of a prime contractor or a dealership of manufactured buildings are not subject to the Transaction Privilege Tax. This bill also clarified that the sales price of furniture and fixtures not incorporated or attached to manufactured buildings are excluded from taxation under the prime contracting classification, but may be taxed under the retail classification. Finally, manufactured buildings and dealership of manufactured buildings were defined for tax purposes. (E - September 30, 1992)

Laws 1992, Chapter 222 expanded the Transaction Privilege and Use Tax exemption on aircrafts to include the following (E - September 30, 1992):

- (1) Federally approved flight simulators.
- (2) Tangible personal property that is permanently affixed or attached as a component part of an aircraft.
- (3) Accessories and equipment that physically contact aircraft during overall carrier operation.
- (4) Machinery, tools, equipment, and related supplies used in repairing, remodeling, or maintaining aircrafts, its engines or component parts by or for a licensed carrier.

Laws 1992, Chapter 237 extended a Transaction Privilege Tax exemption in the telecommunication classification to microwave television transmission systems. (E - September 30, 1992)

Laws 1992, Chapter 238 provided a Transaction Privilege and Use Tax exemption for machinery or equipment used in research and development. The bill specifically defined research and development and described applications qualified and those not qualified for the exemption. This act applied prospectively only. (EFA - December 31, 1992)

Laws 1992, Chapter 290 was 1 of 7 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 1993. Affecting the Transaction Privilege Tax was the provision requiring the Legislature to annually appropriate from the state's portion of the Distribution Base an amount of \$2,900,000 to the Water Quality Assurance Revolving Fund. (EFA - August 31, 1992)

Laws 1992, Chapter 292 was 1 of 7 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 1993. This act amended the FY 1992 Disproportionate Share Program established by Laws 1991, Chapter 4 of the 4th Special Session by reducing the appropriations in line with the final approved federal funding levels. Also, the Disproportionate Share Program was extended for FY 1993 as \$43,145,900, and \$8,448,700 in state Transaction Privilege Tax revenue-sharing will be withheld from Maricopa and Pima counties, respectively, beginning after October 1, 1992. (ER - June 30, 1992)

Laws 1992, Chapter 295 established a Defense Contractor Restructuring Program to assist Arizona-based qualified defense contractors to attract new Department of Defense contracts, diversify commercially, consolidate facilities into the state, and adopt new technologies. The tax incentives are as follows (Also see page 3):

- (1) Qualified Defense Contractors (ETVBFA - June 30, 1993):
 - Amortization of one-half the federal time period of capital investment in solely private commercial activity.
 - A declining 5-year nonrefundable income tax credit for net defense employment increases or net private commercial employment increases, but not both.
 - A nonrefundable income tax credit of up to 40% of the portion of property taxes paid during the taxable year.
- (2) Military Reuse Zone:

(Continued)

Consolidated Transaction Privilege Tax

- A progressive 5-year nonrefundable income tax credit for net aviation-related manufacturing employment gains for business located in a military reuse zone. (ETYBFA - June 30, 1993)
- A Class 8 commercial and industrial property established for property located in a military reuse zone and for aviation-related manufacturing. The assessment ratio will be 5% of full cash value. This is effective beginning in tax year 1993.
- A sales tax exemption for military reuse zone construction contracts entered into within 5 years of the zone's establishment with an aviation or aerospace company. (E - September 30, 1992)

Laws 1992, Chapter 333 eliminated the monthly payment of estimated Transaction Privilege Taxes by taxpayers with an annual tax liability of \$100,000 or more; instead, these taxpayers must remit a single estimated payment in June of each year. The estimated payment is equal to either (1) One-half of the actual tax liability for May of the current year or (2) the actual tax liability for the first 15 days of June. (EFA - June 30, 1993)

Laws 1993, 2nd Special Session, Chapter 9 was 1 of 6 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 94. Affecting the Transaction Privilege Tax was the provision phasing out the Transaction Privilege Tax imposed on commercial lease properties. The current rate is 4.5%. The phase-out period is effective beginning July 1, 1993 as follows (E - June 15, 1993):

<u>Tax Period</u>	<u>Rate</u>
7-1-93 to 6-30-94	4%
7-1-94 to 6-30-95	3%
7-1-95 to 6-30-96	2%
7-1-96 to 6-30-97	1%
7-1-97 and after	No tax

Laws 1993, Chapter 22 made the false certification of a Transaction Privilege Tax exemption a liability to the purchaser in an amount equal to any tax, penalty, and interest that would have been paid. Also clarified that the amount shall be treated as a Transaction Privilege Tax to the purchaser, and as tax revenues collected from the seller for distribution base purposes. (E - July 17, 1993)

Laws 1993, Chapter 49 limited the 10% penalty for failure to make a required estimated Transaction Privilege Tax payment to the first month the estimated payment requirement applied. The penalty abatement does not apply if the Department of Revenue had notified the person in writing of the requirement or the person shows the estimated tax on the return and fails to make timely estimated payments, then regular penalties apply on a month-to-month basis. The bill is retroactive to February 21, 1990 and is repealed from and after June 30, 1993. (E - April 5, 1993)

Laws 1993, Chapter 56 exempted from the Transaction Privilege and Use Tax certain equipment, technology or related supplies that are only useful to assist physically disable persons. (RFA - September 30, 1993)

Laws 1993, Chapter 64 provided a deduction from the Transaction Privilege Tax base under the feed classification, for sales to a person engaged in the business of operating a concentrated animal feeding operation. The bill also defines beef cattle, concentrated animal feeding operation and feed lot or yard. (ERTYBFA - June 30, 1993)

Laws 1993, Chapter 80 clarified that the waste tire fee shall be excluded in computing the tax base, gross proceeds of sales or gross income for state Transaction Privilege Tax purposes and is not subject to any Transaction Privilege, Sales, Use or other similar tax levied by a city, town or special taxing district. (E - July 17, 1993)

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Laws 1993, Chapter 85 excluded leasing or renting real property used for agricultural purposes, from the commercial lease classification of the Transaction Privilege Tax under either of the following conditions (E - July 17, 1993):

- (1) The lease or rental is between family members, trusts, estates, corporations, partnerships, joint ventures or similar entities, or any combination thereof, if the individuals or at least 80% of the beneficiaries, shareholders, partners or joint venturers share a family relationship as issue of a common grandparent or spouse of any such issue.
- (2) The lessor leases or rents real property used for agricultural purposes under no more than 3 leases or rental agreements.

Laws 1993, Chapter 91 revised the population threshold at which cities and towns below such threshold are exempt from the protection given the hospitality industry against discriminatory taxes and fees. The population threshold is increased from 55,000 to 100,000 as determined by the most recent United States decennial census. (E - July 17, 1993)

Laws 1993, Chapter 103 amended the definition of "Qualifying Hospital" to include a residential care facility operated in conjunction with a licensed nursing care institution. Exempts all tangible personal property sold to or purchased by such a facility from the Transaction Privilege Tax and Use Tax. Any tax liabilities paid between January 1, 1982 and the effective date of this act shall not be refunded unless the taxpayer requesting the refunds provides proof to the Department of Revenue that monies paid as taxes will be returned to the residents of the residential facilities. (ER - January 1, 1982)

Laws 1993, Chapter 104 modified the provisions for application of a 50% sales tax refund by motion picture production companies operating in the State of Arizona. The bill expands the requirements necessary to file for a refund and includes leased property in addition to property which is purchased. (E - July 17, 1993)

Laws 1993, Chapter 105 extended a Transaction Privilege Tax exemption in the commercial lease classification to vendors or exhibitors of a trade or industry association which is a qualifying organization pursuant to Section 513(d)(3)(C) of the internal revenue code for a period not to exceed 21 days if all of the following conditions are met:

- (1) The majority of activities relate to the nature of trade or business sponsoring the event;
- (2) The event is held in conjunction with a formal business meeting of the trade or industry association;
- (3) The event is organized by the persons engaged in the particular trade or industry.

Also extends an exemption to leasing, renting or granting the right to use real property for periods not to exceed 21 days by a coliseum, civic center, convention center, auditorium or arena owned by this state or any of its political subdivisions. Tax liabilities, penalties and interest paid by such a vendor or exhibitor for tax reporting periods between June 30, 1986, and the effective date of this act shall not be refunded unless the taxpayer provides satisfactory proof to the Department of Revenue that the tax was not passed on to the ultimate consumer. The bill contains a nonseverability clause. (ERTYBFA - June 30, 1986)

Clarified that the lease or rental of a fixed mobile home or house trailer for transient occupancy for 30 or more consecutive days is excluded from the Transaction Privilege Tax, under the transient lodging classification. (ERTYBFA - December 31, 1978)

Laws 1993, Chapter 111 was the Annual Tax Corrections Bill that made technical and conforming changes to the tax statutes. The bill eliminated the requirement that the Department of Revenue charge interest on penalties imposed in connection with a deficiency or delinquency. The bill allows any city or town which adopted the model city tax code to amend the effective date of a change to the code if a substantial number of taxpayers may not have received fair notice. (E - July 17, 1993)

Laws 1993, Chapter 118 exempted from the Transaction Privilege Tax the sale of personal property shipped or delivered directly to a destination outside of the United States for use in that foreign country. (E - July 17, 1993)

Laws 1993, Chapter 132 excluded from the Transaction Privilege Tax base the amount of federal excise tax imposed on the sales of automobiles. (E - July 17, 1993)

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Laws 1993, Chapter 177 provided that the Transaction Privilege Tax exemption for the sale of used manufactured homes, passed in the 1992 regular session is retroactive to September 30, 1988. Tax liabilities, penalties and interest paid between September 30, 1988 and the effective date of the this act shall not be refunded unless satisfactory proof is provided to the Department of Revenue that the monies paid as taxes will be returned to the customer. The bill contains a nonseverability clause. (E - July 17, 1993)

Laws 1993, Chapter 184 institutionalized permanently the contributions withheld from each county's share of the Transaction Privilege Tax to meet the nonfederal cost of providing the Arizona Long-Term Care System (ALTCS). The formula for setting the county expenditure limit and the state appropriation limit was made permanent. The Economic Estimates Commission is still responsible for adjusting the limits. (EFA - June 30, 1994)

Laws 1993, Chapter 199 defined a qualifying community health center as an entity recognized as a nonprofit community-based, primary care clinic with a community based board of directors and is either:

- (1) The sole provider of primary care in the community, or
- (2) A nonhospital affiliated clinic located in a federally designated medically underserved area in the state.

The bill provides a Transaction Privilege and Use Tax exemption for tangible personal property sold to or purchased by either a qualifying community health center or a qualifying health care organization, provided that the qualifying health care organization is dedicated to providing educational, therapeutic, rehabilitative and family medical education training for blind, visually impaired and multi-handicapped children from the time of birth to age 21. (RTYBFA January 1, 1991)

Laws 1993, Chapter 206 exempted from the Transaction Privilege and Use Tax the sales of natural gas or liquified petroleum gas used to propel a motor vehicle under the retail, utilities and pipeline classifications. The bill also provided an exemption from any similar municipal tax. (E - July 17, 1993)

Laws 1993, Chapter 212 provided a Transaction Privilege Tax exemption, under the commercial lease classification, for the leasing or subleasing of real property used by a licensed nursing care institution. Tax liabilities, penalties and interest paid between January 1, 1986 and the effective date of this act shall not be refunded unless the taxpayer provides satisfactory proof to the Department of Revenue that the monies paid as taxes will be returned to the persons who were residents during the period for which the tax was paid. The bill contains a nonseverability clause. (ER - January 1, 1986)

Laws 1993, Chapter 240 clarified and expands exemptions under the telecommunications classification of the Transaction Privilege Tax. Items specifically exempted are:

- (1) Sales of intrastate telecommunications services to other persons engaged in business classified under the telecommunications classifications for use in such business;
- (2) End user common line charges established by Federal Communications Commission regulations;
- (3) Carrier access charges established by Federal Communications Commission regulations.

Such tax liabilities, penalties and interest paid for taxable periods between January 1, 1984 and the effective date of this bill shall not be refunded unless the taxpayer requesting the refund provides satisfactory proof to the Department of Revenue that the monies paid will be returned to the consumer. The bill contains a nonseverability clause. (ERFA - January 1, 1984)

Laws 1993, Chapter 246 exempted private toll facility projects from any state imposed Transaction Privilege Tax, Sales Tax, Use Tax or similar excise tax. Provided that a lease to a private entity of a transportation facility constructed pursuant to this Chapter is deemed a governmental activity, thereby allowing eligibility for industrial development bonds. (E - July 17, 1993)

Laws 1993, Chapter 258 required the Department of Commerce to establish and conduct an environmental technology assistance program to promote business and economic development by recruiting and expanding companies that manufacture, produce, or process solar and other renewable energy products from recycled materials. The Department of Commerce has until June 30,

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1996 to certify qualified environmental technology manufacturers, producers and processors for purposes of available tax incentives provided in the bill. The bill contains a severability clause. Various sections of this bill are delayed or have retroactive effective dates. (E - April 22, 1993)

Laws 1994, 8th Special Session, Chapter 8 changed the Transaction Privilege and Severance Tax distribution formula for counties. Collections designated as the distribution base by the State Treasurer are divided and shared by the state, counties, and incorporated municipalities. Incorporated municipalities will continue to receive 25% in proportion to their population. The state share is reduced from 36.92% to 34.49%. Counties will now receive 40.51% with 38.08% shared among the counties by averaging the following proportions:

- (1) The proportion that the population of each county bears to the total state population.
- (2) The proportion that the distribution base monies collected during the calendar month in each county bear to the total distribution base monies collected for the calendar month.

For those counties receiving less under the population formula than under the original property valuation formula, an additional 2.43% will be distributed to hold them harmless from the change in distribution methods. Any amount left after this distribution will be distributed to counties based on the new formula. (EFA - June 30, 1994)

Laws 1994, Chapter 41 contained the major components of the Tax Reduction Package known as the Middle Income Tax Relief Act (MITRA) of 1994. The act contained the following major provisions affecting the Transaction Privilege Tax (E - July 17, 1994):

- (1) The act provided a Transaction Privilege and Use Tax exemption to chemicals used in manufacturing and mining, alone or as part of an integrated system of chemicals, that cause a chemical or physical change to occur in the materials as part of the production process. This act excludes chemicals used or consumed in activities such as packaging, storage, or transportation but does not affect any deduction for such chemicals that is otherwise provided in statute. (EFA - June 30, 1995)
- (2) The act clarified that prosthetic devices prescribed or recommended by a person who is licensed, registered or otherwise professionally credentialed as a physician, dentist, podiatrist, chiropractor, naturopath, homeopath, nurse, or optometrist are exempted from the Use Tax.
- (3) The act repealed the "Usdane Shifts" which required that if the Vehicle License Tax, or other taxable auto related retail sales of tangible personal property increases greater than 7%, then an amount determined by formula would be deposited in the Highway User Revenue Fund rather than the state General Fund.

Laws 1994, Chapter 64 clarified an earlier bill that provided refunds of Transaction Privilege Taxes paid on tangible personal property sold to or purchased by a residential care facility in conjunction with a licensed nursing care institution. This act required the facility to demonstrate that the refund will be paid in a reasonable and nondiscriminatory manner to those residents, including past, current or future residents, who have paid or are continuing to pay the taxes. The refunds may be provided by means of direct payment or by an offsetting credit against facility charges. (E - July 17, 1994)

Laws 1994, Chapter 92 provided a Transaction Privilege Tax exemption to the 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 that is also considered to be engaged in the business, if the other railroad is liable for the tax on the gross proceeds of sales or gross income attributable to the transportation. (RTYBFA - December 31, 1987)

Laws 1994, Chapter 145 provided a Transaction Privilege Tax exemption, under the amusement classification, to sales of admissions to the 1996 National Football League Superbowl. (E - July 17, 1994)

Laws 1994, Chapter 174 provided that from April 19, 1983 until December 31, 1994, personal property liquidation transactions, conducted by a personal property liquidator are not subject to the Transaction Privilege Tax under the retail classification.

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From and after January 1, 1995, personal property liquidation transactions shall be taxable provided that nothing in the retail classification shall be construed to authorize the taxation of casual activities or transactions. "Personal property liquidation transaction" was defined as a sale of personal property made by a personal property liquidator acting solely on behalf of the owner of the personal property sold at the dwelling of the owner or upon the death of any owner on behalf of the surviving spouse, if any, any devisee or heir or the personal representative of the estate of the deceased, if one has been appointed. "Personal property liquidator" was defined as a person who is retained to conduct a sale in a personal property liquidation transaction.

Tax liabilities, penalties and interest paid for taxable periods beginning from and after April 19, 1983, through the effective date of the act, on a tax base that included personal property liquidation transactions, shall not be refunded unless the taxpayer requesting the refund provides evidence satisfactory to the Department of Revenue that the amounts collected from purchases as taxes, penalties or interest will be returned to the final purchasers of the tangible personal property that was sold. (RTYBFA - April 19, 1983)

Laws 1994, Chapter 240 provided the following Transaction Privilege and/or Use Tax exemptions (E - July 17, 1994):

- (1) Provides a Transaction Privilege Tax exemption for nonprofit charitable organization that have qualified under Section 501(C)(3) of the Internal Revenue Code and that regularly serves meals to the needy and indigent on a continuing basis at no cost.
- (2) Exempts from the Transaction Privilege and Use Tax sales of food, drink and condiment for consumption within the premises of a prison, jail or other institution under the jurisdiction of the State Department of Corrections, the Department of Public Safety, the Department of Youth Treatment and Rehabilitation or a County Sheriff.
- (3) Provided a Use Tax exemption for printed, photographic, electronic or digital media materials for use by the public, which are unavailable for purchase in this state, purchased by publicly funded libraries.
- (4) Clarified that the Use Tax exemption for prosthetic appliances applied to devices prescribed or recommended by a person who is licensed, registered or professionally credentialed as a physician, dentist, podiatrist, chiropractor, naturopath, homeopath, nurse or optometrist.

Laws 1994, Chapter 307 provided a Transaction Privilege and Use Tax exemption, under the retail classification, to (EFA - September 30, 1994):

- (1) Livestock and poultry feed, salts, vitamins and other additives for livestock or poultry. For these purposes "poultry" includes ratites.
- (2) Implants used as growth promotants and injectable medicines, not already exempt, for livestock or poultry. For these purposes "poultry" includes ratites.

The act amends the feed classification by clarifying that "concentrated animal feeding operation" means a dairy or beef cattle feedlot or feedyard. Feedlot or feedyard includes a lot or facility where dairy, slaughter or feeder cattle are confined and fed for 45 days or more in any 12-month period. The feed classification, as amended, is repealed from and after September 30, 1994. (RTYBFA - September 30, 1993)

The act clarified that the feed classification is comprised of the business of selling livestock or poultry feed, including salts, vitamins, implants used as growth promotants, injectable medicines and other additives, for livestock or poultry consumption to persons who are engaged in producing livestock, poultry or livestock or poultry products or who are engaged in feeding livestock or poultry commercially. (RTYBFA - December 31, 1989)

Laws 1994, Chapter 309 provided a Transaction Privilege and Use Tax exemption to ratites used as breeding or production stock. The act also included "ratites" as Class 11 personal property for tax purposes. "Ratites" were defined as ostriches, emus, rheas and cassowaries. "Poultry" was defined as chickens, turkeys, domesticated birds, game birds, fowl and waterfowl but does not include ratites. The act contains provisions defined in Article IX, Section 22, Constitution of Arizona that requires the affirmative vote of at least 2/3rds of both houses. (E - April 25, 1994)

(Continued)

Consolidated Transaction Privilege Tax

Laws 1994, Chapter 312 provided a Transaction Privilege Tax exemption to (RTYBFA - December 31, 1987):

- (1) Private or group instructional activities. For purposes of this paragraph, private or group institutional activities include, but is not limited to performing arts, martial arts, gymnastics and aerobic instruction. Persons engaged in the business of offering instructional activities shall account for separately the gross income from exhibition, amusement or entertainment and the gross income from instructional activities. If the books do not provide this separate accounting, the tax is imposed on the person's total gross income from the business.
- (2) Memberships, including initiation fees, which provide for the right to use a health or fitness establishment or recreational establishment for 28 days or more.
- (3) The Department of Revenue shall provide a refund of tax liabilities, penalties and interest paid between December 31, 1987 and July 17, 1994 on a tax base that includes gross income from private or group instructional activities.

The act extends the exemption for the leasing or subleasing of real property used by a licensed nursing care institution. The retroactive application of the exemption was changed from January 1, 1986 to January 1, 1982. (ER - January 1, 1982)

The act also provided that beginning from and after December 31, 1990 through December 31, 1993, a prime contractor may deduct from gross income the purchase price of tangible personal property intended to be incorporated or fabricated into or installed in a health care facility, including construction materials, machinery and equipment. A prime contractor shall submit a claim for a refund on or before June 30, 1995. No refund shall be made unless the prime contractor provides evidence satisfactory to the Department of Revenue that all refunds shall be remitted by the prime contractor to the qualifying community health center. If the prime contractor fails to remit the monies, the tax shall be considered due from the prime contractor and amounts not remitted remain as a lien against the prime contractor. Refunds shall be issued beginning from and after June 30, 1995. (E - July 17, 1994)

Laws 1994, Chapter 313 provided for the issuance of bonds by a city, town or county to finance the construction of a "qualified theme park." The city, town or county may impose a special Excise Tax on all business activity that is subject to taxation. Business activity that is subject to taxation is exempt from the state Transaction Privilege Tax during the time the tax is imposed by the city, town or county in effect. The tax will remain in effect until the bonds issued are paid in full or 20 years after the bonds are issued, whichever occurs first. Any city, town or special taxing district shall not levy a Transaction Privilege, Sales, Use or other similar tax on any business activity conducted at or tangible personal property leased or rented by any qualified theme park, themed amusement park or other nonathletic entertainment facility that is subject to taxation. (EFA - June 30, 1995)

Laws 1994, Chapter 314 provided that cities, towns and counties, which submit 1995 population estimates to the Director of the Department of Revenue, the Director of the Department of Transportation and the State Treasurer, may, in lieu of conducting a special census, submit July 1995 population estimates approved by the Director of the Department of Economic Security, Population Statistics Unit. The population estimates are used for the distribution of state shared revenue. The act is repealed on July 1, 2001. (E - July 17, 1994)

Laws 1994, Chapter 346 provided a Transaction Privilege Tax credit for expenses incurred by a taxpayer in accounting and reporting taxes due. The credit is equal to 1% of the amount of the tax due, but may not exceed \$10,000 in any calendar year for any taxpayer. Estimated taxes are not considered as a separate reporting period. A taxpayer shall claim the credit for each tax period on forms prescribed and furnished by the Department of Revenue. A claim for credit is not allowed if the taxpayer fails to pay the tax due, plus any estimated tax liability, before payment becomes delinquent. (ETYBFA - June 30, 1995)

Laws 1994, Chapter 352 clarified the Transaction Privilege Tax exemption under the job printing classification applies to the sales of job printing, engraving, embossing and copying for use outside this state if the materials are shipped or delivered out of this state, regardless of where title to the materials passes or their free on board point. (RTYBFA - June 30, 1988)

Laws 1994, Chapter 370 provided a Transaction Privilege Tax exemption equal to 1/3rd of the amount received by a racetrack from the total handle during Fiscal Year 1996, 2/3rds for Fiscal Year 1997 and the full amount beginning in Fiscal Year 1998. The amount held by racetracks for the payment of purses is already exempt. (E - July 17, 1994)

(Continued)

Consolidated Transaction Privilege Tax

Laws 1994, Chapter 375 provided changes to the Taxpayers' Bill of Rights including provisions on installment payments of tax, abatement of penalties, and reimbursement of fees and other costs. The reimbursement of fees and other costs section is effective for fees and other costs incurred after December 31, 1994. (E - July 17, 1994)

Laws 1994, Chapter 377 provided a Transaction Privilege and Use Tax exemption for overhead materials that are used in performing a contract between the United States Government and a manufacturer, including property used in performing a subcontract with a government contractor to which title passes to the government under terms of the contract or subcontract. The act also defined "overhead materials" and "subcontract." The act does not apply with respect to any existing audit, appeal or litigation. (ETYBFA - June 30, 1995)

Laws 1995, Chapter 6 clarified that the Transaction Privilege Tax accounting allowance credit is not to exceed a total of \$10,000 in any calendar year for the combined total of all business premises of a taxpayer. Also clarified that "taxpayer" means the business entity under which the business reports for state income tax purposes or an entity that is exempt from state income taxes. (RTYBFA - June 30, 1995)

Laws 1995, Chapter 17 provided that the Transaction Privilege and Use Tax exemption for chemicals enacted by Laws 1994, Chapter 41, are to be considered as separate and distinct from the exemptions for machinery and equipment. Interpretation of one exemption in conjunction with the other is prohibited. (ER - July 17, 1994)

Laws 1995, Chapter 61 exempted toll revenues collected by operators, who have leased or licensed right-of-way or other property from the Department of Transportation, from any Transaction Privilege Tax, Sales Tax, Use Tax or any similar Excise Tax. (E - July 13, 1995)

Laws 1995, Chapter 98 clarified that motion picture production companies which expend more than \$1 million, or \$250,000 in the case of commercial advertising production, in the state in at least a 12 consecutive month period may apply for a refund of Transaction Privilege and Use Taxes paid for expenditures in connection with the production company activity. Companies shall apply for refunds within 6 months after completing the filming or production activities or at any time after \$1 million in expenditures, or \$250,000 for commercial advertising production, has been reached. Defined "commercial advertising production" to mean any film or video production that is created to promote specific brands, products, services, retailers or advocacy positions and that consists of 2 minutes of air time or less. The refund is limited to 50% of the Transaction Privilege and Use Taxes imposed. (ERFA - June 30, 1994)

Laws 1995, Chapter 138 provided a Transaction Privilege and Use Tax exemption to machinery and equipment necessary for extracting milk, and for cooling milk and livestock. Clarified that "self-powered implements" includes machinery and equipment that are electric powered. Tax liabilities, penalties and interest paid from and after April 17, 1985 will be refunded if paid on self-powered implements now exempt and if satisfactory proof that monies paid will be returned to the customer who purchased the implements is provided to the Department of Revenue. (RTYBFA - April 17, 1985)

Laws 1995, Chapter 178 made technical changes to the transaction privilege and use tax statutes related to changing the name of the Department of Youth Treatment and Rehabilitation to the Department of Juvenile Corrections. (E - July 13, 1995)

Laws 1995, Chapter 182 authorized municipalities with a population less than 50,000 and counties with a population less than 125,000 to submit their July 1995 populations, as approved by the Director of the Department of Economic Security (DES) Population Statistics Unit, for state revenue sharing purposes without having to contract with DES to conduct a sample survey verification. Allowed any city, town or county to submit a request that the 1990 Decennial Census, plus revisions due to annexation certified by the United States Bureau of the Census, continue to be used for the purposes of state revenue sharing, even if a special census has been conducted. (E - July 13, 1995)

Laws 1995, Chapter 228 provided a Transaction Privilege Tax exemption to membership fees, including initiation fees, that provide the right to use a transient lodging recreational establishment for 28 days or more. The act defined "transient lodging recreational establishment" to mean a facility whose primary purpose is to provide facilities for transient lodging, that is subject

(Continued)

Consolidated Transaction Privilege Tax

to tax, and also provides recreational facilities, such as tennis, golf and swimming, for members for a period of 28 days or more. (RTYBFA - June 30, 1994)

Laws 1995, Chapter 267 provided a Transaction Privilege Tax exemption to sales of motor vehicles sold at auction to nonresidents for use outside this state. (RTYBFA - June 30, 1988)

Provided Transaction Privilege and Use Tax exemptions to personal hygiene items sold to businesses engaged in transient lodging if the item is intended for use by the guest. Taxes, penalties and interest paid after May 31, 1990 are refundable if the taxpayer provides that the Transaction Privilege or Use Tax on the item was not passed on to the consumer by way of increased prices for transient lodging. (RTYBFA - May 31, 1990)

Laws 1995, Chapter 276 allowed a deduction, under the prime contracting classification, for sale and installation of ground water monitoring wells required by law, including monitoring wells installed for acquiring information for a permit required by law and for the gross proceeds or gross income from a contract to provide specified actions in response to the release or suspected release of a hazardous substance, pollutant or contaminant from a facility to the environment, unless the release was authorized by permit issued by a governmental authority. Provided for the refund of tax liabilities, penalties and interest if satisfactory proof is provided to the Department of Revenue that the monies will be returned to the person or fund that paid the consultant's or contractor's fee and that the taxpayer paid the appropriate Transaction Privilege or Use Tax on the sale of tangible personal property now exempt. The bill contained a non-severability clause. The bill also provided for the repeal of the deduction if S.B. 1206, which was vetoed by the Governor, had been enacted into law. S.B. 1206 would have replaced the prime contracting classification, with a point of sale retail tax on tangible personal property purchased by contractors. (RTYBFA - December 31, 1986)

Laws 1995, Chapter 277 changed the effective date of Laws 1994, chapter 313, that provided municipal and county finance provisions for the construction of "qualified theme parks" to December 31, 1994. Clarified that municipal or county excise taxes maybe imposed in all or part of the park and includes concessions, shops, restaurants and other amenities and such business activity subject to the tax is exempt from the state Transaction Privilege and Use Tax for the period the tax is imposed. Provided for the repeal of all provisions from and after December 31, 2005. (E - July 13, 1995)

USE TAX

DESCRIPTION

The Arizona Use Tax attempts to capture revenue from tangible personal property purchased in other states and brought into Arizona for storage, use, or consumption in this state. Also, the 1989 court case of People of Faith, Inc. vs. Arizona Department of Revenue ruled the Legislature in enacting the Use Tax intended to impose an excise tax on retail sales in the state which would have been subject to the Transaction Privilege Tax, except because of some act on the part of the buyer at the time of the sale, the seller reasonably believed that the sale was exempt from the application of the sales tax.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>
1994-95	\$104,480,933
1993-94	97,492,637
1992-93	84,424,541
1991-92	83,023,743
1990-91	82,625,028
1989-90	61,708,485
1988-89	64,805,718
1987-88	61,797,123
1986-87	52,549,878
1985-86	59,415,099
1984-85	27,423,193
1983-84	20,807,747
1982-83	15,702,202
1981-82	13,795,054
1980-81	14,016,182
1979-80	15,267,048
1978-79	10,657,575
1977-78	8,647,600
1976-77	8,997,174
1975-76	7,204,281

1/ FY 1984-85 and prior fiscal year figures show only 50% of the Use Tax rate. The other 50% is in the Education Excise Tax. The computing change was due to consolidating the Education Excise Tax into the Transaction Privilege Tax, Laws 1985, Chapter 298.

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

A.R.S. § 42-1410. *Taxpayers.* (1) Any person making retail purchases of tangible personal property inside or outside Arizona and storing, using, or consuming such property within this state for which the tax has not been paid to a retailer—also see A.R.S. § 42-1408, or (2) retailers engaged in the business of selling tangible personal property for storage, use, or consumption in this state or (3) any purchaser who buys tangible personal property for resale, but instead uses or consumes the property from inventory—commonly called the Use Inventory Tax.

(Continued)

Use Tax

Definition. "Person" can mean an individual, firm, partnership, joint venture, association, corporation, estate, trust, receiver or syndicate, this state or a county, city, municipality, district or other political subdivision. "Retailer" can include any salesman or representative of retailers or any mail order solicitor if the solicitation is substantial and recurring or solicitor benefits from use of certain services in this state. [See A.R.S. § 42-1401]

TAX BASE

A.R.S. § 42-1408. *Sales Price.* The Use Tax is levied as a percentage of the sales price of tangible personal property purchased at retail for storage, use, or consumption in this state. The sales price includes (1) any services that are part of the sale, and (2) any amounts for which credit is given without deductions for the cost of expenses. The sales price does not include (1) discounts, (2) charges for labor or installation, remodeling or repairing services, (3) freight costs collected from a purchaser, or (4) Federal excise taxes imposed on sales of heavy trucks and trailers, automobiles or on sales of use fuel. [Also see A.R.S. § 42-1401]

Partial Exclusion for Nuclear Fuel. Total sales price for such fuel is the value of the purchase price of uranium oxide used in producing the fuel, the tax is imposed only once for any one quantity or batch of nuclear fuel regardless of the number of transactions or financing agreements that may occur. [See A.R.S. § 42-1403]

A.R.S. § 42-1408.01. *Service Contract or Warranty.* The tax is levied on the cost to the provider of tangible personal property provided under the conditions of a warranty or service contract.

A.R.S. § 42-1408.2. *Motor Vehicles Removed from Inventory.* The tax is levied on motor vehicles that are removed from inventory and used directly in a dealer's primary business, and are returned to the dealer's active sales inventory within one year.

A.R.S. § 42-1408.03. *Motor Vehicles Used by Motor Vehicle Manufacturers.* The tax is levied on motor vehicle manufacturers for the storage, use or consumption of its maintenance, support or service vehicles. The tax does not apply to motor vehicles and component parts used for testing and development.

A.R.S. § 42-1409. *Exemptions.* This statute describes a list of tangible personal property exempt from the Use Tax.

TAX RATE

A.R.S. § 42-1408. *Rate.* The tax rate is the same as the Transaction Privilege Tax rate applied to retailers. For 1995, this is currently at 5%.

A.R.S. § 42-1408.01. *Service Contract or Warranty.* The rate for such property is set by statute at 5% of the cost of the tangible personal property.

A.R.S. § 42-1408.02. *Motor Vehicles Removed from Inventory.* The tax is levied on a monthly basis at a rate of 1/39th of the value of the vehicle as determined by the manufacturer's suggested retail price and to 1/39th of the value of each used vehicle as determined by any industry wide publication in common use and devoted to listing used cars.

A.R.S. § 42-1408.03. *Motor Vehicles Used by Motor Vehicle Manufacturers.* The tax is levied on a monthly basis at a rate of 1/39th the dealer net price of the motor vehicles for not more than 39 months.

A.R.S. § 42-1409(A). *Sales Taxed by Another State.* Sales taxed in another state at a rate lower than Arizona's rate are taxed at a rate equal to the difference between Arizona's Use Tax rate and the rate already imposed by the other state. [Also see Arizona Rules and Regulations]

(Continued)

Use Tax

Laws 1990, 3rd Special Session, Chapter 9 excluded from the definition of sales or purchase price under the Use Tax those amounts due to certain federal excise taxes on sales of heavy trucks, trailers, or use fuel. (E - September 27, 1990)

Laws 1991, Chapter 200 provided for the Transaction Privilege Tax and Use Tax exemption for (1) medical oxygen prescribed by a licensed medical, dental, or veterinarian physician and (2) certain durable equipment having a federal health care financing administration designation and prescribed by a licensed physician, podiatrist, or homeopathic physician. (RFA - December 31, 1979)

Laws 1991, Chapter 158 defined certain new machinery or equipment used for commercial production of agricultural, horticultural, viticultural, and floricultural crops in Arizona for Transaction Privilege and Use Tax exemption purposes. Under the retail classification each machinery that has never been sold and has been leased for less than two years are exempt. However, under the personal property rental classification, these new equipment which have been leased less than two years are not exempt from taxation. (E - September 21, 1991)

Laws 1991, Chapter 200 provided for the Transaction Privilege Tax and Use Tax exemption for (1) medical oxygen prescribed by a licensed medical, dental, or veterinarian physician and (2) certain durable equipment having a federal health care financing administration designation and prescribed by a licensed physician, podiatrist, or homeopathic physician. (RFA - December 31, 1979)

Laws 1992, Chapter 32 exempted from the Use Tax tangible personal property when used or consumed in restaurants for human food, drink, or condiment whether it is simple, mixed, or compounded. (RTYBFA - December 21, 1986)

Laws 1992, Chapter 96 provided a tax refund for motion picture production companies who, in the course of twelve months, produce one or more motion pictures and spend \$1,000,000 in Arizona toward production or filming. To qualify for the refund, companies must file pre- and post-filming applications. The refund is 50% of the Transaction Privilege Tax and Use Tax on tangible personal property purchased in Arizona, and paid by the motion picture production company. (RTYBFA - June 30, 1992)

Laws 1992, Chapter 135 exempted from the Use Tax glucose test strips. (E - June 2, 1992)

Laws 1992, Chapter 162 exempted from Transaction Privilege and Use Tax seeds and other propagative material used by commercial crop producers in Arizona. This bill also changed the current Transaction Privilege Tax classification name of "animal feed" to "feed," clarified that the feed classification applies to livestock and poultry feed. The bill simplified the computation of a county's share of feed tax by deeming the taxpayer's place of business is in the county where the sale is made. The exemption for seeds and other propagative material applied retroactively to tax periods beginning from and after June 30, 1984. However, refunds are only allowed for Sales Tax paid during the period from April 1, 1992 until September 30, 1992. (E - September 30, 1992)

Laws 1992, Chapter 222 expanded the Transaction Privilege and Use Tax exemption on aircrafts to include the following (E - September 30, 1992):

- (1) Federally approved flight simulators.
- (2) Tangible personal property that is permanently affixed or attached as a component part of an aircraft.
- (3) Accessories and equipment that physically contact aircraft during overall carrier operation.
- (4) Machinery, tools, equipment, and related supplies used in repairing, remodeling, or maintaining aircrafts, its engines or component parts by or for a licensed carrier.

Laws 1992, Chapter 238 provided a Transaction Privilege and Use Tax exemption for machinery or equipment used in research and development. The bill specifically defined research and development and described applications qualified as those not qualified for the exemption. This act applied prospectively only. (EFA - December 31, 1992)

(Continued)

Use Tax

Laws 1993, Chapter 12 revised the Use Tax on motor vehicles removed from inventory and returned to active sales inventory within 1 year after the date of removal. The tax on vehicles removed from inventory is levied on a monthly basis at 1/39th of the manufacturers suggested retail price on new cars, and to 1/39th of the value of a used car, as determined by any industry wide publication in common use. Motor vehicles removed from inventory and used for charitable purposes are exempted. (RFA December 31, 1992)

Laws 1993, Chapter 48 exempted tangible personal property purchased by certain qualified nonprofit charitable organization from the parent or an affiliate organization that is located outside the state. (E - July 17, 1993)

Laws 1993, Chapter 103 amended the definition of "Qualifying Hospital" to include a residential care facility operated in conjunction with a licensed nursing care institution. Exempts all tangible personal property sold to or purchased by such a facility from the Transaction Privilege Tax and Use Tax. Any tax liabilities paid between January 1, 1982 and the effective date of this act shall not be refunded unless the taxpayer requesting the refunds provides proof to the Department of Revenue that monies paid as taxes will be returned to the residents of the residential facilities. (ER - January 1, 1982)

Laws 1993, Chapter 199 defined a qualifying community health center as an entity recognized as a nonprofit community-based, primary care clinic with a community based board of directors and is either:

- (1) The sole provider of primary care in the community, or
- (2) A nonhospital affiliated clinic that is located in a federally designated medically underserved area in the state.

The bill provides a Transaction Privilege and Use Tax exemption for tangible personal property sold to or purchased by either a qualifying community health center or a qualifying health care organization; provided that the qualifying health care organization is dedicated to providing educational, therapeutic, rehabilitative and family medical education training for blind, visually impaired and multi-handicapped children from the time of birth to age twenty-one. (RTYBFA -January 1, 1991)

Laws 1993, Chapter 206 exempted from the Transaction Privilege and Use Tax the sales of natural gas or liquefied petroleum gas used to propel a motor vehicle under the retail, utilities and pipeline classifications. The bill also provided an exemption from any similar municipal tax. (E - July 17, 1993)

Laws 1993, Chapter 246 exempted private toll facility projects from any state imposed Transaction Privilege Tax, Sales Tax, Use Tax or similar Excise Tax. Provides that a lease to a private entity of a transportation facility constructed pursuant to this chapter is deemed a governmental activity which allows eligibility for industrial development bonds. (E - July 17, 1993)

Laws 1993, Chapter 258 required the Department of Commerce to establish and conduct an Environmental Technology Assistance Program to promote business and economic development by recruiting and expanding companies that manufacture, produce, or process solar and other renewable energy products from recycled materials. The Department of Commerce has until June 30, 1996 to certify qualified environmental technology manufacturers, producers and processors for purposes of available tax incentives provided in the bill. The bill contains a severability clause. Various sections of this bill are delayed or have retroactive effective dates. (E - April 22, 1993)

Laws 1994, Chapter 41 contained the major components of the Tax Reduction Package known as the Middle Income Tax Relief Act (MITRA) of 1994. The act contained the following major provisions affecting the Transaction Privilege Tax:

- (1) The act provided a Transaction Privilege and Use Tax exemption to chemicals used in manufacturing and mining, alone or as part of an integrated system of chemicals, that cause a chemical or physical change to occur in the materials as part of the production process. This excludes chemicals used or consumed in activities such as packaging, storage, or transportation but does not affect any deduction for such chemicals that is otherwise provided in statute. (EFA - June 30, 1995)

(Continued)

Use Tax

- (2) The act clarified that prosthetic devices prescribed or recommended by a person who is licensed, registered or otherwise professionally credentialed as a physician, dentist, podiatrist, chiropractor, naturopath, homeopath, nurse, or optometrist are exempted from the Use Tax. (E - July 17, 1994)

Laws 1994, Chapter 64 clarified an earlier bill that provided refunds of Transaction Privilege Taxes paid on tangible personal property sold to or purchased by a residential care facility in conjunction with a licensed nursing care institution. This act required the facility to demonstrate that the refund will be paid in a reasonable and nondiscriminatory manner to those residents, including past, current or future residents, who have paid or are continuing to pay the taxes. The refunds may be provided by means of direct payment or by an offsetting credit against facility charges. (E - July 17, 1994)

Laws 1994, Chapter 240 provided the following Transaction Privilege and/or Use Tax exemptions: (E - July 17, 1994)

- (1) Provides a Transaction Privilege Tax exemption for nonprofit charitable organizations that have qualified under Section 501(C)(3) of the Internal Revenue Code and that regularly serves meals to the needy and indigent on a continuing basis at no cost.
- (2) Exempts from the Transaction Privilege and Use Tax sales of food, drink and condiment for consumption within the premises of a prison, jail or other institution under the jurisdiction of the State Department of Corrections, the Department of Public Safety, the Department of Youth Treatment and Rehabilitation or a County Sheriff.
- (3) Provided a Use Tax exemption for printed, photographic, electronic or digital media materials for use by the public, which are unavailable for purchase in this state, purchased by publicly funded libraries.
- (4) Clarified that the Use Tax exemption for prosthetic appliances applies to devices prescribed or recommended by a person who is licensed, registered or professionally credentialed as a physician, dentist, podiatrist, chiropractor, naturopath, homeopath, nurse or optometrist.

Laws 1994, Chapter 305 provides a Use Tax exemption for the following tangible personal property (RTYBFA -December 31, 1986):

- (1) Motor vehicles that are removed from inventory by a motor vehicle dealer and that are provided to:
 - a. Public educational institutions.
 - b. State universities or affiliated organizations of a state university if no part of the organization's net earnings inures to the benefit of any private shareholder or individual.
- (2) Tangible personal property which is or directly enters into and becomes an ingredient or component part of cards used as prescription plan identification cards. This provision applies prospectively only and is intended to have no effect on tax liabilities that accrued before the effective date of this act, including liabilities established pursuant to audit and administrative and judicial appeal. (E - July 17, 1994)

Laws 1994, Chapter 307 provided a Transaction Privilege and Use Tax exemption, under the retail classification, to (EFA - September 30, 1994):

- (1) Livestock and poultry feed, salts, vitamins and other additives for livestock or poultry. For these purposes "poultry" includes ratites.
- (2) Implants used as growth promotants and injectable medicines, not already exempt, for livestock or poultry. For these purposes "poultry" includes ratites.

The act amends the feed classification by clarifying that "concentrated animal feeding operation" means a dairy or beef cattle feedlot or feedyard. Feedlot or feedyard includes a lot or facility where dairy, slaughter or feeder cattle are confined and fed for forty-five days or more in any twelve month period. The feed classification, as amended, is repealed from and after September 30, 1994. (RTYBFA - September 30, 1993)

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Use Tax

The act clarified that for tax periods from and after December 31, 1989, the feed classification is comprised of the business of selling livestock or poultry feed, including salts, vitamins, implants used as growth promotants, injectable medicines and other additives, for livestock or poultry consumption to persons who are engaged in producing livestock, poultry or livestock or poultry products or who are engaged in feeding livestock or poultry commercially.

Laws 1994, Chapter 309 provided a Transaction Privilege and Use Tax exemption to ratites used as breeding or production stock. The act also included "ratites" as Class 11 personal property for tax purposes. "Ratites" were defined as ostriches, emus, rheas and cassowaries. "Poultry" was defined as chickens, turkeys, domesticated birds, game birds, fowl and waterfowl but does not include ratites. The act contains provisions defined in Article IX, Section 22, Constitution of Arizona that requires the affirmative vote of at least two-thirds of both houses. (E - April 25, 1994)

Laws 1994, Chapter 313 provided for the issuance of bonds by a city, town or county to finance the construction of a "qualified theme park." The city, town or county may impose a special excise tax on all business activity that is subject to taxation. Business activity that is subject to taxation is exempt from the state Transaction Privilege Tax during the time the tax imposed by the city, town or county is in effect. The tax will remain in effect until the bonds issued are paid in full or twenty years after the bonds are issued, whichever occurs first. Any city, town or special taxing district shall not levy a Transaction Privilege, Sales, Use or other similar tax on any business activity conducted at or tangible personal property leased or rented by any qualified theme park, themed amusement park or other nonathletic entertainment facility that is subject to taxation as prescribed by this act. (EFA - June 30, 1995)

Laws 1994, Chapter 375 provided changes to the Taxpayers' Bill of Rights including provisions on installment payments of tax, abatement of penalties, and reimbursement of fees and other costs. The reimbursement of fees and other costs section is effective for fees and other costs incurred after December 31, 1994. (E - July 17, 1994)

Laws 1994, Chapter 377 provided a Transaction Privilege and Use Tax exemption for overhead materials that are used in performing a contract between the United States Government and a manufacturer, modifier, assembler or repairer, including property used in performing a subcontract with a government contractor to which title passes to the government under terms of the contract or subcontract. The act also defined "overhead materials" and "subcontract." The act does not apply with respect to any existing audit, appeal or litigation. (ETYBFA - June 30, 1995)

Laws 1995, Chapter 17 provided that the Transaction Privilege and Use Tax exemption for chemicals enacted by Laws 1994, Chapter 41, are to be considered as separate and distinct from the exemptions for machinery and equipment. Interpretation of one exemption in conjunction with the other is prohibited. (ER - July 17, 1994)

Laws 1995, Chapter 35 imposed a Use Tax on motor vehicle manufacturers, for the storage, use or consumption of its maintenance, support or service vehicles, equal to 1/39th of the dealer net price of the motor vehicles. The tax is not to be imposed for more than 39 months on any motor vehicle and does not apply to motor vehicles and component parts used for testing or development. It is the intent of the Legislature that this tax does not apply to tax liabilities incurred before January 1, 1993. (RTYBFA - December 31, 1992)

Laws 1995, Chapter 61 exempted toll revenues collected by operators, who have leased or licensed right-of-way or other property from the Department of Transportation, from any Transaction Privilege Tax, Sales Tax, Use Tax or any similar excise tax. (E - July 13, 1995)

Laws 1995, Chapter 98 clarified that motion picture production companies which expend more than \$1 million, or \$250,000 in the case of commercial advertising production, in the state in at least a twelve consecutive month period may apply for a refund of Transaction Privilege and Use Taxes paid for expenditures in connection with the production company activity. Companies shall apply for refunds within six months after completing the filming or production activities or at any time after \$1 million in expenditures, or \$250,000 for commercial advertising production, has been reached. Defined "commercial advertising production" to mean any film or video production that is created to promote specific brands, products, services, retailers or

(Continued)

Use Tax

advocacy positions and that consists of two minutes of air time or less. The refund is limited to 50% of the Transaction Privilege and Use Taxes imposed. (EFA - June 30, 1994)

Laws 1995, Chapter 138 provided a Transaction Privilege and Use Tax exemption to machinery and equipment necessary for extracting milk, and for cooling milk and livestock. Clarified that "self-powered implements" includes machinery and equipment that are electric powered. Tax liabilities, penalties and interest paid from and after April 17, 1985 will be refunded if paid on self-powered implements now exempt, and if satisfactory proof that monies paid will be returned to the customer who purchased the implements is provided to the Department of Revenue. (RTYBFA - April 17, 1985)

Laws 1995, Chapter 178 made technical changes to the Transaction Privilege and Use Tax statutes related to changing the name of the Department of Youth Treatment and Rehabilitation to the Department of Juvenile Corrections. (E - July 13, 1995)

Laws 1995, Chapter 182 authorized municipalities with a population less than 50,000 and counties with a population less than 125,000 to submit their July 1995 populations, as approved by the Director of the Department of Economic Security (DES) Population Statistics Unit, for state revenue sharing purposes without having to contract with DES to conduct a sample survey verification. Allowed any city, town or county to submit a request that the 1990 Decennial Census, plus revisions due to annexation certified by the United States Bureau of the Census, continue to be used for the purposes of state revenue sharing, even if a special census has been conducted. (E - July 13, 1995)

Laws 1995, Chapter 267 provided a Transaction Privilege Tax exemption to sales of motor vehicles sold at auction to nonresidents for use outside this state. (RTYBFA - June 30, 1988)

Provided Transaction Privilege and Use Tax exemptions to personal hygiene items sold to businesses engaged in transient lodging if the item is intended for use by the guest. Taxes, penalties and interest paid after May 31, 1990 are refundable if the taxpayer provides that the Transaction Privilege or Use Tax on the item was not passed on to the consumer by way of increased prices for transient lodging. (RTYBFA - May 31, 1990)

Laws 1995, Chapter 277 changed the effective date of Laws 1994, chapter 313, that provided municipal and county finance provisions for the construction of "qualified theme parks" to December 31, 1994. Clarified that municipal or county excise taxes maybe imposed in all or part of the park and includes concessions, shops, restaurants and other amenities and such business activity subject to the tax is exempt from the state Transaction Privilege and Use Tax for the period the tax is imposed. Provided for the repeal of all provisions from and after December 31, 2005. (E - July 13, 1995)

SEVERANCE TAX ON METALLIFEROUS MINERALS

DESCRIPTION

The Severance Tax on metalliferous minerals is in lieu of any other tax imposed on mining and processing by the Transaction Privilege Tax. It is a tax not on the sales of such minerals but on its production or extraction from the earth.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>
1994-95	\$37,614,263
1993-94	23,454,340
1992-93	27,868,488
1991-92	27,926,566
1990-91	30,103,041
1989-90	29,552,883
1988-89	30,906,899
1987-88	19,268,473
1986-87	11,979,174
1985-86	13,990,093
1984-85	10,101,077
1983-84	9,814,062
1982-83	4,045,392

SOURCE: Department of Revenue, Annual Reports.

DEDICATION

Laws 1982, Chapter 230, Section 17. *Purpose.* To aid in defraying the necessary and ordinary expenses of the state, cities, and counties, to reduce or eliminate the annual tax levy on property for state, city and county purposes and to reduce the levy on property for public school education.

WHO PAYS THE TAX

A.R.S. § 42-1461 and § 42-1462. *Severer.* Persons engaged in the business of extracting substances from the earth that become metalliferous minerals.

TAX BASE

A.R.S. § 42-1462 and A.R.S. § 1464. *Net Severance Base.* The Severance Tax is levied on the "Net Severance Base" of all metalliferous minerals produced in this state after 1982. The Severance Tax was phased in starting January 1, 1983. The "Net Severance Base" is the greater of the following two values:

- (1) The weighted mineral value is computed as follows:
 - a) Divide the mining cost by the production costs.
 - b) Multiply the quotient computed in a.) above by the gross value of production.
- (2) The Arizona value computed as follows:
 - a) Fifty percent of the difference between the gross value of production and the out-of-state processing costs.

(Continued)

Jet Fuel Excise and Use Tax

DISTRIBUTION

A.R.S. § 42-1573(B). *Distribution Base.* Forty percent of the Excise Tax revenue collected is designated as distribution base and is distributed pursuant to A.R.S. § 42-1341(C).

A.R.S. § 42-1573(C,D). *State General Fund.* Sixty percent of the Excise Tax revenue and 100% of the Use Tax revenue is credited to the state General Fund.

DISTRIBUTION OF JET FUEL EXCISE TAX

<u>Fiscal Year</u>	<u>State General Fund</u>	<u>Counties</u>	<u>Cities</u>
1994-95	\$3,462,468	\$760,282	\$469,194
1993-94	3,889,868	792,457	520,258
1992-93	5,194,309	1,058,203	694,724
1991-92	3,869,796	788,368	517,574

DISTRIBUTION OF JET FUEL USE TAX

<u>Fiscal Year</u>	<u>State General Fund</u>
1994-95	\$421,116
1993-94	490,721
1992-93	725,335
1991-92	550,908

NOTE: The Jet Fuel Excise and Use Tax became effective on October 1, 1991.

SOURCE: Department of Revenue, Annual Reports.

TAX ADMINISTRATION

A.R.S. § 42-1573. *Same as Transaction Privilege Taxes.* This tax is collected and distributed in the same manner and time as the Transaction Privilege Tax.

HISTORY

Laws 1991, Chapter 224 eliminated the Transaction Privilege Tax and Use Tax on jet fuel and replaced it with a 3.05¢ per gallon Jet Fuel Excise and Use Tax. A credit is allowed in the amount of tax paid to another state if the amount paid was less than the tax imposed in Arizona. The tax is administered in the same manner as the Transaction Privilege Tax. Forty percent of the excise tax collected is designated as the Distribution Base and 60% is credited to the state General Fund. All of the jet fuel use tax is credited to the state General Fund. Counties and certain districts were also given the authority to levy a jet fuel tax at specified rates. (EFA - September 30, 1991)

Laws 1992, Chapter 221 phased out the Jet Fuel Excise and Use Tax on purchases of jet fuel over 10 million gallons in a calendar year:

- (1) From July 1, 1992 to June 30, 1993, the rate is 2.05¢ per gallon over 10 million gallons.
- (2) From July 1, 1993 to June 30, 1994, the rate is 1.05¢ per gallon over 10 million gallons.

(Continued)

Jet Fuel Excise and Use Tax

- (3) From July 1, 1994 and thereafter, there shall be no tax over 10 million gallons.

The first 10 million gallons will continue to be taxed at 3.05¢ per gallon. Also, jet fuel used on commercial international flights originating in Arizona is now exempted from these taxes. (ERTYBFA - June 30, 1992)

Laws 1994, 8th Special Session, Chapter 8 changed the Transaction Privilege and Severance Tax distribution formula for counties. Collections designated as the distribution base by the State Treasurer are divided and shared by the state, counties, and incorporated municipalities. Incorporated municipalities will continue to receive 25% in proportion to their population. The state share is reduced from 36.92% to 34.49%. Counties will now receive 40.51% with 38.08% shared among the counties by averaging the following proportions:

- (1) The proportion that the population of each county bears to the total state population.
- (2) The proportion that the distribution base monies collected during the calendar month in each county bear to the total distribution base monies collected for the calendar month.

For those counties receiving less under the population formula than under the original property valuation formula, an additional 2.43% will be distributed to counties to hold them harmless from the change in distribution methods. Any amount left after this distribution will be distributed to counties based on the new formula. (EFA - June 30, 1994)

Laws 1994, Chapter 314 provided that cities, towns and counties, which submit 1995 population estimates to the Director of the Department of Revenue, the Director of the Department of Transportation and the State Treasurer, may, in lieu of conducting a special census, submit July 1995 population estimates approved by the Director of the Department of Economic Security, Population Statistics Unit. The population estimates are used for the distribution of state shared revenue. The act is repealed on July 1, 2001. (E - July 17, 1994)

Laws 1994, Chapter 375 provided changes to the Taxpayers' Bill of Rights including provisions on installment payments of tax, abatement of penalties, and reimbursement of fees and other costs. The reimbursement of fees and other costs is effective after December 31, 1994. (E - July 17, 1994)

Laws 1995, Chapter 182 authorized municipalities with a population less than 50,000 and counties with a population less than 125,000 to submit their July 1995 populations, as approved by the Director of the Department of Economic Security (DES) Population Statistics Unit, for state revenue sharing purposes without having to contract with DES to conduct a sample survey verification. Allowed any city, town or county to submit a request that the 1990 Decennial Census, plus revisions due to annexation certified by the United States Bureau of the Census, continue to be used for the purposes of state revenue sharing, even if a special census has been conducted. (E - July 13, 1995)

CHAPTER III

OTHER GROSS RECEIPTS TAXES

INSURANCE PREMIUM TAX

DESCRIPTION

The Insurance Premium Tax in Arizona dates back to territorial days. The tax is levied on insurance companies, whether domestic, foreign, or alien who are transacting insurance in this state. Formerly, foreign and alien insurers were treated separately, but now these insurers are uniformly taxed at the same rate as domestic insurers.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>	
1994-95	\$124,594,889	
1993-94	123,739,084	
1992-93	115,165,197	
1991-92	111,684,865	
1990-91	100,302,600	
1989-90	121,347,300	^{1/}
1988-89	90,949,700	
1987-88	86,833,400	
1986-87	80,339,400	
1985-85	71,906,600	^{2/}
1984-84	60,593,658	
1983-83	53,851,722	
1982-82	44,119,099	
1981-81	36,430,613	
1980-81	36,429,240	
1979-80	33,197,775	
1978-79	29,686,749	
1977-78	26,623,007	
1976-77	23,109,751	^{3/}
1975-76	19,839,341	^{2/}

^{1/} Net collections for FY 1989-90 are disproportionately large because of a collection period shifted from the start of the next fiscal year to before the end of FY 1989-90. [See Laws 1989, 2nd Special Session, Chapter 1]

^{2/} As of January 31, 1986, the Department of Insurance no longer collected premium taxes on behalf of the Industrial Commission's Administrative Fund.

^{3/} Net collections for FY 1975-76 and FY 1976-77 do not balance with the amount distributed due to \$91,059 held in a Protest Fund during 1975-76 which was not distributed until FY 1976-77.

SOURCE: Department of Insurance, Budget Requests and Annual Insurance Reports.

WHO PAYS THE TAX

A.R.S. § 20-224. *Insurers.* All authorized insurers, certain unauthorized insurers, health care service organizations, prepaid dental plan organizations, prepaid legal insurance corporations and hospital, medical, dental and optometric service corporations. [See A.R.S. § 20-206(B); 20-401.05; 20-416; 20-837; 20-1010; 20-1060; 20-1097.07] In addition, industrial insureds (industries insured under contracts procured from unauthorized insurers) are subject to payment of a Premium Receipts Tax. [See A.R.S. § 20-401.07]

(Continued)

Insurance Premium Tax

TAX BASE

A.R.S. § 20-224. *Net Premium Income.* The Insurance Premium Tax applies only to premiums paid for insurance covering liabilities that exist within the state. The tax is levied on the net premium income received by insurance companies during the previous calendar year. Net premium income is the total amount received from premiums after deducting income from cancellations, returned premiums, policy dividends, refunds, reductions, savings coupons and similar amounts paid or credited to policy holders within this state and not reapplied as premiums for new, additional or extended insurance.

A.R.S. § 20-224.01. *Additional Motor Vehicle Insurance Premium Tax.* This is a tax of 0.4312% on net premiums from insurance carried on motor vehicles as defined in A.R.S. § 28-101. This tax is in addition to other applicable taxes.

Exemptions. The following are exempt from the insurance premium tax except on a retaliatory basis:

- Certain insurers. [See A.R.S. § 20-108]
- Considerations paid for annuity contracts, as well as the unabsorbed portion of any premium deposit. [See A.R.S. § 20-224]
- Title insurance premiums which are instead subject to the Income Tax. Certain foreign title insurers are subject to the Insurance Premium Tax. [See A.R.S. § 20-224]
- Insurers that have withdrawn from Arizona prior to January 1, 1955, and are only continuing collection of premiums on and servicing of policies still in force to residents or risks located in this state.
- Premiums by government entities paid to non-profit hospitals, medical, dental, and optometric service corporations.
- Premiums paid to surplus line insurers for the following coverages when placed by licensed agents or brokers of this state: [See A.R.S. § 20-416 and § 20-420]
 - (1) Reinsurance
 - (2) Ocean marine and foreign trade insurance when placed by licensed agents or brokers of this state
 - (3) Insurance on subjects located, resident or to be performed wholly outside this state
 - (4) Insurance on vehicles or aircraft owned and principally garaged outside this state
 - (5) Insurance on property or operations of railroads engaged in interstate commerce
- Insurance provided by fraternal benefit societies. [See A.R.S. § 20-883]
- Accountable health plans will pay a premium tax of 1% of the net premiums for health plans issued to small employers beginning July 1, 1996. Accountable health plans are exempt from Premium Taxes for health plans issued to small employers beginning July 1, 1997.

TAX RATE

In the State of Arizona, the rate at which the net receipts from insurance policies are taxed depends upon the type of insurance purchased and the type of insurance company from which the policy was procured. For purposes of determining the tax rate, insurance companies are classified as follows:

A.R.S. § 20-203. *Domestic Insurance Carriers.* Insurers formed under the laws of this state.

A.R.S. § 20-204. *Foreign Insurance Carriers.* Insurers formed under the laws of another state of the United States.

A.R.S. § 20-201. *Alien Insurance Carriers.* Insurers formed under the laws of another country.

A.R.S. § 20-407. *Surplus Line Insurance Carriers.* Unauthorized insurers selling policies that cannot be procured from authorized insurers.

(Continued)

Insurance Premium Tax

A.R.S. § 20-401.01. *Unauthorized Insurance Carriers.* Any insurer which has not been issued a certificate of authority from the Director of the Insurance Department of this state.

The applicable tax rates on net premiums paid for the following types of insurance:

- *Motor Vehicle Insurance.* 0.4312% for such premiums paid to an insurance carrier. This tax is in addition to all other applicable taxes. [A.R.S. § 20-224.01]
- *Surplus Line Insurance.* 3.0% for premiums paid to (1) brokers selling surplus line insurance and (2) industrial insured under contracts procured from unauthorized insurers (also called Premium Receipts Tax). [A.R.S. § 20-416; 20-401.07]
- *Fire Insurance.* 0.66% for such premiums paid on property located in an incorporated city or town which procures private fire company services. The tax rate for all other fire insurance premiums is 2.2%. [See A.R.S. § 20-224(B)]
- *All Other Insurance.* 2% for premiums paid to (1) insurance carriers, (2) health care service organizations, (3) prepaid dental plan organizations and (4) prepaid legal insurance corporations, and (5) non-profit hospital, medical, dental and optometric service corporations. [A.R.S. § 20-224; 20-837; 20-1010; 20-1060; 20-1097.07]

Retaliatory taxes and fees are also levied on insurance carriers chartered under the laws of other states or foreign countries when these states or foreign countries impose taxes and fees on Arizona insurance carriers which exceed those which Arizona imposes on similar insurers. Retaliatory rates equal the excessive rates imposed on Arizona insurance carriers by the respective states or countries. [See A.R.S. § 20-230]

TAX CREDITS

A.R.S. § 20-674. *Premium Tax Offset.* A separate assessment is levied against property and casualty insurance companies to reimburse the Property and Casualty Insurance Guaranty Fund for the payment of claims against insolvent or impaired insurers. Each insurer subject to these assessments is granted a decrease in premium tax liability equal to 20% of the assessment for the year in which it is levied and 20% of the assessment for each of the succeeding four years; exception in calendar years 1992, 1993 and 1994 when the decrease was limited to 13%, 11%, and 13%, respectively, for certificates of contribution issued from 1987 through 1994.

A.R.S. § 20-1707. *Joint Underwriting Plan Fund.* A separate assessment is levied against casualty insurance companies to pay the unfunded expenses of a joint underwriting plan for medical malpractice insurers. Each insurer subject to this assessment is granted a decrease in premium tax liability equal to the amount of the assessment but not to exceed 50% of the insurer's current premium tax liability. If the assessment exceeds 50% of such tax liability, the insurer can deduct the excess from the Premium Tax liability in subsequent years.

A.R.S. § 20-692. *Premium Tax Offset.* A separate assessment is levied against life and disability insurance companies in amounts sufficient to reimburse the Life and Insurance Guaranty Fund for the payment of claims against insolvent or impaired insurers. Each insured subject to these assessments is granted a decrease in Premium Tax liability equal to 20% of the assessment for the year in which it is levied and 20% of the assessment for each of the succeeding 4 years; except in calendar years 1991, 1992, 1993, and 1994 when the decrease was limited to 7%, 9%, 11%, and 13%, respectively for certificates of contribution issued from 1987 through 1994 respectively.

A.R.S. § 20-224.02. *Refund.* Any overpayment of the Premium Tax will be refunded without interest by the Director of the Department of Insurance within 3 months after the due date of the tax.

PAYMENT SCHEDULE

A.R.S. § 20-224(E). *Due Dates.* For insurers whose prior calendar year Insurance Premium Tax liability was \$2,000 or more, a new payment schedule was implemented on May 1, 1990. [See Laws 1989, 2nd Special Session, Chapter 1] Payments are due and payable for the current year on or before the 15th day of each March, April, May, June, July and August in an amount equal

(Continued)

Insurance Premium Tax

to 15% of the previous calendar year's tax liability. The remaining tax balance is due on the subsequent March 31st for domestic insurers and May 1st for all other insurers.

A.R.S. § 20-224. *Collecting Agency.* Arizona Department of Insurance who is the collecting agent for the State Treasurer.

DISTRIBUTION

A.R.S. § 20-224(C). *Fire Insurance Premium Tax Collections.* Eighty-five percent of net collections (15% goes to the state General Fund) from the tax on fire insurance premiums are used in providing retirement benefits for firefighters. The tax monies are distributed in proportion to the full cash value of real property in each municipality or organized fire district:

- *Public Safety Personnel Retirement System.* In cities and towns with full-time paid firemen and no volunteer firemen or pension obligations to such firemen or other firefighters not covered by the Public Safety Personnel Retirement System, the tax collections are deposited in the respective municipality's account within the Public Safety Personnel Retirement System. [See A.R.S. § 9-972]
- *Fire Fighters' Relief and Pension Fund.* In cities, towns and legally organized fire districts with pension obligations only to volunteer firefighters and other firefighters not covered by the Public Safety Personnel Retirement System, the tax collections are deposited in the city or district's "Fire Fighters' Relief and Pension Fund." [See A.R.S. § 9-952] Alternatively this money may be used for the purchase of a private pension or benefits program. [See A.R.S. § 9-981]
- *Municipal General Fund.* In cities and towns that procure the services of a private fire company and have pension plans covering the fire fighting personnel, the tax collections are deposited in the respective municipality's General Fund. [See A.R.S. § 9-952]
- *District Fire Fighters' Relief and Pension Fund.* In legally organized fire districts that procure the services of a private fire company and have pension plans covering the fire fighting personnel, the tax collections are deposited in the districts' Fire Fighters' Relief and Pension Fund. [See A.R.S. § 9-952]

NOTE: A municipality with both full-time paid and volunteer firefighters shall have their funds allocated proportionately to the municipality's account within the Public Safety Personnel Retirement System for full-time fire fighters and to the city or district's Firefighters' Relief and Pension Fund for volunteer firefighters.

A.R.S. § 20-224.01. *Additional Motor Vehicle Insurance Premium Tax Collections.* These tax revenues are distributed to the Public Safety Personnel Retirement System for deposit in the Highway Patrol Account. If the tax received is more than the amount necessary to fund the Highway Patrol Account (as of FY 1992), the State Treasurer will deposit the excess in the Arizona Highway Patrol Fund in any amount required by legislative appropriation.

A.R.S. § 20-227. *State General Fund.* All other Insurance Premium Tax collections are deposited in the state General Fund to aid in defraying the cost of state government and lessen the tax burden upon tangible property.

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Insurance Premium Tax

DISTRIBUTION OF INSURANCE PREMIUM TAX COLLECTIONS

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Public Safety Personnel Retirement System</u> ^{1/}	<u>Firefighters' Relief And Pension Fund</u>	<u>Industrial Commission Admin. Fund</u>
1994-95	\$111,102,609	\$8,310,295	\$5,181,985	\$ -0-
1993-94	110,731,681	7,988,541	5,018,862	-0-
1992-93	103,002,519	7,389,377	4,773,301	-0-
1991-92	100,543,557	6,477,055	4,664,253	-0-
1990-91	92,533,400	3,033,000 ^{2/}	4,736,200	-0-
1989-90	116,424,400	-0- ^{3/}	4,992,900	-0-
1988-89	80,117,300	5,697,578	5,134,789	-0-
1987-88	76,026,414	5,426,130	5,380,856	-0-
1986-87	70,475,500	4,932,456	4,931,378	-0- ^{4/}
1985-86	60,657,000	4,186,541	4,382,602	2,680,500
1984-85	49,947,917	3,147,276	3,235,055	4,263,410
1983-84	45,020,790	2,855,132	2,889,053	3,086,747
1982-83	32,850,658	2,389,657	2,704,491	6,174,293
1981-82	27,954,319	2,391,181	2,585,590	3,499,523
1980-81	28,392,083	2,219,807	1,744,220	4,073,130
1979-80	23,959,738	2,161,557	1,925,796	5,150,684
1978-79	21,523,836	1,814,353	1,469,871	4,878,689
1977-78	19,748,234	1,713,020	1,247,847	3,913,906
1976-77	17,413,005	1,655,017	1,061,482	2,980,247
1975-76	15,049,523	1,323,380	969,353	2,497,085

- 1/ Tax revenues are distributed to the Public Safety Personnel Retirement System for deposit in the Highway Patrol Account. If the tax received is more than the amount necessary to fund the Highway Patrol Account, the State Treasurer will deposit the excess in the Arizona Highway Patrol Fund in any amount required by legislative appropriation.
- 2/ In FY 1991, \$3.1 million of the additional Motor Vehicle Insurance Premium Tax received by the Public Safety Personnel Retirement System was transferred to the state General Fund.
- 3/ General Fund collections for FY 1989-90 are disproportionately large due to the acceleration of a collection period at the end of the fiscal year. [See Laws 1989, 2nd Special Session, Chapter 1] No transfer of funds was made to the Public Safety Personnel Retirement System. [See Laws 1989, Chapter 312]
- 4/ As of January 31, 1986, the Department of Insurance no longer collected Premium Taxes on behalf of the Industrial Commission's Administrative Fund.

SOURCE: Annual Reports of the Director of Insurance - see "Disbursements" in the Revenue Report. General Fund deposits may be derived by subtracting deposits to the Public Safety Retirement System, Firefighters' Relief and Pension Fund, and the Industrial Commission Administrative Fund from net Premium Tax collections (See YIELD).

HISTORY

Laws 1912, 1st Special Session, Chapter 44 established the first Insurance Premium Tax under state law. The tax was levied on all insurance companies organized under the laws of any other state or foreign country at a rate of 2% of the gross premiums received for insurance covering liabilities within the state. Gross premiums included all premium income received since the filing

(Continued)

Insurance Premium Tax

of the last statement. Insurance companies were required to file a statement annually during the month of July. The Corporation Commission was responsible for administering the Insurance Tax. Collections from the tax were deposited in the State School Fund. (E - June 18, 1912)

Laws 1913, 3rd Special Session, Chapter 94 changed the tax base to premiums collected during the previous calendar year. Premium income returned to customers or used for the purchase of reinsurance was excluded from the tax base. Insurance companies were required to file their insurance statements annually on March 1 and the Insurance Tax was due and payable at that time. Taxes were paid to the State Treasurer through the Corporation Commission. The provision for depositing collections in the State School Fund was repealed. A separate tax was levied on insurance acquired by contract from unauthorized insurers. An unauthorized insurer is an insurance carrier who has not been issued a certificate of authority. The tax on amounts paid to unauthorized insurers was levied at a rate of 15%. The tax was payable on December 1 of each year or within 10 days thereafter. The law also provided for retaliatory taxation of insurance companies organized under the laws of other states, when these states impose taxes on Arizona insurance companies in excess of the Arizona tax rate. [See Arizona Civil Code 1913, Sections 3401, 3404, 3420]

Laws 1915, Chapter 46 set aside 50% of the tax paid by fire insurance companies on premiums from insurance policies covering property in Arizona cities with a population of 3,000 or more. This portion of Insurance Tax collections was paid to the governing boards of the cities and used in maintaining a system of fire protection or to provide a Relief Fund for injured or disabled firemen. (Effective for Each Year After and Including 1915)

Laws 1927, Chapter 47 provided for the establishment of a Firemen's Pension and Retirement Fund in each city and town with a population of 3,000 or more and an organized Fire Department. Each city's share of the tax paid by fire insurance companies was deposited in its Firemen's Pension Fund and used for providing old age benefits to firemen. (Effective for Each Year After and Including 1927)

Laws 1929, Chapter 86 provided that the entire 2% tax on premiums collected by fire insurance companies for policies covering property in cities and towns with organized Fire Departments was set aside for payment into the Firemen's Relief and Pension Funds. All other related provisions were repealed. (E - June 13, 1929)

Laws 1939, Chapter 68 provided that taxable insurance premiums should not include cancellation and return premiums, dividends paid to policyholders or amounts received as reinsurance on business in this state. The 15% tax on premiums paid to unauthorized insurers was replaced with a 3% tax on premiums received by surplus line insurers. Surplus line insurers were unauthorized insurers who provided insurance which could not be obtained from a majority of authorized companies and was not supplied at a lower rate than from authorized insurers. The tax on surplus line insurers was payable on or before March 10 of each year. (E - June 12, 1939)

Laws 1941, Chapter 113 provided that the cash surrender value of life insurance policies or contracts is not deductible from gross premiums in determining the tax base. (E - June 16, 1941)

Laws 1943, Chapter 95 included non-profit benefit insurance corporations under the Insurance Code but exempted these corporations from payment of the Insurance Premium Tax. (E - July 1, 1943)

Laws 1945, Chapter 100 extended the 2% Premium Tax to cover domestic insurance companies (insurance companies organized under the laws of the state of Arizona). The due date for payment of the tax was also changed, such that, the tax on all insurers was paid not later than April 1 of each year. The law also repealed the Retaliatory Tax on insurance companies organized under the laws of other states or foreign countries. (E - June 9, 1945)

Laws 1945, 1st Special Session, Chapter 13 included hospital and medical service corporations under the Insurance Code, but exempted these corporations from payment of the Insurance Premium Tax. (E - October 3, 1945)

(Continued)

Insurance Premium Tax

Laws 1954, Chapter 64 reduced the Premium Tax rate on domestic insurance companies to 1% of net premiums as part of a major revision to the Insurance Code. The law also reenacted retaliatory taxation of insurance companies in states with insurance tax rates exceeding Arizona's rate and excluded annuity payments from the definition of premiums for purposes of taxation. A Director of Insurance was created within the Corporation Commission and was given responsibility for collecting the tax. All collections not dedicated to the Firemen's Relief and Pension Funds were deposited in the state General Fund. The due date for authorized insurers was changed from April 1 to March 31. Surplus line insurers continued paying taxes by April 1 of each year. (E - January 1, 1955)

Laws 1959, Chapter 145 increased the tax rate on motor vehicle insurance premiums paid to foreign (and alien) insurance carriers from 2% to 2.5%. Foreign insurance carriers are insurance companies organized under the laws of another state and alien insurance carriers are insurance companies organized under the laws of another country. Collections from the additional .5% tax were deposited in the Highway Patrol Retirement Fund. (E - July 1, 1959)

Laws 1968, Chapter 84 provided that the portion of Vehicle Insurance Premium Taxes formerly dedicated to the Highway Patrol Retirement Fund was paid instead to the Highway Patrol account within the Public Safety Personnel Retirement System. The share of fire insurance premiums paid to cities with full-time paid firemen and no pension obligations to volunteer firemen was also redistributed from the Firemen's Pension and Relief Fund to the Public Safety Personnel Retirement System. (E - June 30, 1968)

Laws 1968, Chapter 161 imposed a 1% tax on insurance premiums paid to hospital and medical service corporations but provided that the tax does not apply to any coverage provided to national, state, county and municipal governments or to any coverage financed with government funds. The tax established by this law was filed at the same time as the tax on other authorized insurers. (The tax was effective for premiums received on or after January 1, 1969)

NOTE: A constitutional amendment passed in the general election of November 5, 1968 established the Department of Insurance and transferred the responsibility for administering the Insurance Premium Tax to the new Department. (E - January 28, 1969)

Laws 1972, Chapter 23 imposed a 3% tax on gross amounts paid by industries for insurance procured under contract from unauthorized insurers. The tax applied only to premiums paid for coverage of risks located in this state. Amounts returned to customers on account of cancellations or reductions of premiums were not subject to the tax. The tax was paid to the Insurance Department on or before April 1 of each year. (E - August 13, 1972)

Laws 1973, Chapter 128 included health care service organizations under the Insurance Code and imposed taxes of 1% on premiums paid to domestic health care service organizations and taxes of 2% on premiums paid to foreign and alien health care service organizations. The tax was paid to the Department of Insurance annually on or before March 1. (E - May 7, 1973)

Laws 1973, Chapter 135 required domestic insurers, who fail to maintain a home office in this state, to pay the same rates as those which are levied on foreign and alien insurers. Domestic insurers formed under Arizona law prior to January 1, 1973 were not subject to this provision until January 1, 1975. The payment due date for authorized insurers was also changed, such that, they were required to pay taxes on or before March 1 of each year. (E - August 8, 1973)

Laws 1973, Chapter 160 provided that domestic insurers who transact business in states or foreign countries where they are not licensed and are not subject to Insurance Premium Taxes shall be subject to Arizona's tax as though such business were transacted in this state. This provision was subsequently declared unconstitutional due to a legal technicality (*American Estate Life Insurance Company v. State of Arizona*, filed August 23, 1977). This law also changed the due date for surplus line insurers from April 1 of each year to March 1 of each year. (E - May 14, 1973)

Laws 1974, Chapter 15 provided that March 31 should continue as the due date for the Insurance Premium Tax for authorized domestic insurers and established March 1 as the due date for all other insurers. (E - August 9, 1974)

(Continued)

Insurance Premium Tax

Laws 1975, Chapter 104 provided that health insurance associations offering catastrophic medical coverage were subject to a 1% tax on net premiums. The tax was paid to the Insurance Department on or before March 1 of each year. (E - May 27, 1975)

Laws 1975, Chapter 118 included dental and optometric service corporations under the Insurance Code and imposed a 1% tax on insurance premiums paid to these corporations. The tax does not apply to any coverage provided to national, state, county and municipal governments or to any coverage financed with government funds. The tax established by this law was filed at the same time as the tax on other authorized insurers. (E - September 12, 1975)

Laws 1976, Chapter 150 repealed the law which required payment of Insurance Premium Taxes by health insurance associations providing catastrophic medical coverage. (E - September 23, 1976)

Laws 1976, 1st Special Session, Chapter 1 authorized a separate assessment against casualty insurance companies in an amount sufficient to pay the unfunded expenses of a Joint Underwriting Plan for medical malpractice insurers. Each insurer subject to these assessments was granted a decrease in Premium Tax liability equal to the amount of the assessment but not to exceed 50% of the insurer's current tax liability from sales of casualty insurance. If the assessment against the insurer exceeded the authorized deduction from tax liability, the insurer was permitted to deduct the excess from tax liability in subsequent years. (E - February 27, 1976)

Laws 1977, Chapter 45 included prepaid dental plan organizations under the Insurance Code. A Premium Tax was levied on payments to these organizations as follows:

- (1) Domestic organizations, 1% of prepaid net charges received from members.
- (2) Foreign or alien organizations, 2% of prepaid net charges received from members.

The tax was paid annually on or before March 1. (E - August 27, 1977)

Laws 1977, Chapter 130 established a separate assessment against property and casualty insurance companies to reimburse the Property and Casualty Insurance Guaranty Fund for the payment of claims against insolvent insurers. Each insurer subject to this assessment was granted a decrease in Premium Tax liability equal to 20% of the assessment for the year in which it was levied and 20% of the assessment per year for the next succeeding 4 years. (E - August 27, 1977)

Laws 1977, Chapter 136 provided for additional assessments against life and disability insurance companies in amounts sufficient to reimburse the Life and Disability Insurance Guaranty Fund for the payment of claims against insolvent insurers. Each insurer subject to these assessments was granted a decrease in Premium Tax liability equal to 20% of the assessment for the year in which it was levied and 20% of the assessment per year for the next succeeding 4 years. (E - August 27, 1977)

Laws 1981, Chapter 41 extended the Joint Underwriting Plan for medical malpractice insurers originally enacted by Laws 1976, 1st Special Session, Chapter 1. The Joint Underwriting Plan continued in operation until the state was able to secure reinsurance for medical malpractice insurers from a private insurance carrier or until all of the claims and potential claims against these insurers had been covered. The law also extended the Insurance Premium Tax deduction for assessments paid to the Joint Underwriting Plan Fund. (E - April 1, 1981)

Laws 1981, Chapter 280 changed the distribution of collections from the tax on fire insurance premiums for cities, towns, and fire districts that have pension obligations to volunteer firemen or have firefighters not covered by the Public Safety Personnel Retirement System. Under the new law, collections from this source may be deposited in the Firefighters Relief and Pension Fund (formerly, the Firemen's Relief and Pension Fund) or used to purchase a private pension or benefit program for firemen. (E - July 25, 1981)

Laws 1982, Chapter 211 provided that cities, towns and legally organized fire districts which procure the services of private fire companies are entitled to a share of the tax collected on fire insurance policies. The amount allocated to cities and towns

(Continued)

Insurance Premium Tax

was deposited in the city or town General Fund. The amount allocated to organized fire districts was deposited in the Firefighters' Relief and Pension Fund. (E - July 24, 1982)

Laws 1982, Chapter 245 established a new credit against the Insurance Premium Tax for domestic insurers. The credit is equal to the amount paid by the domestic insurers for the triennial examinations conducted by the Insurance Department. One-third of the credit may be claimed by the insurers in the year when the fee is paid and 1/3rd may be claimed in each of the 2 subsequent years. (E - July 24, 1982)

Laws 1983, Chapter 4 required insurers to make quarterly tax payments if their tax liability on premiums received during the preceding calendar year was \$2,000 or more. The quarterly payments did not apply to surplus line insurers, industrial insureds, taxes on vehicle insurance premiums, or retaliatory taxes. Under this law, quarterly payments are submitted to the state on or before the last day of the month following the close of each quarter. The quarterly payments are equal to 1 of the following:

- (1) The tax due on the premiums received during the preceding calendar quarter, or
- (2) 25% of the tax due on premiums received during the preceding calendar year.

All quarterly payments are deducted from the tax paid by the insurer at the filing of the Annual Report. In addition to the quarterly payment provisions, this bill changed the annual due date for domestic prepaid dental plan organizations and domestic health care service organizations. The annual due date was changed from March 1 to March 31. These organizations were still required to file their Annual Reports on or before March 1. (ERTYBFA -December 31, 1982)

Laws 1983, Chapter 40 changed the date on which health care service organizations are required to file their Annual Report. Under this law, the due date was changed from March 1 to March 31 of each year. (E - July 27, 1983)

Laws 1983, Chapter 227 authorized the formation of prepaid legal insurance corporations. These corporations were to pay taxes at the same rates as domestic insurers. (E - July 27, 1983)

Laws 1985, Chapter 360 extended the credit against the Premium Tax to foreign and alien insurers for examination expenses. The Premium Tax rate was changed from 2% for foreign or alien insurers and 1% for domestic insurers to a uniform 1.7% for all insurers, except for the tax on fire insurance premiums which shall be 1.9%. Also, the additional Premium Tax which is appropriated to the Public Safety Personnel Retirement System was changed from ½ of 1% to .4312% of net premiums. Also, payments are made by the last day of each April, July, and October in an amount equal to 30% of the amount paid or required to be paid during the preceding calendar year.

Laws 1986, Chapter 172 allowed the Industrial Commission to levy an additional Special Fund assessment of up to 0.5% on all premiums received by State Compensation Fund and private insurers, if annual liabilities of the Special Fund due to certain permanent impairment claims exceeding \$6,000,000. An employer/carrier can challenge the additional assessment within 60 days after such assessment. This bill is retroactive to injuries occurring from and after December 31, 1985.

Laws 1987, Chapter 136 allowed the Director to examine insurers and report whether the insurer has complied with filed rates and proper adjustments. The Director may hire an independent contractor to perform the required examinations, and all examination-related expenses will be paid by the insurer from the Insurance Examiners Revolving Fund. Entitled each examined insurer to a Premium Tax credit for the amount paid for such examinations conducted. The Director will credit 1/3rd of the amount paid in the year paid, 1/3rd in the following calendar year, and 1/3rd in the next following calendar year. (E - August 18, 1987)

Laws 1987, Chapter 249 exempted from the Insurance Premium Tax those payments received from the Secretary of Health and Human Services by health care service organizations to provide services to Medicare patients on a risk basis. (E - August 18, 1987)

(Continued)

Insurance Premium Tax

Laws 1988, Chapter 271 increased the Insurance Premium Tax rate from 1.7% to 2% and the tax on fire insurance premiums from 1.9% to 2.2%. This rate increase is delayed until July 1, 1989 for health-related premiums. (E - July 1, 1988)

Laws 1989, Chapter 8 removed the Insurance Premium Tax credit for expenses incurred by domestic or alien insurers due to oversight examinations by the Department of Insurance; instead, insurers shall be compensated for such expenses by the Insurance Examiners Revolving Fund. (E - September 15, 1989)

Laws 1989, Chapter 312 was the General Revenue Act for FY 1990. The additional Premium Tax collected in April, July, and October of 1989 and in March of 1990 was diverted from the Public Safety Personnel Retirement System (PSPRS) and remained in the state General Fund to partially offset the projected budget deficit in FY 1990.

Laws 1989, 2nd Special Session, Chapter 1 prescribed a new tax payment schedule for insurers whose prior year Insurance Premium Tax liability was \$2,000 or more. The old schedule required quarterly payments by the last day in April, July, and October, with each payment consisting of 30% of the insurer's previous year tax liability. The new schedule requires payments by the 15th day of each month from March through August in an amount equal to 15% of the previous year tax liability. The balance due for the current year is still the following March 31 for domestic insurers and March 1 for other insurers. The new schedule began on May 1, 1990. The net effect was to accelerate a portion of the Premium Tax revenues from FY 1991 into FY 1990.

Laws 1990, Chapter 279 reduced the Insurance Premium Tax rate on fire insurance premiums for property located in an incorporated city that contracts the services of a private fire company. The new rate is 0.66%, while all other fire premiums are still taxed at 2.2% of net premiums.

Laws 1991, Chapter 165 limited members of the Arizona Life and Disability Guaranty Fund, in the event of insolvency by an Arizona-based insurance company, to provide coverage only to Arizona policyholders. (E - September 21, 1991)

Laws 1991, Chapter 265 was 1 of 2 "Omnibus Reconciliation Bills" (ORBs) necessary to implement the General Appropriations Act for FY 1992. One provision provided that any additional Motor Vehicle Insurance Premium Taxes received by the Public Safety Personnel Retirement System in excess of the needs of the Highway Patrol account shall be deposited in the Arizona Highway Patrol Fund. Also, for FY 1991, \$3,100,000 of the additional Motor Vehicle Insurance Premium Tax collected was transferred to the state General Fund. (E - June 30, 1991)

Laws 1991, 4th Special Session, Chapter 5 modified the insurance premium tax credit insurance companies can claim for assessments paid to the state's Guaranty Funds. Previously, a company could reduce its Premium Tax liability by 20% of the assessment each year (as evidenced by a Certificate of Contribution issued by the Department of Insurance) until 100% of the assessment is offset. Now, the tax credits for certificates of contributions issued from 1987 through 1994 are as follows:

- (1) For 1991, 7%
- (2) For 1992, 9%
- (3) For 1993, 11%
- (4) For 1994, 13%

In 1995, the percentage allowed returns to 20%. No offset can be taken unless the assessment for which the 1st year credit is claimed was paid in the same year that the insurer seeks to offset its taxes. Also, the Legislative Council shall contract a consultant to prepare a report on the tax credit program by March 15, 1992. Seventy-five thousand dollars shall be assessed against member insurers to retain a consultant for this study. A Joint Legislative Committee is established to review the consultant's report and prepare the recommendations. (E - December 17, 1991)

Laws 1992, Chapter 30 effectively delayed the Insurance Premium Tax credit study established in Laws 1991 Chapter 5 of the 4th Special Session until a qualified consultant can be retained to conduct the study. The repeal date on the Joint Legislative Study Committee on Premium Tax Credits was set for January 1, 1993. (E - April 17, 1992)

(Continued)

Insurance Premium Tax

Laws 1992, Chapter 290 modified the Insurance Premium Tax credit that property and casualty insurance companies can claim for assessments paid to the state's Guaranty Funds. Previously, a company could reduce its Premium Tax liability by 20% of the assessment each year (as evidenced by a Certificate of Contribution issued by the Department of Insurance) until 100% of the assessment is offset. Now, the tax credits for certificates of contributions issued from 1987 through 1994 are as follows:

- (1) For 1992, 13%
- (2) For 1993, 11%
- (3) For 1994, 13%

In 1995, the percentage allowed returns to 20%. No offset can be taken unless the assessment for which the 1st year credit is claimed was paid in the same year that the insurer seeks to offset its taxes. This bill was 1 of 7 Omnibus Reconciliation Bills. The insurance provisions were in response to large insurance bankruptcies and similar to Laws 1991, Chapter 5, of the 4th Special Session which pertained to life and disability insurers. (E - September 30, 1992)

Laws 1995, Chapter 180 provided a means of calculating Retaliatory Taxes in order to equalize the tax burden between Arizona insurers and insurers from other states or foreign countries. (E - July 13, 1995)

Laws 1995, Chapter 263 provided that beginning July 1, 1996 accountable health plans will pay a premium tax of 1% of the net premiums received for health plans issued to small employers. Beginning July 1, 1997 accountable health plans are exempt from premium taxes for health plans issued to small employers. The bill provided that each accountable health plan notify the small employers of the reduction in premium taxes. (E - July 13, 1995)

LIEU TAX ON WORKERS' COMPENSATION INSURANCE PREMIUMS

DESCRIPTION

The Arizona Constitution, Article 18, Section 8 enacted the "Workmen's Compensation Law" in 1925 to protect employees and their families from industrial injuries or death and to curtail litigation between employer and employee in such cases. Thus, most employers are obligated to obtain workers' compensation insurance or be subject to action by the Industrial Commission for a court injunction to cease such employer's business operations. Premiums paid for such insurance are taxed in lieu of all other taxes.

YIELD

Fiscal Year	Net Collections For Administrative Fund ^{1/}	Net Collections For Special Fund ^{2/}	Total Net Collections
1994-95	\$10,513,000	\$ -0-	\$10,513,000
1993-94	11,653,700	1,632	11,655,332
1992-93	20,728,411	2,425	20,730,836
1991-92	19,384,779	3,432,898	22,817,677
1990-91	16,244,418	5,152,989	21,397,407
1989-90	15,657,914	6,059,027	21,716,941
1988-89	12,840,506	7,788,223	20,628,729
1987-88	13,117,031	6,625,338	19,742,369
1986-87	13,587,391	6,717,345	20,304,736
1985-86	10,306,058	2,412,236	12,718,294
1984-85	6,732,934	2,472,470	9,205,404
1983-84	6,095,463	2,472,480	8,567,943
1982-83	5,882,635	3,297,953	9,180,588
1981-82	7,422,922	4,016,091	11,439,013
1980-81	9,016,428	4,978,304	13,994,733

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

2/ The tax rate to the Special Fund is not to exceed 1.5% and is set at a rate no more than necessary to keep it actuarially sound.

SOURCE: Industrial Commission, Accounting Section - "Comparison of Administrative Fund Taxes with Expenditures" and the Special Fund Ledger.

WHO PAYS THE TAX

A.R.S. § 23-961(G). *Insurance Carriers.* Insurance carriers issuing workers' compensation insurance, employers providing workers' compensation insurance through the self-insurance method, and the State Compensation Fund.

TAX BASE

A.R.S. § 23-961(G). *Net Premiums.* The Lieu Tax on Workers' Compensation Insurance Premiums is levied on total direct premiums paid or contracted for during the preceding calendar year minus deductions for cancellations, returned premiums, policy dividends, refunds and similar amounts paid or credited to policyholders within this state and not reapplied as premiums for new, additional or extended insurance. The above applies to premiums paid to insurers or the State Compensation Fund. For

(Continued)

Lieu Tax on Workers' Compensation Insurance Premiums

self-insured employers, the tax is based on the premiums which would have been paid by the employer if fully insured under a plan available from the State Compensation Fund during the preceding calendar year.

A.R.S. § 23-987. *State Compensation Fund In-Lieu Tax.* Required the State Compensation Fund to determine the amount of federal tax owed on premiums as if it was a private insurance carrier was repealed by Laws 1993, Chapter 115, effective retroactively to April 14, 1992.

A.R.S. § 23-902. *Exception.* Employers of domestic servants are not subject to the "workmen's compensation" statutes.

TAX RATE

The total tax rate is composed of two separate rates:

A.R.S. § 23-961(G). *Tax Rate for Administrative Fund.* Three percent of net premiums, but for self-insured employers, not less than \$250 annually.

A.R.S. § 23-1065(A). *Tax Rate for Special Fund.* One and a half percent of net premiums is the maximum rate allowed but, for self-insured employers, the minimum annual payment is \$250. The tax rate for the Special Fund may be adjusted downward by the Industrial Commission so that revenues received are no more than necessary to keep the Special Fund actuarially sound.

A.R.S. § 23-987. *In Lieu Tax.* Repealed by Laws 1993, Chapter 115, effective retroactively to April 14, 1992.

Additional Assessment for Excess Liabilities. The Industrial Commission may, after notice and a hearing, levy an additional 0.5% of net premiums to meet liabilities of the Special Fund in excess of \$6 million. [See A.R.S. § 23-1065(F)]

Additional Assessment for State Compensation Fund. The Industrial Commission has the authority to increase the Special Fund tax assessment by up to 0.5% of that assessment in any one year. This additional assessment is to reimburse the State Compensation Fund for payments made to individuals whose self-insured employer or insurance carrier fail to pay a claim or comply with a commission order. [See A.R.S. § 23-966(B)]

PAYMENT SCHEDULE

A.R.S. § 23-961(G). *Due Dates.* The tax is due annually, on or before March 31 for self-insured employers, and on or before March 1 for all other covered insurance carriers and the State Compensation Fund.

A.R.S. § 23-961(H-I). *Quarterly Payments.* Since the 1983 tax year, insurance carriers and the State Compensation Fund are required to make quarterly payments on the tax for the Administrative Fund if their tax liability for the preceding calendar year was \$2,000 or more. Quarterly payments are submitted to the state on or before the last day of the month following the close of each quarter. All quarterly payments are deducted from the tax that is payable on the regular March due date. The quarterly payments are to equal one of the following:

- The tax due on net premiums collected or contracted for during the preceding calendar quarter, or
- 25% of the tax paid or required to be paid for the preceding calendar year.

Overpayments. Any overpayment of taxes resulting from the quarterly payments may be refunded by the Industrial Commission without interest.

A.R.S. § 23-961(G). *Collecting Agency.* The tax for the Administrative and Special Fund is paid to the State Treasurer through the Industrial Commission.

(Continued)

Lieu Tax on Workers' Compensation Insurance Premiums

DISTRIBUTION

A.R.S. § 23-1081(A-B). *Administrative Fund*. Tax collections for this 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 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. § 23-1065. *Special Fund*. Tax collections for the Special Fund provide additional compensation payments or awards to promote the rehabilitation of disabled workers. Since July 25, 1981, monies in the Special Fund may be allocated to acquire real property or construct and furnish or procure a new office building for the Industrial Commission. Since April 19, 1983, the Special Fund may also provide loans to the Administrative Fund. [See A.R.S. § 23-1065(I)] The Investment Committee of the Industrial Commission may invest the surplus or reserves in the fund for any legal investment authorized under A.R.S. § 38-757. Any expenses or consulting fees incurred in the inspection of claims may also be expended from the Special Fund.

TRANSFERS TO THE SPECIAL FUND ^{1/}

<u>Fiscal Year</u>	<u>Net Collections For Special Fund</u>	<u>Transfers From Administrative Fund To Special Fund ^{2/}</u>	<u>Net Deposits To Special Fund</u>
1994-95	\$ -0-	\$ -0-	\$ -0-
1993-94	1,632	-0-	1,632
1992-93	2,425	8,000,000	8,002,425
1991-92	3,432,898	7,550,462	10,983,360
1990-91	5,152,989	1,168,432	6,321,421
1989-90	6,059,027	4,995,108	11,054,135
1988-89	7,788,223	2,910,006	10,698,229
1987-88	6,623,338	3,459,831	10,085,169
1986-87	6,717,345	5,348,691	12,066,036
1985-86	2,412,236	3,159,558	5,571,794

^{1/} The tax rate to the Special Fund is not to exceed 1.5% and is set at a rate no more than necessary to keep it actuarially sound.

^{2/} Laws 1993, 2nd Special Session, Chapter 9 eliminated the transfer of any surplus in the Administrative Fund to the Special Fund; instead the surplus is used to calculate the tax rate the following year.

SOURCE: Industrial Commission, Accounting Section – Special Fund General Ledger.

HISTORY

Laws 1925, Chapter 83, Section 58 imposed the first Arizona state tax upon employers who provided workers' compensation insurance to their employees on a self-insurance basis. The tax was imposed at a rate equal to the Insurance Premium Tax rate (2%) and based on the amount of potential premiums paid had the employer been insured with the State Compensation Fund. The Industrial Commission was responsible for collection of the tax and all receipts were paid into the State Compensation Fund. (E - March 25, 1925)

(Continued)

Lieu Tax on Workers' Compensation Insurance Premiums

Laws 1933, 1st Special Session, Chapter 11 extended the 2% tax on workers' compensation insurance premiums to include all insurance carriers except the State Compensation Fund and provided that the 2% tax was in lieu of all other taxes on workers' compensation insurance. An annual minimum tax of \$250 was established for self-insured employers. (E - June 26, 1933)

Laws 1953, Chapter 12 authorized the Industrial Commission to collect a tax on workers' compensation insurance premiums paid to the State Compensation Fund. The tax was not to exceed 1% of the premiums paid and collections from the tax were dedicated to the Industrial Commission's Special Fund. (E - June 30, 1953)

Laws 1968, 4th Special Session, Chapter 6 increased the premium tax designated for the Special Fund (see Laws of 1953) to a maximum of 2% of premiums received. Private carriers and self-insurers were required to pay the tax as well as the State Compensation Fund. The base of the original tax (see Laws of 1925 and 1933) was broadened to include the State Compensation Fund. The net result was a tax on private carriers, self-insurers and the State Compensation Fund of between 2% and 4% of premiums received depending upon the rate of the Special Fund tax set by the Industrial Commission. The receipts from the original tax were reallocated to the Industrial Commission's Administrative Fund beginning in 1970. For the 1969 calendar year, only the tax paid by the State Compensation Fund was dedicated to the Administrative Fund. Deposits in the Administrative Fund were used for the expenses of the Industrial Commission. Any deposits to this fund that exceeded the administrative expenses of the Industrial Commission were transferred to the Special Fund. All taxes levied on workers' compensation insurance premiums were paid on or before March 31 of each year. (EFA - January 1, 1969)

Laws 1969, Chapter 107 provided that the share of workers' compensation insurance premium taxes paid by insurance carriers and the State Compensation Fund to the Administrative Fund was deposited instead to the state General Fund. Any amounts deposited in the state General Fund over and above the expenses of the Industrial Commission were transferred to the Commission's Special Fund. (E - April 16, 1969)

Laws 1971, Chapter 173 increased the rate on the tax designated for the Administrative Fund to 3% of premiums received. In addition, the Industrial Commission was given the authority to increase the assessment going to the Special Fund by an amount not to exceed 0.5% of such assessment. The added assessment is for the purpose of reimbursing the State Compensation Fund for claims paid to individuals when their employer or insurance carrier fails to pay the claim or comply with Commission orders. The effective rate for both taxes could then aggregate between 3.0% and 5.01%. (E - August 13, 1971)

Laws 1974, Chapter 184 required insurance carriers and the State Compensation Fund to pay the tax on workers' compensation insurance premiums on or before March 1 of each year. The due date for self-insurers was not changed. (E - May 17, 1974)

Laws 1981, Chapter 299 changed the maximum rate of the Lieu Tax levied for the Industrial Commission's Special Fund from 2% to 1.5% of net premiums paid for workers' compensation insurance. A provision was also added authorizing the Industrial Commission to spend monies in the Special Fund for the construction and furnishing of a new office building. (E - July 25, 1981)

Laws 1983, Chapter 4 required insurers to make quarterly tax payments for the current year if their tax liability for the preceding calendar year was \$2,000 or more. Under this law, quarterly payments are submitted to the state on or before the last day of the month following the close of each quarter. The quarterly payments are equal to one of the following:

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

All quarterly payments are deducted from the tax paid by the insurer on the regular March due date. (ERTYBFA -December 31, 1982)

Laws 1983, Chapter 142 changed the distribution of the Lieu Tax on Workers' Compensation Insurance Premiums. Instead of depositing a share of collections in the General Fund, all collections from the tax for the Administrative Fund were deposited in the Administrative Fund. Deposits to the Administrative Fund were for the expenses of the Industrial Commission. Any revenues remaining in the Administrative Fund after paying the expenses of the Industrial Commission, were transferred to the

(Continued)

Lieu Tax on Workers' Compensation Insurance Premiums

Commission's Special Fund at the end of each fiscal year. The law also authorized the Industrial Commission to use monies in the Special Fund for making loans to the Administrative Fund. (E - April 19, 1983)

Laws 1985, Chapter 39 provided a civil penalty equal to the greater of \$25 or 5% of the Lieu Tax due plus interest at 1% per month from the original due date for insurers who fail to pay the tax.

Laws 1990, Chapter 249 provided for a transfer to the state General Fund before April 15th of each year in the amount of potential federal taxes due for premiums collected during the preceding year if the State Compensation Fund was private and required to pay such federal tax. (E - September 27, 1990)

Laws 1993, 2nd Special Session, Chapter 3 was 1 of 6 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 1994. A session law required the Industrial Commission to revert any surplus in the Administrative Fund to the state General Fund on June 30, 1993. This was a one-time transfer. (E - June 15, 1993)

Laws 1993, 2nd Special Session, Chapter 9 was 1 of 6 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 94. Affecting the Lieu Tax on Workers' Compensation Insurance Premiums were the provisions converting the workers' compensation insurance premium tax rate from a fixed rate of 3% to a variable rate not to exceed 3% and authorizing the Industrial Commission to annually fix the Workers' Compensation Insurance Tax rate to yield an amount only necessary to cover actual expenses of the Industrial Commission. The bill also eliminated the transfer of any surplus in the Administration Fund to the Special Fund; instead the surplus is used to calculate the tax rate for the following year. (E - June 15, 1993)

PARI-MUTUEL TAX

DESCRIPTION

The Pari-Mutuel Tax is imposed on the pari-mutuel wagering at horse and dog track facilities in Arizona owned or leased by a permittee. The tax structure is separated according to the type of track—horse or dog and the population size of the county in which the track is located.

YIELD

<u>Fiscal Year</u>	<u>Pari-Mutuel Taxes</u>	<u>Licenses</u>	<u>Total Collections</u>
1994-95	\$8,535,300	\$87,100	\$8,622,400
1993-94	8,507,000	49,200	8,556,200
1992-93	8,080,200	184,400	8,264,600
1991-92	8,085,200	208,300	8,293,500
1990-91	7,940,943	63,408	8,004,351
1989-90	9,348,552	123,218	9,471,770
1988-89	10,112,985	257,354	10,370,399
1987-87	10,211,589	77,796	10,289,385
1986-86	10,808,930	133,800	10,942,730
1985-85	11,973,996	225,848	12,199,844
1984-84	11,507,681	63,000	11,570,681
1983-83	10,674,967	145,614	10,820,590
1982-82	10,134,785	215,604	10,350,389
1981-81	10,758,983	95,574	10,854,557
1980-80	10,852,537	51,629	10,904,166
1979-79	9,573,411	47,310	9,620,721
1978-78	8,630,699	46,645	8,677,344
1977-77	8,305,715	42,635	8,348,350
1976-76	7,542,464	31,650	7,574,114
1975-75	6,697,865	28,861	6,726,726

SOURCE: Arizona Racing Commission, Annual Reports.

WHO PAYS THE TAX

A.R.S. §5-111. *Taxpayer.* Pari-Mutuel Permittees. This can be any person, firm, partnership, corporation, or association. No single permittee may simultaneously own more than four racetracks within the state. In counties of 300,000 population or more, no permittee can own more than one of the same kind of racetrack. [See A.R.S. §5-108.03]

TAX BASE

A.R.S. §5-111. *Gross Handle.* The Pari-Mutuel Tax is levied on the gross amount of money handled in the pari-mutuel pool of horse, harness and dog races or a simulcast conducted within the state. The amount of money handled in the pari-mutuel pool includes the handle at off-track facilities where the race is being televised.

Handle. This is the total amount of money contributed to all pari-mutuel pools by bettors.

Simulcast. This is a telecast shown in Arizona of horse, harness, or dog races conducted out-of-state or a telecast of such races originating in this state and shown out-of-state for pari-mutuel wagering.

(Continued)

Pari-Mutuel Tax

A.R.S. §5-111(D-F). *Exemptions:*

- Beginning July 1, 1995, the percentage paid to the state does not apply to monies handled in a pari-mutuel pool for wagering on simulcasts of out-of-state races.
- Racing meetings conducted by county fair associations with the permission of the State Racing Commission. This is limited to one racing meeting each year.
- Monies received from horse and dog races that are held on charity days. Charity days are days on which the net proceeds of the pari-mutuel pool are donated to non-profit organizations and corporations which benefit the general public.

TAX RATE

A.R.S. §5-111(B,D, J). *Gross Pari-Mutuel Handle.* The state shall receive a percentage of the daily gross pari-mutuel handle as follows:

Horse Tracks. (1) Two percent of the first \$1,000,000 of the gross pari-mutuel handle and (2) 5% in excess of \$1,000,000. The percentage paid to the state may be reduced by a permittee for approved capital improvements depending on the population of the county in which the racing meeting is located. In counties with a population of 500,000 or less, the percentage paid to the state may be reduced by 2 percentage points. The reduction in the percentage paid to the state (1 percentage point) for counties with a population of 500,000 or more (Maricopa and Pima), expired on June 30, 1992. For counties with a population of 500,000 or less, the reduction in the percentage paid to the state expires on June 30, 1999. Projects approved prior to either of the dates continue until their completion. The decrease in the percentage paid to the state continues until sufficient funds have been obtained for completion of the approved capital improvement. [See A.R.S. §5-111.02]

NOTE: A horse racing permittee other than the permittee who is making the capital improvements may reduce the percentage paid to the state by 1 percentage point and is required to pay such amount to the permittee making the capital improvements.

Dog Tracks. (1) For counties of 1,500,000 population or more, 7.5% of the pari-mutuel handle. Effectively, this is Maricopa County. (2) For all other counties, 5.5% of the gross pari-mutuel pool for the first \$100,000 in the pari-mutuel handle and 7.5% for the pari-mutuel handle in excess of \$100,000. The reduction in the percentage paid to the state for approved capital improvements expired on June 30, 1992. Projects approved prior to this date continue until completion. The decrease in the percentage paid to the state continues until sufficient funds have been obtained for completion of the approved capital improvement: [See A.R.S. §5-111.03]

Tax Rate at Dog Tracks Phased Down. The percentage of the daily gross pari-mutuel handle paid to the state will be phased down according to the following schedule: [See A.R.S. §5-111(B)]

Maricopa County:

- 1) FY 1995-7.50%
- 2) FY 1996-6.84%
- 3) FY 1997-6.18%
- 4) FY 1998-5.50%

All other counties:

- 1) FY 1995-5.50% of the first \$100,000 and 7.50% over \$100,000
- 2) FY 1996-5.50% of the first \$100,000 and 6.84% over \$100,000
- 3) FY 1997-5.50% of the first \$100,000 and 6.18% over \$100,000
- 4) FY 1998-5.50%

(Continued)

Pari-Mutuel Tax

Hardship Tax Credit. Beginning August 1, 1995 a permittee is eligible for a hardship tax credit that can be used to reduce the permittee's Pari-Mutuel Tax due. The hardship tax credit is determined by:

- (1) Establishing a base year by determining the highest handle generated by a racetrack between FY 1990 and FY 1994.
- (2) Multiplying the racetrack's total state Pari-Mutuel Tax payments or tax liability in the previous year by the percentage decline for the base year and multiplying the result by 3.
- (3) The permittee's Pari-Mutuel Tax is reduced for the current, and any future periods, by the amount of the hardship tax credit.

PAYMENT SCHEDULE

A.R.S. §5-111(B). *Due and Payable.* Pari-Mutuel Taxes are paid daily during the racing meeting.

A.R.S. §5-107(D). *Collecting Agency.* Arizona Department of Racing.

DISTRIBUTION

A.R.S. §5-111 and A.R.S. §5-113. *Pari-Mutuel Revenues are Dedicated as Follows:*

<u>DEDICATION OF PARI-MUTUEL REVENUES</u>	
3.5% or \$300,000	County Fair Racing Fund. Unexpended funds in excess of \$75,000 at fiscal year-end reverts to the state General Fund.
8.5% or \$800,000	County Fair's Racing Betterment Fund.
0.5% or \$40,000	Stallion Award Fund.
9.5% or \$80,000	Breeders' Award Fund.
4.5% or \$400,000	Coliseum and Exposition Center Fund for capital outlay.
12.0% or \$1,200,000	County Fair's Livestock and Agricultural Promotion Fund.
0.5% or \$45,000	Arizona Department of Racing for administration of the County Fair's Racing Betterment Fund, the Breeders' Award Fund and the Stallion Award Fund.
1.0%	Agricultural Consulting and Training Fund.
The remainder of the pari-mutuel revenues go to the state General Fund.	

Pari-Mutuel Tax

EXHIBIT P **HISTORICAL DISTRIBUTION OF THE PARI-MUTUEL TAX**

	<u>Laws 1991</u> <u>Chapter 254</u>	<u>Laws 1992</u> <u>Chapter 82</u>	<u>Laws 1994</u> <u>Chapter 370</u>
General Fund	61.0%	61.0%	Varies
County Fair Racing Fund	3.5	3.5	3.5% or \$300,000
Agricultural Consulting and Training Fund	--	--	1.0%
Racing Betterment Fund	8.25	8.5	8.5% or \$800,000
Stallion Award Fund	0.25	0.5	0.5% or \$40,000
Breeders' Award Fund	9.5	9.5	9.5% or \$800,000
Coliseum Capital Outlay Fund	5.0	4.5	4.5% or \$400,000
Livestock and Agriculture Promotional Fund	12.0	12.0	12.0% or \$1,200,000
Arizona Department of Racing for Administration	0.5	0.5	0.5% or \$45,000

NOTE: For Historical distributors prior to 1990 see the 1990 Tax Handbook.

HISTORY

The Pari-Mutuel Tax was first imposed by Laws 1949, Chapter 61, Section 9. The tax was imposed on the gross amount of money handled in the pari-mutuel pool of horse and dog races conducted within the state. The sharing formula which determines the percentage of the gross pari-mutuel pool which is distributed to the permittee and the percentage which is distributed to the state has been changed many times since the enactment of the original law. The distribution of the state's share of pari-mutuel revenues has also been changed substantially. The following is a brief history of changes in the Pari-Mutuel Tax:

Laws 1949, Chapter 61 established the following sharing formula for pari-mutuel pools:

- | | |
|------------------------|--|
| (1) Horse racing pools | 9% to the permittee
5% to the state |
| (2) Dog racing pools | 9% to the permittee
5% to the state |

The state's share of the pari-mutuel pool was to be paid daily during the racing meeting to the Arizona Racing Commission. All revenues received as the state's share of the pari-mutuel pool were transferred to the State Treasurer for deposit in the General Fund. (E - July 1, 1949)

Laws 1951, Chapter 75 changed the sharing formula for pari-mutuel pools as follows:

- | | |
|--|---|
| (1) Horse racing pools on daily amounts of \$100,000 or less | 11% to the permittee
4% to the state |
| (2) Horse racing pools on daily amounts greater than \$100,000 | 9% to the permittee
6% to the state |
| (3) Dog Racing pools | 9% to the permittee
6% to the state |

(Continued)

Pari-Mutuel Tax

The law also provided that 5% of the state's share of pari-mutuel revenues was deposited in the Arizona County Fairs Fund and 5% was deposited in the Livestock and Agriculture Fund. (E - March 16, 1951)

Laws 1957, Chapter 31 increased the percent of state pari-mutuel revenues distributed to the Livestock and Agriculture Fund from 5% to 7.5%. The state General Fund share was reduced correspondingly. (E - June 14, 1957)

Laws 1960, Chapter 7 increased the percent of state pari-mutuel revenues distributed to the County Fairs Fund from 5% to 7.5%. The law also provided that 5% of the state's share of pari-mutuel revenues was distributed to the State Fair Fund to be used for capital outlay. The amount distributed to the State Fair Fund was not to exceed \$75,000 in any 1 year. The General Fund share was reduced correspondingly. (E - June 25, 1960)

Laws 1964, Chapter 15 changed the names of the Arizona County Fairs Fund and the Livestock and Agricultural Fund to the "Arizona County Fairs and Breeders' Award Fund" and the "Livestock, Agriculture and Breeders' Award Fund." The \$75,000 limit on the amount that could be deposited in the State Fair Fund was removed. (E - July 15, 1964)

Laws 1965, Chapter 109 changed the sharing formula for pari-mutuel pools as follows (E - July 20, 1965):

- | | |
|--|---|
| (1) Horse racing pools on daily amounts of \$100,000 or less | 14% to the permittee
4% to the state |
| (2) Horse racing pools on daily amounts greater than \$100,000 | 11% to the permittee
7% to the state |

For each separate dog racing program:

- | | |
|--------------------------------------|---|
| (1) on amounts of \$35,000 or less | 12% to the permittee
6% to the state |
| (2) on amounts greater than \$35,000 | 9% to the permittee
9% to the state |

Laws 1967, Chapter 35 changed the sharing formula for pari-mutuel pools as follows:

- | | |
|--|---|
| (1) There was no change in the distribution for horse racing pools. | |
| (2) Dog racing pools in counties having populations of 180,000 or more | 9% to the permittee
6% to the state |
| (3) Dog racing pools in counties having populations of less than 180,000 | 11% to the permittee
4% to the state |

Under the above law, the sharing formula for counties having a population of less than 180,000 was supposed to change in October of 1969. The change never occurred because Laws 1969, Chapter 116 repealed the formula. If the 1969 law had not been enacted, the sharing formula for dog racing in counties with populations of less than 180,000 would have been as follows (E - March 10, 1967):

- | |
|-------------------------|
| (1) 9% to the permittee |
| (2) 6% to the state |

Laws 1969, Chapter 101 increased the percent of state pari-mutuel revenues distributed to the Livestock, Agriculture and Breeders' Award Fund from 7.5% to 10.0%. The state General Fund share was reduced correspondingly. This law also changed the name of the State Fair Fund to the Arizona Coliseum and Exposition Center Fund. (E - July 11, 1969)

Laws 1969, Chapter 116 changed the sharing formula for pari-mutuel pools as follows (E - July 11, 1969):

(Continued)

Pari-Mutuel Tax

- (1) There was no change in the distribution for horse racing pools.
- (2) The distribution to the state and permittee in counties having populations of 180,000 or more did not change.
- (3) Dog racing pools in counties having populations of less than 180,000:
 - a) In each separate racing program:
 - On pooled amounts of \$65,000 or less
 - 11% to the permittee
 - 4% to the state
 - On pooled amounts over \$65,000
 - 9% to the permittee
 - 6% to the state

Laws 1972, Chapter 108 changed the sharing formula for pari-mutuel pools as follows (E - May 5, 1972):

- (1) There was no change in the distribution for dog racing pools.
- (2) Horse racing at tracks where the daily handle exceeds \$100,000:
 - On the first \$100,000 pooled daily
 - 14% to the permittee
 - 4% to the state
 - On pooled amounts over \$100,000
 - 11% to the permittee
 - 7% to the state
- (3) Horse racing at tracks where the daily handle is less than \$100,000:
 - The permittee receives 16%, 1% of which is used to supplement the general purse structure.
 - The state receives 2% of the gross.

Laws 1974, Chapter 18 changed the sharing formula for pari-mutuel pools as follows (E - April 16, 1974):

- (1) There was no change in the regulations pertaining to dog racing, but the law had the following effect on horse racing rates:
 - a) Horse racing at tracks where the average daily handle for the permittee's preceding racing meeting exceeded \$100,000:
 - On the first \$100,000 pooled daily
 - 14% to the permittee
 - 4% to the state
 - On pooled amounts over \$100,000
 - 11% to the permittee
 - 7% to the state
 - b) Horse racing at tracks where the average daily handle for the permittee's preceding racing meeting was less than \$100,000:
 - On the first \$100,000 pooled daily
 - 16% to the permittee*
 - 2% to the state
 - On pooled amounts over \$100,000
 - 11% to the permittee
 - 7% to the state

* 1% is used to supplement the general purse structure.

Laws 1978, Chapter 124 changed the sharing formula for pari-mutuel pools as follows (E - June 1, 1978):

- (1) The distribution of amounts pooled in horse and harness races was changed as follows:
 - a) Horse racing at tracks where the average daily handle for the permittee's preceding racing meeting exceeded \$200,000:
 - On the first \$100,000 pooled daily
 - 14% to the permittee
 - 4% to the state
 - On pooled amounts over \$100,000
 - 12% to the permittee*
 - 6% to the state

(Continued)

Pari-Mutuel Tax

- b) Horse racing at tracks where the average daily handle for the permittee's preceding racing meeting was less than \$200,000:

• On the first \$200,000 pooled daily	16% to the permittee* 2% to the state
• On pooled amounts over \$200,000	12% to the permittee* 6% to the state

* 1% is used to supplement the general purse structure.

- (2) At tracks investing in approved construction projects costing \$100,000 or more, the percentage paid by a permittee to the state shall be reduced by an additional 1% until the permittee is reimbursed for the cost of the project but not to exceed 10 years.
- (3) There was no change in the distribution of dog racing pools.

Laws 1980, Chapter 82 changed the names of the Arizona County Fairs and Breeders' Award Fund and the Livestock, Agriculture and Breeders' Award Fund to the "Arizona County Fairs Racing and Breeders' Award Fund" and the "County Fairs Livestock and Agriculture Promotion Fund." The percent of state pari-mutuel revenues distributed to the Arizona County Fairs Racing and Breeders' Award Fund was increased from 7.5% to 14% and an additional .5% of collections was dedicated to administration of this fund. The share of Pari-Mutuel Taxes dedicated to the General Fund was reduced correspondingly. (E - July 31, 1980)

Laws 1982, Chapter 310 established the Arizona Department of Racing and transferred the responsibility for administering the Pari-Mutuel Tax to the new Department. This law also changed the sharing formula for pari-mutuel pools. The distribution of amounts pooled in dog races was changed as follows:

- | | |
|--|--|
| (1) Dog racing in counties having a population of 700,000 or more | 10.5% to the permittee*
7.5% to the state |
| (2) Dog racing in counties having a population of less than 700,000: | |

In each separate racing program:

- | | |
|---|--|
| (1) On pooled amounts of \$65,000 or less | 12.5% to the permittee*
5.5% to the state |
| (2) On pooled amounts over \$65,000 | 10.5% to the permittee*
7.5% to the state |

* An additional 3% of the amounts pooled may be retained by the permittee for exacta, daily double, quinella and other pools involving 2 dogs, and an additional 7% of the amounts pooled may be retained by the permittee for trifecta and other pools involving more than 2 dogs in 1 or more races. Of the total amount retained by the permittee, 1% is used to supplement the general purse structure.

The distribution of amounts pooled in horse and harness races was changed as follows:

- | | |
|--|--|
| (1) Horse racing at tracks where the average daily handle for the permittee's preceding racing meeting exceeded \$200,000: | |
| (a) On the first \$100,000 pooled daily | 14% to the permittee*
3% to the state |
| (b) On pooled amounts over \$100,000 | 12% to the permittee*
5% to the state |

(Continued)

Pari-Mutuel Tax

- (2) Horse racing at tracks where the average daily handle for the permittee's preceding racing meeting was less than \$200,000:

(a) On the first \$200,000 pooled daily	15% to the permittee*
	2% to the state
(b) On pooled amounts over \$200,000	12% to the permittee*
	5% to the state

- * An additional 3% of the amounts pooled may be retained by the permittee for exacta, daily double, quinella and other pools involving two horses, and an additional 7% of the amounts pooled may be retained by the permittee for trifecta and other pools involving more than two horses in one or more races. Of the total amount retained by the permittee, 1% is used to supplement the general purse structure.

This law also authorized dog tracks to reduce the percentage of pari-mutuel pools paid to the state by 1 percentage point if they invest the amount in approved construction projects. This option was already available to horse tracks under Laws 1978, Chapter 124. Under the provisions of this law, approved construction projects (for horse and dog tracks) must cost at least \$200,000 in counties with populations of 180,000 or more and at least \$100,000 in counties with populations of less than 180,000. The percentage of the pari-mutuel pools paid to the state is reduced only until sufficient funds are obtained by the race tracks to complete the approved project. This provision of the law was scheduled to expire on June 30, 1987.

A further provision of the law reduced the share of dog racing pools paid to the state by ¼% for the period from October 1, 1982 through October 1, 1983. During this period, the money from this reduction will be distributed by the permittee to purse amounts. (EFA - September 30, 1982)

Laws 1983, Chapter 264 established a separate County Fair Racing Fund. Under this law, the fund received 3% of the collections from the Pari-Mutuel Tax. The General Fund share of collections was reduced correspondingly. (E - July 27, 1983)

Laws 1983, Chapter 311 authorized individuals to wager on horse and dog races from a facility other than the enclosure where the race is being conducted. Under this law, permittees who conduct a race are authorized to televise the race to 1 additional facility and any person at that facility is permitted to make a wager on the race. Since this provision will increase the size of pari-mutuel pools, the law effectively increases the tax base. (EFA - September 30, 1983)

Laws 1986, Chapter 417 substantially altered the distribution of the pari-mutuel handle at horse and dog tracks (E - August 13, 1986):

- (1) For horse or dog racing, the total daily takeout (amount not returned to the betting public) from a regular pari-mutuel pool was increased from 18% to 20%.

- (2) The state share of the daily pari-mutuel handle for horse racing was changed:

	FIRST \$100,000	IN EXCESS OF \$100,000	FIRST MILLION	IN EXCESS OF ONE MILLION
PRIOR TO CHAPTER 417	3%	5%	--	--
FY 1987	--	--	3%	5%
FY 1988 & thereafter	--	--	2%	5%

- (3) Of the amount retained by a horse racing permittee, 50% minus the capital improvement allowance (1 percentage point of state's share), the permittee's share of breakage, and all applicable taxes shall be allocated for purses. Likewise, 50% of permittee's revenues from simulcasting races, net of advertising costs, will be used to supplement purses.
- (4) In counties with population less than 700,000, the share of the daily pari-mutuel handle on dog racing was changed:

(Continued)

Pari-Mutuel Tax

	<u>PERMITTEE</u>	<u>STATE</u>
<u>PRIOR TO CHAPTER 417:</u>		
(a) First \$65,000 pooled	12.5%	5.5%
(b) In excess of \$65,000	10.5%	7.5%
<u>AS ENACTED:</u>		
(a) First \$100,000 pooled	14.5%	5.5%
(b) In excess of \$100,000	12.5%	7.5%

- (5) In counties with a population of 700,000 or more (Maricopa and Pima), the permittee's share of the daily pari-mutuel handle on dog racing was raised from 10.5% to 12.5%, while the state share remained the same at 7.5%.
- (6) Extended the termination date from June 30, 1987 to June 30, 1992 that allowed dog track permittees to retain 1% of the handle from the state share for approved capital improvements.
- (7) Distribution of the state share of all pari-mutuel revenues are revised:

	<u>PRIOR</u>	<u>ENACTED</u>
General Fund	67.5%	61.0%
County Fair/Breeder's Awards ^{1/}	14.0	NA
County Fair/Betterment Fund	NA	7.5
Breeder's Award Fund	NA	9.5
Livestock	10.0	12.0
Coliseum	5.0	6.0
County Fair Racing	3.0	3.5
DOA Administration	0.5	0.5

^{1/} This fund was split into the two funds that follow it in the table by this bill.

Laws 1989, Chapter 243 made numerous changes in the regulation of the horse and dog racing industry (E - September 15, 1989):

- (1) Removed prohibition against racing owners or operators from controlling, managing, or owning food and beverage concessions at the race track facilities.
- (2) Eliminated the distinction between race tracks whose average daily handle exceeds \$200,000 from those below \$200,000, for determining the state's share of the handle which will now be 2% of the first million dollars in daily pari-mutuel pools and 5% of the gross amount exceeding \$1,000,000.
- (3) Extended the expiration date from June 30, 1987 to June 30, 1992, allowing race track permittees to deduct 1 percentage point from the state's share of pari-mutuel wagering to make capital improvements at horse tracks. (R - June 30, 1987)

Laws 1990, Chapter 212 made the following changes (E - September 27, 1990):

- (1) Expanded the definition of simulcasts to include telecasts shown outside this state of races originating within the state.
- (2) Allowed permittees, except those located in Pima County, to teletrack races to more than one additional facility.
- (3) Except for certain simulcasts, increased the amount deducted for purses from 3.25% to 4% of the gross pari-mutuel handle from dog racing wagering.
- (4) Exempted amounts held by a permittee for payment of purses from the Transaction Privilege Tax.

(Continued)

Pari-Mutuel Tax

- (5) Allowed a permittee of a racetrack located in a county other than Maricopa or Pima to increase the deduction for capital improvements from 1% to 2% of the total amount wagered (gross handle). This, in effect, reduced the state's percentage of the gross handle by 1 percentage point. Also, the capital improvement's minimum expenditure requirement was reduced from \$200,000 to \$50,000.

Laws 1991, Chapter 254 modified the distribution of pari-mutuel revenues as follows (E - September 21, 1991):

- (1) Increased the distribution to the Arizona County Fairs Betterment Fund from 7.5% to 8.25%.
- (2) Established a new Arizona Stallion Award Fund and designated 0.25% of revenues to this fund.
- (3) Reduced the distribution to the Arizona Coliseum and Exposition Center Fund from 6% to 5% and provided that, from and after July 1, 1994, this distribution will be redirected to the state General Fund.

Laws 1991, Chapter 318 enabled the Racing Commission to contract with a breeder's association to certify an animal's breeding history and ownership for racing purposes and to assess a fee for the costs of certification or transfer and verification of Arizona breeding. Exempted the Arizona Department of Racing from the Administrative Procedure Act relating to pari-mutuel wagering rules for a period from July 1, 1991 to June 30, 1992. (E - September 21, 1991)

Laws 1992, Chapter 82 modified the percentage distribution of pari-mutuel revenues as follows (E - September 30, 1992):

- (1) Arizona County Fairs Racing Betterment Fund: Increased from 8.25% to 8.5%.
- (2) Arizona Stallion Award Fund: Increased from 0.25% to 0.50%.
- (3) Arizona Coliseum and Exposition Center Fund: Decreased from 5% to 4.5% and repealed the provision in Laws 1991, Chapter 254 which would have eliminated the distribution to the Arizona Coliseum and Exposition Center Fund after July 1, 1994.

Laws 1993, Chapter 253 clarified that the Arizona Breeders' Award Fund is established to protect the integrity of the racing industry and promote, improve and advance the quality of racehorse and greyhound breeding within this state. The bill also prescribed that persons not eligible to be licensed or who have been refused licenses are not eligible to participate in the Arizona Greyhound Breeders' Award Fund. (E - April 22, 1993)

Laws 1994, Chapter 370 established minimum funding levels for the funds receiving state pari-mutuel racing revenues:

- (1) Livestock & Agriculture Promotion Fund—12% or \$1.2 million, whichever is greater.
- (2) Breeders Award Fund—9.5% or \$800,000, whichever is greater.
- (3) County Fair Racing Fund—3.5% but not less than \$300,000.
- (4) Racing Administration of Betterment Fund—0.5% or \$45,000, whichever is greater.
- (5) Racing Betterment Fund—8.5% or \$800,000, whichever is greater.
- (6) Coliseum Capital Outlay Fund—4.5% or \$400,000, whichever is greater.
- (7) Stallion Award Fund—0.5% or \$40,000, whichever is greater.

The act also established an Agricultural Consulting and Training Fund in the State Treasury. The State Treasurer shall deposit 1% of the pari-mutuel revenues received by the state into the fund. The Arizona Department of Agriculture, subject to legislative appropriation, shall use the monies in the fund for the Agricultural Consulting and Training Program established by this act.

The act lowered the state share of the pari-mutuel handle received from dog racing according to the following schedules:

Maricopa County:

- (1) FY 1995—7.50%
- (2) FY 1996—6.84%
- (3) FY 1997—6.18%
- (4) FY 1998—5.50%

Pari-Mutuel Tax

All other counties:

- (1) FY 1995—5.50% of the first \$100,000 and 7.50% over \$100,000
- (2) FY 1996—5.50% of the first \$100,000 and 6.84% over \$100,000
- (3) FY 1997—5.50% of the first \$100,000 and 6.18% over \$100,000
- (4) FY 1998—5.50% of the first \$100,000 and 5.50% over \$100,000

The act reinstated the Capital Improvements Program, which expired June 30, 1992 for horse tracks in counties other than Maricopa and Pima retroactive to June 29, 1992, and continuing through June 30, 1999. The percentage of the handle paid to the state will decrease by 2%, for eligible tracks, starting in FY 1996. Projects approved prior to either of the expiration dates may continue until their completion, and the decrease in the percentage paid to the state shall continue until sufficient funds have been obtained for completion of the approved capital improvement.

The act provided that beginning from and after June 30, 1995, the percentage of the handle paid to the state does not apply to monies handled in a pari-mutuel pool for wagering on simulcasts of out-of-state races.

The bill also provided a formula for providing a hardship tax credit for eligible racetracks beginning in FY 1996. The hardship tax credit is determined by:

- (1) Establishing a base year by determining the highest handle generated by a racetrack between FY 1990 and FY 1994.
- (2) Multiplying the racetrack's total state Pari-Mutuel Tax payments or tax liability in the previous year by the percentage decline from the base year.
- (3) Multiplying the amount from step 2 by 3.

A racetrack is not required to pay tax in the current year until the balance of the hardship tax credit has been used. Of the hardship tax credit received by greyhound tracks, 25% is to be used for purses in a manner determined by the Racing Commission.

The act provided a Transaction Privilege Tax exemption equal to 1/3rd of the amount received by a racetrack from the total handle during FY 1996, 2/3rds for FY 1997, and the full amount beginning in FY 1998. The amount held by racetracks for the payment of purses is already exempt. (E - July 17, 1994)

Laws 1995, Chapter 38 clarified that for purposes of County Fair racing meetings, "horse racing" means racing in which horses or mules are mounted and ridden by jockeys. (E - July 13, 1995)

Laws 1995, Chapter 131 changed the provision that for dog tracks, in counties with a population less than 500,000, to offer wagering on telecasts without offering live racing, the track must have offered live racing in each calendar year from 1980 to 1990 to 8 out of 10 years. In all counties except Pima County, wagering on dark day simulcasts of dog races at a permittee's additional facilities shall only be allowed for a maximum number of days equal to the number of days of live dog racing scheduled. The act also credited 25% of revenues derived from license fees collected from dog breeders, racing kennels and other similar operations to a fund known as the Greyhound Adoption Fund created to promote the adoption of former racing greyhounds as domestic pets. (E - July 13, 1995)

Laws 1995, Chapter 274 authorized horse and dog tracks in Pima County to receive dark day simulcasts at the permittee's racetrack enclosure and off-track wagering facilities if minimum live racing requirements are met. Clarified the ability of dog tracks to receive dark day simulcasts at a permittee's additional wagering facilities. (E - July 13, 1994)

TELECOMMUNICATION SERVICES EXCISE TAX

DESCRIPTION

In response to the deregulation of the telecommunication industry, the Legislature enacted programs to ensure the affordability of certain telecommunication services. Under the programs, this tax was enacted to finance 911 emergency telecommunication services and telecommunication devices for the deaf and severely hearing impaired.

YIELD

<u>Fiscal Year</u>	<u>911 Excise Tax</u>	<u>Telecommunication Devices</u>
1994-95	\$5,743,686	\$4,943,715
1993-94	5,320,210	3,395,370
1992-93	4,986,710	3,091,965
1991-92	4,582,888	2,234,417
1990-91	3,809,222	1,797,501
1989-90	3,619,425	1,654,601
1988-89	3,677,444	1,161,617
1987-88	3,558,566	564,095
1986-87	1,878,873	538,744
1985-86	1,282,523	456,638
1984-85	1,178,370	

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

A.R.S. § 42-1471. *Definition.* A public service corporation offering telephone or telecommunications services which provides local exchange access services, commonly called a "provider."

TAX BASE

A.R.S. § 42-1472. *Gross Proceeds of Sales.* The tax rate is imposed on the provider's gross proceeds of sales or gross income.

TAX RATE

A.R.S. § 42-1472(A-1). *Emergency Telecommunication Services.* Not to exceed 1.5% of the amount charged by a provider for exchange access services (911 Service).

A.R.S. § 42-1472(A-2). *Deaf and Severely Hearing Impaired.* Not to exceed 1.6% of the amount charged by a provider for exchange access services. The tax levied under this paragraph relates to financing devices for the deaf and severely hearing and speech impaired.

A.R.S. § 41-1322. *Joint Legislative Tax Committee.* By June 15 of each year, this Committee must set the tax rate to be levied and collected for the following fiscal year.

(Continued)

Telecommunication Services Excise Tax

PAYMENT SCHEDULE

A.R.S. § 42-1472(B) and 1473(A). *Due and Payable Date.* Each provider shall remit monthly, in the same manner and time as the Transaction Privilege Tax, to the Department of Revenue the amount due, accompanied by an information return.

Estimated Payments. Same as described under Consolidated Transaction Privilege Tax.

DISTRIBUTION

A.R.S. § 42-1473(B-1). *Emergency Telecommunication Services Revolving Fund.* Up to 1.5% of the amount charged by a provider for exchange access services is deposited in this fund.

A.R.S. § 42-1473(B-2). *Telecommunication Fund for the Deaf.* Up to 1.6% of the amount charged by a provider for exchange access services is deposited in this fund.

HISTORY

Laws 1983, Chapter 316 provided for a Telecommunication Services Excise Tax at a rate of one-half of 1% of the amount charged by a provider for exchange access services for the purpose of financing emergency telecommunication services. The rate was levied beginning July 1, 1983. (E - May 4, 1983)

Laws 1985, Chapter 35 established a program to provide telecommunication devices to the deaf and severely hearing impaired. Beginning July 1, 1985, an excise tax of two-tenths of 1% of the amount charged by a provider for exchange access services was imposed for the purpose of financing such telecommunication devices. This tax was scheduled to expire on June 30, 1988. (E - April 9, 1985)

Laws 1986, Chapter 177 increased the maximum allowable tax rate levied for financing emergency telecommunication services from one-half of 1% to 1.5% of the amount charged by a provider for exchange access services. (E - August 13, 1986)

Laws 1988, Chapter 145 increased the Telecommunication Services Excise Tax for financing telecommunication devices for the deaf and severely hearing impaired from two-tenths of 1% to four-tenths of 1%. Also made this tax permanent by eliminating the prior June 30, 1988 expiration date. (E - June 2, 1988)

Laws 1989, Chapter 73 modified the current maximum rate of four-tenths of 1% tax rate on basic phone exchange access service charges for financing telephone devices for the hearing impaired (TDD's) by establishing an eight-tenths of 1% maximum rate on the tax. (E - April 20, 1989)

Laws 1989, 2nd Special Session, Chapter 1 required taxpayers, with an annual liability of \$100,000 or more in the preceding calendar year or who can reasonably expect to reach this amount in the current year, to make an estimated payment for the first 15 days of each month. The estimated payment can be either:

- (1) One-half of the previous month's actual liability.
- (2) The actual tax liability for the first 15 days of current month.

The due date is the 20th day of each month, while the delinquency date is the 25th day if mailed or the business day preceding the last business day of the month. The balance for the month is paid when filing the normal monthly return. (E - May 1, 1990)

Laws 1991, Chapter 75 eliminated the requirement for the Arizona Council for the Hearing Impaired to establish a dual party relay system, but instead, the Executive Secretary of the Council will recommend a Telecommunications Service Excise Tax rate reduction to the Joint Legislative Tax Committee when a telecommunications company establishes such a system for the deaf or hearing or speech impaired. These provisions become effective on the earlier of July 26, 1993 or the date a

(Continued)

Telecommunication Services Excise Tax

telecommunications company establishes a dual party relay system in Arizona pursuant to Section 401 of the Americans with Disabilities Act. (E - September 21, 1991)

Laws 1994, Chapter 88 increased from 0.8% to 1.6% the amount of tax that can be levied on the gross proceeds of sales or gross income derived from the business of providing exchange access services. The tax is used for the purposes of financing telecommunication devices for the deaf and severely hearing and speech impaired. The act contains provisions defined in Article IX, Section 22, Constitution of Arizona that requires the affirmative vote of at least two-thirds of both houses. (E - April 12, 1994)

BINGO LICENSE AND LIEU TAX

DESCRIPTION

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.

YIELD

<u>Fiscal Year</u>	<u>Gross State Collections</u>	<u>License & Renewal Fees</u>	<u>Lieu Tax Collections</u>
1994-95	\$909,562	\$26,272	\$883,290
1993-94	923,834	28,387	895,448
1992-93	922,180	26,370	895,810
1991-92	907,278	26,643	880,635
1990-91	850,228	28,519	821,709
1989-90	796,777 ^{1/}	28,869	767,908
1988-89	845,841	29,129	816,712
1987-88	798,818	29,561	769,256
1986-87	730,593	29,477	701,117
1985-86	600,158	30,144	570,014
1984-85	412,285	31,040	381,245
1983-84 ^{2/}	415,224	--	--
1982-83 ^{2/}	388,758	--	--
1981-82	276,216	35,695	240,340
1980-81	157,149	19,140	138,009
1979-80	142,375	17,915	124,460
1978-79	127,022	17,545	109,477
1977-78	118,064	17,460	100,604
1976-77	96,244	16,300	79,944
1975-76	82,788	15,635	67,153

^{1/} First full fiscal year in which all collections were deposited in the General Fund.
^{2/} No breakdown of Gross Collections was available from the Department of Revenue.

SOURCE: Department of Revenue, Annual Reports. The breakdown between Lieu Tax collections and license fee collections was provided by the Bingo Division of the Department of Revenue.

WHO PAYS THE TAX

A.R.S. § 5-403. *Taxpayers.* Persons and organizations who have legally qualified to conduct games of bingo.

A.R.S. § 5-401. *Definitions.* "Persons" mean individuals, firms, associations, corporations or legal entities. "Organizations" mean homeowner associations or any bona fide charities, fraternal, religious, social, veterans, volunteer fire fighters or nonprofit ambulance groups or nonprofit lodges, chartered branches or chapters of national or state organizations.

TAX BASE

A.R.S. § 5-414. *Licenses.* A flat fee and a percentage of adjusted gross receipts or gross receipts is charged for bingo licenses, license renewals and games, depending on the license classification. Adjusted gross receipts means gross receipts minus prize money paid.

(Continued)

Bingo License and Lieu Tax

A.R.S. § 5-413. *License Classifications.* There are 3 license classes based on the bingo game's gross receipts per year:

- *Class A License.* Bingo games for which the gross receipts do not exceed \$15,600. This license cannot be issued to persons holding a liquor license unless it is a club license. The reporting period is 1 year coinciding with the license's term.
- *Class B License.* Bingo games for which gross receipts do not exceed \$300,000. There are 4 reporting periods coinciding with the quarters of the license's term.
- *Class C License.* Bingo games for which gross receipts exceed \$300,000. There are 12 reporting periods coinciding with each month of the license's term.

TAX RATE

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

<u>License Class</u>	<u>Local Governing Body Fee</u>	<u>License Fee</u>	<u>Bingo Tax</u>
A	\$ 5.00	\$10.00	2.5% of Adjusted Gross Receipts
B	25.00	50.00	1.5% of Gross Receipts
C	50.00	200.00	2.0% of Gross Receipts

PAYMENT SCHEDULE

A.R.S. § 5-403. *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. § 5-407. *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. § 5-403. *License Fee Collection.* The initial application for license is submitted to the local governing body along with the local governing body fee and the license fee. 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. § 5-407. *Tax Collection.* The Department of Revenue.

DISTRIBUTION

A.R.S. § 5-407(H). All bingo tax revenue administrative receipts, license fees, penalties and interest collections are deposited in the state General Fund.

HISTORY

Laws 1972, Chapter 191 provided for the licensing of bingo games conducted by charitable, religious, fraternal, social, and veterans' organizations, and chartered branches or lodges of national or state organizations. The organizations listed above must be operated on a nonprofit basis and have been in existence in Arizona for at least 2 years prior to making an application for a license. In addition, a tax equal to 2.5% of net proceeds was levied on bingo games in lieu of Transaction Privilege Taxes and Education Excise Taxes. The tax was paid to the State Tax Commission on the 15th day of April, July, October and January. All proceeds from Bingo Licenses and from the Lieu Tax were deposited in the state's General Fund. Lieu Tax receipts were for administration of the bingo laws. (E - August 13, 1972)

(Continued)

Bingo License and Lieu Tax

Laws 1973, Chapter 123 created the Department of Revenue and transferred the responsibility for collection of Bingo Licenses and Lieu Taxes from the State Tax Commission to the new Department. (E - July 1, 1974)

Laws 1973, Chapter 132 provided for a reduced licensing fee for "small bingo games" (those with gross proceeds of \$300 or less per week). Under this law, the Lieu Tax on the net proceeds of "small bingo games" was due 1 time per year on or before March 15. (E - May 4, 1973)

Laws 1978, Chapter 111 changed the due date for payment of the lieu tax on "small bingo games." Under this law "small bingo games" were required to pay the Lieu Tax quarterly, at the same time as large bingo games. (E - September 3, 1978)

Laws 1981, Chapter 309 changed the tax on large games of bingo from a 2.5% tax on the net proceeds of the game to a 1% tax on the gross proceeds of the game. The fee charged when application is made for a license for large bingo games was increased from \$25 to \$50. The original license fee and the annual renewal fee for large games of bingo were increased from \$50 to \$100. (EFA - October 1, 1981)

Laws 1985, Chapter 200 established a 30-day grace period for qualified organizations to renew annual license and impose a late filing fee of \$100 in addition to the renewal fee of \$100. Also, prohibits a county, city, town, or other political subdivision from levying an excise tax on bingo giving preemption to the state. Changed the Lieu Tax on large games from 1 to 2% of gross proceeds with 1% distributed for administration purposes and 1% deposited in the state General Fund.

Laws 1986, Chapter 110 allowed transfer of a bingo license to a new location if the local governing body of the proposed location gives prior written approval after a public hearing. (E - April 18, 1986)

Laws 1986, Chapter 410 redefined small game bingo from games whose gross receipts do not exceed \$300 per week to games with gross receipts not exceeding \$3,900 per quarter. The frequency of licensee reporting was changed from a quarterly to annual basis which is on January 15. Also, certain restrictions on allowable expenses were removed. (EFA - December 31, 1986)

Laws 1987, Chapter 134 added non-profit ambulance services to the list of organizations authorized to conduct bingo games for fund raising. (ER - July 1, 1986)

Laws 1988, Chapter 108 revised the small and large bingo game definitions into three classifications based on annual gross receipts. The Bingo Tax collected shall now be entirely deposited in the state General Fund. In addition, new fees and tax rates were established (E - September 30, 1988):

- (1) Class A license is issued for games not exceeding \$15,600 per year.
- (2) Class B license is issued for games not exceeding \$300,000 per year.
- (3) Class C license is issued for games exceeding \$300,000 per year.

<u>License Class</u>	<u>Local Governing Body Fee</u>	<u>License Fee</u>	<u>Bingo Tax</u>
A	\$5.00	\$10.00	2.5% of Adjusted Gross Receipts
B	25.00	50.00	1.5% of Gross Receipts
C	50.00	200.00	2.0% of Gross Receipts

Laws 1989, Chapter 106 eases several administrative restrictions on Class A Bingo Licensees. Certain officers under a Bingo License are prohibited from serving as an officer of another bingo license. All monies held by the Department of Revenue for administration of bingo games were transferred to the state General Fund. (E-September 15, 1989)

BOXING RECEIPTS TAX

DESCRIPTION

This is a tax on the gross receipts from boxing contests or exhibitions and is administered by the State Boxing Commission. A boxing contest may also include kick boxing.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>
1994-95	\$10,100
1993-94	20,900
1992-93	15,700
1991-92	3,606
1990-91	14,608
1989-90	991
1988-89	9,116
1987-88	6,470
1986-87	6,704
1985-86	4,949
1984-85	10,003
1983-84	4,530
1982-83	8,779
1981-82	2,425
1980-81	3,800
1979-80	7,171
1978-79	5,419
1977-78	4,302
1976-77	1,510
1975-76	870

SOURCE: Arizona Department of Administration's Annual Financial Report.

WHO PAYS THE TAX

A.R.S. § 5-104.02(A). *Promoter*. Any person who promotes a boxing contest in the State of Arizona.

TAX BASE

A.R.S. § 5-104.02. *Gross Receipts*. The Boxing Receipts Tax is levied on the gross receipts from boxing contests, after deducting amounts paid in federal, state and local taxes. Gross receipts means all receipts from all sources including any of the following:

- Face value of tickets sold.
- The price charged for the sale, lease or other use of the broadcasting, television or motion picture rights of the contest after deducting the amount paid for contestants' purses.

A.R.S. § 5-222. *Exemptions*. Certain organizations conducting amateur boxing contests. See statutes for a list of such organizations.

(Continued)

Boxing Receipts Tax

TAX RATE

A.R.S. § 5-104.02(A). *Rate.* 4% of gross receipts.

PAYMENT SCHEDULE

A.R.S. § 5-104.02(A). *Due Date.* Not more than 10 days after the boxing contest is held.

A.R.S. § 5-104.02(A). *Collecting Agency.* Arizona Department of Racing.

DISTRIBUTION

A.R.S. § 5-104.02(C). *Dedication.* All boxing receipts' tax revenue, including license fees, are deposited into the state General Fund.

HISTORY

Laws 1958, Chapter 97, Section 2 established a 2% tax on gross receipts from boxing and wrestling matches and exhibitions. The tax was paid to the State Athletic Commission within 10 days after the match or exhibition was held. At the end of each month, collections from the tax were deposited with the State Treasurer. Of the total amount deposited with the State Treasurer, 90% was used for the maintenance of the State Athletic Commission and the remaining 10% was deposited in the state General Fund. (E - June 14, 1958)

Laws 1964, Chapter 145, Subsection 5 authorized the deduction of federal, state, and local taxes from gross receipts before determining tax liability. (E - July 15, 1964)

Laws 1980, Chapter 172 clarified the definition of taxable gross receipts. (E - July 31, 1980)

Laws 1982, Chapter 39 changed the name of the State Athletic Commission to the State Boxing Commission and removed the commission's regulatory authority over wrestling matches. The boxing and wrestling receipts tax was changed to a boxing receipts tax only. (ER - July 1, 1982)

Laws 1985, Chapter 10 granted the Boxing Commission regulatory authority over professional kickboxing. Also, required the commission to verify the gross receipts of a contest which may entail a certified financial audit be submitted to the commission. (E - April 18, 1985)

Laws 1992, Chapter 337 transferred the responsibility for the collection and accounting of revenues for the State Boxing Commission to the Arizona Department of Racing. Also, the boxing receipts tax rate was raised from 2% to 4% of the gross receipts from boxing contests. All boxing revenues collected will now be deposited in the state General Fund. (E - September 30, 1992)

CHAPTER IV

INCOME AND ESTATE TAXES

INDIVIDUAL INCOME TAX

DESCRIPTION

Arizona imposes an Individual Income Tax to aid in defraying the costs of maintaining state government and easing the burden of taxation placed upon tangible property. The taxation of income is preempted by the state as long as the Urban Revenue Sharing Fund is maintained. The tax has a graduated rate structure and uses the Federal Internal Revenue Code as the basis for tax computation. Each year, the Legislature decides whether to adopt changes made in the federal code during the previous calendar year. The Individual Income Tax has undergone significant changes since 1990 due to recently enacted legislation. See HISTORY section for details.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>
1994-95	\$1,479,588,252
1993-94	1,405,482,556
1992-93	1,367,641,116
1991-92	1,237,540,251
1990-91	1,243,656,300
1989-90	996,405,685
1988-89	912,164,223
1987-88	853,980,226
1986-87	761,421,688
1985-86	702,956,800
1984-85	626,244,306
1983-84	526,707,527
1982-83	480,715,757
1981-82	438,984,699
1980-81	364,100,558
1979-80	319,339,473
1978-79	270,264,463
1977-78	222,808,089
1976-77	190,591,709
1975-76	162,869,338
1974-75	152,537,012

SOURCE: Department of Revenue, Annual Reports. Figures are net of refunds and charge-offs.

WHO PAYS THE TAX

A.R.S. § 43-102(A). *Definition.* Residents or part-year residents of the state and non-residents who derived income from sources within the state. Fiduciaries of estates and trusts, and individuals comprising a partnership or S-corporations also are subject to the tax.

Residents. Any individual domiciled in the state. Domicile is the place of one's permanent home. 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.

Part-Year Residents. Any resident who moved into or out of Arizona with intent to establish or relinquish residency.

(Continued)

Individual Income Tax

Non-Residents. Any individual other than a resident.

Exclusions. The United States, the state, counties, cities, towns, school districts or other political subdivisions of the state or federal government are excluded from definition of a taxpayer.

TAX BASE

A.R.S. § 43-1011. *Base.* The tax is levied, paid, and collected each taxable year based on taxable income. 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 1022, respectively. This is further reduced by exemptions and standard or itemized deductions to arrive at Arizona taxable income.

A.R.S. § 43-1201. *Exempt Organizations:*

- (1) Labor, agricultural and horticultural organizations except for cooperative organizations.
- (2) Fraternal beneficiary societies, orders, or organizations operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system and providing for the payment of life, sick, accident, or other benefits to the members of such society, order or organization or their dependents.
- (3) Cemetery companies owned and operated exclusively for the benefit of their members or which are not operated for profit.
- (4) Nonprofit business leagues, chambers of commerce, real estate boards, or boards of trade, of which no part of the net earnings inures to the benefit of any private shareholder or individual.
- (5) Civic leagues or organizations not organized for profit, operated exclusively for the promotion of social welfare, or local organizations of employees, with the membership limited to the employees of a designated person(s) in a particular municipality and the net earnings devoted exclusively to charitable, educational or recreational purposes.
- (6) Clubs organized and operated exclusively for pleasure, recreation, and other nonprofit making purposes, of which no part of the net earnings inures to the benefit of any private shareholder.
- (7) Voluntary employees' beneficiary organizations providing for the payment of life, sick, accident or other benefits to the members of such organizations or their dependents, if no part of their net earnings inures (other than through such payment) to the benefit of any private shareholder or individual, and 85% or more of the income consists of amounts collected from members and contributions by the employees of the member for the sole purpose of making such payments and meeting expenses.
- (8) Teachers' or public employees' retirement fund organizations of a purely local character, if no part of their net earnings inures (other than through payment of retirement benefits) to the benefit of any shareholder or individual, and the income consists entirely of amounts received from public taxation, assessments upon the salaries of members, and income from investments.
- (9) Religious or apostolic organizations or corporations, if such organizations or corporations have a common or community treasury.
- (10) Voluntary employees' beneficiary organizations providing for the payment of life, sick, accident, or other benefits to members of such organizations or their dependents or designated beneficiaries, if admission to membership in such organizations is limited to individuals who are officers or employees of the United States government and, if no part of the organization's net earnings inure (other than through such payments) to the benefit of any private shareholder or individual.
- (11) Insurance companies subject to payment of the Insurance Premium Tax.
- (12) Mutual ditch, irrigation or water companies or similar nonprofit organizations if 85% or more of the income consists of amounts collected from members for the sole purpose of meeting losses and expenses.

TAX RATE

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

(Continued)

Individual Income Tax

CURRENT TAX RATE SCHEDULE			
<u>Single ^{1/}</u>		<u>Married ^{2/}</u>	
<u>Arizona Taxable Income</u>	<u>Rate ^{3/}</u>	<u>Arizona Taxable Income</u>	<u>Rate</u>
\$-0- - \$10,000	3.00%	\$-0- - \$20,000	3.00%
10,001 - 25,000	\$300 plus 3.5%	20,001 - 50,000	\$600 plus 3.5%
25,001 - 50,000	\$825 plus 4.2%	50,001 - 100,000	\$1,650 plus 4.2%
50,001 - 150,000	\$1,875 plus 5.2%	100,001 - 300,000	\$3,750 plus 5.2%
150,001 and over	\$7,075 plus 5.6%	300,001 and over	\$14,150 plus 5.6%

^{1/} Or married filing separately.
^{2/} Or unmarried head of household.
^{3/} The marginal rates apply to income within the taxable income bracket.

NOTE: Inflation indexing has been repealed from the income tax statutes.

A.R.S. § 43-1012. *Optional Tax Table.* The Department of Revenue will develop 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 \$20,000 in the case of individual filers and less than \$40,000 for married filing jointly.

RECENT HISTORICAL PERSONAL INCOME TAX RATES ^{1/}			
<u>Taxable Income ^{2/}</u>	<u>1990 Tax Rate</u>	<u>1994 Tax Rate</u>	<u>1995 Tax Rate</u>
\$0 - \$10,000	3.80%	3.25%	3.0%
\$10,001 - \$25,000	4.40%	4.00%	3.5%
\$25,001 - \$50,000	5.25%	5.05%	4.2%
\$50,001 - \$150,000	6.50%	6.40%	5.2%
\$150,001 and over	7.00%	6.90%	5.6%

^{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 its present form. [See Laws 1990, 3rd Special Session, Chapter 3 in the HISTORY section]

TAX CREDITS

A.R.S. § 43-1071. *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. § 43-1072. *Property Taxes.* A full year resident can claim a refundable credit for property taxes or rent paid on property if all the following apply:

(Continued)

Individual Income Tax

- 65 years or over or receiving SSI Title 16 monies from the Social Security Administration.
- Paid Property Tax on your Arizona homestead or paid rent on taxable property for the entire year (or combination of both).
- If lived alone, your income from all sources was below \$3,751 or if lived with others, the combined household income was below \$5,501.

The amount of credit is the lesser of property taxes actually paid or the amount listed in the table under A.R.S. § 43-1072, Section B, Paragraphs 1 and 2. The inflation indexing of this table has been repealed. The credit amount will remain at 1989 levels. Refunds are subject to setoffs of debt owed to the state or a court as listed in A.R.S. § 42-133.

A.R.S. § 43-1073. *Family Income Credit.* Residents are allowed a \$30 nonrefundable tax credit for each personal or dependent exemption claimed, but subject to the following limitations:

- (1) Arizona gross income cannot exceed \$20,000 if married filing jointly or head of household and \$10,000 if single or married filing separately.
- (2) Maximum credit is \$120 if married filing jointly or head of household and \$60 if single or married filing separately.

A.R.S. § 43-1074. *Enterprise Zones.* Businesses located in an enterprise zone can 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 of the HISTORY for changes in the amount of credit allowed]

A.R.S. § 43-1075. *Dependent Day Care.* Businesses may claim a credit for expenses incurred for providing dependent day care services or facilities to employees. The credit was effective for tax years beginning in 1991 and ending before January 1, 1995. [See Laws 1990, Chapter 296 of the History for more details]

A.R.S. § 43-1076. *Recycling Equipment.* Taxpayers may claim a credit for placing recycling equipment in service after December 31, 1992. This credit is in lieu of any deductions taken for depreciation. The credit is 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 apply when the recycling equipment ceases operation or is transferred.

A.R.S. § 43-1077 and 1078. *Qualified Defense Contractor.* A defense contractor certified by the State Department of Commerce may qualify for a tax credit due to (1) net employment increases under defense related contracts or (2) net employment increases from transferring employment from exclusively defense related activities to exclusively private commercial activities or (3) taxes paid on Class 3 property if there was new defense related employment during the taxable year.

A.R.S. § 43-1079. *Military Reuse Zones.* Businesses who are primarily engaged in manufacturing, assembling or fabricating aviation or aerospace products and is 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.

A.R.S. § 43-1080. *Qualified Environmental Technology Facility.* A taxpayer may claim a credit for expenses incurred in constructing a qualified environmental technology facility as described in A.R.S. § 42-1514.02. The credit is equal to 10% of construction costs including land acquisition, improvements, building improvements, machinery and equipment. 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.

A.R.S. § 43-1081. *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 includible in the taxpayer's adjusted basis for the property. This credit is in lieu of the recycling equipment credit. For 1995 and 1996, the maximum credit that a taxpayer may claim is \$750,000. For years after 1996, the maximum credit is \$500,000.

(Continued)

Individual Income Tax

A.R.S. § 43-1082. *Construction Materials*. A tax credit can be claimed for 5% of the purchase price of new construction materials used to build a new facility or expand an existing one. The facility must be predominantly used for manufacturing, refining, mining, metallurgical operations, or research and development and the total cost of construction must exceed \$5 million. Also, construction must have begun on or after January 1, 1994 and completed by December 31, 1999.

A.R.S. § 43-1083. *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.

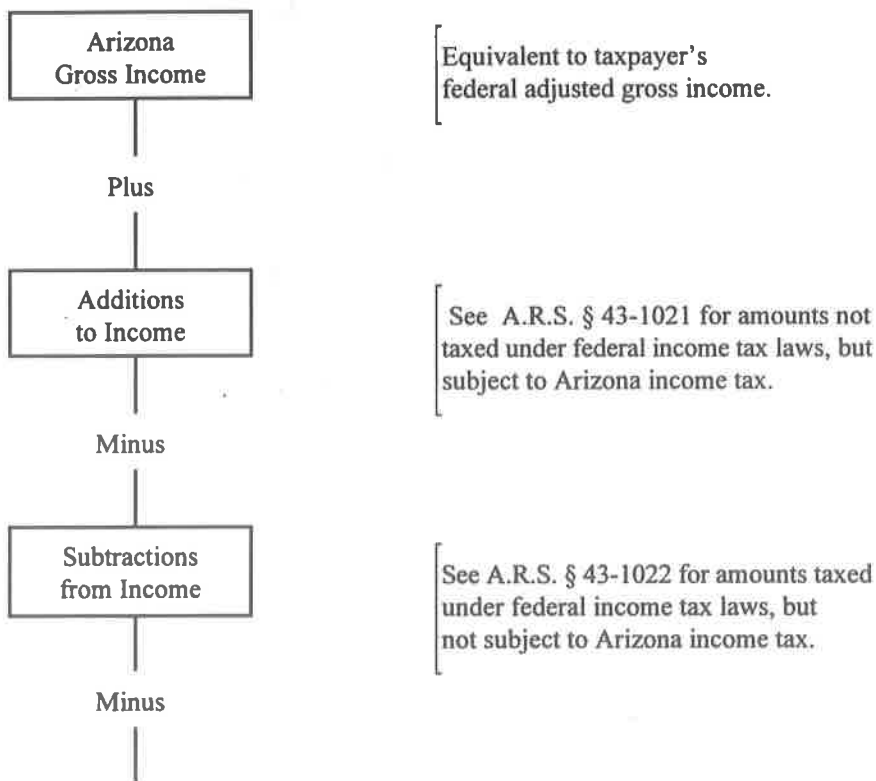
A.R.S. § 43-1084. *Agricultural Water Conservation System*. A tax credit can be claimed for 75% of the qualifying expenses in purchasing and installing an agricultural water conservation system. This credit is in lieu of itemized deductions for such expenses, in which case, the taxpayer must add the credit back into Arizona gross income in computing taxable income.

A.R.S. § 43-1085. *Underground Storage Tanks*. Taxpayers can claim 10% of the expenses in tax year 1994 and thereafter for corrective actions related to underground storage tank compliance if the taxpayer is not responsible or liable for the corrective action. The corrective action must be certified by the Department of Environmental Quality and is in lieu of reimbursements by said agency.

A.R.S. § 43-1086. *Alternative Fuel Vehicles and Equipment*. For taxable years 1994 through 1998, a taxpayer may claim a tax credit, in lieu of an income tax subtraction, for purchasing or converting to an alternative fuel vehicle for use in Arizona. The amount is equal to \$1,000 for 1994-1996 and \$500 for 1997 and \$250 for 1998. Amounts received from Energy Office grants are not eligible for this credit.

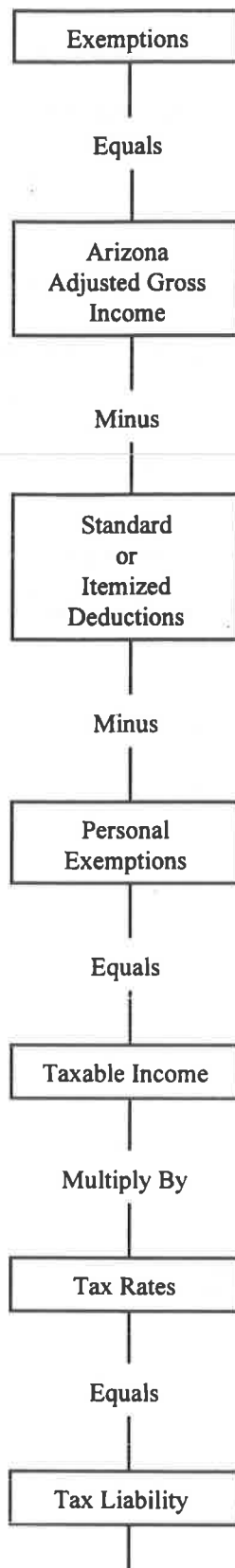
TAX COMPUTATION

Individuals:



(Continued)

Individual Income Tax

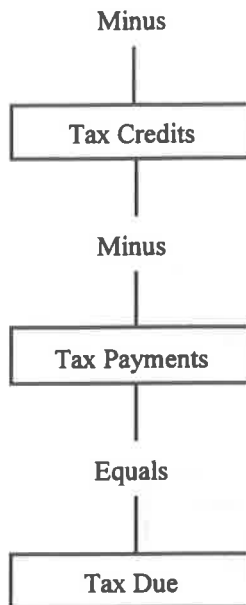


See A.R.S. § 43-1023 for exemptions:
(1) \$1,500 for blind taxpayer and/or spouse
(2) \$2,100 for taxpayer and/or spouse who is age 65 or over,
(3) \$2,300 for each dependent.

Standard deduction is \$3,600 for single or married filing separately and \$7,200 for married filing jointly or unmarried head of household. Itemized deductions are the same as on the federal income tax return.

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

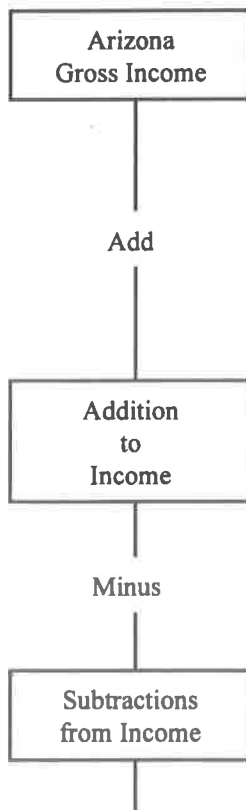
Individual Income Tax



[Withholding, estimated, and extension payments made to the Department of Revenue.

[This can also be an overpayment; in which case, taxpayer will be entitled to a tax refund.

Partnerships:



[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.

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

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

Individual Income Tax

Equals

Arizona
Taxable Income

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.

Calculate

Apportionment
Ratio

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

Fiduciaries:

Arizona
Gross Income

Equivalent to Federal Taxable Income of estates or trusts (A.R.S. § 43-1301). The 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.

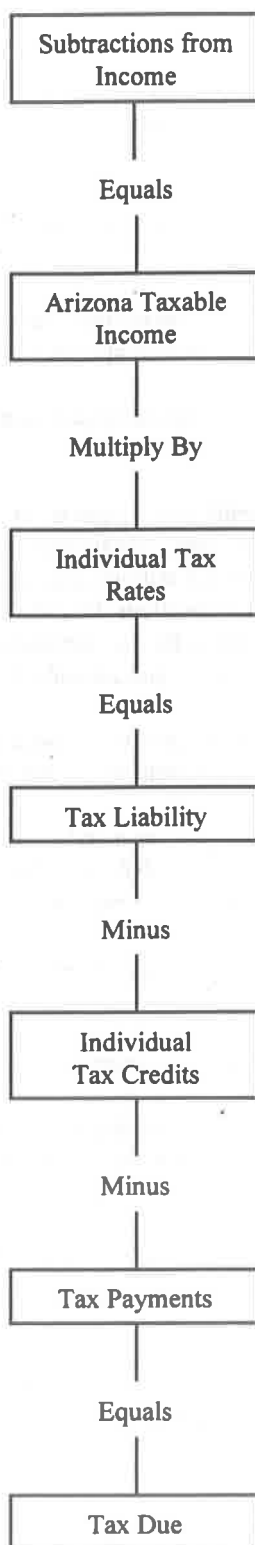
Add

Additions
to Income

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.

Minus

Individual Income Tax



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.

Individual Income Tax

PAYMENT SCHEDULE

A.R.S. § 43-401. *Withholding.* To simplify payment of the Individual Income Tax, a portion of the tax is paid through a system of withholding. Under the withholding system, a percentage of each employee's gross salary is withheld by the employer at the time wages are paid.

Percentages. An employee must elect which percentage of the federal income tax withholding shall be withheld for state income taxes:

- If the employee's annual wage is less than \$15,000, the percentages are 10%, 20%, 22%, 28%, or 32%.
- If the employee's annual wage is \$15,000 or more, the percentages are 20%, 22%, 28%, or 32%.

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 the Department of Revenue (DOR). If an employer's withholding collections exceeded an average of \$1,500 per quarter over the four 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 four preceding calendar quarters, the withholding collections for the previous calendar quarter must be transferred to the Department of Revenue on or before April 30, July 31, October 31 and January 31.

A.R.S. § 43-581. *Estimated Tax Payments.* A taxpayer, whose Arizona gross income was greater than \$75,000 in the preceding taxable year or can reasonably expect to exceed \$75,000 in the current year, must make estimated payments.

Amounts and Due Dates. The estimated amount shall be paid in four 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.

Penalty. 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 individual's tax year.

A.R.S. § 43-501. *Payment of Balance.* The taxpayer is required to pay the balance of the tax due on April 15th 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 the Department of Revenue along with the tax payment.

A.R.S. § 42-116. *Extensions.* If requested, an automatic 4-month extension is granted by the department. An additional 2-month extension may also be granted if good cause exists. No extension may be granted beyond 6 months from the original due date.

Penalties and Interest. 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 is in addition to the 10% late payment or the 5% late filing penalties found under A.R.S. § 42-136. Total penalties cannot exceed 25%. DOR will assess interest on the unpaid balance until it is paid.

DISTRIBUTION

A.R.S. § 42-127. *Tax Refund Fund.* The State Treasurer upon receipt of tax revenues from the Department of Revenue shall deposit into the Tax Refund Fund amounts sufficient to meet the requirements for tax refunds.

(Continued)

Individual Income Tax

A.R.S. § 43-206. *Urban Revenue Sharing Fund.* An amount equivalent to 12.8% of the net proceeds of the state income taxes (individual and corporate) collected two fiscal years prior to the current fiscal year shall be credited to the Urban Revenue Sharing Fund for sharing revenues with incorporated municipalities. Each city or town receives a share of this fund in the proportion their population bears to the total population based on the last U.S. decennial or special census.

NOTE: In FY 1997, the percentage allocated to the Urban Revenue Sharing Fund will be raised to 13.6% and in FY 1998 and thereafter it will be 15% of net income tax receipts.

A.R.S. § 43-612 to § 43-616. *Voluntary Contributions.* Check-off spaces are provided on the income tax return for contributions which will be distributed to separate funds for Political Parties, Wildlife Protection, Child Abuse Prevention, Neighbors Helping Neighbors, and Special Olympics.

A.R.S. § 42-127. *State General Fund.* All monies remaining after satisfaction of the above distributions shall be deposited into the state General Fund.

DISTRIBUTION OF INDIVIDUAL AND CORPORATE INCOME TAX COLLECTIONS NET OF REFUNDS (FY 1973-74 TO THE PRESENT)

Fiscal Year	Net Collections	Distribution		
		State General Fund	Urban Revenue Sharing	Voluntary Contribution Funds
1994-95	\$1,896,299,526	\$1,689,985,202	\$205,607,690	\$707,264
1993-94	1,708,098,853	1,521,964,032	185,405,279	729,542
1992-93	1,606,910,521	1,422,638,002	183,667,152	605,368
1991-92	1,448,985,875	1,272,391,599	176,087,148	507,128
1990-91	1,435,328,781	1,268,036,363	166,863,264	429,154
1989-90	1,174,472,787	1,023,291,736	150,622,581	558,470
1988-89	1,113,033,948	968,464,778	143,956,984	612,187
1987-88	1,004,728,980	873,497,071	130,653,468	578,441
1986-87	960,370,312	835,501,060	124,212,169	657,084
1985-86	871,639,451	771,448,590	108,637,795	616,270
1984-85	828,521,461	730,874,978	96,166,908	440,334
1983-84	724,593,724	633,247,539	83,061,596	260,685
1982-83	641,112,719	573,649,629	73,596,099	-0-
1981-82	553,743,940	487,950,969	65,083,596	-0-
1980-81	490,640,657	435,769,764	53,942,465	-0-
1979-80	433,948,334	390,038,679	42,997,581	-0-
1978-79	359,616,307	322,406,012	36,356,905	-0-
1977-78	286,650,541	254,741,577	31,405,355	-0-
1976-77	242,379,365	214,529,844	30,313,600	-0-
1975-76	209,369,033	182,247,036	26,558,140	-0-
1974-75	202,090,669	182,485,565	21,904,030	-0-
1973-74	177,054,268	151,936,103	18,392,882	-0-

1/ Represents actual distributions. Prior to FY 1985-1986, portions of collections may have been distributed in a later fiscal year.

2/ \$99,574,591 came from FY 85-86 receipts. The remaining \$9,063,204 was set aside from FY 84-85 receipts.

3/ FY 1973-74 was the first fiscal year that Urban Revenue Sharing was effective. The figures are the actual distributions to incorporated municipalities. For earlier distributions, see 1985 Tax Handbook.

SOURCE: Department of Revenue, Annual Reports.

(Continued)

Individual Income Tax

Laws 1972, Chapter 58 provided for the proration of personal exemptions for part year residents on the basis of the number of days of residency spent in Arizona during the taxable year. (E - January 1, 1973)

Laws 1973, Chapter 7 established a new state income tax code. The new code reorganized the existing income tax code without making substantive changes in the laws. (E - March 6, 1973)

Laws 1973, Chapter 68 provided that the amount withheld from an employee's wages for state income tax purposes equal either 10 or 20% of the amount withheld for federal tax purposes. The choice of the amount withheld (10 or 20% of federal withholding) was left to the individual. (EFA - December 31, 1973)

Laws 1973, Chapter 123 created the Department of Revenue and transferred the powers and duties of the State Tax Commission to the new Department. (E - July 1, 1974)

Laws 1973, Chapter 182 established an income tax credit for property taxes or rent constituting property taxes when paid by residents 65 years of age or older. The credit was not available to taxpayers who owned property with an assessed valuation of \$5,000 or more or to taxpayers who exceeded certain income levels. (Effective for Property Taxes Accrued during Calendar Year 1974)

Laws 1974, 1st Special Session, Chapter 2 changed the percentage of tax proceeds deposited in the Income Tax Fund from 25% to 12.5%. The remainder of income tax collections (after deducting urban revenue sharing) was deposited in the state General Fund. This provision was to be effective July 1, 1974.

Laws 1974, Chapter 63 allowed a taxpayer to amortize and claim deductions over a 5-year period for the purchase or construction of child care facilities for the children of the taxpayer's employees. The deductions authorized by this law were in lieu of an allowance for depreciation. (EFA - January 1, 1974)

Laws 1974, Chapter 165 allowed a taxpayer to amortize and claim deductions over a 5-year period for the installation of a solar energy device designated to produce heat or electricity. The deductions authorized by this law were in lieu of an allowance for depreciation. The provisions of this act expired after December 31, 1984. (EFA - December 31, 1973)

Laws 1974, Chapter 166 established an income tax credit for the portion of rent paid by taxpayers that represents property tax payments on the rental unit. The credit equaled \$25 or 10% of rent paid, whichever was less. (EFA - December 31, 1973) In addition, the amount of tax revenue deposited in the Income Tax Fund was raised from 12.5 to 16%. The balance of income tax collections (after deducting urban revenue sharing) was placed in the state General Fund (E - August 9, 1974)

Laws 1974, Chapter 187 provided that the individual deduction available to employees for their share of health insurance premiums was limited to policies which include catastrophic medical cost coverage. This provision also applied to the share of health insurance premiums paid by employers. (E - January 1, 1975)

Laws 1975, Chapter 49 required non-residents and part-year residents to prorate certain exemptions and deductions when computing taxable Arizona income. In particular, this provision applied to personal exemptions, and special deductions for blind persons, dependents and persons age 65 or older. These items were prorated based on the percent of gross income received by the taxpayers during the year, which was derived from sources within Arizona. (EFA - December 31, 1975)

Laws 1975, Chapter 77 increased the number of households eligible to receive an income tax credit for property taxes paid by persons 65 years of age or older. This was accomplished by redefining the measure of income used to determine eligibility for the credit. The new definition excluded railroad retirement, federal social security, state unemployment, veterans' disability and cash public assistance, workmen's compensation, loss of time insurance, gifts, and in-kind transfers. (E - September 12, 1975)

(Continued)

Individual Income Tax

Laws 1975, Chapter 121 provided for the payment of income taxes in two installments instead of three. The first installment was due on the fifteenth day of the fourth month following the close of the tax year and the second installment was due six months later. (E - September 12, 1975)

Laws 1976, Chapter 129 allowed for the amortization of a qualified solar device in thirty-six months instead of sixty months. This provision expired from and after December 31, 1984. (E - June 27, 1976)

Laws 1976, Chapter 176 increased the income tax credit for rent constituting property taxes from a maximum of \$25 per year to a maximum of \$50 per year. The length of residency required to qualify for the credit was reduced from one year to six months. (E - September 23, 1976)

Laws 1977, Chapter 77 authorized a tax deduction similar to the Federal Income Tax deduction for contributions made by an individual to an individual retirement account or a qualified pension, profit-sharing, stock bonus, bond purchase, annuity or trust plan. (EFA - December 31, 1976)

Laws 1977, Chapter 81 established an income tax credit for solar heating and cooling devices which could be claimed in lieu of the tax deduction for solar energy devices. The credit was based on a percentage of the cost of the device. Taxpayers were allowed to claim 35% of this cost in 1978; after 1978 the percentage claimed was reduced in increments of 5% per year. The maximum credit could not exceed \$1,000. An income tax credit for installation of certain types of residential insulation was also established. This credit equaled 25% of the cost of the insulation, not to exceed \$100. The provisions of this law expired from and after December 31, 1984. (EFA - December 31, 1977)

Laws 1977, Chapter 87 authorized a depletion allowance schedule for geothermal resource development similar to the allowance for oil and gas interests that was included in the 1954 tax revision. (E - May 23, 1977)

Laws 1977, Chapter 152 modified the income tax credit available to persons age 65 or older for property taxes paid during the year. The new schedule of credits was based solely on household income instead of income and property taxes accrued.

Under the new schedule, the credit allowed for a person living alone with an income of less than \$3,751 was determined as follows (EFA - December 31, 1976):

<u>Household</u> <u>Income</u>	<u>Tax Credit</u>	<u>Household</u> <u>Income</u>	<u>Tax Credit</u>
\$ -0- - \$1,750	\$225	\$2,751 - 2,850	\$115
1,751 - 1,850	215	2,851 - 2,950	105
1,851 - 1,950	205	2,951 - 3,050	95
1,951 - 2,050	195	3,051 - 3,150	85
2,051 - 2,150	185	3,151 - 3,250	75
2,151 - 2,250	175	3,251 - 3,350	65
2,251 - 2,350	165	3,351 - 3,450	55
2,351 - 2,450	155	3,451 - 3,550	45
2,451 - 2,550	145	3,551 - 3,650	35
2,551 - 2,650	135	3,651 - 3,750	25
2,651 - 2,750	125	--	--

The credit allowed for a person living with one or more persons with a combined household income of less than \$5,501 was determined as follows (EFA - December 31, 1976):

(Continued)

Individual Income Tax

<u>Household Income</u>	<u>Tax Credit</u>	<u>Household Income</u>	<u>Tax Credit</u>
\$-0 - \$2,500	\$225	\$4,001 - 4,150	\$115
2,501 - 2,650	215	4,151 - 4,300	105
2,651 - 2,800	205	4,301 - 4,450	95
2,801 - 2,950	195	4,451 - 4,600	85
2,951 - 3,100	185	4,601 - 4,750	75
3,101 - 3,250	175	4,751 - 4,900	65
3,251 - 3,400	165	4,901 - 5,050	55
3,401 - 3,550	155	5,051 - 5,200	45
3,551 - 3,700	145	5,201 - 5,350	35
3,701 - 3,850	135	5,351 - 5,500	25
3,851 - 4,000	125		

Laws 1978, Chapter 50 allowed Arizona residents over the age of sixty-five to exclude from their gross incomes certain gains from the sale of residences in which they have lived. (EFA - December 31, 1977)

Laws 1978, Chapter 211 increased the income tax credit for renters from a maximum of \$50 per year to a maximum of \$75 per year. The law also provided that the amounts which may be claimed by individuals for certain exemptions, deductions and credits against income tax liability were increased during the 1978 tax year by a percentage equal to the annual growth in the state consumer price index. In particular, this provision applied to the standard deduction for individuals, personal exemptions, exemptions for the blind, exemptions for persons age sixty-five or more, credits for dependents, credits for estates or trusts, credits for property taxes paid by persons sixty-five or older, and the income tax credit for renters. The provisions of this law were effective January 1, 1978.

Laws 1978, Chapter 213 established a new income tax code for the State of Arizona which was to take effect beginning with the 1979 income tax year (1980 filing year). Under the new tax code, Arizona gross income would equal federal adjusted gross income and be adjusted to allow for state exemptions, deductions and credits. The optional tax table and short income tax reporting form were extended to all incomes below \$20,000 or \$40,000 for married couples filing jointly.

Laws 1979, Chapter 14 changed the method of taxing small business corporations (commonly referred to as subchapter S corporations) to conform with federal law. Under this law, qualifying corporations are not required to pay corporate income taxes; instead, the income of the corporation is distributed to shareholders and is taxed on each shareholder's individual return. (ETYBFA - December 31, 1978)

Laws 1979, Chapter 43 changed the amount of collections retained in the Income Tax Fund at the end of each fiscal year from \$200,000 to \$500,000. (E - April 17, 1979)

Laws 1979, Chapter 145 changed the Arizona Income Tax Code to conform with certain changes to the federal Internal Revenue Code adopted during 1978. This bill was necessary since federal adjusted gross income is the starting point for calculating Arizona income tax liability. (ETYBFA - December 31, 1978)

Laws 1979, Chapter 146 extended the income tax credit for residential insulation through 1989. The tax credit for solar energy devices was also extended through 1989. The annual reduction in the solar energy credit, which was originally scheduled to begin in 1979, was delayed until 1984. The law also expanded the definition of solar energy devices that are covered by the credit. (E - July 21, 1979)

(Continued)

Individual Income Tax

Laws 1979, Chapter 164 extended the provisions for inflation indexing of exemptions, deductions and credits through the 1979 income tax year. Inflation indexing was first authorized by Laws 1978, Chapter 211. The Department of Revenue was authorized to modify the optional tax table to reflect the effects of inflation indexing. (ETYBFA - December 31, 1978)

Laws 1979, Chapter 191 established an income tax deduction for political contributions made by individuals. The maximum deduction allowed under this law was \$100 or \$200 for a joint return. (EFA - December 31, 1978)

Laws 1980, Chapter 44 provided that the amounts which may be claimed by individuals for certain exemptions, deductions and credits against tax liability were increased annually by a percentage equal to the growth in the state consumer price index. Specifically, this provision applied to the standard deduction for individuals, personal exemptions, exemptions for dependents, exemptions for blind persons and persons over 65, exemptions for estates and trusts, credits for property taxes paid by persons 65 or older and the income tax credit for renters. (EFA - December 31, 1979)

Laws 1980 Chapter 89 changed the deduction for contributions to charitable organizations to conform with the Federal Tax Code. (E - July 31, 1980)

Laws 1980, Chapter 220 changed the interest rate imposed on delinquent tax payments from 6% to 12% per year. (E - July 31, 1980)

Laws 1980, Chapter 235 established a new income tax deduction for renters who itemize their deductions. The law required landlords, upon the request of a tenant, to furnish to the tenant the percentage of his total rental payment that represents property taxes on the rental unit. The tenant may apply that percentage against total rents paid to derive the amount of allowable deductions from Arizona taxable income. (EFA - December 31, 1979)

Laws 1980, Chapter 240 changed the Arizona Income Tax Code to conform with certain changes to the Federal Internal Revenue Code adopted during the period ending April 7, 1980. The changes to the Federal Income Tax Code must be adopted or rejected annually since Arizona uses federal adjusted gross income or federal taxable income as the starting point for calculating Arizona income tax liability (Effective July 31, 1980 and Applicable to Tax Years From and After December 31, 1979)

Laws 1981, Chapter 132 modified the method of taxing subchapter S-corporations that was established by Laws 1979, Chapter 14. Under the new provision, income distributed to non-residents from a subchapter S corporation located in Arizona is considered taxable income of this state. (E - April 14, 1981)

Laws 1981, Chapter 297 made the following changes in the Individual Income Tax laws:

- (1) Conformed Arizona's policy of taxing income from dividends and interest with the Federal Income Tax Code, by allowing taxpayers to claim a deduction for the first \$200 of dividends and interest on single tax returns and the first \$400 for joint tax returns. (EFA - December 31, 1980)
- (2) Removed the requirement that 16% of income tax collections be placed in the Income Tax Fund and replaced it with a requirement that amounts placed in the Income Tax Fund must be sufficient to cover refunds issued to taxpayers. (EFA - October 1, 1981)
- (3) Provided that taxpayers at their option, set their state withholding at a level equal to 15% of federal withholding, in addition to the existing options of 10% and 20%. (EFA - January 1, 1982)
- (4) Changed the Arizona Income Tax Code to conform with certain changes to the Federal Internal Revenue Code adopted during 1980. The changes to the Federal Income Tax Code must be adopted or rejected annually since Arizona uses federal adjusted gross income or federal taxable income as the starting point for calculating Arizona income tax liability. (EFA - December 31, 1980)
- (5) Authorized Arizona taxpayers to subtract from their gross income any taxes withheld from their earnings by a foreign government. (EFA - December 31, 1980)

(Continued)

Individual Income Tax

Laws 1981, Chapter 320 provided that persons who are certified by a county to provide foster care homes for indigent adults, may exclude from their taxable income, any payments received from the county for this purpose. The law also established new income tax exemptions and deductions for taxpayers who contribute a certain minimum amount toward the support of persons who are aged 65, or older and are living in a nursing care institution, supervisory care home or adult foster care home or are receiving home health care or other types of medical care. These exemptions and deductions are allowed regardless of the relationship between the taxpayer and the person receiving support. (E - July 25, 1981)

Laws 1982, Chapter 2 made the following changes in the Individual Income Tax laws:

- (1) Eliminated the option of paying Individual Income Taxes in two installments. (EFA - 31, 1981)
- (2) Required Arizona employers to transfer employee withholding taxes to the state on a monthly basis, instead of a quarterly basis, if the amount of withholding taxes collected by the employer in the previous calendar quarter exceeds \$9,000 (E - April 1, 1982)
- (3) Changed the Arizona Income Tax Code to conform with certain changes in the Federal Income Tax Code passed in the U.S. Economic Recovery Tax Act of 1981. Among other effects, these changes permitted individual taxpayers to claim increased exemptions for contributions to retirement accounts and authorized new exclusions for interest income from selected forms of saving. Adopting the new federal provisions also permitted business owners who file on individual returns to take advantage of accelerated depreciation rates in computing their taxable Arizona Income. The state did not adopt the federal provision which established a deduction for married couples with two incomes. This deduction was established by the federal government to offset the higher tax rates levied on these couples at the federal level. The state's tax rates do not discriminate against married couples. (E - February 19, 1982)

Laws 1982, Chapter 75 provided for inflation indexing of individual income tax brackets beginning with tax year 1983. Under the provisions of this law, the upper and lower income limits of each rate bracket will be increased annually by a percentage equal to the growth in the state consumer price index. The Department of Revenue is authorized to modify the optional tax table each year to reflect the effects of this provision. (EFA - December 31, 1982)

Laws 1982, Chapter 186 provided for the amortization of groundwater measuring devices that are required by law in groundwater management areas and irrigation non-expansion areas (E - July 24, 1982). An income tax credit was also established that may be taken in lieu of amortization. The credit is equal to 100% of the costs of purchasing and installing groundwater measuring devices. The credit applies to groundwater measuring devices installed after June 12, 1980 and is effective beginning with tax year 1983. The amount of the credit may be used over a period not less than three years and not more than five years. The credit and amortization provisions will be discontinued after 1986, but the unused portion of a credit may be carried forward after this time.

Laws 1982, Chapter 256 (as amended by Laws 1982, 6th Special Session, Chapter 2) provided that partnerships, sole proprietorships and subchapter S corporations may claim the following income tax credits:

- (1) Solar energy devices installed for commercial and industrial purposes.
- (2) Solar energy devices installed by contractors in residential housing.

Formerly, commercial solar energy credits were only available to corporations. The credits established by this law are effective beginning with tax year 1982. These credits may be taken in lieu of the tax deduction authorized by Laws 1974, Chapter 165. The individual income tax credit for solar energy devices installed for commercial and industrial purposes is only effective through tax year 1984. The expiration date for residential solar energy tax credits was changed to December 31, 1987.

Laws 1983, Chapter 4 made the following changes in the Individual Income Tax laws:

- (1) Required individual taxpayers who file for an extension of the due date, to pay 90% of their tax liability before an extension may be granted. This provision was effective beginning with tax year 1983. For the 1982 tax year, individuals filing for an extension were required to pay 75% of their liability before June 15, 1983.

(Continued)

Individual Income Tax

- (2) Accelerated the schedule for submitting withholding taxes to the state. Under this provision, employers were required to forward withholding taxes to the state in accordance with the federal payment schedule whenever their withholding collections exceeded \$1,500 in each of the four preceding calendar quarters. The due date for other employers was changed from the 20th day of the month following the end of each quarter to the last day of the month following the end of each quarter. (EFA - December 31, 1982 however penalties were waived on amounts due under this law until March 13, 1983)
- (3) Required certain individuals to make estimated tax payments to the state during tax years 1983 and 1984. Individuals were only required to pay estimated taxes if they were required to make estimated tax payments to the federal government and if 10% of their federal tax liability was at least \$1,000. In making this calculation, federal tax liability does not include liability from the tax on income that is exempt from Arizona's tax laws. (EFA - December 31, 1982)
- (4) Provided that lottery winnings of \$5,000 or more per year were subject to the Individual Income Tax; the law also established a withholding tax on certain gambling and lottery winnings which are subject to federal withholding laws. (E - February 11, 1983)
- (5) Changed the interest rate on deficient and delinquent tax payments to equal the rate of interest established by Section 6621 of the Internal Revenue Code, compounded annually. (E - February 11, 1983)

Laws 1983, Chapter 247 changed the Arizona Income Tax Code to conform with changes in the Federal Income Tax Code that were passed in the Tax Equity and Fiscal Responsibility Act of 1982. Among other effects, these changes permitted the taxation of unemployment benefits to the extent that income (including unemployment benefits) exceeds \$12,000 (\$18,000 on a joint return). Before passage of this law, unemployment benefits were only taxable to the extent that income (including unemployment benefits) exceeded \$20,000 (\$25,000 on joint returns). This law became effective April 25, 1983 and applied to returns beginning with tax year 1982.

Laws 1983, Chapter 298 increased the minimum withholding rate for employees with annual compensation of \$15,000 or more. Formerly, all taxpayers could set their withholding at a level equal to 10%, 15% or 20% of federal withholding. Under this law, the minimum withholding percentage for employees with annual compensation of \$15,000 or more equaled 15% of federal withholding. This provision became effective beginning January 1, 1984. The law also modified the withholding provisions of Laws 1983, Chapter 4. As a result of this modification, employers were required to forward withholding taxes to the state in accordance with the federal payment schedule whenever their average state withholding collections exceeded \$1,500 per quarter over the four preceding quarters. (E - April 28, 1983)

Laws 1983, Chapter 305 extended the withholding tax to additional types of gambling winnings that are subject to federal withholding. The law also provided that any winnings from state lotteries conducted prior to March 22, 1983 are not subject to the income tax. (E - July 27, 1983)

Laws 1984, Chapter 4 provided for the forgiveness of penalties imposed on delinquent individual estimated income tax payments for the 1983 taxable year if the liability was paid in full by January 31, 1984.

Laws 1984, Chapter 11 provided that outstanding interest accrued to tax accounts may be compounded by the Department of Revenue in the same manner as prescribed by section 6621 of the Internal Revenue Code.

Laws 1984, Chapter 15 prescribed the amount of transportation expenses allowed for purposes of deduction from income taxes for charitable contributions. The allowed deduction is equal to the state employee transportation allowance (which is also equal to the I.R.S. business transportation allowance).

Laws 1984, Chapter 25 provided for the payment of interest on the amount to be refunded to a taxpayer if the Department of Revenue fails to pay the refund due within 60 days of the last day for filing the return or 60 days from the filing of the return, whichever is later. Interest shall be paid from the 61st day until the issue date of the refund warrant.

Laws 1984, Chapter 27 provided for the order of crediting tax payments. The Department of Revenue shall credit payments against a taxpayer's unpaid tax liability before crediting payments against any interest or penalties.

(Continued)

Individual Income Tax

Laws 1987, Chapter 365 provided an income tax deduction for employers who pay for public transit of employees commuting to and from work. The employer is required to retain transportation receipts as evidence to qualify for this deduction. (E - August 18, 1987)

Laws 1987, 2nd Special Session, Chapter 2 conformed the Arizona Income Tax Code to changes in the U.S. Internal Revenue Code which was significantly amended by the U.S. Tax Reform Act of 1986. One effect of this act was the expansion of the federal tax base through removal of numerous tax deductions and other such provisions as eliminating the preferential treatment of capital gains. The resulting higher state tax revenues or "windfall" to the state was returned to the taxpayers by this bill through a special subtraction in computing Individual Income Tax liability for 1987. The subtraction was equal to 46% of the taxpayer's 1987 federal income tax liability or \$475, whichever is greater. Also, a separate provision corrected a withholding rate conflict by repealing Laws 1987, Chapter 96 and enacting the same language with an emergency clause. In effect, this raised the withholding rate from 10%, 15% or 20% to 10%, 17%, 22% or 25% for employees with annual wages less than \$15,000; but for those with annual wages \$15,000 or more, the rates changed from 15% or 20% to 17%, 22%, or 25%. (E - July 1, 1987)

Laws 1988, Chapter 11 provided for the itemized deduction of certain employee business expenses, including moving expenses. These expenses had been subtracted on the federal return before determining the Federal Adjusted Gross Income (FAGI), but the U.S. Tax Reform Act of 1986 changed these expenses to itemized deductions, which are calculated after FAGI. This bill only maintains the status quo for these business expense deductions. (RTYBFA - December 31, 1986)

Laws 1988, Chapter 120 repealed the previous Arizona information return statutes under A.R.S. § 43-344 through A.R.S. § 43-347, but required the filing of a copy to the Department of Revenue of any federal information returns by February 28 of the year following the year in which payment was made. Also, the Department of Revenue must make available the names of corporations whose dividends qualify for the income tax deduction of dividends received from Arizona corporations. (ETYBFA - December 31, 1988)

Laws 1988, Chapter 142 established a checkoff provision on the individual income tax return for voluntary contributions made from a taxpayer's refund towards a political party currently qualified for the ballot. Before December 31 of each year, the administrative costs of this provision shall be deducted and deposited into the state General Fund. (RTYBFA - December 31, 1987)

Laws 1988, Chapter 271 was the Omnibus Revenue Bill for FY 1989. The following provisions affected the Individual Income Tax (RTYBFA - December 31, 1987):

- (1) Continued the special windfall subtraction of federal income tax liability resulting from the U.S. Tax Reform Act of 1986, except the formula was changed to (1) 63% of the actual federal tax liability or \$600, whichever is greater, and (2) the maximum subtraction was set at \$20,000. This was effective for the 1988 tax year.
- (2) Eliminated the itemized deduction for taxes paid on motor vehicle, use, and aviation fuel.
- (3) The Arizona depletion allowance statutes are repealed, thus conforming to federal depletion allowances.
- (4) Conformed the state income tax code to changes in Federal Internal Revenue Code during 1987.

Laws 1989, Chapter 71 waived the late payment penalties for taxpayers who voluntarily filed an amended return and paid the additional tax due. Applied only if taxpayer is not under audit and the additional tax is not a substantial underpayment which is 10% of actual tax liability or \$2,000. (E - September 15, 1989)

Laws 1989, Chapter 194 established new procedures and criteria for establishing enterprise zones. Changed the amount of state income tax credit from \$5,000 per net new employee to the following (E - May 15, 1989):

- (1) One-fourth of taxable wages paid to each previously qualified employee, not to exceed \$1,000 per net new employee.
- (2) One-third of taxable wages paid to each previously qualified employee, not to exceed \$1,500 per employee in the second year of continuous employment.
- (3) One-half of taxable wages paid to each previously qualified employee, not to exceed \$2,500 per employee in the third year of continuous employment.

(Continued)

Individual Income Tax

This credit was allowed for taxable years beginning from and after December 31, 1989.

Laws 1989, Chapter 211 conformed state income tax code to changes in the Internal Revenue Code during 1988. The deduction for federal excise taxes paid was eliminated. Also, the special windfall subtraction was continued. The amount of subtraction is equal to 65% of the federal tax liability or a minimum of \$600, but not to exceed \$30,000 for married filing jointly or \$15,000 for individuals. Laws 1989, Chapter 312 later changed the cap to \$10,000 and \$5,000, respectively. The formula and its limits enabled the state to retain a portion of the windfall, while returning the balance to taxpayers. (RTYBFA - December 31, 1988)

Laws 1989, Chapter 239 exempted from state income taxation risk retention or workers' compensation pools by public agencies or contractors. (RFA - November 19, 1986)

Laws 1989, Chapter 262 extended the sunset date for the Wildlife Contribution Fund checkoff on the state income tax return from 1989 to 1999. (E - September 15, 1989)

Laws 1989, Chapter 312 was the General Revenue Act for FY 1990. The following provisions apply to the Individual Income Tax:

- (1) Changed the special windfall subtraction caps to \$5,000 for individual filers and \$10,000 for joint filers. This is effective for the 1989 taxable year.
- (2) Reduced the consumer interest deduction to 50% of all interest paid on bank loans, installment loans, credit cards and other charge accounts, but left the home mortgage interest fully deductible. (RTYBFA - December 31, 1988)
- (3) Allowed a maximum of \$2,500 as a subtraction from Arizona gross income for all Federal and Arizona public pension income. This conformed state law to an earlier U.S. Supreme Court ruling that exemptions for state employees only were discriminatory toward federal employees. (RTYBFA - December 31, 1988)

Laws 1989, 2nd Special Session, Chapter 1 required taxpayers whose Arizona gross income was \$100,000 or more in the previous tax year or who can reasonably be expected to reach this threshold in the current tax year to make quarterly estimated tax payments. The amount of estimated tax payments is either (RTYBFA - December 31, 1989):

- (1) If estimated tax payments are required by the Internal Revenue Service (IRS) then 20% of these amounts shall be paid on the same due dates established by the IRS, or
- (2) If no federal estimated tax payments are required, then an amount which reasonably reflects the tax liability left unpaid at the end of the tax year shall be paid in four installments on due date established by the IRS and shall total, when combined with the taxpayer's withholding tax, at least 90% of the tax due for the current year or 100% of tax due from the preceding year.

Laws 1990, Chapter 63 conformed the state income tax code to changes in the U.S. Internal Revenue Code during 1989. (EFA - December 31, 1989)

Laws 1990, Chapter 98 revised the assessment and collection procedures relating to delinquent taxes. Assessments for not filing or filing a false return does not preclude subsequent deficiency assessments. Also, the effective date of a lien was changed from the liability due date to the date amounts are assessed or date the return is filed. (E - September 27, 1990)

Laws 1990, Chapter 255 eliminated the inclusion of installment income received upon the death of a taxpayer in computing Arizona Adjusted Gross Income, but continued the subtraction from Arizona adjusted gross income of such installments receivable that have already been taxed. (RTYBFA - December 31, 1989)

Laws 1990, Chapter 296 established a state income tax credit for employers who incurred certain expenses in providing dependent day care services to employees. The credit is equal to either:

(Continued)

Individual Income Tax

- (1) The lesser of \$15,000 or 50% of the cost incurred to acquire, construct, renovate or remodel dependent day care facilities. This credit is in lieu of any amortization of the facilities under A.R.S. § 43-1032 and any allowance taken for exhaustion, wear and tear of property under section 167 or 168 of the Internal Revenue Code.
- (2) The lesser of \$5,000 or 30% of the net costs to a) operate dependent day care facilities, b) provide such services or pay employees as reimbursement for day care expenses and c) provide information and referral assistance in obtaining dependent day care.

Certain restrictions apply in qualifying for the credit. [See A.R.S. § 42-1075(B-G)] Credit is effective for tax years beginning from and after December 31, 1990 and ending before January 1, 1995.

Laws 1990, 3rd Special Session, Chapter 3 was the Arizona Tax Reform Act of 1990. The provisions affecting the Individual Income Tax are as follows:

- (1) Reduced the number of taxable income brackets and altered the marginal tax rates:

OLD LAW		NEW LAW	
<u>Taxable Income</u> ^{1/}	<u>Rate</u>	<u>Taxable Income</u> ^{1/}	<u>Rate</u>
\$ 0 - \$2,579	2%	\$ 0 - \$20,000	3.80%
2,580 - 5,159	3	20,001 - 50,000	4.40
5,160 - 7,739	4	50,001 - 100,000	5.25
7,740 - 10,319	5	100,001 - 300,000	6.50
10,320 - 12,899	6	300,001 and over	7.00
12,900 - 15,479	7		
15,480 and over	8		

^{1/} For married filing jointly or head of household. For single or married filing separately, the taxable income rate is reduced by one-half. Also, inflation indexing for these brackets was eliminated.

- (2) Conformed the state's itemized deductions to the same amounts taken on the federal income tax return.
- (3) Raised the standard deduction to \$7,000 for married filing jointly or head of household and \$3,500 for single filers.
- (4) Simplified the "Additions" and "Subtractions" to Arizona gross income by eliminating among others the subtraction for federal income taxes paid and the \$1,000 military pay exclusion.
- (5) New exemption amounts - \$1,500 for 65 years of age or older or blind, \$2,000 for personal or dependents.
- (6) Eliminated the inflation indexing of exemption amounts, standard deductions, and taxable income brackets.
- (7) Current tax credits and voluntary contributions remain, but the deductibility of voluntary contributions are permitted only as allowed and taken on the federal tax return.
- (8) Limited the current renter's credit to those filers with Arizona gross income of \$25,000 or less.
- (9) The income withholding tax percentages were increased from 17% to 20%, 22% to 25%, and 25% to 29%. (EFA - December 31, 1990)

All the above changes, except provision #9, are effective retroactive to taxable years beginning from and after December 31, 1989. Though not specifically written into the act, it should be mentioned that the special "windfall" subtraction was not enacted for tax year 1990; this, in effect, eliminated it from statute.

Laws 1991, 1st Special Session, Chapter 1 changed the Tax Refund Fund to the Tax Refund Account within the state General Fund. This modification allows any account balances to count towards the year-end balance of the state General Fund. (E - May 4, 1991)

(Continued)

Individual Income Tax

Laws 1991, Chapter 22 defined Arizona taxable income during a tax year when a taxpayer changes residency as:

- (1) All realized, recognized, or accrued income and deductions, depending on the method of accounting, for the period when the individual was a resident, and
- (2) All income and deductions earned or derived from Arizona sources when the individual was a non-resident.

This bill also clarified that extension requests mailed by the date the tax return is otherwise due to be filed is eligible for an automatic extension provided 90% of the tax liability is paid. (E - September 21, 1991)

Laws 1991, Chapter 87 required every taxpayer to include their federal taxpayer identification number on tax returns or documents. Persons failing to provide such I.D. number will incur a penalty of \$5 for each failure. Moreover, any person who files a return for compensation on behalf of a taxpayer shall pay a penalty of \$50 for each such failure. A person filing a return for a taxpayer without compensation will not be charged a penalty for such failure. (E - September 21, 1991)

Laws 1991, Chapter 146 adopted the 1990 changes to the U.S. Internal Revenue Code for Arizona Income and Estate Tax purposes. (RTYBFA - December 31, 1990)

Laws 1991, Chapter 149 clarified in statute that savings and loan associations are included under the same provisions as other financial institutions that exclude a portion of interest expense from being deducted when computing Arizona taxable income. (E - September 21, 1991)

Laws 1991, Chapter 155 eliminated the Arizona Individual Income Tax subtraction for contributions made to the Corrections Officer Retirement Plan (CORP) or the Public Safety Personnel Retirement System (PSPRS). To offset this increased tax burden the employee contributions to CORP and PSPRS was reduced from 7% to 6.665% and from 8% to 7.65%, respectively. The provisions related to eliminating the income tax subtraction were effective for tax year beginning January 1, 1991, while the provisions relating to employee contributions were made retroactive to July 1, 1991.

Laws 1991, Chapter 158 was the Tax Correction Act of 1991. Compensation received by a member of the U.S. armed forces for any month which was served in a designated combat zone is excluded from Arizona Gross Income. This applied to pay which was not already excluded under section 112 of the Internal Revenue Code. (ERTYBFA - December 31, 1989)

Laws 1991, Chapter 196 prohibited the distribution of any refunds of taxes imposed by a law that was declared invalid by a final court judgement until the Legislature makes a specific appropriation for that purpose. State funds to counties for such invalid taxes collected are also subject to this provision. (E - September 21, 1991)

Laws 1991, Chapter 264 established two income tax refund checkoffs on the income tax return for contributions into the following new funds: (1) The Special Olympics Tax Refund Fund - monies in this fund will be distributed to the Department of Economic Security (DES) to contract with Arizona Special Olympics programs. This checkoff will begin with the 1991 tax year. (2) The Neighbors Helping Neighbors Fund - monies will provide certain low income, elderly, or handicapped individuals assistance in paying utility bills, conserving energy, and weatherization. DES will administer this fund. This checkoff begins with the 1992 tax year, conditional on the continued phase-out of the renter's credit.

Laws 1991, Chapter 307 established guidelines for forgiveness of interest charged on deficient income tax payments which were due to a Department of Revenue (DOR) error. This bill directs DOR to forgive penalties and interest on underpayments of 1986 income taxes resulting from taxpayer's reliance on an Arizona tax form instruction that contained an incorrect reference to the 1986 Federal 1040EZ Form. Also, DOR shall forgive penalties and 50% of any interest on the underpayment of 1986, 1987, or 1988 income taxes due to erroneous written advice by DOR or a taxpayer's reliance of a DOR tax form which caused the taxpayer to misapply the tax law. No refunds shall be issued by DOR due to these interest or penalty abatements until July 1, 1992. (E - September 21, 1991)

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Individual Income Tax

Laws 1991, 4th Special Session, Chapter 7 amended the Arizona income tax code by providing a phase-in of full itemized deductibility for medical care expenses instead of following the federal treatment. In computing Arizona Taxable Income, a taxpayer may now deduct medical care expenses exceeding 6% of Federal Adjusted Gross Income for tax year 1992, 5% in 1993, 4% in 1994, 3% in 1995, and full expenses in 1996 and thereafter. This act was conditional on the enactment of House Bill 2004, 40th Legislature, 4th Special Session, Chapter 3. (E - March 16, 1992)

Laws 1992, 7th Special Session, Chapter 1 enacted higher state income withholding tax rates to offset the federal change towards lower withholding levels. The state withholding rates were automatically increased beginning April 19, 1992, but did not preclude the employee's election of which rate to deduct from earnings. The new withholding rates are as follows (E - March 24, 1992):

- (1) For annual compensation of less than \$15,000: 10%, 20%, 22% 28%, or 32% of the federal withholding amount.
- (2) For annual compensation of \$15,000 or more: 20%, 22%, 28% or 32% of the federal withholding amount.

Laws 1992, Chapter 15 adjusted the individual income tax filing thresholds to equal a zero state income tax liability. The changes are as follows (ERTYBFA - December 31, 1991):

- (1) For single filers or married filing separately the filing threshold was raised from \$1,100 to \$5,500 of Arizona adjusted gross income.
- (2) For joint returns the filing threshold was raised from \$2,200 to \$11,000 of Arizona adjusted gross income.
- (3) The \$4,000 gross income requirement for filing was eliminated.

Laws 1992, Chapter 16 allowed the Department of Revenue to require tax payments by electronic funds transfer or other immediately available monies from any taxpayer who had a tax liability of \$20,000 or more (excluding individual income tax) in the preceding taxable year. This applied for tax years or reporting periods starting on or after January 1, 1993. Electronic funds transfer is required for the following (E - September 30, 1992):

- (1) Quarterly withholding tax payments by persons who had a quarterly withholding average during the prior year of \$100,000 or more.
- (2) Estimated income tax payments by corporations with a prior year tax liability of \$100,000 or more.

Laws 1992, Chapter 18 conformed the State Income Tax Code to 1991 changes in the U.S. Internal Revenue Code. (RTYBFA - December 31, 1991)

Laws 1992, Chapter 61 allowed a city or town to conduct and certify an alternative special census prior to July 1, 1993 by contract with the U.S. Census Bureau for purposes of determining state shared revenues in the Transaction Privilege, Income, Highway User, and Vehicle License Taxes. The State Treasurer is not to accept another special census until after the year 2000. (E - September 30, 1992)

Laws 1992, Chapter 79 was the Tax Corrections Act for 1992. The administrative costs associated with the Individual Income Tax checkoff for the Child Abuse Prevention Fund shall be determined by the Department of Revenue and transferred to the state General Fund. This bill does not contain any other substantive changes. (E - September 30, 1991)

Laws 1992, Chapter 113 enacted enabling legislation for the establishment and organization of limited liability companies (LLC). This bill subjects a limited liability company to state income taxation as a partnership or a corporation as determined by the Internal Revenue Code.

Laws 1992, Chapter 130 established an income tax credit for individuals or corporations who place recycling equipment in service after December 31, 1992, unless the taxpayer previously took an income deduction for depreciation. The credit is equal to 10% of the installation cost of such equipment, not to exceed the lesser of 25% of the tax liability determined for the applicable

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Individual Income Tax

tax year or \$5,000. If the recycling equipment ceases operation or is transferred, then certain recapture provisions will apply. The unused credit can be carried forward for 15 years. (E - September 30, 1992)

Laws 1992, Chapter 210 extended the date from February 16th to February 28th for filing an employer's annual withholding report to conform with the federal filing date. The Department of Revenue may extend the deadline on a showing of good cause by the employer. (E - September 30, 1992)

Laws 1992, Chapter 220 required the Department of Revenue (DOR) to notify employers who are not complying with timely monthly withholding payments because they were previously reporting on a quarterly basis. DOR cannot assess a penalty to such an employer if all filings and payments are brought into current compliance within 30 days after notification. In addition, employers may apply to DOR by December 31, 1992 for forgiveness of all penalties and interests for any prior such violations provided all withholding taxes due are paid by the date of application. This amnesty is repealed from and after June 30, 1993. (E - September 30, 1992)

Laws 1992, Chapter 232 extended an income tax credit to business owners in an enterprise zone who employ a qualified dislocated worker for the purposes of the Job Training Partnership and Economic Dislocation and Worker Adjustment Act. A business receiving enterprise zone income tax credits must report annually to the zone administrator its business name, mailing address, location, the number of employees counting toward the credits, and the total amount of credits received for the tax year. (E - September 30, 1992)

Laws 1992, Chapter 290 was 1 of 7 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 1993. Provisions affecting the Individual Income Tax are as follows:

- (1) Lowered the threshold for requiring individual income tax estimated payments from \$100,000 to \$75,000 of Arizona gross income expected for the taxable year. (EFA - December 31, 1992)
- (2) Raised the Individual Income Tax personal and dependent exemptions from \$2,000 to \$2,100. (ERTYBFA - December 31, 1991)
- (3) Raised the Individual Income Tax exemption for persons aged 65 or older from \$1,500 to \$1,750. (ERTYBFA - December 31, 1991)

Laws 1992, Chapter 295 established a defense contractor restructuring program to assist Arizona-based qualified defense contractors to attract new Department of Defense contracts, diversify commercially, consolidate facilities into the state, and adopt new technologies. The tax incentives are as follows (Also see page 3):

- (1) Qualified Defense Contractors (ETYBFA - June 30, 1993):
 - Amortization of one-half the federal time period of capital investment in solely private commercial activity.
 - A declining 5-year nonrefundable income tax credit for net defense employment increases or net private commercial employment increases, but not both.
 - A nonrefundable income tax credit of up to 40% of the portion of property taxes paid during the taxable year.
- (2) Military Reuse Zone:
 - A progressive 5-year nonrefundable income tax credit for net aviation-related manufacturing employment gains for business located in a military reuse zone. (ETYBFA - June 30, 1993)
 - A Class 8 commercial and industrial property established for property located in a military reuse zone and for aviation-related manufacturing. The assessment ratio will be 5% of full cash value. This is effective beginning in tax year 1993.
 - A sales tax exemption for military reuse zone construction contracts entered into within 5 years of the zone's establishment with an aviation or aerospace company. (E - September 30, 1992)

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Individual Income Tax

Laws 1992, Chapter 311 established an Individual Income Tax subtraction not to exceed \$3,000 for nonreimbursed expenses related to adoption such as medical, hospital, counseling, and legal fees, etc. The subtraction may be taken for prior year costs, but the subtraction can only occur in the year in which the final adoption order is granted. (ETYBFA - December 31, 1992)

Laws 1992, Chapter 312 was 1 of 7 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 1993. The bill allowed the use of electronic funds transfer requests rather than warrants or other legal forms of transaction for FY 1993. (ER - July 1, 1992)

Laws 1993, 2nd Special Session, Chapter 9 was 1 of 6 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 94. Affecting the Individual Income Tax was the provision raising the elderly exemption from \$1,750 to \$2,100, and the dependent exemption from \$2,100 to \$2,300. The bill also accelerates the phase-in of full medical deductions on individual income tax returns by allowing expenses that exceed 4% of federally adjusted gross income instead of 5% for tax year 1993 and 2% instead of 4% for tax year 1994. For taxable years 1995 and after, a full deduction will be allowed. Effective from and after June 30, 1993 a qualified defense contractor shall not claim both a itemized deduction and a tax credit for income tax purposes with respect to the same property taxes paid. (RTYBFA - December 31, 1992)

Laws 1993, Chapter 19 clarified the language and replaced the 10% penalty provisions related to estimated income tax payments. If a taxpayer now fails to pay the full amount of estimated income tax, a penalty will be assessed equal to the amount of interest that would accrue for the period of nonpayment, not to exceed 10% of the amount not paid. This act does not apply to or affect any amount of penalty that accrued on unpaid or underpaid estimated tax before the effective date of this act. (E - July 17, 1993)

Laws 1993, Chapter 65 provided a subtraction from Arizona taxable income for qualified crop contribution to a charitable organization. The deduction is not to exceed 80% of the wholesale market price or most recent sale price, whichever is greater. The bill defines the criteria for a contribution to qualify, the most recent sale price, qualified crop contribution and wholesale market price. (ERTYBFA - December 31, 1992)

Laws 1993, Chapter 106 clarified and changes the defense restructuring incentives (E - April 14, 1993):

- (1) Tracks full-time equivalent employee positions rather than employees and accounts for them on a first-in first-out basis.
- (2) Allows a taxpayer to carry forward the credit allowed for not more than 5 taxable years, regardless of continuing certification as a qualified defense contractor.
- (3) If a taxpayer qualifies in the same year it relocates into this state, the taxpayer's baseline is zero.
- (4) Allows qualified defense contractors with tax years beginning in the fourth quarter of 1992 or later to qualify for the increased employment credit during 1993. However, estimated Corporate Income Tax payments cannot be adjusted until July 1, 1993.

Laws 1993, Chapter 111 was the Annual Tax Corrections Bill that made technical and conforming changes to the tax statutes. The bill eliminated the requirement that the Department of Revenue charge interest on penalties imposed in connection with a deficiency or delinquency.

The following substantive changes were made to Individual Income Taxes (E - July 17, 1993):

- (1) Increased the Arizona adjusted gross income thresholds used to determine which taxpayers a fiduciary is required to file a return to \$5,500 if single, \$11,000 if married and eliminates the requirement that a Fiduciary Return be filed for all individuals with a gross income over \$5,000.
- (2) Clarified that the maximum subtraction from Arizona gross income for adoption costs is \$3,000 for married filing a joint return and \$1,500 for married filing separately.
- (3) Subjected Arizona income taxpayers who itemize deductions to federal limitations prescribed by the internal revenue code.

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Individual Income Tax

Laws 1993, Chapter 160 provided an Individual Income Tax subtraction for alternative fuel vehicles and equipment for taxable years beginning from and after December 31, 1993. Alternative fuels are defined as liquified petroleum gas, compressed or liquified natural gas, hydrogen, electricity, or solar energy. An alternative fuel vehicle is defined as a self-propelled vehicle for operation on the highways that is primarily propelled by an alternative fuel. The taxpayer may subtract an amount equal to the sum of the following (E - July 17, 1993):

- (1) 25% of the purchase price, exclusive of taxes, interest and other finance charges, but not more than \$5,000 per vehicle. The subtraction is not allowed for the purchase of a used alternative vehicle. One-third of the subtraction shall be allocated and applied to each of 3 consecutive years: except if the title is conveyed to another person, in which case the subtraction is not allowed for any subsequent taxable year.
- (2) The cost of converting a conventional vehicle, exclusive of taxes, interest and other finance charges, but not more than \$3,000 per vehicle. One-third of the subtraction shall be allocated and applied to each of 3 consecutive years: except if the title is conveyed to another person, in which case the subtraction is not allowed for any subsequent taxable year.
- (3) The purchase price of refueling equipment installed on the taxpayer's property for private non-commercial use, exclusive of taxes, interest and other finance charges, but not more than \$5,000.
- (4) 50% of the interest paid or accrued by the taxpayer to purchase new alternative fuel vehicles, convert conventional vehicles, or to do both. One-third of the subtraction shall be allocated and applied to each of 3 consecutive taxable years, beginning with the taxable year in which the equipment is purchased and installed.

Laws 1993, Chapter 210 conformed the state income tax code to 1992 changes in the United States Internal Revenue Code. (RTYBFA - December 31, 1992)

Laws 1993, Chapter 211 provided for a mandatory withholding for active military pay, instead of an election by the taxpayer. (E - July 17, 1993)

Laws 1993, Chapter 258 required the Department of Commerce (Commerce) to establish and conduct an Environmental Technology Assistance Program to promote business and economic development by recruiting and expanding companies that manufacture, produce, or process solar and other renewable energy products from recycled materials. Commerce has until June 30, 1996 to certify qualified environmental technology manufacturers, producers and processors for purposes of available tax incentives provided in the bill. The bill contains a severability clause. Various sections of this bill are delayed or have retroactive effective dates (for details on this bill see Page 3). (E - April 22, 1993)

Laws 1993, 6th Special Session, Chapter 1 contained the following provisions related to the individual income tax for taxable years beginning from and after December 31, 1993. The bill modifies the Individual Income Tax subtraction related to alternative fuel vehicles and equipment. The definition of alternative fuel was amended to include alcohol fuels that contain not less than 85% alcohol by volume. The bill increased the maximum subtraction for the cost of purchasing a new alternative fuel vehicle from \$5,000 to \$10,000 per vehicle. The maximum subtraction for the cost of converting a conventional vehicle was increased from \$3,000 to \$5,000 per vehicle. The bill eliminated the private noncommercial use restriction related to the Income Tax subtraction for the purchase price of refueling equipment. The bill included a private noncommercial use restriction for subtraction of 50% of the interest paid on indebtedness incurred by purchasing, converting, or both purchasing and converting vehicles.

Also included in the bill are new Individual Income Tax subtractions related to qualified wood stoves, wood or gas fireplaces, and equipment. Qualified wood stove or wood or gas fireplace is defined as:

- (1) A residential wood heater that meets the standards of performance for phase II new residential wood heaters pursuant to 40 Code of Federal Regulation Part 60, subpart AAA.
- (2) The conversion of an existing wood burning fireplace to gas logs or a unit defined in paragraph 1.

The taxpayer may subtract from Arizona adjusted gross income an amount equal to the cost, exclusive of taxes, interest and other finance charges, but not more than \$500, for the purchase and installation of a qualified wood stove, wood or gas fireplace, and

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Individual Income Tax

equipment. The taxpayer may also subtract from Arizona adjusted gross income an amount equal to the cost, exclusive of taxes, interest and other finance charges, but not more than \$500, for conversion of an existing wood fireplace. (E - February 10, 1994)

Laws 1993, 6th Special Session, Chapter 2 conformed the Individual Income Tax to the United States Internal Revenue Code in effect on November 8, 1993, except for selected provisions which are offset by the following income tax subtractions (E - November 12, 1993):

- (1) For tax years beginning before January 1, 1994, taxpayers may subtract the following amounts from Arizona gross income:
 - (a) For taxable years beginning from and after December 31, 1992:
 - (i) The excess depreciation of nonresidential real property placed in service on or after May 13, 1993 determined by using a recovery period of 31 ½ years over the amount of the depreciation deduction computed pursuant to Section 168 of the Internal Revenue Code.
 - (ii) The excess amortization of an intangible asset listed in Section 197 of the Internal Revenue Code amortized pursuant to the Internal Revenue Code in effect on January 1, 1993 over the amount of amortization computed pursuant to Section 197 of the Internal Revenue Code.
 - (iii) The amount of gain recognized pursuant to Section 475 of the Internal Revenue Code by a dealer in securities for the taxable year.
 - (b) The portion of any wages or salaries paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal targeted jobs credit that the taxpayer received under Section 51 of the Internal Revenue Code. This paragraph applies retroactively with respect to employees who began work for the taxpayer from and after June 30, 1992.
 - (c) The portion of qualified clinical testing expenditures paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal orphan drug credit that the taxpayer received under Section 28 of the Internal Revenue Code. This paragraph applies retroactively to taxable years ending from and after June 30, 1992.
 - (d) The portion of research and experimental expenditures paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal credit for research activities that the taxpayer received under Section 41 of the Internal Revenue Code. This paragraph applies retroactively to taxable years ending from and after June 30, 1992.
- (2) For taxable years beginning from and after December 31, 1992 through December 31, 1993, an individual may deduct the amount of investment interest, as defined in Section 163 of the Internal Revenue Code, that exceeds the net investment income but does not exceed the amount of the net capital gain from the dispositions of property held for investment that the taxpayer did not elect to include in computing the allowable investment interest deduction under the Internal Revenue Code.
- (3) For taxable years beginning from and after December 31, 1992 through December 31, 1993, trusts and estates may subtract the amount of investment interest, as defined in Section 163 of the Internal Revenue Code, that exceeds the net investment income but does not exceed the amount of the net capital gain from dispositions of property held for investment that the taxpayer did not elect to include in computing the allowable investment interest deduction under the Internal Revenue Code.

Laws 1994, Chapter 34 clarified that taxpayers with a gross income of \$15,000 or over, regardless of the amount of taxable income, are required to file a tax return. The act defined "gross income" as gross income defined in the Internal Revenue Code minus income excluded from taxation at the state level. (RTYBFA - December 31, 1993)

Laws 1994, Chapter 41 contained the major components of the tax reduction package known as the Middle Income Tax Relief Act (MITRA) of 1994. The act contained the following major provisions affecting the Individual Income Tax:

The act reduced the Individual Income Tax rates levied on taxable income for both residents and nonresidents. [See Laws 1995, 1st Special Session, Chapter 9 for the marginal Income Tax rates for tax year 1994] (ETYBFA - December 31, 1993)

(Continued)

Individual Income Tax

The act amends the Urban Revenue Sharing Fund which distributes, to incorporated cities and towns, an amount equal to 12.8% of the net proceeds of State Income Taxes for the fiscal year 2 years prior to the current fiscal year. Beginning in FY 1997, the amount distributed will be equivalent to 13.6% of the net proceeds. (E - July 17, 1994)

The act conformed the income tax for tax years 1994, 1992 and 1991 to the United States Internal Revenue Code in effect for those tax years. This act also conformed, except as provided in A.R.S. § 42-106, the income tax for tax year 1993 to the United States Internal Revenue Code in effect for tax year 1993.

The act added A.R.S. § 42-106 that contains the selective conformity provisions for tax year 1993 (for details on this bill, see Page 3). (E - July 17, 1994)

Laws 1994, Chapter 45 established provisions for individual medical savings accounts that taxpayers may use to pay eligible medical expenses from and after December 31, 1994. A taxpayer may subtract the amount of deposits to an individual medical savings account during the taxable year when computing Arizona's adjusted gross income. Employers may also contribute to the medical savings account.

The individual medical savings account will be established as a trust and placed with a trustee. The account holder may withdraw monies from the individual medical savings account on the last business day of the calendar year without incurring a penalty that may be used for expenses other than those allowed. However, such a withdrawal is considered income for the purposes of computing Arizona's adjusted gross income. Amounts withdrawn at any other time will be subject to penalty. The trustee of the medical savings account will file such reports as are necessary.

In each taxable year, total deposits made to the medical savings account from either the account holder or the account holder's employer shall not exceed the following:

- (1) For tax year 1995, either:
 - a. Not more than \$2,000 for the account holder.
 - b. Not more than \$2,000 for the account holder plus not more than \$1,000 for each of the account holder's dependents, up to a maximum of 2 dependents.
- (2) For subsequent taxable years, the Department of Revenue shall adjust the maximum deposits according to the annual change in the GDP deflator.

The Individual Income Tax Code was revised to include, in Arizona's gross income, amounts withdrawn by the taxpayer from an individual medical savings account established in the taxpayer's name. A taxpayer may subtract from Arizona's gross income:

- (1) The amount of contributions made by the taxpayer's employer during the tax year to the extent that the employer contributions are included in the taxpayer's gross income.
- (2) The amount deposited by the taxpayer during the taxable year.
- (3) The account holder's employer may subtract the amount of contributions made by the employer to an individual medical savings account established on the employee's behalf to the extent that the contributions are not deductible under the Internal Revenue Code.

The expense for medical care that are paid or reimbursed from the taxpayer's medical savings account shall not be included in a taxpayer's itemized deductions.

A trust established as a medical savings account shall not add, in computing Arizona's taxable income, the amount of interest income received on obligations located outside of Arizona. A trust established as a medical savings account may subtract from Arizona's gross income that income earned by the trust during the tax year to the extent the income is included in the trust's Arizona gross income.

(Continued)

Individual Income Tax

The Director of the Department of Administration shall provide an individual medical savings account option for state employees. (E - July 17, 1994)

Laws 1994, Chapter 60 provided that confidential tax information may be disclosed to agencies, officials and organizations that grant substantially similar privileges to the Department of Revenue. Confidential tax information may be disclosed upon the establishment of a written agreement between the department and the following (E - July 17, 1994):

- (1) The United States Internal Revenue Service, the United States Bureau of Alcohol, Tobacco and Firearms, the United States Drug Enforcement Agency and the Federal Bureau of Investigation.
- (2) A state tax or unclaimed property official of another state.
- (3) An organization of states that operates an information exchange for tax administration purposes.
- (4) An agency, official or organization of a foreign country with responsibilities that are comparable to those listed in items 1, 2 or 3.

Laws 1994, Chapter 90 included in Arizona's adjusted gross income for individuals and Arizona taxable income for corporations any amount of agricultural water conservation expenses that were deducted pursuant to the Internal Revenue Code, for which a credit is claimed. The act provided a credit to both individuals and corporations, against taxes imposed for expenses the taxpayer incurred during the taxable year to purchase and install an agricultural water conservation system. The amount of credit is equal to 75% of the qualifying expenses. To qualify for the credit:

- (1) The agricultural water conservation system must be primarily designed to substantially conserve water on land that is used by the taxpayer or the taxpayer's tenant to:
 - a. Produce crops, fruits or other agricultural products.
 - b. Raise, harvest or grow trees.
 - c. Sustain livestock.
- (2) The expense must be consistent with a water conservation plan that the taxpayer has filed and that is in effect with the United States Department of Agriculture Soil Conservation Service.

The tax credits for partnerships and S-corporations are to be pro-rated and there is a 5-year carry forward provision. The credit allowed by this section is in lieu of any allowance for state tax purposes for a deduction for such expenses allowed by the Internal Revenue Code. (RTYBFA - December 31, 1993)

Laws 1994, Chapter 117 provided Individual Income Tax credits for solar energy devices and Individual and Corporate Income Tax credits for pollution control equipment, and construction materials incorporated into qualifying facilities. The act clarified that a taxpayer who claims a credit may not claim a credit for the same equipment under another section.

An Individual and Corporate Income Tax credit is established equal to 10% of the purchase price for qualified real and personal property used to control or prevent pollution. For tax years 1995 and 1996, the maximum credit is \$750,000. For all subsequent tax years, the maximum credit is \$500,000. Co-owners may each claim a pro rata share of the credit allowed and may carry the credit forward for not more than 5 taxable years. Depreciation or amortization in excess of the income tax credit may be subtracted for income tax purposes.

An Individual and Corporate Income Tax credit is established equal to 5% of the purchase price of materials used to build a new facility or expand an existing facility within the state that is predominantly used for manufacturing, mining, or research and development. The total cost of the construction must be in excess of \$5 million and the construction must begin on or after January 1, 1994 and completed by December 31, 1999. Co-owners may each claim a pro rata share of the credit allowed and may carry the credit forward for not more than 5 taxable years.

(Continued)

Individual Income Tax

The Individual Income Tax credit for solar energy devices is equal to 25% of the cost of the device. The maximum credit in a taxable year may not exceed \$1,000, and the aggregate credit over different tax years is \$1,000 for the same residence. Taxpayers may carry forward the credit for not more than 5 consecutive tax years. A husband and wife who file separately may each claim half of the tax credit that would have been allowed on a joint return. (ETYBFA - December 31, 1994)

Laws 1994, Chapter 119 provided forgiveness of penalties and interest assessed against an employer for failing to make timely filing and payment of withholding tax with respect to any taxable years beginning from and after December 31, 1985 if the following qualifications apply:

- (1) The employer has paid all withholding taxes due on or before the date of the application.
- (2) The delinquency resulted solely from incorrect application of the payment schedule and not from failure to withhold the tax.

An employer that meets the qualifications may apply, on or before December 31, 1994. The Department of Revenue will promptly process all applications on or before June 30, 1995. This act is repealed from and after June 30, 1995. (ETYBFA - December 31, 1985)

Laws 1994, Chapter 248 provided individual and corporate income tax credits for expenses incurred by a taxpayer, who is not liable or responsible for a corrective action as an owner or operator of an underground storage tank, but takes corrective action with respect to the release of a regulated substance from an underground storage tank. The amount of the credit is equal to 10% of the total amount spent by the taxpayer to take corrective action certified by the Department of Environmental Quality as having been performed and meeting necessary requirements. The credit is not allowed for corrective action costs reimbursed by the Department of Environmental Quality. (E- July 17, 1994)

Laws 1994, Chapter 333 was the Annual Tax Corrections Act that made technical and conforming changes to the tax code. (E - July 17, 1994)

Laws 1994, Chapter 353 clarified that an Individual Income Tax subtraction is available for expenses related to the purchase and installation of a qualified wood stove, wood fireplace or gas fired fireplace and non-optional equipment directly related to its operation. (RTYBFA - December 31, 1993)

The act also provided a corporate and individual income tax credit, in lieu of a subtraction, for the purchase of one or more new alternative fuel vehicles or expenses incurred from converting conventional vehicles. The credit is \$1,000 per conversion or purchase for tax years 1994, 1995 and 1996; \$500 for 1997; and \$250 for 1998.

Alternative fuel means:

- (1) Liquified petroleum gas.
- (2) Natural gas.
- (3) Hydrogen.
- (4) Electricity.
- (5) Solar Energy.
- (6) Alcohol fuels that contain not less than 85% alcohol by volume.

Co-owners may each claim a pro rata share of the credit allowed, and may carry the credit forward for not more than 5 taxable years. (ETYBFA - December 31, 1993 and before January 1, 1999)

Laws 1994, Chapter 354 clarified that when computing Arizona's 1990 adjusted gross income, the amount of the federal income tax refund received in 1990 shall be added to Arizona's gross income in 1990 only to the extent that the refund is attributable to a prior year's federal income tax subtraction which was in excess of that year's federal income tax. (E - July 17, 1994)

(Continued)

Individual Income Tax

Laws 1994, Chapter 375 provided changes to the Taxpayers' Bill of Rights including provisions on installment payments of tax, abatement of penalties, and reimbursement of fees and other costs. The reimbursement of fees and other costs section is effective after December 31, 1994. (E - July 17, 1994)

Laws 1995, Chapter 7 conformed the State Income Tax Code to the United States Internal Revenue Code in effect on January 1, 1995. The conformity includes those provisions that became effective during 1994 with the specific adoption of their effective date, but excluding any change to code enacted after January 1, 1995. (RTYBFA- December 31, 1994 through December 31, 1995)

Laws 1995, 1st Special Session, Chapter 9 reduced Individual Income Tax rates for all income levels for the second year in a row. The combined 2-year rate reduction reduces Individual Income Tax liability for all taxpayers by approximately 20%. Established the following marginal income tax rates:

<u>SINGLE OR MARRIED FILING SEPARATE</u>			
<u>Taxable Income</u>	<u>1993 Tax Rate</u>	<u>1994 Tax Rate</u>	<u>1995 Tax Rate</u>
\$0 - \$10,000	3.80%	3.25%	3.0%
\$10,001 - \$25,000	4.40%	4.00%	3.5%
\$25,001 - \$50,000	5.25%	5.05%	4.2%
\$50,001 - \$150,000	6.50%	6.40%	5.2%
\$150,001 and over	7.00%	6.90%	5.6%

<u>MARRIED FILING JOINT OR SINGLE HEAD OF HOUSEHOLD</u>			
<u>Taxable Income</u>	<u>1993 Tax Rate</u>	<u>1994 Tax Rate</u>	<u>1995 Tax Rate</u>
\$0 - \$20,000	3.80%	3.25%	3.0%
\$20,001 - \$50,000	4.40%	4.00%	3.5%
\$50,001 - \$100,000	5.25%	5.05%	4.2%
\$100,001 - \$300,001	6.50%	6.40%	5.2%
\$300,001 and over	7.00%	6.90%	5.6%

Increased the optional standard deduction from \$3,500 to \$3,600 for single or married filing separate and from \$7,000 to \$7,200 for married filing joint or head of household.

Provided a nonrefundable income tax credit equal to \$30 for each personal or dependent exemption, up to a maximum of \$120 for married filing joint or head of household and \$60 for single or married filing separate. The credit applies only to those taxpayers whose Arizona gross income is \$20,000 or less for married filing joint or head of household and to \$10,000 or less for single or married filing separate. (RTYBFA - December 31, 1994)

Increased the distribution to the Urban Revenue Sharing Fund to 15% of the net proceeds of state income taxes beginning in FY 1998. Currently the distribution is 12.8% and is scheduled to increase to 13.6% in FY 1997. The increased distributions are to

(Continued)

Individual Income Tax

compensate incorporated cities and towns for reduced income tax revenues resulting from individual income tax rate reductions enacted in the 1994 and 1995 legislative sessions.

Laws 1995, Chapter 120 established a 60-day non-penalty period for transferring funds from one individual medical savings account to another. After 60 days, amounts withdrawn and not redeposited are considered income for tax purposes and subject to a 10% penalty. In the case of legal separation, dissolution of a marriage or transfer of employment, amounts withdrawn are considered income but are not subject to penalty. (ERTYBFA - December 31, 1994)

Laws 1995, Chapter 182 authorized municipalities with a population less than 50,000 and counties with a population less than 125,000 to submit their July 1995 populations, as approved by the Director of the Department of Economic Security (DES) Population Statistics Unit, for state revenue sharing purposes without having to contract with DES to conduct a sample survey verification. Allowed any city, town or county to submit a request that the 1990 Decennial Census, plus revisions due to annexation certified by the United States Bureau of the Census, continue to be used for the purposes of state revenue sharing, even if a special census has been conducted. (E - July 13, 1995)

Laws 1995, Chapter 188 allowed the state to intercept a defendant's Arizona tax refund to pay a restitution order. (E - July 13, 1995)

Laws 1995, Chapter 200 was the Annual Tax Corrections Act that made technical and conforming changes to the tax code. (E - July 13, 1995)

Laws 1995, Chapter 236 provided individual and corporate income tax credits for tax year 1995 to employers who hire students enrolled in the Summer School and Jobs Program. The maximum credit is equal to one-half of the wages paid to the student up to a maximum of \$3.00 per hour, with a maximum of 20 hours of work per week. To qualify for the credit the employer must be certified by the Department of Economic Security as employing one or more enrolled students, the wage must be paid on or before September 1, 1995, and the student must remain in summer school for the entire session. Co-owners of a business may each claim a pro rata share of the credit allowed based on ownership interest. Any deductions for wages allowed by the Internal Revenue Code shall be reduced by the amount of any credit taken. (E - April 19, 1995)

Laws 1995, Chapter 256 established individual and corporate income tax claim of right adjustments for claim of right income in excess of \$3,000. The adjustment is equal to the decrease in the tax liability that would result from excluding the claim of right income from gross income for the applicable prior taxable year or years. The claim of right adjustment does not apply to stock, inventory or other property held by the taxpayer for sale to customers in the ordinary course of business. The claim of right adjustment also does not apply to the refund or repayment of regulated public utility rates if the refund or repayments are required by a government entity, by an order of the court or made under threat of litigation. If the adjustment creates or impacts a net operating or capital loss, then certain carry forward and carry back provisions are provided. Taxpayers normally barred from filing an amended return because of statute of limitation restrictions may file an amended return on or before December 31, 1995. Refund claims exceeding \$1 million will be paid by credit voucher unless the taxpayer provides satisfactory proof there will be no future tax liability to the state. The bill contains a severability clause. (RTYBFA - December 31, 1985)

Also, this bill clarified that the family income tax credit applies to Arizona residents only. (RTYBFA - December 31, 1994)

CORPORATE INCOME TAX

DESCRIPTION

Arizona imposes a tax on the Arizona Taxable Income of corporations for the purpose of defraying the costs of maintaining state government and easing the burden of taxation on tangible property. The current corporate income tax code was established by the Arizona Income Tax Act of 1978; however, the Arizona Tax Reform Act of 1990 made several significant tax changes, among them being the provision for a single corporate flat tax rate in place of the prior graduated tax rate structure.

YIELD

<u>Net Collections from Corporate Income Tax</u>	
<u>Fiscal Year</u>	
1994-95	\$416,711,295
1993-94	302,616,297
1992-93	239,269,405
1991-92	211,445,624
1990-91	191,672,481
1989-90	178,067,102
1988-89	200,869,726
1987-88	150,748,754
1986-87	198,948,624
1985-86	168,682,651
1984-85	202,277,155
1983-84	197,886,197
1982-83	160,396,962
1981-82	114,759,241
1980-81	126,510,099
1979-80	114,551,166
1978-79	89,351,843
1977-78	63,842,452
1976-77	51,787,656

SOURCE: Department of Revenue, Annual Reports. Figures are net of refunds and charge-offs.

WHO PAYS THE TAX

A.R.S. § 43-1101. *Definition.* Any corporation, excluding exempt organizations, having Arizona taxable income is subject to the Corporate Income Tax.

A.R.S. § 43-104. *Exclusion.* 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.

A.R.S. § 43-1126. *"S" Corporations.* A small business corporation which makes a subchapter S election for a taxable year pursuant to the Internal Revenue Code is not subject to the Corporate Income Tax to the extent such corporation is not liable to federal income taxes. This, in effect, means that excess passive income and capital gains are subject to the state Corporate Income Tax. The remaining income is passed through to each shareholder who are then taxed on their share of the income by the state Individual Income Tax. All such corporations still must file a state tax return regardless of amount of income.

Corporate Income Tax

TAX BASE

A.R.S. § 43-1101 & 1121-1122. *Base.* The tax is levied on a corporation's Arizona Taxable Income. The base starts with Arizona Gross Income, which is equivalent to the Federal Taxable Income, and is then adjusted by a list of additions and subtractions to income to arrive at taxable income.

A.R.S. § 43-1123. *Net Operating Loss.* Taxpayer may carryover any net operating loss for five succeeding taxable years.

A.R.S. § 43-1201. *Exempt Organizations.* Certain organizations and corporations are exempt from state income taxation, but their "unrelated business income" as defined by the Internal Revenue Code is subject to the Corporate Income Tax (see A.R.S. § 43-1231).

A.R.S. § 43-942 & 947. *Combined or Consolidated Filing.* Corporations may file using combined reporting or consolidated return if the affiliated group filed a consolidated federal return.

A.R.S. § 43-1132. *Multi-state Corporations.* Corporations having income from within and outside the state must allocate and apportion their Arizona Taxable Income as follows:

- A.R.S. § 43-1134. *Nonbusiness Income*, which includes rents and royalties from real or tangible personal property, capital gains, interest, dividends, and patents or copyright royalties, is generally allocated to Arizona if (1) the income arises from property that has its situs in Arizona or (2) the taxpayer's commercial domicile is located in Arizona and the taxpayer is not taxable in the state where the property has situs.
- A.R.S. § 43-1139. *Business Income* is allocated and apportioned to Arizona based on the Uniform Division of Income for Tax Purposes Act (UDITPA) which was adopted by Arizona for tax years starting January 1, 1984 or after. This act uses the average ratio computed from property, payroll, and sales factor ratios, except that the sales factor is double-weighted. See A.R.S. § 43-1140 to A.R.S. § 43-1145 for the formula of each factor.
- A.R.S. § 1146. *Sales of Tangible Personal Property* are allocated to Arizona if (1) the property is received by the purchaser within this state or (2) the property is shipped from a location in this state and the purchaser is the U.S. government or the taxpayer is not taxed by the state of the purchaser.
- A.R.S. § 43-1147. *Sales Other Than of Tangible Property* are apportioned to Arizona if (1) the income producing activity is performed in Arizona or (2) the income producing activity is performed in and outside this state, but a greater portion is performed in this state, based on costs of performance.

If the allocation and apportionment provisions do not fairly represent the extent of the taxpayer's business activity in this state, the taxpayer may petition for, or the Department of Revenue may require, any alternative method as listed under A.R.S. § 43-1148.

TAX RATE

A.R.S. § 43-1111. *Flat Rate.* The Arizona Tax Reform Act of 1990 has repealed the previous graduated rate structure and established a flat rate of 9.3% on taxable income. The Middle Income Tax Relief Act of 1994 reduced the Corporate Income Tax to 9.0% of taxable income.

Minimum Tax. There is a \$50 minimum tax, regardless of income amount.

Corporate Income Tax

ARIZONA HISTORICAL CORPORATE INCOME TAX RATES

	Laws 1933	Laws 1933 1st SS.	Laws 1965 3rd S.S.	Laws 1967 3rd S.S.	Laws 1974 1st S.S.
<u>Taxable Income</u>	<u>Chapter 39</u>	<u>Chapter 8</u>	<u>Chapter 10</u>	<u>Chapter 7</u>	<u>Chapter 2</u>
over 0 - 1000	2.0%	1.0%	1.3%	2.0%	2.5%
over 1000 - 2000	2.5	2.0	2.6	3.0	4.0
over 2000 - 3000	3.0	2.5	3.3	4.0	5.0
over 3000 - 4000	3.5	3.0	4.0	5.0	6.5
over 4000 - 5000	4.0	3.5	4.6	6.0	8.0
over 5000 - 6000	5.0	4.5	5.9	7.0	9.0
over 6000	6.0	5.0	6.6	8.0	10.5

TAX CREDITS

Corporations may reduce their tax liability if they are eligible for a tax credit. The following tax credits are available to qualifying corporations:

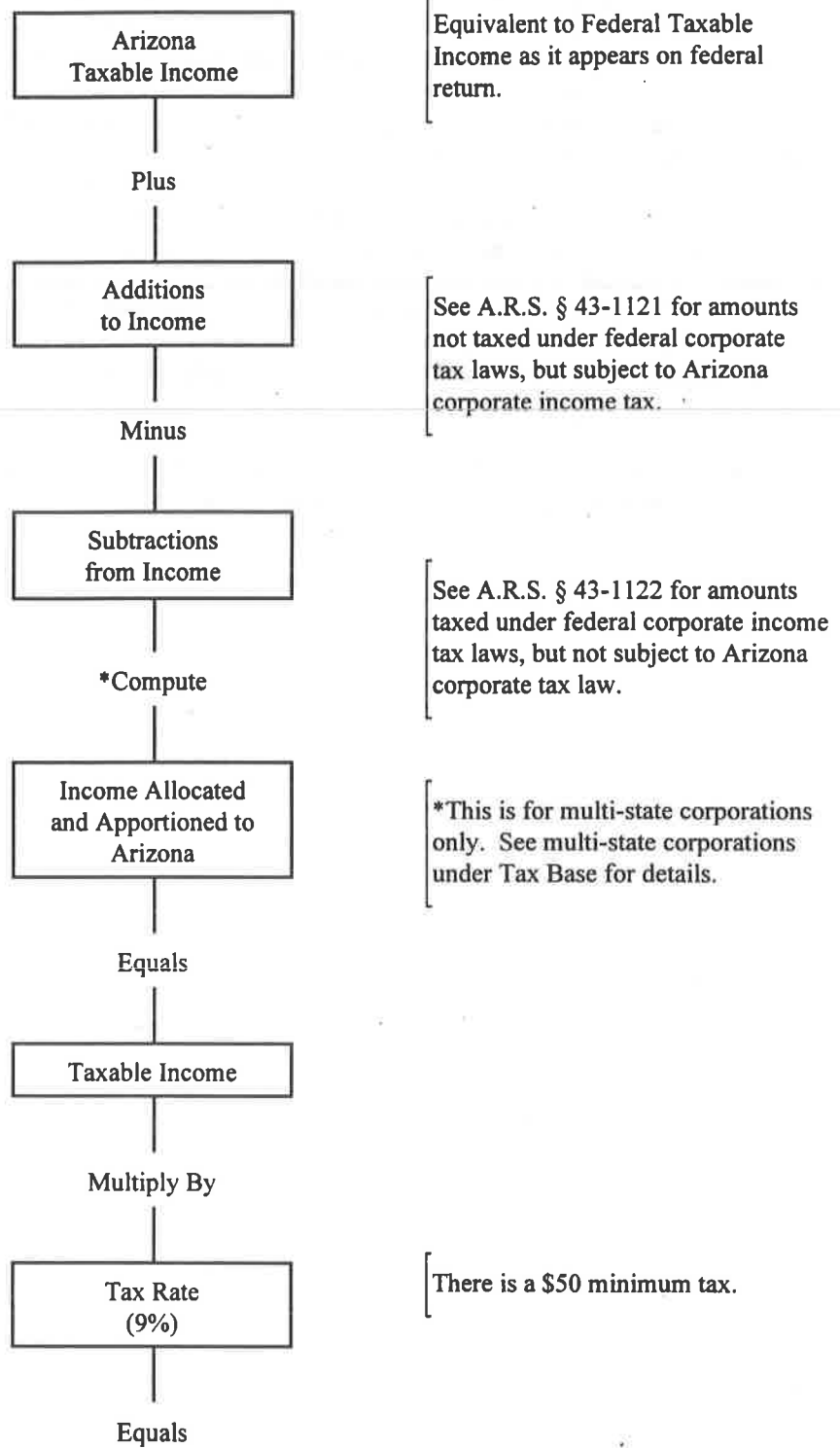
- A.R.S. § 43-1161. *Enterprise Zones*. For taxable years beginning from and after December 31, 1989, a business located in an enterprise zone can claim a credit for net increases in employment of persons who qualify as economically disadvantaged under the Job Training Partnership Act. See Laws 1989, Chapter 194 under History for calculation of the credit amount.
- A.R.S. § 43-1162. *Correctional Industries*. Corporations that invest in qualified property and employ inmates on the grounds of correctional facilities may claim a tax credit. Certain recapture provisions may apply. See Laws 1989, Chapter 272 under History for calculation of the credit amount.
- A.R.S. § 43-1163. *Dependent Day Care*. For tax years beginning from and after December 31, 1990 and ending before January 1, 1995, employers who incur certain expenses in providing dependent day care services to employees may claim this credit. See Laws 1990, Chapter 296 under History for details of the credit amounts.
- A.R.S. § 43-1164. *Recycling Equipment*. Taxpayers may claim a credit for placing recycling equipment in service after December 31, 1992. This credit is in lieu of any deductions taken for depreciation. The credit is 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 apply when the recycling equipment ceases operation or is transferred.
- A.R.S. § 43-1165 & 1166. *Qualified Defense Contractor*. A defense contractor certified by the State Department of Commerce may qualify for a tax credit due to (1) net employment increases under defense related contracts or (2) net employment increases from transferring employment from exclusively defense related activities to exclusively private commercial activities or (3) taxes paid on Class 3 property if there was new defense related employment during the taxable year.
- A.R.S. § 43-1167. *Military Reuse Taxes*. Businesses who are primarily engaged in manufacturing, assembling or fabricating aviation or aerospace products and is 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.
- A.R.S. § 43-1168. *Research and Development Expenses*. Corporations may claim a credit for qualified expenses as defined by Section 41 of the Internal Revenue Code on research conducted in Arizona. The credit is limited to \$100,000 in the first year the taxpayer claims the credit, \$250,000 in the second year the taxpayer makes a claim, \$400,000 in the third year, and \$500,000 each year thereafter.
- A.R.S. § 43-1169. *Qualified Environmental Technology Facility*. A taxpayer may claim a credit for expenses incurred in constructing a qualified environmental technology facility as described in A.R.S. § 42-1514.02. The credit is equal to 10% of construction costs including land acquisition, improvements, building improvements, machinery and equipment. 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.

Corporate Income Tax

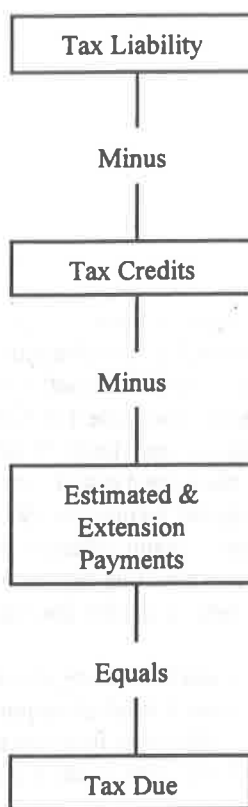
- A.R.S. § 43-1170. *Pollution Control Equipment.* A taxpayer may claim a tax credit for 10% of the cost to purchase real or personal property used to control or prevent pollution. Amounts that qualify for this credit must be includible in the taxpayer's adjusted basis for the property. This credit is in lieu of the recycling equipment credit. For 1995 and 1996, the maximum credit that a taxpayer may claim is \$750,000. For years after 1996, the maximum credit is \$500,000.
- A.R.S. § 43-1171. *Construction Materials.* A tax credit can be claimed for 5% of the purchase price of new construction materials used to build a new facility or expand an existing one. The facility must be predominantly used for manufacturing, refining, mining, metallurgical operations, or research and development and the total cost of construction must exceed \$5 million. Also, construction must have begun on or after January 1, 1994 and completed by December 31, 1999.
- A.R.S. § 43-1172. *Agricultural Water Conservation System.* A tax credit can be claimed for 75% of the qualifying expenses in purchasing and installing an agricultural water conservation system. This credit is in lieu of itemized deductions for such expenses, in which case, the taxpayer must add the credit back into Arizona Gross Income in computing taxable income.
- A.R.S. § 43-1173. *Underground Storage Tanks.* Taxpayers can claim 10% of the expenses in tax year 1994 and thereafter for corrective actions related to underground storage tank compliance if the taxpayer is not responsible or liable for the corrective action. The corrective action must be certified by the Department of Environmental Quality and is in lieu of reimbursements by said agency.
- A.R.S. § 43-1174. *Alternative Fuel Vehicles and Equipment.* For taxable years 1994 through 1998, a taxpayer may claim a tax credit, in lieu of an income tax subtraction, for purchasing or converting to an alternative fuel vehicle for use in Arizona. The amount is equal to \$1,000 for 1994-1996 and \$500 for 1997 and \$250 for 1998. Amounts received from Energy Office grants are not eligible for this credit.

Corporate Income Tax

TAX COMPUTATION



Corporate Income Tax



PAYMENT SCHEDULE

A.R.S. § 43-582 *Estimated Payments*. A corporation that expects an Arizona income tax liability for the taxable year of at least \$1,000 is required to remit Arizona estimated tax payments. The total annual estimated payment must equal at least 90% of the tax liability for the current year or 100% of the tax liability for the prior year. However, a large corporation defined as one having federal taxable income of \$1,000,000 or more for any of the immediately preceding three taxable years, is required to remit 90% of its tax liability for the current year.

Due Dates. Estimated payments are paid to the state in four installments at the same time as federal estimated taxes. For calendar year filers, this is on or before the 15th of April, June, September, and December. For fiscal year filers, it is on or before the 15th day of the 4th, 6th, 9th, and 12th month of the fiscal year. Taxpayers whose corporate tax liability for the preceding tax year was \$50,000 or more are required to pay its estimated payments by Electronic Funds Transfer (EFT).

Penalty. If a corporation fails to pay the required amount of estimated payments during the tax year or any required installment, a penalty as determined by the Department of Revenue, but not to exceed 10% per year plus interest on the unpaid balance will be assessed from the original due date until the payment is received.

A.R.S. § 43-501. *Payment of Balance*. The balance of the tax due, after taking into account a taxpayer's estimated payments, is paid by April 15th after the close of the calendar year or, for fiscal year filers, by the 15th day of the 4th month following the close of the fiscal year. The taxpayer must also file a return at the time of payment.

A.R.S. § 42-116. *Extensions*. An automatic 6 month extension may be granted if (1) 90% of the tax liability is paid by the original due date and (2) the extension request is received by the original due date. Arizona will accept a valid federal extension. No extension may be granted beyond 6 months from the original due date.

Corporate Income Tax

Penalties. The penalties are the same as for individual taxpayers. See Penalties under Individual Income Tax.

DISTRIBUTION

See Individual Income Tax. The Individual and Corporate Income Tax are pooled for distribution. The distribution table is likewise listed under the Individual Income Tax.

HISTORY

Laws 1933, Chapter 39 imposed the first Arizona State Corporate Income Tax. The tax was levied on the Arizona Taxable Income of each corporation. Arizona Taxable Income was determined by subtracting authorized deductions from the taxpayer's gross income. If the income of the corporation was derived from sources both within and outside the state, the tax was levied on the portion of income derived from sources within the state. The State Tax Commission was responsible for collecting the Corporate Income Tax levied by this law. The tax was payable on March 15 of each year or 75 days after the close of the taxpayer's fiscal year. If the tax was paid in two installments, the second installment came due 90 days after the original due date. For the 1933 calendar year, the tax was based on one-half of the net income for 1932 and was due and payable on June 15, 1933 or 75 days after the close of the taxpayer's fiscal year. This law became effective June 13, 1933. Due to a referendum filed on June 10, 1933, the effective date was postponed until the law could be approved by the voters at the next general election. Although the law was repealed before the election could be held, a similar law was enacted in its place.

Laws 1933, 1st Special Session, Chapter 8 repealed the law passed in the regular session and enacted a new corporate income tax that was substantially the same. The tax rates imposed on each level of corporate income were reduced by one-half to 1% (see Arizona Historical Corporate Income Tax Rates Chart). Collections from the tax were remitted to the State Treasurer who deposited all contested payments in an Income Tax Suspense Fund. 10% of the remaining collections, or a maximum of \$20,000, was dedicated to the Suspense Fund. (E - June 26, 1933)

Laws 1935, Chapter 80 allocated a share of the income tax revenues (not to exceed 4%) to the State Tax Commission for administration of the tax. The unexpended balance of this amount reverted to the state General Fund on December 31 of each year. (E - July 1, 1935)

Laws 1943, Chapter 11 imposed a separate income tax on the income of banking institutions. The distribution of revenues from this source was 50% to the state General Fund, 25% to the counties and 25% to the cities and towns in which bank offices were located. If the bank office was located in an unincorporated city or town, the city's share of the income tax was deposited in the county general fund instead. (Effective for Tax Years Beginning After December 31, 1943)

Laws 1945, Chapter 40 imposed a separate tax upon the income of savings and loan associations. The distribution of revenues from this tax was 50% to the state General Fund, 25% to the counties, and 25% to the cities and towns in which the loan associations were located. (Effective for Tax Years Beginning After December 31, 1945)

Laws 1951, Chapter 106 imposed a separate tax on the income of investment companies. The distribution of revenues from this tax was 50% to the state General Fund, 25% to the counties and 25% to the cities and towns in which the investment companies were located. (Effective for Tax Years Beginning After December 31, 1950)

Laws 1952, Chapter 136 changed the due date for payment of the corporate income tax. For taxpayers who keep records on a calendar year basis, the due date was changed from March 15 to April 15. For taxpayers who keep records on a fiscal year basis, the due date was extended to 105 days after the close of the taxpayer's fiscal year. For taxpayers paying in two installments, the due date for the second installment was changed to 75 days after the original due date. (E - March 16, 1952)

Laws 1954, Chapter 65 repealed the Income Tax Act of 1933 and all amendments to the Act. The 1954 act imposed a new income tax closely patterned after the Federal Income Tax. The new law made significant modifications to the tax base but the tax rates applied to corporate income were not changed. The due date for paying the Corporate Income Tax was changed for taxpayers who file on a fiscal year basis. The new due date was the 15th day of the fourth month following the close of the fiscal

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year. All corporations were authorized to pay the tax in two installments. If the tax was paid in two installments, half of the tax was due on the 15th day of the fourth month following the close of the income year and the remainder was due on the 15th day of the sixth month following the close of the income year. The gross proceeds from the new Corporate Income Tax were distributed as follows:

- (1) 25% to the Income Tax Fund from which refunds were issued.
- (2) 75% to the state General Fund.

On June 30 of each year, any amounts that remained in the Income Tax Fund in excess of \$200,000 reverted to the state General Fund. (Effective July 9, 1954 and Applicable to Tax Years From and After December 31, 1953)

Laws 1965, 3rd Special Session, Chapter 10 increased the tax rates imposed on corporate income. See Arizona Historical Corporate Income Tax Rates Chart. (E - July 1, 1965)

Laws 1967, 3rd Special Session, Chapter 7 again increased the tax rates on corporate income. The rate changes are illustrated in the Arizona Historical Corporate Income Tax Rates chart. (E - January 1, 1968)

Laws 1968, Chapter 50 allowed an accelerated rate of amortization for equipment and machinery used in the prevention or control of air and water pollution. (E - June 20, 1968)

Laws 1969, Chapter 130 conformed state law with existing federal provisions for determining depreciation allowances. For certain assets used in trade or business, the law authorized taxpayers to claim 20% of the cost of the asset as the first year's depreciation. The maximum cost of assets subject to this provision was limited to \$10,000 in any one year. The provision that allowed businesses to carry back net operating losses was also repealed and taxpayers were authorized to carry net operating losses forward for a period of five years. (E - January 1, 1970)

Laws 1970, Chapter 170 repealed the separate income taxes imposed on banks, investment companies and savings and loan associations. This act provided that such financial institutions would be taxed as other corporate income taxpayers. (EFA - January 1, 1970)

Laws 1971, Chapter 61 excluded from gross income dividends received by a corporation from another corporation which is owned or controlled directly or indirectly by the recipient corporation. (Effective for Taxable Years Beginning From and After December 31, 1970)

An initiative measure approved November 7, 1972 established an Urban Revenue Sharing Fund and provided that all incorporated cities and towns in Arizona received a share of monies in the fund. The amount deposited in the fund each year equaled 15% of the net proceeds of the state income tax two years prior to the current fiscal year. In return, political subdivisions of the state were prohibited from levying an income tax. This law was effective beginning July 1, 1973.

Laws 1973, Chapter 7 established a new state income tax code. The new code reorganized the existing income tax code without making substantive changes in the laws. (E - March 6, 1973)

Laws 1973, Chapter 123 created the Department of Revenue and transferred the powers and duties of the State Tax Commission to the new Department. (E - July 1, 1974)

Laws 1974, 1st Special Session, Chapter 2 changed the Corporate Income Tax rates from and after December 31, 1973. The new rates established by this law are shown in the Arizona Historical Corporate Income Tax Rates chart. The percentage of tax proceeds deposited in the Income Tax Fund was reduced from 25% to 12.5%. The remaining income tax collections (after deducting urban revenue sharing) were deposited in the state General Fund. This provision was effective July 1, 1974.

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Laws 1974, Chapter 63 allowed a taxpayer to amortize and claim deductions over a five-year period for the purchase or construction of child care facilities for the children of the taxpayer's employees. The deductions authorized by this law were in lieu of an allowance for depreciation. (EFA - January 1, 1974)

Laws 1974, Chapter 165 allowed a taxpayer to amortize and claim deductions over a five-year period for the installation of a solar energy device designated to produce heat or electricity. The deductions authorized by this law were in lieu of an allowance for depreciation. The provisions of this act expired after December 31, 1984. (EFA - December 31, 1983)

Laws 1974, Chapter 166 increased the amount of tax revenue deposited in the Income Tax Fund from 12.5% to 16%. The balance of income tax collections (after urban revenue sharing) was placed in the state General Fund. (E - August 9, 1974)

Laws 1974, Chapter 187 provided that an employer may not deduct the cost of providing medical care to employees unless the medical plans which the employer provides to his employees include catastrophic medical costs as part of the coverage. (E - on January 1, 1975)

Laws 1976, Chapter 129 allowed for the amortization of a qualified solar device in 36 months instead of 60 months. This provision expired from and after December 31, 1984. (E - June 27, 1976)

Laws 1977, Chapter 87 authorized a depletion allowance schedule for geothermal resource development similar to the allowance for oil and gas interests which was included in the 1954 tax revision. (E - May 23, 1977)

Laws 1978, Chapter 213 established a new income tax code for the State of Arizona which became effective beginning with the 1979 income tax year (1980 filing year). Under the new tax code, Arizona Gross Income would equal Federal Taxable Income and would be adjusted to allow for state exemptions and deductions.

Laws 1979, Chapter 14 changed the method of taxing small business corporations (commonly referred to as subchapter S corporations) to conform with federal law. Under this law, qualifying corporations are not required to pay Corporate Income Taxes; instead, the income of the corporation is distributed to shareholders and is taxed on each shareholder's individual return. (Effective for Tax Years Beginning From and After December 31, 1978)

Laws 1979, Chapter 43 changed the amount of collections that is to be retained in the Income Tax Fund at the end of each fiscal year from \$200,000 to \$500,000. (E - April 17, 1979)

Laws 1979, Chapter 145 changed the Arizona Income Tax code to conform with changes to the Federal Internal Revenue Code adopted during 1978. This bill was necessary since Federal Taxable Income is the starting point for calculating Arizona income tax liability. (Effective for Tax Years Beginning From and After December 31, 1978)

Laws 1979, Chapter 146 authorized corporations to claim the following income tax credits:

- (1) Solar energy devices installed for commercial and industrial purposes.
- (2) Solar energy devices installed by contractors in residential housing.

These credits can be taken in lieu of the tax deduction for solar energy devices authorized by Laws of 1974, Chapter 165. The credits were based on a percentage of the cost of the device. Taxpayers were allowed to claim 35% of the cost of the device through December 31, 1983. After 1983, the percentage claimed was reduced in increments of 5% per year. The credit for solar energy devices installed in residential housing was not to exceed \$1,000 per house. The provisions of this law were scheduled to expire from and after December 31, 1989. (E - July 21, 1979)

Laws 1980, Chapter 89 changed the deduction for corporate contributions to charitable organizations to conform with the Federal Tax Code. (E - July 31, 1980)

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Laws 1980, Chapter 215 established a voluntary withholding system for corporations. Under the law, corporations may submit estimated income tax payments in advance of the due date. (Effective for Tax Years Beginning From and After October 1, 1981)

Laws 1980, Chapter 220 changed the interest rate imposed on delinquent tax payments from 6% to 12% per year. (E - July 31, 1980)

Laws 1980, Chapter 240 changed the Arizona Income Tax Code to conform with certain changes to the Federal Internal Revenue Code that were adopted during the period ending April 7, 1980. The changes to the Federal Income Tax Code must be adopted or rejected annually since federal taxable income is the starting point for calculating Arizona income tax liability. (E - July 31, 1980)

Laws 1980, 2nd Special Session, Chapter 8 established an income tax credit for certain cash registers and related equipment used by grocery businesses. The credit encouraged businesses to upgrade equipment or purchase new equipment that was capable of separately calculating the tax on food and non-food items. The law was intended to facilitate implementation of the food sales tax repeal. (EFA - June 30, 1980)

Laws 1981, Chapter 132 modified the method of taxing subchapter S corporations that was established by Laws 1979, Chapter 14. Under the new provision, income distributed to non-residents from a subchapter S corporation located in Arizona is considered taxable income of this state. (E - April 14, 1981)

Laws 1981, Chapter 297 changed the Arizona Income Tax Code to conform with certain changes to the Federal Internal Revenue Code that were adopted during 1980. These changes were effective from and after December 31, 1980. The changes to the federal code must be adopted or rejected annually since Federal Taxable Income is the starting point for calculating Arizona income tax liability. The law also removed the requirement that 16% of income tax collections be placed in the Income Tax Fund and replaced it with a requirement that amounts placed in the Income Tax Fund must be sufficient to cover refunds issued to taxpayers. This provision was effective from and after October 1, 1981.

Laws 1982, Chapter 2 changed the Arizona Income Tax Code to conform with certain changes in the Federal Code that were passed in the U.S. Economic Recovery Tax Act of 1981. (E - February 19, 1982) Among other provisions, this law permitted corporations to take advantage of accelerated depreciation rates in computing their Taxable Arizona Income. The law also eliminated the option of paying the Corporate Income Tax in two installments. (Effective for Tax Years Beginning From and After December 31, 1981)

Laws 1982, Chapter 186 provided for the amortization of groundwater measuring devices that are required by law in groundwater management areas and irrigation non-expansion areas (E - July 24, 1982). An income tax credit was also established that may be taken in lieu of amortization. The credit was equal to 100% of the costs of purchasing and installing groundwater measuring devices. The credit is available for groundwater measuring devices installed after June 12, 1980 and is effective beginning with tax year 1983. The amount of the credit may be used over a period not less than three years and not more than five years. The credit and amortization provisions will be discontinued after 1986, but the unused portion of a credit may be carried forward after this time.

Laws 1982, Chapter 256 (as amended by Laws 1982, 6th Special Session, Chapter 2) changed the expiration date on corporate income tax credits for solar energy devices. Formerly, these credits were to expire at the end of 1989. Under this law, the credits will expire from and after December 31, 1987.

Laws 1983, Chapter 4 made the following changes in the Corporate Income Tax:

- (1) Required corporate taxpayers who file for an extension of the due date to pay 90% of their tax liability before an extension may be granted. This provision was effective beginning with tax year 1983. For the 1982 tax year, corporations filing for an extension were required to pay 75% of their liability on or before June 15, 1983.
- (2) Required corporations to make estimated tax payments to the state if the corporation was required to make estimated tax payments to the federal government and if the corporation's state income tax liability was at least \$1,000. Estimated

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taxes were paid to the state at the same time federal estimated taxes were paid. However, corporations were not required to make estimated tax payments during the period beginning July 1, 1983 and ending December 31, 1983. (Effective for Tax Years Beginning From and After December 31, 1982)

- (3) Changed the interest rate on deficient and delinquent tax payments to equal the rate of interest established by section 6621 of the Internal Revenue Code, compounded annually (E - February 11, 1983).

Laws 1983, Chapter 247 changed the Arizona Income Tax Code to conform with changes in the Federal Income Tax Code that were passed in the Tax Equity and Fiscal Responsibility Act of 1982. These changes effectively reduced many of the tax benefits that were adopted in the Economic Recovery Tax Act of 1981. See Laws 1982, Chapter 2. (E - April 25, 1983)

Laws 1983, Chapter 287 adopted the provisions of the Uniform Division of Income for Tax Purposes Act. (EFA - December 31, 1983) Although most forms of corporate income are already allocated to Arizona according to the provisions of this act, the law will change the method of allocating intangible income such as interest, dividends, rents and royalties. Specifically, companies that do not have their headquarters in Arizona will now be required to pay Arizona's income tax on certain forms of intangible income that were formerly exempt from Arizona's tax. In addition to adopting the provisions of UDITPA, this law also established a new means of determining the tax on net corporate capital gains. Under this provision, the tax on net capital gains may be determined separately using a tax rate of 6.4%. The new method of taxing capital gains is effective from and after January 1, 1986.

Laws 1985, Chapter 109 provided a new statutory definition of "foreign corporation" for purposes of Arizona corporate income taxation. "Foreign corporation" now includes domestic corporations which derive less than 20% of its Federal Gross Income from sources in the United States for the three year period ending with the close of the taxable year of the corporation preceding the current taxable year. The definitional change is significant because the net income of a "foreign corporation" is not allocated or apportioned to the state. (E - April 17, 1985)

Laws 1986, Chapter 59 required the Department of Revenue to determine and report the level that Corporate Income Tax rates could be set if the Corporate Federal Income Tax deduction was eliminated yet maintaining the same corporate tax revenue as presently collected; the Department must report its finding by November 15, 1986. (E - August 13, 1986)

Laws 1987, Chapter 361 established "enterprise zones" in economically depressed areas as an attempt to attract business to these locations. An income tax credit of \$5,000 per employee is provided to corporations, provided at least 35% of the full-time employees are residents of the "zone" and were receiving public assistance prior to employment. (E - June 30, 1988)

Laws 1987, Chapter 361 allowed a county to establish a five-member enterprise zone committee appointed by the County Board of Supervisors. The committee can establish enterprise zones in areas which the average annual unemployment rate was 12% or more in at least three of the preceding five years. An income tax credit of \$5,000 per net new employees in enterprise zones was established. The owners must certify to the Department of Revenue that at least 35% of its employees hired for full-time permanent employment, unless released for due cause during the taxable year, are residents of the enterprise zone and are or were receiving some form of public assistance immediately before employment. There is a 5-year carry forward of the tax credit. (EFA - June 30, 1988)

Laws 1988, Chapter 58 conformed to the federal treatment of corporate capital loss carryover. Existing carryover amounts up to \$1,000 from tax years beginning prior to January 1, 1988 will continue as a subtraction from Arizona Gross Income. Carryover accumulated after this date are not deductible. (RTYBFA - December 31, 1987)

Laws 1988, Chapter 62 tax exempt organizations liable for income tax on its "unrelated business income" may now subtract from such income the federal income taxes paid during the taxable year. (E - September 30, 1988)

Laws 1988, Chapter 271 was the Omnibus Revenue Bill for FY 1989. The following provisions applied to the Corporate Income Tax (RTYBFA - December 31, 1987):

- (1) Removed the preferential tax rate of 6.4% for net corporate capital gains.

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- (2) Established a minimum corporate income tax of \$50.
- (3) Restricted the subtraction for dividends received from controlled corporations to parent corporations headquartered in Arizona only.
- (4) Eliminated as an addition to income, any depreciation deductions for solar energy device or point of sale equipment taken on the federal income tax return, for corporations claiming a state income tax credit for such items.

Laws 1989, Chapter 194 established new procedures and criteria for establishing enterprise zones. Changed the amount of state income tax credit from \$5,000 per net new employee to the following (E - May 15, 1989):

- (1) one-fourth of taxable wages paid to each qualified employee, not to exceed \$1,000 per net new employee;
- (2) one-third of taxable wages paid to each previously qualified employee, not to exceed \$1,500 per employee in the second year of continuous employment;
- (3) one-half of taxable wages paid to each previously qualified employee, not to exceed \$2,500 per employee in the third year of continuous employment.

This credit is allowed for taxable years beginning from and after December 31, 1989.

Laws 1989, Chapter 218 removed the requirement for "S" corporations to file a copy of its federal election form with the Department of Revenue. When a company files for an "S" corporation status, the Department of Revenue is automatically notified by the Internal Revenue Service. (E - September 15, 1989)

Law 1989, Chapter 272 established an income tax credit to corporations that invest in qualified property and employ inmates on the grounds of correctional facilities. The credit is equal to the lowest of:

- (1) The sum of 50% of any investment in qualified property and 25% of the wages paid to inmates during the tax year.
- (2) \$100,000.
- (3) The amount of taxpayer's income tax liability.

A recapture tax applies if the qualified property is converted to any other use within three years after the credit was allowed. (E - June 23, 1989)

Laws 1990, Chapter 296 established a Corporate Income Tax credit for dependent day care services provided by employers for their employees. This credit has the exact provisions as the credit under the Individual Income Tax. (ETYBFA - December 31, 1990)

Laws 1990, 3rd Special Session, Chapter 3 was the Tax Reform Act of 1990. The provisions affecting the Corporate Income Tax are as follows:

- (1) Redefined the qualifications for a domestic corporation to be considered as foreign corporation. It must have less than 20% of its property, payroll and sales in the United States for three consecutive years preceding the current taxable year or as long as the corporation's existence. The method for calculating the percentage is similar to the apportionment formula which takes the average of the ratios computed for the three factors. The prior definition required that less than 20% of its federal gross income be derived in the U.S.
- (2) Extended the deduction for dividend income received from a controlled corporation to all corporations irrespective of the receiving corporation's place of domicile. Only 50% of the deduction for such dividends will be allowed for tax years beginning in 1990, but rises to 100% for taxable years beginning in 1991 and thereafter.
- (3) Replaced the previous Corporate Income Tax brackets and rates with a flat rate of 9.3%, but retained the \$50 minimum tax.
- (4) Eliminated the subtractions for federal income tax paid and the amount of foreign tax credit.

All provisions are retroactive to tax years beginning from and after December 31, 1989.

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Laws 1990, 3rd Special Session, Chapter 9 clarified that "S" corporations are entitled to income tax credits related to enterprise zones. This is applicable to tax years beginning from and after December 31, 1989.

Laws 1991, Chapter 146 adopted the 1990 changes to the U.S. Internal Revenue Code for Arizona Income and Estate Tax purposes. (RTYBFA - December 31, 1990)

Laws 1991, Chapter 149 clarified in statute that savings and loan associations are included under the same provisions as other financial institutions that exclude a portion of interest expense from being deducted when computing Arizona taxable income. (E - September 21, 1991)

Laws 1991, Chapter 189 established a double weighted sales factor for the allocation of corporate business income in the apportionment formula for multi-state corporations when computing state corporate income tax. The previous formula equally weighted the three factors of property, payroll, and sales. (E - September 21, 1991)

Laws 1991, Chapter 196 prohibited the distribution of any refunds of taxes imposed by a law that was declared invalid by a final court judgement until the Legislature makes a specific appropriation for that purpose. State funds to counties for such invalid taxes collected are also subject to this provision. (E - September 21, 1991)

Laws 1992, Chapter 16 allowed the Department of Revenue to require tax payments by electronic funds transfer or other immediately available monies from any taxpayer who had a tax liability of \$20,000 or more (excluding individual income tax) in the preceding taxable year. This applied for tax years or reporting periods starting on or after January 1, 1993. Electronic funds transfer is required for the following (E - September 30, 1992):

- (1) Quarterly withholding tax payments by persons who had a quarterly withholding average during the prior year of \$100,000 or more.
- (2) Estimated income tax payments by corporations with a prior year tax liability of \$100,000 or more.

Laws 1992, Chapter 18 conformed the state income tax code to 1991 changes in the U.S. Internal Revenue Code. (RTYBFA - December 31, 1991)

Laws 1992, Chapter 61 allowed a city or town to conduct and certify an alternative special census prior to July 1, 1993 by contract with the U.S. Census Bureau for purposes of determining state shared revenues in the Transaction Privilege, Income, Highway User, and Vehicle License Taxes. The State Treasurer is not to accept another special census until after the year 2000. (E - September 30, 1992)

Laws 1992, Chapter 79 was the Tax Corrections Act for 1992. The bill rewrote the estimated tax payments required of regular and S corporations to clarify the annual and installment payment required, but no substantive changes were made. (EFA - December 31, 1992)

Laws 1992, Chapter 113 enacted enabling legislation for the establishment and organization of limited liability companies (LLC) in Arizona. This bill subjects a limited liability company to state income taxation as a partnership or a corporation as determined by the Internal Revenue Code. (E - September 30, 1992)

Laws 1992, Chapter 130 established an income tax credit for individuals or corporations who place recycling equipment in service after December 31, 1992, unless the taxpayer previously took an income deduction for depreciation. The credit is equal to 10% of the installation cost of such equipment, not to exceed the lesser of 25% of the tax liability determined for the applicable tax year or \$5,000. If the recycling equipment ceases operation or is transferred, then certain recapture provisions will apply. The unused credit can be carried forward for 15 years. (E - September 30, 1992)

Laws 1992, Chapter 232 extended an income tax credit to business owners in an enterprise zone who employ a qualified dislocated worker for the purposes of the Job Training Partnership and Economic Dislocation and Worker Adjustment Act. A business receiving enterprise zone income tax credits must report annually to the zone administrator its business name, mailing

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address, location, the number of employees counting toward the credits, and the total amount of credits received for the tax year. (E - September 30, 1992)

Laws 1992, Chapter 295 established a defense contractor restructuring program to assist Arizona-based qualified defense contractors to attract new Department of Defense contracts, diversify commercially, consolidate facilities into the state, and adopt new technologies. The tax incentives are as follows:

- (1) **Qualified Defense Contractors (ETYBFA - June 30, 1993):**
 - Amortization of one-half the federal time period of capital investment in solely private commercial activity.
 - A declining 5-year nonrefundable income tax credit for net defense employment increases or net private commercial employment increases, but not both.
 - A nonrefundable income tax credit of up to 40% of the portion of property taxes paid during the taxable year.
- (2) **Military Reuse Zone:**
 - A progressive 5-year nonrefundable income tax credit for net aviation-related manufacturing employment gains for business located in a military reuse zone. (ETYBFA - June 30, 1993)
 - A Class 8 commercial and industrial property established for property located in a military reuse zone and for aviation-related manufacturing. The assessment ratio will be 5% of full cash value. This is effective beginning in tax year 1993.
 - A sales tax exemption for military reuse zone construction contracts entered into within 5 years of the zone's establishment with an aviation or aerospace company. (E - September 30, 1992)

Laws 1992, Chapter 296 provided a corporate income tax credit for qualified expenses, as defined in Section 41 of the U.S. Internal Revenue Code, from expanded research and development (R&D) conducted in Arizona. The provisions are:

- (1) Clarification that qualified research includes university research paid for by the taxpayer.
- (2) Phase-in of a maximum tax credit: (a) \$25,000 for 1st tax year, (b) \$50,000 for 2nd tax year, (c) \$75,000 for 3rd tax year, (d) \$150,000 for 4th tax year, and (e) \$250,000 for tax years thereafter.
- (3) 5-year carry forward of unused research expenses.

This credit applied only to expenses incurred from and after December 31, 1993. (E - September 30, 1992)

Laws 1993, Chapter 19 clarified the language and replaced the 10% penalty provisions related to estimated income tax payments. If a taxpayer now fails to pay the full amount of estimated income tax, a penalty will be assessed equal to the amount of interest that would accrue for the period of nonpayment, not to exceed ten percent of the amount not paid. This act does not apply to or affect any amount of penalty that accrued on unpaid or underpaid estimated tax before the effective date of this act. (E - July 17, 1993)

Laws 1993, Chapter 65 provided a subtraction from Arizona taxable income for qualified crop contribution to a charitable organization. The deduction is not to exceed 80% of the wholesale market price or most recent sale price, whichever is greater. The bill defines the criteria for a contribution to qualify, the most recent sale price, qualified crop contribution and wholesale market price. (ERTYBFA - December 31, 1992)

Laws 1993, Chapter 111 was the annual tax corrections bill that made technical and conforming changes to the tax statutes. The bill eliminated the requirement that the Department of Revenue charge interest on penalties imposed in connection with a deficiency or delinquency.

Provisions affecting the corporate income tax allow for pro rata distribution of the recycling equipment tax credit by co-owners of a business, including partners in a partnership and shareholders of an S corporation. The total of credits allowed may not exceed what would have been allowed for a sole owner of the business. The bill prescribed that the credit for research and development expenses is based on the Internal Revenue Code in effect on June 30, 1992. (E - July 17, 1993)

Laws 1993, Chapter 210 conformed the state income tax code to 1992 changes in the United States Internal Revenue Code. (RTYBFA - December 31, 1992)

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Laws 1993, Chapter 239 Increased the maximum allowable income tax credit for research and development expenses, and increased the carry forward from 5 to 15 years as follows (E - July 17, 1993):

- (1) For the first taxable year from \$25,000 to \$100,000;
- (2) For the second taxable year from \$50,000 to \$250,000;
- (3) For the third taxable year from \$75,000 to \$400,000;
- (4) For the fourth taxable year and every year thereafter, from \$150,000 to \$500,000.

Laws 1993, Chapter 258 required the Department of Commerce (Commerce) to establish and conduct an environmental technology assistance program to promote business and economic development by recruiting and expanding companies that manufacture, produce, or process solar and other renewable energy products from recycled materials. Commerce has until June 30, 1996 to certify qualified environmental technology manufacturers, producers and processors for purposes of available tax incentives provided in the bill. The bill contains a severability clause. Various sections of this bill are delayed or have retroactive effective dates. (E - April 22, 1993)

Laws 1993, 6th Special Session, Chapter 1 contained the following provisions related to the corporate income tax for taxable years beginning from and after December 31, 1993. The bill provides a corporate income tax subtraction for alternative fuel vehicles and equipment. Alternative fuels are defined as liquified petroleum gas, compressed or liquefied natural gas, hydrogen, electricity, solar energy, or alcohol fuels that contain not less than 85% alcohol by volume. An alternative fuel vehicle is defined as a self-propelled vehicle for operation on the highways that is primarily propelled by an alternative fuel. The taxpayer may subtract an amount equal to the sum of the following: (E - February 10, 1994)

- (1) 25% of the purchase price, exclusive of taxes, interest and other finance charges, but not more than \$5,000 per vehicle. The subtraction is not allowed for the purchase of a used alternative vehicle. One-third of the subtraction shall be allocated and applied to each of 3 consecutive years: except if the title is conveyed to another person, in which case the subtraction is not allowed for any subsequent taxable year.
- (2) The cost of converting a conventional vehicle, exclusive of taxes, interest and other finance charges, but not more than \$3,000 per vehicle. One-third of the subtraction shall be allocated and applied to each of 3 consecutive years: except if the title is conveyed to another person, in which case the subtraction is not allowed for any subsequent taxable year.
- (3) The purchase price of refueling equipment for installation on the taxpayers property, exclusive of taxes, interest and other finance charges, but not more than \$5,000. One-third of the subtraction shall be allocated and applied to each of 3 consecutive taxable years, beginning with the taxable year in which the equipment is purchased and installed.

Laws 1994, Chapter 41 contained the major components of the tax reduction package known as the Middle Income Tax Relief Act (MITRA) of 1994. The act contained the following major provisions affecting Corporate Income Taxes:

The act reduced the Corporate Income Tax rate levied on Arizona's taxable income for every corporation, unless exempted, to 9% of taxable income or \$50, whichever is greater. (ETYBFA - December 31, 1993)

The act allowed affiliated groups of corporations to elect to file income tax returns on a consolidated basis. (RTYBFA - December 31, 1985)

The act conformed the income tax for tax years 1994, 1992 and 1991 to the United States Internal Revenue Code in effect for those tax years. This act also conformed, except as provided in A.R.S. § 42-106, the income tax for tax year 1993 to the United States Internal Revenue Code in effect for tax year 1993.

The act added A.R.S. § 42-106 that contains the selective conformity provisions for tax year 1993. (E - July 17, 1994)

Laws 1994, Chapter 46 provided that an overpayment of income tax due to an "S" corporation for any year that resulted from an improper inclusion of income can be used as an offset in computing any deficiency in an overlapping year for the shareholders of the "S" corporation. The offset provided for shall not be allowed after the expiration of 7 years from the due date of the return on which the overpayment is determined. (RTYBFA - December 31, 1986)

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Laws 1994, Chapter 60 provided that confidential tax information may be disclosed to agencies, officials and organizations that grant substantially similar privileges to the Department of Revenue. Confidential tax information may be disclosed upon the establishment of a written agreement between the department and the following (E - July 17, 1994):

- (1) The United States Internal Revenue Service, the United States Bureau of Alcohol, Tobacco and Firearms, the United States Drug Enforcement Agency and the Federal Bureau of Investigation.
- (2) A state tax or unclaimed property official of another state.
- (3) An organization of states that operates an information exchange for tax administration purposes.
- (4) An agency, official or organization of a foreign country with responsibilities that are comparable to those listed in items 1, 2 or 3.

Laws 1994, Chapter 90 included in Arizona's taxable income for corporations any amount of agricultural water conservation expenses that were deducted pursuant to the Internal Revenue Code, for which a credit is claimed. The act provided a credit to both individuals and corporations, against taxes imposed for expenses the taxpayer incurred during the taxable year to purchase and install an agricultural water conservation system. The amount of credit is equal to 75% of the qualifying expenses. To qualify for the credit:

- (1) The agricultural water conservation system must be primarily designed to substantially conserve water on land that is used by the taxpayer or the taxpayer's tenant to:
 - a. Produce crops, fruits or other agricultural products.
 - b. Raise, harvest or grow trees.
 - c. Sustain livestock.
- (2) The expense must be consistent with a water conservation plant that the taxpayer has filed and that is in effect with the United States Department of Agriculture Soil Conservation Service.

The tax credits for partnerships and "S" corporations are to be pro rated and there is a 5-year carry forward provision. The credit allowed by this action is in lieu of any allowance for state tax purposes for a deduction for such expenses allowed by the Internal Revenue Code. (RTYBFA - December 31, 1993).

Laws 1994, Chapter 117 provided Individual and Corporate Income Tax credits for pollution control equipment, and construction materials incorporated into qualifying facilities. The act clarified that a taxpayer who claims a credit may not claim a credit for the same equipment under another section.

An Individual and Corporate Income Tax credit is established equal to 10% of the purchase price for qualified real and personal property used to control or prevent pollution. For tax years 1995 and 1996, the maximum credit is \$750,000. For all subsequent tax years, the maximum credit is \$500,000. Co-owners may each claim a pro rata share of the credit allowed and may carry the credit forward for not more than 5 taxable years. Depreciation or amortization in excess of the income tax credit may be subtracted for income tax purposes.

An Individual and Corporate Income Tax credit is established equal to 5% of the purchase price of materials used to build a new facility or expand an existing facility within the state that is predominantly used for manufacturing, mining, or research and development. The total cost of the construction must be in excess of \$5 million and the construction must begin on or after January 1, 1994 and completed by December 3, 1999. Co-owners may each claim a pro rata share of the credit allowed and may carry the credit forward for not more than 5 taxable years' income tax liability. (ETYBFA - December 31, 1994)

Corporate Income Tax

Laws 1994, Chapter 119 provided forgiveness of penalties and interest assessed against an employer for failing to make timely filing and payment of withholding tax with respect to any taxable years beginning from and after December 31, 1985 if the following qualifications apply:

- (1) The employer has paid all withholding taxes due on or before the date of the application.
- (2) The delinquency resulted solely from incorrect application of the payment schedule and not from failure to withhold the tax.

An employer that meets the qualifications may apply, on or before December 31, 1994. The Department of Revenue will promptly process all applications on or before June 30, 1995. This act is repealed from and after June 30, 1995. (ETYBFA - December 31, 1985)

Laws 1994, Chapter 248 provided Individual and Corporate Income Tax credits for expenses incurred by a taxpayer, who is not liable or responsible for a corrective action as an owner or operator of an underground storage tank, but takes corrective action with respect to the release of a regulated substance from an underground storage tank. The amount of the credit is equal to 10% of the total amount spent by the taxpayer to make corrective action certified by the Department of Environmental Quality as having been performed and meeting necessary requirements. The credit is not allowed for corrective action costs reimbursed by the Department of Environmental Quality. (E - July 17, 1994)

Laws 1994, Chapter 333 was the Annual Tax Corrections Act that made technical and conforming changes to the tax code. (E - July 17, 1994)

Laws 1994, Chapter 353 provided a Corporate and Individual Income Tax credit, in lieu of a subtraction, for the purchase of one or more new alternative fuel vehicles or expenses incurred from converting conventional vehicles. The credit is \$1,000 per purchase or conversion for tax years 1994, 1995 and 1996; \$500 for 1997; and \$250 for 1998.

Alternative fuel means:

- (1) Liquified petroleum gas.
- (2) Natural gas.
- (3) Hydrogen.
- (4) Electricity.
- (5) Solar Energy.
- (6) Alcohol fuels that contain not less than 85% alcohol by volume

Co-owners may each claim a pro rata share of the credit allowed, and may carry the credit forward for not more than 5 taxable years. (ETYBFA - December 31, 1993 and before January 1, 1999)

Laws 1995, Chapter 7 conformed the state income tax code to the United States Internal Revenue Code in effect on January 1, 1995. The conformity includes those provisions that became effective during 1994 with the specific adoption of their effective date, but excluding any change to code enacted after January 1, 1995. (RTYBFA- December 31, 1994 through December 31, 1995)

Laws 1995, 1st Special Session, Chapter 9 increased the distribution to the Urban Revenue Sharing Fund to 15% of the net proceeds of state income taxes beginning in FY 1998. Currently the distribution is 12.8% and is scheduled to increase to 13.6% in FY 1997. The increased distributions are to compensate incorporated cities and towns for reduced income tax revenues resulting from individual income tax rate reductions enacted in the 1994 and 1995 legislative sessions. (E - June 15, 1995)

Corporate Income Tax

Laws 1995, Chapter 31 modified the definition of the eligible affiliated group and authorized elective filing of amended consolidated income tax returns for qualified affiliated groups for tax years 1986 through 1992. The amended returns are required to be filed by December 31, 1995.

Expanded the definition of an Arizona affiliated group to include corporations that would have been included in the federal consolidated group if the federal government had not allowed an exclusion for the 80% stock ownership test for Native Corporations established under the Alaska Native Claims Settlement Act and all convertible preferred stock of the corporation had been converted.

Net over payments arising from the filing of amended returns are required to be treated as credits against future tax liabilities for 10 consecutive years beginning in FY 1996. Annual credits are limited to 10% of the total with any residual amount refunded in the eleventh year.

Amended returns must be accompanied by written consents to the election by each new member of the consolidated group. (E - July 13, 1995)

Laws 1995, Chapter 182 authorized municipalities with a population less than 50,000 and counties with a population less than 125,000 to submit their July 1995 populations, as approved by the Director of the Department of Economic Security (DES) Population Statistics Unit, for state revenue sharing purposes without having to contract with DES to conduct a sample survey verification. Allowed any city, town or county to submit a request that the 1990 Decennial Census, plus revisions due to annexation certified by the United States Bureau of the Census, continue to be used for the purposes of state revenue sharing, even if a special census has been conducted. (E - July 13, 1995)

Laws 1995, Chapter 200 was the Annual Tax Corrections Act that made technical and conforming changes to the tax code. (E - July 13, 1995)

Laws 1995, Chapter 236 provided individual and corporate income tax credits to employers who hire students enrolled in the Summer School and Jobs Program. The maximum credit is equal to one-half of the wage paid to the student up to a maximum of \$3.00 per hour, with a maximum of 20 hours of work per week. To qualify for the credit the employer must be certified by the Department of Economic Security as employing one or more enrolled students, the wage must be paid on or before September 1, 1995, and the student must remain in summer school for the entire session. Co-owners of a business may each claim a pro rata share of the credit allowed based on ownership interest. Any deductions for wages allowed by the Internal Revenue Code shall be reduced by the amount of any credit taken. (E - April 19, 1995)

Laws 1995, Chapter 256 established individual and corporate income tax claim of right adjustments for claim of right income in excess of \$3,000. The adjustment is equal to the decrease in the tax liability that would result from excluding the claim of right income from gross income for the applicable prior taxable year or years. The claim of right adjustment does not apply to stock, inventory or other property held by the taxpayer for sale to customers in the ordinary course of business. The claim of right adjustment also does not apply to the refund or repayment of regulated public utility rates if the refund or repayments are required by a government entity, by an order of the court or made under threat of litigation. If the adjustment creates or impacts a net operating or capital loss, carry forward and carry back provisions are provided. Taxpayers normally barred from filing an amended return because of statute of limitation restrictions may file an amended return on or before December 31, 1995. Refund claims exceeding \$1 million will be paid by credit voucher unless the taxpayer provides satisfactory proof there will be no future tax liability to the state. The bill contains a severability clause. (RTYBFA - December 31, 1995)

ESTATE AND GENERATION-SKIPPING TRANSFER TAXES

DESCRIPTION

Arizona's Estate Tax is a tax upon the right to transfer property or its interest thereof which takes effect at the death of the owner. A tax is also imposed upon every generation-skipping transfer of property. Arizona does not have an Inheritance Tax nor a Gift Tax.

NOTE: Laws 1979, Chapter 212 repealed the old Arizona Estate Tax Act and imposed the current estate tax based entirely on the maximum allowable federal tax credit for estate taxes paid to states. The Arizona Estate Tax begins with the maximum amount of federal credit for state death taxes allowable by Section 2011 of the Internal Revenue Code in respect to a decedent's Federal Estate Tax, then takes into account the amount of death taxes paid to other states – see the TAX RATE section.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>
1994-95	\$48,771,386
1993-94	40,616,732
1992-93	39,714,304
1991-92	25,652,448
1990-91	29,001,249
1989-90	23,916,529
1988-89	24,079,707
1987-88	30,978,590
1986-87	25,668,837
1985-86	13,168,717
1984-85	14,746,793
1983-84	12,536,211
1982-83	12,231,351
1981-82	12,302,716
1980-81	9,892,341
1979-80	12,117,837
1978-79	8,428,501
1977-78	4,344,054
1976-77	4,723,277
1975-76	4,512,073
1974-75	3,713,434

SOURCE: Department of Revenue, Annual Reports. Figures are net of refunds.

WHO PAYS THE TAX

A.R.S. § 42-1504. *Personal Representative.* The Estate Tax shall be paid by the personal representative of an estate or generation-skipping trust.

A.R.S. § 42-1501. *Definition.* Personal representative is defined as the executor or administrator of a decedent's estate, trustee of a generation-skipping trust or, in the absence of such executor or appointed trustee qualified and acting within this state, any person in actual or constructive possession of any portion of the estate subject to the tax.

(Continued)

Estate and Generation-Skipping Transfer Taxes

TAX BASE

A.R.S. § 42-1501. *Estates.* The Estate Tax applies to transfer of a resident's gross estate as defined in Section 2031 of the Internal Revenue Code or a non-resident's Arizona estate which is included in the gross estate. The Arizona estate of a non-resident includes (1) real property located in Arizona and (2) tangible personal property having actual situs in Arizona. [See A.R.S. § 42-1522]

A.R.S. § 42-1531. *Generation-Skipping Transfer.* The Generation-Skipping Tax applies to every transfer subject to the federal tax under Subtitle B, Chapter 13 of the Internal Revenue Code. The estate subject to such a tax includes (1) real property located in Arizona, (2) tangible personal property having actual situs in Arizona and (3) intangible personal property owned by a trust having its principal place of administration in Arizona at the time of transfer.

TAX RATE

A.R.S. § 42-1521. *Residents.* The Estate Tax levied on residents' estates is equal to Arizona's share of the maximum credit allowed by the Federal Estate Tax Laws for Estate or Death Taxes paid to the states. In calculating this amount, the maximum federal credit is reduced by an amount which represents Death Taxes imposed on the estate by other states. The amount of the reduction allowed for Death Taxes paid to another state is equal to the lesser of the following:

- (1) The amount of the Death Tax paid to the other state and credited against the Federal Estate Tax.
- (2) The amount of the federal credit that is apportioned to the other state based on the ratio of the value of the estate's property located in that state to the total value of the property in the estate.

A.R.S. § 42-1522. *Non-Residents.* The Estate Tax levied on non-residents' estates is equal to the amount of the federal credit that is apportioned to Arizona based on the ratio of the value of the estate's property located in Arizona to the total value of the property in the estate.

A.R.S. § 42-1532. *Generation-Skipping Transfers.* The tax levied on generation-skipping transfers of property is equal to Arizona's share of the maximum credit allowable by the Federal Estate Tax Laws for generation-skipping transfer taxes paid to the states. Arizona's share of the federal tax credit is determined based on the ratio of the value of the property transferred that is located in Arizona to the total value of the property included in the generation-skipping transfer.

PAYMENT SCHEDULE

A.R.S. § 42-1502. *Due Date.* If the personal representative of an estate is required to file a Federal Estate Tax return, then the state return is also required and due on or before the required federal filing date. Payment of the state Estate Tax is also due at this date. [See A.R.S. § 42-1504]

Extensions. An extension for filing an Arizona Estate Tax return may be granted automatically if the federal due date is extended. [See A.R.S. § 42-116] Also, the Department of Revenue may extend the time for payment if good cause is shown. [See A.R.S. § 42-1504]

A.R.S. § 42-1504. *Installments.* If Federal Estate Tax payments are made in installments under Section 6166 of the Internal Revenue Code and the amount of tax due exceeds \$50,000, then the personal representative may elect to pay in the same installments as the federal tax.

Penalties and Interest. The late filing penalty is 5% per month or prorated and the late payment penalty is 10% of the tax due. The 2 penalties combined cannot exceed 25% of the tax due. Also, interest is assessed until balance is paid.

(Continued)

General Property Tax

HISTORICAL STATE PROPERTY TAX RATES - REAL AND SECURITY PROPERTY (per \$100 of assessed value)

Calendar Year	Education Tax Rate	General Purpose Tax Rate
1995	\$.47	\$ -0-
1994	.47	-0-
1993	.47	-0-
1992	.47	-0-
1991	.47	-0-
1990	.47	-0-
1989	.47	-0-
1988	.47	-0-
1987	.38	-0-
1986	-0-	.38
1985	.40	-0-
1984	.40	-0-
1983	.75	-0-
1982	.75	-0-
1981	.95	-0-
1980	1.25 ^{1/}	-0-
1979	-0-	.48
1978	-0-	1.10
1977	-0-	1.60

^{1/} Established by Laws 1980, 2nd Special Session, Chapter 8.

TAX LIMITATIONS

A.R.S. § 42-201.01. *Residential.* In addition to the state property tax rate, the counties, school districts, cities, community college districts and special taxing districts levy a tax rate on properties within their jurisdiction. The rates levied on a parcel of property by all government entities are added to form a "combined tax rate." Since the 1980 tax year, each parcel of property has been subject to a combined rate for primary purposes and a combined rate for secondary purposes. Article 9, Section 18 of the Arizona Constitution limits the total amount of taxes collected on residential property (Class 5) for primary purposes to 1% of the property's "limited property value" (See TAX BASE). Therefore, the combined Primary Property Taxes on a parcel of residential property in excess of this limit are reduced through an increase in additional state aid to schools (see EXHIBIT H).

A.R.S. § 42-301(A). *Primary Property Tax Growth.* A county, city, town or community college shall not levy Primary Property Taxes on previously existing properties in excess of a 2% increase from the maximum amount allowed in the preceding tax year as provided by Article 9, Section 19 of the Arizona Constitution unless approved in an override election.

TAX COMPUTATION

A.R.S. § 42-162. *Classifications.* Arizona classifies property according to current usage. There are twelve classes of property; eleven are formally listed by this statute, while producing oil, gas, and geothermal energy properties are treated separately under A.R.S. § 42-227(B).

A.R.S. § 42-227. *Assessment Ratios.* Properties in each class have an assessment ratio which define the percentage of full cash value or limited property value that is subject to taxation.

(Continued)

General Property Tax

1995 PROPERTY TAX CLASSES AND ASSESSMENT RATIOS

<u>Class</u>	<u>Assessment Ratio</u>	<u>Property Usage</u>
Class One ^{1/}	29%	Mines and mining claim property and standing trees.
Class Two ^{1/}	29%	Local telecommunications, gas, water, electric utility company property and pipeline company property.
Class Three (R)	25%	Real property and improvements of commercial or industrial property not included in other classes.
Class Three (P) ^{2/}	1% of 1st \$3,000 and 25% over \$3,000	Personal property devoted to commercial or industrial use not included in other classes.
Class Four (R)	16%	Real property and improvements of agricultural property and vacant land. Includes property of nonprofit organizations.
Class Four (P) ^{2/}	1% of 1st \$3,000 and 16% over \$3,000	Personal property devoted to agricultural purposes, and personal property not included in other classes.
Class Five	10%	Residential property not used for profit.
Class Six	10%	Leased or rented property used for residential purposes, licensed day cares, nursing homes, handicapped or elderly housing, and certain bed and breakfast properties.
Class Seven	26% in tax year 1995 ^{3/}	Railroad, private car, and airline flight property.
Class Eight	5%	Noncommercial historic property. ^{4/}
Class Nine	Same as Class 3 ^{2/}	Property that meets the criteria for Class 3 property and also meet the criteria for commercial historic property.
Class Ten	Same as Class 6 ^{2/}	Property that meets the criteria for Class 6 property and also meet the criteria for commercial historic property.
Class Eleven	1%	Improvements located on federal, state, county or municipal property.
A.R.S. § 42-227(B)	100%	Producing oil, gas and geothermal energy company property.

^{1/} Phases down by 1% per year, from 30% in tax year 1994 to 25% in tax year 1999 and thereafter.

^{2/} Class Three (P) and Class Four (P) 1% assessment ratio thresholds are increased to \$50,000 in tax year 1996 and thereafter.

^{3/} Set annually by the Director of DOR and determined by formula (See A.R.S. § 42-227(A)(7)).

^{4/} Also includes property located within a foreign trade zone or subzone, in a military reuse zone and property of a qualified manufacturing business or qualified environmental technology manufacturing facility subject to limitation specified in statute (See A.R.S. § 42-162(A)(8)).

^{5/} Modifications to restore historic property are taxed at 1% for up to 10 years.

NOTE: Class 11 livestock property was repealed by Laws 1994, Chapter 102 and the Constitution of Arizona was amended by a vote of the people in November 1994. Class 12 possessory interest property was split into two new classes by Laws 1994, Chapter 293. The two classes were renumbered as Class 12 and Class 13. Laws 1995, Chapter 294, repealed Class 12 and renumbered Class 13 as Class 11, effective retroactively to January 1, 1995.

(Continued)

General Property Tax

Method. When the full cash or limited property value is multiplied by the appropriate assessment ratio, this produces the amount subject to taxation, commonly called the assessed valuation. Tax rates (for Primary and Secondary Taxes) for each taxing jurisdiction are then applied to the assessed valuation to determine the total property tax due. See the 1995 table above.

TAX ADMINISTRATION

A.R.S. § 42-141. *Assessment Duties.* The Department of Revenue values all centrally-valued properties such as utilities, airlines, railroads, and mines. These values are established by the first Monday in June each year, except for private car companies which are established by October 15th of each year. The fifteen County Assessors are responsible for the valuation of all other properties.

A.R.S. § 42-341. *Collections.* The Lieu Taxes on private car companies and airline flight property are collected by the Department of Revenue (A.R.S. § 42-746 and § 42-705). All other property taxes are collected by the County Treasurers' Offices. Property taxes collected by the County Treasurers must be apportioned between 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).

A.R.S. § 42-342. *Due Dates.* Normally, one-half of the tax on real and secured personal property is due and payable annually on October 1, unless the total amount of tax due is \$25 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 and delinquent after May 1.

DISTRIBUTION

A.R.S. § 35-148(B). *General Fund.* All revenues from the state property tax are deposited in the state General Fund, however revenues from the state rate for educational purposes are deposited in a separate account within the General Fund. (See A.R.S. § 42-208.)

General Property Tax

EXHIBIT H

HOMEOWNER'S PROPERTY TAX REBATE ADDITIONAL STATE AID TO SCHOOL DISTRICTS

A.R.S. § 15-972. *Description.* Beginning with the 1980 property tax year, a revised property tax reduction program was initiated for homeowners. This program was designed to decrease the homeowner's local property tax bill. To accomplish this the state appropriates additional state aid to schools and requires the school districts to reduce their tax rates by a like amount on residential properties. This aid is in addition to the basic state aid (equalization assistance) given to school districts. The amount of the reduction in each homeowner's local property tax bill is determined by formula but shall not exceed \$500. The following provides a simplified explanation of the formula used for this purpose:

The 1990 Formula

- (1) Class 5 property located in a high school district or a common school district within a high school district, but does not offer high school subjects:
 - The rate normally levied for Primary Property Taxes is reduced by 35% or \$2.36, whichever is less.
- (2) Class 5 property located in a unified school district, a common school not within a high school district, or a common school district which offers high school subjects:
 - The rate normally levied for Primary Property Taxes is reduced by 35% or \$4.72, whichever is less.

NOTE: The Tax Reform Act of 1990 phases-out this program by reducing the rebate, which at that time was 50%, by 5 percentage points each year. The Middle Income Tax Relief Act of 1994 ended the phase-out and set the reduction at 35% for tax years 1993 and thereafter.

The tax rate levied by school districts for Primary Property Taxes is further reduced on individual parcels of residential property if the total amount of such taxes levied exceeds 1% of the parcel's "limited property value." (See TAX LIMITATIONS under General Property Tax - Real and Secured Personal Property)

(Continued)

General Property Tax

UNSECURED PERSONAL PROPERTY

DESCRIPTION

This is an ad valorem tax on personal property owned by taxpayers who do not possess at least \$200 of real property within the county in which it is being assessed. Typically, this refers to equipment or other personal property not attached to the land, including mobile homes. The valuation of unsecured personal property, except for certain mobile homes, is basically determined in the same manner as other personal property, which is at full cash value.

YIELD

See General Property Tax - Real and Secured Personal Property.

WHO PAYS THE TAX

A.R.S. § 42-601. *Owner.* Persons who own personal property if they do not own at least \$200 of real property within the same county.

EXEMPTIONS

The allowable exemptions are the same as those listed under Real and Secured Personal Property Tax but with the following additions:

- A.R.S. § 42-601.01(E). Personal property owned and held by persons primarily engaged in the business of renting personal property.
- A.R.S. § 42-602. Improvements placed on public lands under grazing permits in which the title passes to the Federal Government.

TAX BASE

A.R.S. § 42-201.02(G). *Full Cash Value.* Unsecured personal property is generally valued at full cash value or market value as determined by the County Assessor for both Primary and Secondary Property Taxes. See General Property Tax - Real and Secured Personal Property.

NOTE: A.R.S. Title 42, Chapter 3, Article 5 dealing with possessory interest taxes was repealed by Laws 1995, Chapter 294, effective retroactively to January 1, 1995.

The following types of property are given special valuation treatment:

A.R.S. § 42-601.01. *Property Leased From Inventory.* Personal property periodically leased or rented from the inventory of wholesalers or retailers is subject to the tax and valued by the Department of Revenue, but on a prorated basis as established by statute.

A.R.S. § 42-601.02. *New Property.* Unsecured property on the Unsecured Personal Property Tax roll for the first time shall have its first year's taxes prorated for the number of days it is subject to the tax.

A.R.S. § 42-602. *Improvements on Unpatented Land.* Certain improvements or appurtenances located on unpatented land, a mining claim or state land not secured by patented real estate is valued as personal property (full cash value) and subject to this tax.

(Continued)

General Property Tax

A.R.S. § 42-603. *Transient Personal Property.* Taxes on such property in transit through a county is collected where the owner is domiciled. This does not apply to transient livestock. Transient property used in business within Arizona is valued and placed on the personal property tax roll in the county where found.

A.R.S. § 42-642. *Mobile Homes.* Mobile homes which have not recorded an affidavit of affixture are assessed and collected in the same manner and time as unsecured personal property. Those mobile homes which have recorded such affidavit are taxed as real property. All mobile homes are subject to the special limited property valuation under A.R.S. § 42-201.02(F) for Primary Property Taxes. See Mobile Homes under General Property Tax - Real and Secured Personal Property.

NOTE: Since tax year 1989, mobile homes without an affidavit of affixture are charged an additional assessment rate of 0.50¢ per \$100 of assessed valuation on the limited property value. The purpose is to provide funds for the Mobile Home Relocation Fund. This assessment is imposed at the same time and manner as the Unsecured Personal Property Tax. The assessment is waived if monies in the fund exceed \$5,000,000 and may be reinstated if at the end of a fiscal year monies in the fund are less than \$3,000,000. [See A.R.S. § 33-1476.03]

TAX RATE

A.R.S. § 42-607. *Rate.* For any given calendar year, the state rate of taxation for unsecured property, in effect, will equal the state tax rate that was levied on real and secured property in the preceding calendar year. For information on the Secured Property Tax Rate see the TAX RATE section under General Property Tax - Real and Secured Personal Property. A history of the state property tax rate levied on unsecured property is shown in the following table:

HISTORICAL UNSECURED PERSONAL PROPERTY TAX RATES (Per \$100 of Assessed Valuation)		
<u>Calendar</u> <u>Year</u>	<u>Education</u> <u>Tax Rate</u>	<u>General Purpose</u> <u>Tax Rate</u>
1995	\$.47	\$-0-
1994	.47	-0-
1993	.47	-0-
1992	.47	-0-
1991	.47	-0-
1990	.47	-0-
1989	.47	-0-
1988	.38	-0-
1987	.00	.38
1986	.40	-0-
1985	.40	-0-
1984	.75	-0-

TAX LIMITATIONS

The Primary Property Taxes on unsecured personal property are also included in the two tax limitations listed under General Property Tax - Real and Secured Personal Property:

- A.R.S. § 42-301. *Growth Limitation.* This is the 2% cap placed on the annual increase in Primary Property Taxes imposed by counties, cities, towns, and community college districts.

General Property Tax

- A.R.S. § 42-201.01. *Residential Tax Limitation.* This is the constitutional limitation restricting the total amount of Primary Property Taxes to 1% of the limited property value on residential (Class 5) property. If this limit is exceeded, the taxes on the property will be reduced through an increase in additional state aid to schools. (See Exhibit H under General Property Tax - Real and Secured Personal Property)

TAX COMPUTATION

This is basically the same method as secured property outlined under General Property Tax - Real and Secured Personal Property, except that full cash value, other than in the case of mobile homes, is used for both Primary and Secondary Taxes.

PAYMENT SCHEDULE

A.R.S. § 42-601(B). *County Assessor Duties.* The duty of the County Assessor to determine the value of unsecured property continues throughout the year. Each month, any unsecured property that is valued by the Assessor, must be added to the roll by the last regular working day of the month. [See A.R.S. § 42-605]

A.R.S. § 42-608. *Due and Delinquent Dates.* The Unsecured Property Tax is due on the second Monday of the month following the month in which the property is added to the tax roll. The tax is delinquent 30 days after the due date.

Interest Penalty. Delinquent taxes will bear 16% interest per year simple.

TAX ADMINISTRATION

A.R.S. § 42-608. *Collections.* Unsecured Property Taxes are collected for all taxing districts by the County Treasurer. Property taxes collected by the County Treasurers must be apportioned between 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. [See A.R.S. § 35-145]

DISTRIBUTION

A.R.S. § 42-608. *Distribution.* All revenues from the state Property Tax are deposited in the state General Fund, however revenues from the state rate for educational purposes are deposited in a separate account within the General Fund. [See A.R.S. § 35-148(B), and A.R.S. § 42-208]

General Property Tax

HISTORY

Laws 1912, Chapter 23 created the Arizona State Tax Commission to supervise the County Assessors in determining property valuations. The Commission assured that all properties of every class, kind, and character were assessed uniformly and at full cash value. The Commission was also given the responsibility for central assessment of properties owned by express car companies and private car companies. (E - May 9, 1912)

Laws 1912, Chapter 31 established the first General Property Tax under state law. The tax was levied on the assessed value of property within the state. The Board of Equalization was responsible for determining the appropriate tax rate. The effective rate of taxation was \$.50 per \$100 of assessed valuation if the Board failed to act. Under the provisions of this law, the Board of Equalization was also responsible for central valuation of railroad property and property used in the operation of telegraph and telephone companies. (E - May 15, 1912)

Laws 1912, Chapter 39 established a separate tax on the property of private car companies in lieu of the General Property Tax. The State Tax Commission was still responsible for determining the value of these properties. [See Lieu Tax on Private Car Companies] (E - May 16, 1912)

Laws 1912, Chapter 54 established a separate tax on the property of express companies in lieu of the General Property Tax. The State Tax Commission was still responsible for determining the value of these properties. (E - May 17, 1912)

Laws 1913, 3rd Special Session, Chapter 35 established the basis for determining the annual property tax levy. The tax was levied at a rate which, together with revenues from other sources, would produce a sufficient amount to cover the obligations of the state. The amount required to meet state obligations was established each year by the Legislature and based on this amount, the Board of Equalization determined the appropriate rate. Property taxes levied by this law were delinquent after the second Monday in December. The County Treasurers were authorized to collect the state property tax and apportion these taxes at the end of each month. [See Revised Statutes of Arizona, 1913, Civil Code, Sections 4839, 4872, 4895 and 4897]

The act also provided that any unsecured personal property valued by the County Assessors is treated differently than real and secured personal property. Unsecured personal property was personal property owned by taxpayers who did not own real property of any substantial value within the county. Under this law, the tax rate levied on unsecured personal property equaled the state's General Property Tax rate for the previous year. The tax was collected by the County Assessor at the time the property was assessed. All monies collected by the Assessor during the month were paid to the County Treasurer on the first Monday of the following month. Collections received by the County Treasurer's Office must be apportioned between the taxing districts at the end of each month. [See Revised Statutes of Arizona, 1913, Civil Code, Sections 4872 and 4897]

Laws 1913, 3rd Special Session, Chapter 71 authorized the State Tax Commission to serve as the Board of Equalization in determining the property tax rate. If the Tax Commission failed to act, the state rate would be levied at \$.75 per \$100 of assessed valuation. Under this law, the State Tax Commission was given full responsibility for the valuation of centrally assessed properties. Formerly, the Board of Equalization was responsible for central assessment of railroad properties and properties owned by telephone and telegraph companies. Central assessment was also extended to mines and mining properties. [See Revised Statutes of Arizona, 1913, Civil Code, Sections 4829, 4834 and 4835]

Laws 1915, Chapter 22 changed the due date for paying taxes on real property and secured personal property. Under the provisions of this law, one-half of the tax was due on the second Monday in October and delinquent on the second Monday in December. The remaining half was due on the second Monday in March and delinquent on the second Monday in June. (E - June 10, 1915)

Laws 1915, 2nd Special Session, Chapter 9 again changed the due date for paying taxes on real property and secured personal property. Under this law, one-half of the tax was due on the first Monday in September and delinquent on the first Monday in November. The remaining half was due on the first Monday in March and delinquent on the first Monday in May. (E - July 10, 1915)

(Continued)

General Property Tax

Laws 1917, Chapter 6 exempted observatories operated on a nonprofit basis for the public benefit. (E - June 7, 1917)

Laws 1943, Chapter 77 changed the rate of tax levied on unsecured personal property. Under the provisions of this law, unsecured personal property was taxed at the rate that was in effect for secured property at the time the Unsecured Property Tax was collected (E - June 13, 1943).

Laws 1945, Chapter 56 established a new basis for computing the annual state property tax rate. The rate was set at a level that would produce sufficient revenue to cover all state expenses that could not be covered by the balance forward and revenues from sources other than the property tax. The State Tax Commission (in its role as the Board of Equalization) was to estimate the amount of revenue that would be received during the year from sources other than the property tax. (E - March 10, 1945)

Laws 1945, Chapter 94 redefined unsecured personal property as personal property owned by taxpayers who do not own at least \$200 of real property within the county. The rate of tax levied on unsecured property was also changed by this law. The law provided that the unsecured tax rate for the entire calendar year was the rate in effect for real property on January 1 of the year. In addition, the method of collecting Unsecured Personal Property Taxes was changed. Under this law, unsecured property valued during each month was placed on an unsecured property tax roll at the time it was assessed. The roll was then forwarded to the County Treasurer for collection. The Unsecured Property Tax was due on the second Monday of the month following the month in which the property was added to the tax roll. The tax was delinquent 30 days after the due date (E - March 20, 1945).

Laws 1951, Chapter 59, levied a separate tax on flight property in lieu of the General Property Tax. The value of flight properties subject to the tax was to be centrally assessed by the State Tax Commission. [See Flight Property Tax] (E - March 14, 1951)

Laws 1956, Chapter 115 permitted persons owning certain mobile homes to pay either the Unsecured Personal Property Tax or the Vehicle License Tax. Formerly, mobile homes had been taxed only under the provisions of the Vehicle License Tax. (E - April 12, 1956)

NOTE: A constitutional amendment, enacted in the election of November 3, 1964 established an exemption for all stocks of raw or finished materials, unassembled parts, work in process, or finished products constituting the inventory of a retailer or wholesaler located within the state and principally engaged in the resale of such materials, parts or products. (E - December 3, 1964)

Laws 1959, Chapter 40 provided that the assessed value of producing oil and gas properties should be determined separately from other properties based on the previous year's gross yield from production. (E - June 20, 1959)

Laws 1964, Chapter 54 changed the due date for paying taxes on real property and secured personal property. Under this law, one-half of the tax was due on September 1 and delinquent November 1. The remaining half was due on March 1 and delinquent on May 1. (E - July 15, 1964)

A constitutional amendment, enacted in the election of November 3, 1964 established an exemption for all stocks of raw or finished materials, unassembled parts, work in process, or finished products constituting the inventory of a retailer or wholesaler located within the state and principally engaged in the resale of such materials, parts or products. (E - December 3, 1964)

Laws 1967, Chapter 107 created the Department of Property Valuation. Most of the powers of the State Tax Commission that related to property valuation were transferred to the new Department. Among other powers, the Department assumed the responsibility for supervising County Assessors and for valuing centrally assessed properties. Utilities, pipelines and transmission systems were added to the list of properties subject to central assessment. Central valuation of express companies was retained by the State Tax Commission. The Tax Commission also retained its responsibility for setting the state Property Tax rate. A rate of \$1.50 per \$100 of assessed valuation was levied if the Tax Commission failed to act. (E - October 15, 1967)

(Continued)

General Property Tax

Laws 1967, 3rd Special Session, Chapter 6 established 4 classes of property, each with a different assessment ratio. Assessment ratios were used to determine the percent of each property's full cash value that was included on the tax rolls. Of the 4 classes, only Class 3 and 4 are valued by the County Assessors. Since the unsecured tax roll is compiled by the County Assessors, only properties in Classes 3 and 4 were placed on the unsecured tax roll. Under this law, unsecured properties were listed on the tax roll at a percentage of their full cash value. The four classes of property and their respective assessment ratios were:

- (1) Class 1 consisting of flight property, private car companies, railroads, mines and standing timber, assessed at 60% of full cash value.
- (2) Class 2 consisting of properties owned by telephone and telegraph companies, public utilities and pipeline companies, assessed at 40% of full cash value.
- (3) Class 3 consisting of commercial and industrial properties not included in Class 1 and Class 2, assessed at 25% of full cash value.
- (4) Class 4 consisting of real property used for agricultural purposes and all other property not included in Class 1, 2 or 3, assessed at 18% of full cash value.

Producing oil and gas properties were taxable on 100% of their valuation. (E - March 22, 1968)

Laws 1968, Chapter 124 repealed the statute that permitted payment of the Vehicle License Tax on mobile homes in lieu of the General Property Tax. Enactment of this provision was subject to the passage of a constitutional amendment. Approval of the amendment at the general election of November 5, 1968, resulted in mobile homes being assessed and taxed in the same manner as personal property. The provisions of this law did not apply to mobile units under 40 feet long and 8 feet wide. (E - December 4, 1968)

NOTE: A constitutional amendment enacted in the election of November 5, 1968, exempted from the Property Tax, all household goods used for noncommercial purposes. The exemptions allowed to certain veterans and widows were also changed. (E - December 4, 1968)

Laws 1970, Chapter 170 provided that banks and other financial institutions were subject to payment of the Personal Property Tax. The tax applied to tangible property only. Prior to the passage of this law, financial institutions were exempt from the Personal Property Tax. (E - January 1, 1970)

Laws 1973, Chapter 44 provided that the General Property Tax should be paid by the owner of record, or the person who is the purchaser under a deed of trust or an agreement of sale. (EFA - December 31, 1973)

Laws 1973, Chapter 123 established the Department of Revenue and transferred the powers and duties of the Department of Property Valuation to the new Department. Most powers of the State Tax Commission were also transferred to the Department of Revenue, however the Commission retained its responsibility for setting the state Property Tax rate. (E - July 1, 1974)

Laws 1973, Chapter 182, established a fifth property class consisting of residential properties to be assessed at 18% of full cash value. A formula was established to reduce the local property tax collected from Class 5 properties. Unsecured property in this class was valued by the County Assessors and added to the Unsecured Tax roll. The formula was effective for the 1974 Unsecured Property Tax roll. All property in Class 5 was taxed on 18% of its full cash value. State monies were appropriated to offset the local tax loss resulting from this program. The formula had no impact on state Property Tax collections. (E - August 8, 1973)

Laws 1974, 1st Special Session, Chapter 2 changed the assessment rates that applied to three classes of property. Assessment rates are used to determine the percent of full cash value that is subject to tax. The assessment rate for Class 2 properties was increased from 40% to 50%, for Class 3 properties from 25% to 27%, but Class 5 residential properties was reduced from 18% to 15%. The law also established a new property tax for educational purposes and modified the formula used to provide property tax relief to homeowners. The due date for paying property taxes on real and secured personal property was extended for years when the Property Tax Reduction Program was in effect. The new due date for the first installment was October 1. The

(Continued)

General Property Tax

delinquency date was not changed. (The change in assessment rates and the property tax for educational purposes were effective from and after December 31, 1973. The remaining provisions were effective May 20, 1974.)

Laws 1974, Chapter 150 established the Joint Legislative Tax Committee. The new Committee assumed the responsibility for setting the state Property Tax rate. Formerly, this responsibility was held by the State Tax Commission. The Joint Committee was required to set the new state Property Tax rate for educational and general purposes. The State Tax Commission was scheduled for termination after 1978. All duties of the Commission not transferred to the Department of Revenue were transferred to the State Board of Tax Appeals. (E - August 9, 1974)

Laws 1975, Chapter 24 extended property Class 5 to include non-profit residential housing facilities providing care or housing to aged or handicapped persons. (EFA - December 31, 1974)

Laws 1976, Chapter 176 established a new property classification (Class 6) composed of real and personal property which is leased or rented solely for residential purposes. Unsecured property within the class was valued by the County Assessors and added to the Unsecured Tax roll. This class of property was assessed at 27% of full cash value. The law authorized a gradual reduction of the assessment ratio according to the following schedule: By statute, 27% through the tax year 1977; 23% for 1978; 21% thereafter. (E - September 23, 1976)

Laws 1977, Chapter 87 provided that the Department of Revenue shall value and tax geothermal resources in the same manner as oil and gas resources. [See Laws 1959, Chapter 40] (E - May 23, 1977)

Laws 1977, Chapter 144 established a seventh class of property, consisting of historic properties to be assessed at 8% of full cash value. (E - August 27, 1977)

Laws 1977, Chapter 152 provided that, for the 1978 tax year, the assessed valuation of all properties was divided by a factor of \$1.05 for the purpose of levying a tax rate. For the 1979 tax year, the assessed valuation of all properties was divided by a factor of \$1.10 for the purpose of levying a tax rate. A maximum state tax rate of \$1.60 per hundred dollars of assessed valuation was also established and a provision was included to prohibit the Joint Legislative Tax Commission from establishing a tax rate that would produce a greater tax levy than the previous year's levy without a roll call vote. (E - August 27, 1977)

Laws 1977, Chapter 172 changed the classification of profit-making nursing care institutions and profit-making residential care institutions from property Class 3 to a new Class 5 (c). (E - January 1, 1978)

Laws 1978, Chapter 14 exempted a dwelling on possessory rights, taxed as secured or unsecured personal property, from distraint, seizure or sale for delinquent taxes as personal property but is subject to procedures for delinquent taxes as real property. (E - September 3, 1978)

Laws 1978, Chapter 211 provided that the 1979 net assessed valuation of all properties within the state be reduced further for tax purposes. In addition to the \$1.10 division established in Laws 1977, Chapter 152, a second reduction was made. To accomplish this reduction, the assessed valuation of real property within a class was reduced by the ratio of total state full cash value for all property within the class in 1979 to the total state full cash value of all property within the class in 1978. The resulting valuation could not fall below the 1978 level. This method of valuing property for the 1979 tax year was not used however, because of the effect of Laws 1979, Chapter 153. In addition to this provision, the following changes were made (E - June 14, 1978):

- (1) The Joint Legislative Tax Committee was prohibited from setting a tax rate for 1978 that would result in a total tax levy in excess of the previous year's levy reduced by \$4,000,000.
- (2) The state's Tax Relief Program for residential properties (Class 5) was extended to parcels of property subject to the Lieu Tax on properties located outside of school districts. The formula used to reduce school district tax rates under this program was also modified.

(Continued)

General Property Tax

- (3) The due date for paying the first installment of property taxes on real and secured personal property was permanently changed to October 1.

Laws 1978, Chapter 213 provided a property tax exemption to widowers comparable to that received by widows. This provision did not become effective until the Constitution was amended in 1980.

Laws 1979, Chapter 97 provided that a multiple-section mobile home permanently affixed to land is taxed as real property rather than personal property when the land is owned by the person owning the mobile home. (EFA - November 30, 1979)

Laws 1979, Chapter 142 reduced the assessment ratio for railroads and private car companies from 60% to 36% for the 1979 tax year.

Laws 1979, Chapter 153 provided a new means of determining the 1979 taxable value of properties that superseded the method prescribed by Laws 1978, Chapter 211. Under the provisions of this law, the 1979 taxable value of properties was determined by dividing the assessed valuation by a factor of \$1.15 before applying the tax rate. This law also prohibited the Joint Legislative Tax Committee from setting a tax rate for 1979 that would result in a total tax levy in excess of the 1978 levy reduced by \$15,000,000. The formula used to provide property tax relief to residential property owners (Class 5) was again modified. (E - July 21, 1979)

Laws 1980, 2nd Special Session, Chapter 8 made major modifications to the existing state and local property tax systems. The law made the following modifications that affected the state property tax system:

- (1) Changed the method of determining the full cash value of utility properties in Class 2. Full cash value is the starting point for determining the taxable value of property. (EFA - December 31, 1979)
- (2) Changed the method of determining the taxable value of properties. Formerly, all property taxes were levied on a share of each property's full cash value. Under this provision, taxes levied for primary purposes will be levied on one definition of property value and taxes levied for secondary purposes will be levied on a separate definition of property value. Taxes levied for primary purposes include all property taxes other than taxes levied for secondary purposes. Taxes levied for secondary purposes refers to all property taxes levied for payment of bonds, special district levies and voter-approved overrides. Under this law, mobile homes would have a "limited property value" as well as a full cash value. [See also Laws 1980, 2nd Special Session, Chapter 8, Sections 50 and 92] (EFA - December 31, 1979)
- (3) Provided that the assessed value of unsecured property on the 1980 tax roll be divided by \$1.15 for purposes of levying a tax rate.
- (4) Permanently established a separate class of property (Class 7) for railroads and private car companies. Historic properties were changed to Class 8. (EFA - December 31, 1979)
- (5) Lowered the assessment ratios as follows: Class 1 - from 60% to 52%, Class 2 - from 50% to 44%, Class 3 - from 27% to 25%, Class 4 - from 18% to 16%, Class 5 - from 15% to 10%, Class 6 - from 21% to 18%, Class 7 (railroads and private cars) - from 36% to 34%. (EFA - December 31, 1979)
- (6) Further reduced the assessment rates for Classes 1 and 2. The assessment ratio for Class 1 was 44% from 1983 to 1985, 36% from 1986 to 1988, 28% from 1989 to 1991 and 25% in subsequent years. The assessment ratio for Class 2 was 38% from 1983 to 1985, 32% from 1986 to 1988, 26% from 1989 to 1991 and 25% in subsequent years. The assessment ratio for railroad properties (Class 7) would be annually set at the average ratio for all commercial and industrial properties in compliance with federal law.
- (7) Established a maximum state property tax rate for educational purposes equal to \$1.25 per \$100 of assessed valuation; this rate for the 1980 property tax year was set at \$1.25. Proceeds from this tax were deposited in a separate account within the General Fund. (E - July 3, 1980)
- (8) Set the state property tax rate for general purposes at zero for the 1980 property tax year. (E - July 3, 1980)
- (9) Established a one-year credit against the state's \$1.25 School Tax levy for residential property owners. The credit for each parcel of residential property was to equal 5% of the final tax liability from all property taxes other than taxes levied for payment of bonds, overrides and special district levies. The credit was never effective for unsecured property due to a later law. [See Laws 1980, Chapter 221] (E - July 3, 1980)

(Continued)

General Property Tax

- (10) Provided that the total amount of taxes levied on each parcel of residential property by all government entities combined (other than taxes levied for secondary purposes) may not exceed 1% of the property's "limited property value." (E - July 3, 1980)

Enactment of these provisions was conditional on the passage of Laws 1980, 2nd Special Session, Chapter 9 and four constitutional amendments that were approved by the voters in a special election held on June 3, 1980.

Laws 1980, 2nd Special Session, Chapter 9 established a new program for providing property tax relief to homeowners. [See Exhibit H] The original Homeowner's Property Tax Relief Program, which was initiated by Laws 1973, Chapter 182, was discontinued. (E - July 3, 1980)

Four constitutional amendments enacted in a special election held on June 3, 1980 modified the widows and veterans property tax exemptions, established comparable property tax exemptions for widowers and disabled persons, and authorized the Legislature to increase the level of property tax exemptions without a constitutional amendment. (E - June 28, 1980)

A separate constitutional amendment enacted in the special election of June 3, 1980 established limitations on the growth of property value used in levying property taxes for primary purposes. [See Laws 1980, 2nd Special Session, Chapter 8] The amendment also provided that the total amount of taxes levied on each parcel of residential property by all government entities combined (other than taxes levied for secondary purposes) may not exceed 1% of the property's "limited property value." (E - June 28, 1980)

Laws 1980, Chapter 220 changed the interest rate on delinquent payments of unsecured personal property taxes. The interest rate was increased from 10% per year to 12% per year. (E - July 31, 1980)

Laws 1980, Chapter 221 clarified the provisions of Laws 1980, 2nd Special Session, Chapter 8. Under this law, Unsecured Property Taxes, other than taxes on mobile homes, were based on the property's full cash value during the 1980 tax year. The "limited property value" remained the basis for taxing mobile homes in 1980. This law also excluded unsecured property from the one-year credit against the state's property tax that was passed by Laws 1980, 2nd Special Session, Chapter 8. (E - April 23, 1980)

NOTE: Four constitutional amendments enacted in a special election held on June 3, 1980 modified the widows and veterans property tax exemptions, established comparable property tax exemptions for widowers and disabled persons and authorized the Legislature to increase the level of property tax exemptions without a constitutional amendment. (E - June 28, 1980)

A separate constitutional amendment enacted in the special election of June 3, 1980 established limitations on the growth of property value used in levying property taxes for primary purposes. [See Laws 1980, 2nd Special Session, Chapter 8 and TAX BASE] The amendment also provided that the total amount of taxes levied on residential property by all government entities combined (other than taxes levied for secondary purposes) may not exceed 1% of the property's "limited property value." [See RESIDENTIAL TAX LIMITATION] (E - June 28, 1980)

Laws 1981, Chapter 25 changed the basis for determining the portion of full cash value of flight property that is allocated to Arizona for tax purposes. (EFA - December 31, 1980)

Laws 1981, Chapter 124 repealed the separate tax on express companies that was originally enacted by Laws 1912, Chapter 54. (E - July 25, 1981)

Laws 1981, Chapter 146 increased the interest rate on delinquent payments of real property taxes from 10% per year to 12% per year. (Effective for Property Taxes Delinquent on and After October 1, 1981)

(Continued)

General Property Tax

Laws 1981, Chapter 291 reduced the state Property Tax rate for educational purposes to \$.95 per \$100 of assessed valuation. The state Property Tax rate for general purposes was set at zero for the 1981 tax year. The formula for providing property tax relief to homeowners was also changed. [See Exhibit H] (E - July 25, 1981)

Laws 1982, Chapter 21 allowed an increase of 20% in the level of income and property valuation that a widow, widower, veteran or disabled person may have and still be eligible for a property tax exemption. The bill also provided for a 20% increase in the amount of the exemption granted to qualifying taxpayers. (E - March 31, 1982)

Laws 1982, Chapter 156 reduced the assessment ratio on historic property from 8% to 5% beginning with tax year 1983. (E - July 24, 1982)

Laws 1982, Chapter 164 reduced the state Property Tax rate for educational purposes to \$.75 per \$100 of assessed valuation. The state Property Tax rate for general purposes was set at zero for the 1982 tax year. The formula for providing property tax relief to homeowners was also changed. (E - July 24, 1982)

Laws 1982, Chapter 228 reduced the assessment ratio for Class 1 properties (flight property, mines and timber) beyond the level established by Laws 1980, 2nd Special Session, Chapter 8. Under this law, the assessment ratio for Class 1 properties was reduced to 38% beginning in tax year 1983. The Class 2 assessment ratio would already be 38% in 1983 under Laws 1980, 2nd Special Session, Chapter 8. After 1983, the assessment ratios for Class 1 and 2 properties were reduced two percentage points each year through 1989. For 1990, and all subsequent years, the assessment ratios for Class 1 and 2 properties were set at 25%. [See Tax Base]

Laws 1982, Chapter 232 established uniform provision for determining the full cash value of shopping centers. Shopping centers are included in property Class 3. Under the provisions of this law, County Assessors must value shopping centers by the "replacement cost less depreciation" method, except in certain cases specified within the law. (E - April 24, 1982)

Laws 1982, Chapter 301 established a Property Tax exemption for 50% of the value of real and personal property located within a designated urban development area. The exemption established by this law was available for a maximum of five years after the property had initially qualified as urban development property. Enactment of these provisions was conditional on the passage of a constitutional amendment, which subsequently, was rejected by the voters on November 2, 1982.

Laws 1983, Chapter 4 changed the interest rate on delinquent tax payments to equal the rate of interest established by Section 6621 of the Internal Revenue Code, compounded annually. (E - February 11, 1983)

Laws 1983, Chapter 35 changed flight property from property Class 1 (with mines and standing timber) to property Class 7 (with railroads and private car companies) to comply with federal law. Since the assessment ratio for Class 7 properties is lower than the assessment ratio for Class 1 properties, this effectively reduced the tax on flight property. (E - April 1, 1983)

Laws 1983, Chapter 62 set the state Property Tax rate for educational purposes at \$.75 per \$100 of assessed valuation for the 1983 tax year. The state Property Tax rate for general purposes was set at zero for the same period. The formula for providing property tax relief to homeowners was also changed. (E - July 27, 1983)

Laws 1983, Chapter 183 changed the interest rate on delinquent tax payments to 16% simple interest when the tax was payable to the County Assessors. (Effective Retroactively to all Taxes which are or become Delinquent on or After November 1, 1983)

Laws 1983, Chapter 313 authorized taxpayers to make voluntary payments in lieu of taxes when they are not required to pay their property taxes pursuant to a court injunction. The provisions of this law were only applicable for the 1982 and 1983 tax years. (E - May 4, 1983)

Laws 1984, Chapter 23 created a ninth property tax classification for scenic and historic railroad property. Such property will be assessed at a percentage of its full cash value equal to one-half of the percentage determined for Class 7 property. Class 7

(Continued)

General Property Tax

property assessment is determined annually by the Department of Revenue. A.R.S. § 42-227 details the formulation of Class 7 property assessment ratio.

Laws 1984, Chapter 45 requires County Assessors to give notice of property valuation to property owners by February 1 of each year. Taxpayers must file written petitions appealing the Assessor's valuation by February 25. If notice of valuation is not postmarked by February 1, the appeal petition must be filed within 25 days of the date the Assessor mailed the notice.

Laws 1984, Chapter 317 established delinquency dates for payment of Real Property Taxes. For taxes due on real property in excess of \$10, one-half of the amount due is delinquent after November 1, and the remaining half is delinquent after the following May 1.

Laws 1984, Chapter 371 imposed new verification requirements for Class 5 property. The Department of Revenue will notify taxpayers who own land parcels previously listed as Class 5 property to request verification as to the property's occupancy (owner-occupied versus rental). A civil penalty is imposed upon nonrespondents. Taxpayers who are subsequently notified of a classification change will be assessed a civil penalty equal to twice the amount of taxes that would have been levied against Class 6 property in the preceding tax year.

Laws 1984, Chapter 371 changed the assessment ratio for Class 6 property as follows:

- (1) Tax Year 1984—8%
- (2) Tax Year 1985—17%
- (3) Tax Year 1986—16%
- (4) Tax Year 1987—15%
- (5) Tax Year 1988 and thereafter—14%

Laws 1984, Chapter 371 reduced the maximum state rate of taxation for educational purposes for tax year 1984 to \$.40 per \$100 of assessed valuation.

Laws 1984, Chapter 177 provided a Property Tax exemption for property owned by a non-profit organization and used by the state or a political subdivision during the entire taxable year exclusively for a governmental activity.

Laws 1984, Chapter 212 required taxpayers claiming a Property Tax exemption to file an affidavit or furnish other evidence proving entitlement thereto between the first Monday in January and May 1 for each year an exemption is claimed. Churches must file between the first Monday in January and April 10. Failure to file within the prescribed time periods is deemed a waiver of the exemption.

Laws 1985, Chapter 56 prescribed the deadline and the manner for appealing property valuations by the Department of Revenue to the Board of Tax Appeals. Taxpayers must appeal valuation notices by filing a petition with the Board by the later of:

- (1) the fourth Monday in June, or
- (2) 15 days after the Department mails the valuation decision to the property owner

Laws 1985, Chapter 201 provided that feeder livestock held for fattening before sale or slaughter, range livestock, and dairy cattle be listed on the tax roll and valued by December 31 annually. Valuation will be based on the average value for the preceding twelve months. (E - April 26, 1985)

Laws 1985, Chapter 264 provided for taxation of possessory interests in government property as unsecured personal property, and allowed certain exemptions to this taxation. In addition, special tax treatment was given to possessory interests in property located in certain redevelopment areas. (EFA - December 31, 1985)

(Continued)

General Property Tax

Laws 1985, Chapter 317 clarified the classification of telecommunication companies by treating all long-distance phone companies as Class 2 properties for property tax purposes. (E - May 10, 1985)

Laws 1985, Chapter 366 provided for the uniform valuation of golf courses beginning in 1987. The state property tax rate for educational purposes was continued at \$0.40 per \$100 of assessed valuation while the general purposes rate was set at zero. (EFA - June 30, 1986)

Laws 1986, Chapter 76 permitted agents to represent taxpayers before the County Assessors and Board of Equalization for review of property valuation. (E - August 13, 1986)

Laws 1986, Chapter 109 established a Personal Property Elimination Study Commission and an Assessment Advisory Committee to evaluate the impacts of eliminating the taxation of personal property. A final report was due by December 31, 1987. This enactment was repealed from and after March 31, 1988. (E - August 13, 1986)

Laws 1986, Chapter 133 removed property of member-owned rural electric cooperatives from valuation based on the statutory utility formula, thus subjecting it to valuation according to standard or fair market procedures instead. (RTYBFA - December 31, 1985)

Laws 1986, Chapter 146 provided authority for a city or town which purchases remote municipal property to make voluntary contributions of money in lieu of property taxes to the state, county, school districts, community college district, or any other special tax district in which such property is located. (E - April 18, 1986)

Laws 1986, Chapter 199 authorized the Department of Revenue to biennially examine and compare the property valuations in the state, and to equalize those valuations found inequitable between or within counties, classes or classifications. Any equalization order issued by the Department must be made no later than May 1 for implementation in the tax year following the year of issuance. Any such order is subject to appeal by the affected taxpayer or County Assessor within 30 days of issuance. Then, the State Board of Tax Appeals is required to hold a review hearing within 30 days of such an appeal. An appeal may eventually be taken to the Superior Court. (E - August 13, 1986)

Laws 1986, Chapter 216 allowed a taxpayer to appeal for reclassification of Class 6 property (residential rental) as Class 5 property (owner-occupied residential) if the taxpayer rents the property to a natural or adopted sibling. (E - August 13, 1986)

Laws 1986, Chapter 222 authorized the Department of Revenue to conduct property valuation sales-ratio studies. This law prescribed limitations, conditions and procedures in using such studies for property valuation. (E - August 13, 1986)

Laws 1986, Chapter 243 prescribed that real and personal property of telecommunications companies used to provide local telecommunication services be valued and assessed as Class 2 (utilities) property; whereas, those properties not servicing such purposes are Class 3 (commercial and industrial) property. "Local telecommunication services" does not include domestic public cellular radio telecommunication services, thus allowing it to be classified as Class 3 property. (RTYBFA - December 31, 1985)

Laws 1986, Chapter 342 increased qualifying assessment limits and exemption amounts for the Property Tax exemptions granted widows, widowers, veterans, and disabled persons. Also, the definition of qualifying income was modified to include certain retirement system payments. This emergency legislation was effective May 9, 1986. The new limits and exemptions are detailed as follows:

(Continued)

General Property Tax

<u>Assessed Valuation</u>	<u>Exemption</u>
\$5,460 or less	\$2,340
6,240 or less	1,560
7,020 or less	780
7,800 or less	390
7,800 or more	-0-

Laws 1986, Chapter 377 set the state Property Tax rate for education purposes for tax year 1986 at zero, while the rate for general purposes was set at \$.38 per \$100 of assessed valuation. (E - August 13, 1986)

Laws 1986, Chapter 392 allowed certain school districts which voluntarily sends its pupils to another school district to separately budget for the bond issues portion of the tuition charged to the district. This amount was exempted from the revenue control limit and excluded the Primary Property Tax rate set to fund this amount from the computation of additional state aid for education. (E - August 13, 1986)

Laws 1986, Chapter 419 extended the incremental 1% annual reduction in the assessment ratio for Class 6 (residential rental) property through tax year 1992. Also, the renter's income tax credit for property taxes paid is phased out by 1992. This credit is repealed from and after December 31, 1992. These provisions were effective on August 13, 1986. A separate provision provided for the correction and refund of taxes on owner-occupied property improperly classified as residential rental property for the 1985 tax year. This was effective retroactively from and after January 1, 1985. The changes were as follows:

<u>Tax Year</u>	<u>Class Six Assessment Ratio</u>	<u>Maximum Renter's Credit</u>
1986	16%	\$100
1987	15	100
1988	14	85
1989	13	70
1990	12	55
1991	11	40
1992 and thereafter	10	-0-

Laws 1987, Chapter 33 excluded the value of any vehicle subject to the Motor Vehicle In-Lieu Tax when determining the amount of qualifying assessment for property tax exemptions given to Arizona veterans, widows, widowers, and disabled persons. (E - August 18, 1987)

Laws 1987, Chapter 98 required the Department of Revenue to provide a space to indicate an inventory exemption on its Personal Property Tax Reporting Forms. Allowed the Director to require additional proof of the inventory exemption claim. Stipulated that failure to provide requested proof, or failure to claim the exemption waives the exemption. (E - August 18, 1987)

Laws 1987, Chapter 105 established a 5-member advisory committee of property tax assessment to meet at least annually to discuss and review definitions and guidelines about the status of property and residual value percentages. Allowed the Committee to recommend guideline and definitional changes to the Department. Disallowed compensation for members, however, allowed the legislators on the Committee to be reimbursed for expenses. (E - August 18, 1987)

(Continued)

General Property Tax

Laws 1987, Chapter 191 required the County Treasurer to refund any property taxes paid by churches, charities, educational institutions, and humane societies for tax years 1985 and 1986. Statutorily allowed a qualified non-profit organization that submits a petition for property tax exemption after the statutory deadline to have it redeemed by the County Board of Supervisors, but no taxes due and payable before submitting the petition will be refunded or abated. (E - April 29, 1987)

Laws 1987, Chapter 204 established a Property Tax Oversight Commission and defined the powers and duties of the Commission. Allowed the Department of Revenue to report to the Property Tax Oversight Commission the accuracy of valuations of levy limits for county, city, town, and community college districts reported in prior years. Also, redefined the formula for determining the limit of Primary Property Taxes that can be levied on the above districts. (E - January 1, 1988)

Laws 1987, Chapter 248 classified certain licensed child day care centers or groups as residential rental property (Class 6) and provided for the continuance of non-profit residential housing facilities and licensed residential or nursing care institutions for the handicapped or elderly as residential property (Class 5) until tax year 1992. At this time, they will be reclassified as residential rental property (Class 6) for property tax purposes. Also, this bill eliminated Class 9 (scenic or historic railroad property) as a separate property classification. (ETYBFA - January 1, 1988)

Laws 1987, Chapter 268 provided that remote property of a city or town used to acquire water is considered taxable property for determining the state sales tax distribution to counties and the levy limit of those counties that pay certain voluntary contributions in lieu of property taxes. (E - August 18, 1987)

Laws 1987, Chapter 306 exempted the administrative and office buildings located in a university research park used solely for research and development activities from the tax on possessory interests. (E - May 14, 1987)

Laws 1987, Chapter 308 exempted from property tax the property held by a qualified charitable organization if held for transfer to the state or a political subdivision for use as parkland, provided no rent or valuable consideration is received by the charity. If this property is transferred to an entity other than the state, the charity is liable for all taxes, interest, and penalties normally due. (E - May 16, 1987)

Laws 1987, Chapter 340 exempted from property tax the property under a lease-purchase agreement in which the state or a political subdivision is the lessee-purchaser. Required this property be used by the state or political subdivision during the entire taxable year solely for governmental activity. (EFA - December 31, 1986)

Laws 1988, Chapter 157 exempted leases on vacant land located at airports owned on or before January 1, 1988 by cities or counties in all counties whose population is 400,000 persons or less from taxation of possessory interests. This effectively excluded Maricopa and Pima Counties. (E - September 30, 1988)

Laws 1988, Chapter 162 moved the real property valuation notification date from February 1 to January 1 and allowed 31 days to file an appeal instead of the previous 25 days. Changed the deadline for valuation appeal decisions by the County Board of Equalization from May 20 to May 10. An appeal filed using the income approach must include the most recent three consecutive fiscal years of income and expense data. (E - September 30, 1988)

Laws 1988, Chapter 208 provided that beginning with tax year 1989, a mobile home not filed as permanently affixed to real property will be assess as unsecured personal property at a rate of \$0.50 per \$100 of assessed valuation. Revenues collected will be distributed to the Mobile Home Relocation Fund. Starting January 1, 1991, if fund balance exceeds \$5 million the assessments are waived, but are reassessed if at a fiscal year end the fund balance is under \$3 million.

Laws 1988, Chapter 271 was the Omnibus Revenue Bill for FY 1989. The following provisions apply to the property tax:

- (1) Property tax assessment ratios for Class 1, 2, and 6 were frozen at their 1987 levels of 30%, 30%, and 15% respectively for tax years 1988 and 1989.

(Continued)

General Property Tax

- (2) State 1988 Property Tax rate for educational purposes was raised from \$.38 to \$.47 per \$100 of assessed valuation and continued at zero for general purposes. (RTYBFA - December 31, 1987)
- (3) Included Salt River Project property in the basic state aid calculation, thereby reducing state aid to school districts where SRP property is located. (E - July 1, 1988)
- (4) Limited the homeowner's rebate to a maximum of \$500. Any reduction in excess of \$500 from reducing the Property Tax rate by a school district will be deducted from the amount of additional state aid for education. (RTYBFA - December 31, 1987)
- (5) Imposed a Property Tax on unorganized school districts. The qualifying tax rate imposed on residential property was phased-in starting with \$.50 per \$100 of assessed valuation in 1988 and raised at \$.50 increments each year until 1997 when it will equal \$4.72. (RTYBFA - December 31, 1987)

Laws 1988, Chapter 330 established a tax court division within the Maricopa County Superior Court. Also provided small claims procedures for cases involving a tax amount of less than \$5,000 or owner-occupied residential property tax valuations not exceeding \$100,000. (E - September 30, 1988)

Laws 1988, Chapter 344 exempted from Property Tax the property of non-profit volunteer Fire Departments if used exclusively for fire suppression and prevention. (E - September 30, 1988)

Laws 1989, Chapter 11 made adjustments and changes to the Property Tax Oversight Commission (PTOC). Among other changes, it established an October 1 deadline for political subdivisions to request an appeal hearing. (E - September 15, 1989)

Laws 1989, Chapter 33 established a new method for computing the full cash value of certain pipeline properties. (RFA - December 31, 1988)

Laws 1989, Chapter 61 provided a new framework for defining agricultural land for property taxation purposes based on such factors as historical primary usage, reasonable expectations of operating profits, and the operation and management of the parcels. (E - September 15, 1989)

Laws 1989, Chapter 64 included Class 4 (agricultural and vacant land) personal property into the current formula to calculate Class 7 (flight property, railroads and private cars) assessment ratios. (E - September 15, 1989)

Laws 1989, Chapter 111 clarified the eligibility of owner-occupants of a cooperative apartment corporation for the homeowner's rebate. The formula assures that only owner-occupants receive the rebate which is limited to \$500 for each owner-occupied housing unit. (RTYBFA - December 31, 1987)

Laws 1989, Chapter 116 provided for refund and forgiveness of property taxes paid or owed by tax-exempt churches for tax year 1988.

Laws 1989, Chapter 202 allowed property tax exemptions for the following: (E - September 15, 1989)

- (1) Certain charitable organizations that preserve and protect scientific, biological, geological, paleontological, natural, or archaeological resources.
- (2) Voluntary nonprofit organizations used exclusively for road clean-up and beautification.
- (3) Qualified nonprofit musical, dramatic and dance groups, botanical gardens, museums, and zoos.

Laws 1989, Chapter 259 redefined "full cash value" for property tax purposes as that value prescribed by statute; otherwise, in absence of any statutory method it is synonymous with market value. (E - September 15, 1989)

Laws 1989, Chapter 312 was the General Revenue Act for FY 1990. The following provisions apply to the property tax:

(Continued)

General Property Tax

- (1) Required local school districts not receiving state aid to levy a minimum primary tax rate equal to 25% of the qualifying tax rate (QTR). The QTR is \$4.72 per \$100 of net assessed valuation for unified school districts and \$2.36 for elementary or high school districts. (EPA - June 30, 1989)
- (2) Set the state Property Tax rate for educational purposes at the current rate of \$.47 per \$100 of assessed valuation. The tax rate for general purposes remains at zero. (E - September 15, 1989)
- (3) Established a Property Tax rate of one-half the QTR on unified school districts (\$4.72) on property located in unorganized school districts. Residential property located in these districts is now eligible for the homeowner's rebate. (EFA - June 30, 1989)

Laws 1989, 1st Special Session, Chapter 3 allowed the Commerce and Economic Development Commission to enter into certain real property leases of state-owned lands which qualify for a possessory interest tax exemption. Provided a five-year possessory interest tax exemption on real property leases for construction or remodeling of a semiconductor wafer manufacturing facility if construction starts by December 31, 1990. Unfortunately, the U.S. memories consortium which this bill was designed for has since dissolved.

Laws 1990, Chapter 2 extended the period for a Superior Court hearing of a property tax appeal from 180 to 270 days. (E - March 14, 1990)

Laws 1990, Chapter 45 exempted a church from filing subsequent annual affidavits provided church submits evidence of its tax-exempt status under Internal Revenue Code section 501(c)(3). The exemption is voided when there is conveyance of property to a new owner or property is no longer used for worship. Also, provided a refund or forgiveness of property taxes for certain church properties otherwise exempt from taxation. (E - September 27, 1990)

Laws 1990, Chapter 51 prescribed June 1 of each year as the earliest any person can pay subsequent taxes, accrued interest, and related fees due on real property sold for back taxes. Person must present a certificate to the county treasurer who will endorse the amount paid and date of payment. (E - September 27, 1990)

Laws 1990, Chapter 54 repealed the statutory property tax exemptions enacted in Laws 1989, 1st Special Session, Chapter 3 to attract U.S. memories to Arizona. (E - September 27, 1990)

Laws 1990, Chapter 93 expanded the definition of possessory interests to include the possession of personal property. Allowed for the taxation of possessory interests in government personal property as unsecured personal property. (E - September 27, 1990)

Laws 1990, Chapter 103 prescribed certain commodities traded on a commodities futures market as exempt from Transaction Privilege, Use, and Property Taxes. The commodity must be consigned for resale in a warehouse in Arizona in which it is deliverable on a future contract. (E - April 23, 1990)

Laws 1990, Chapter 199 increased the maximum allowable tax from \$.45 to \$.75 per \$100 of assessed valuation on real property within health service districts for operational purposes. (E - September 27, 1990)

Laws 1990, Chapter 243 specified tax lien sales on real property are to be held in February and that the interest rate for redemption purposes will begin accruing from February 1. (E - September 27, 1990)

Laws 1990, Chapter 317 prescribed the method of valuation for all real and personal property used for local telecommunication services as follows (E - June 20, 1990):

- (1) Divide total local network service revenues by total operating revenues, using definitions specified by the Federal Communications Commission.
- (2) Then multiply the ratio computed in #1 above by the total full cash value of each telecommunication company's property.

(Continued)

General Property Tax

Laws 1990, Chapter 412 exempted animal and poultry feed, including salts, vitamins, and other additives from real and secured personal property taxation. (E - September 27, 1990)

Laws 1990, 3rd Special Session, Chapter 3 was the state's Tax Reform Act of 1990. The following provisions affected property taxation:

- (1) In determining the funding for state equalization assistance, the minimum school district tax rate was raised from 25% of the qualifying tax rate (QTR) to 65% of the QTR and is applicable only to Class 1, 2, and Salt River Project (SRP) property located in school districts not eligible to receive equalization assistance. Previously, the minimum school tax rate had applied to all property classes. Furthermore, in tax year 1991, the rate will increase to 75% of the QTR and in tax year 1992 and thereafter, the rate will be 85% of the QTR. (ERTYBFA - December 31, 1989)
- (2) Assessment ratios for Class 1 and 2 (mines and utilities) were frozen at 30% for tax year 1990 and thereafter. The assessment ratio had been scheduled to drop to 25% in 1990. Also, the assessment ratio for Class 6 (residential rental) property was frozen at 15% in 1988, but dropped to 14% in 1990, and will continued to drop to 13% in 1991 and to 12% in 1992 and thereafter.
- (3) For fiscal years 1991 and 1992, \$10 million of property tax relief in each fiscal year was provided for counties whose primary tax rate is higher than average for all counties. Such counties will receive a portion of the \$10 million to lower their primary tax rate but not below the state average. The source of the \$10 million will be from the state General Fund share of the Distribution Base of the Transaction Privilege Tax payable in two installments on November 1 and May 1 of each fiscal year.
- (4) The homeowner's property tax rebate will be phased out over ten years by reducing the percentage used in determining the rebate from 56% to 50% of school district primary property tax rate in tax year 1990 and decreasing by 5 percentage points per year thereafter. The percentage will reach zero in the year 2000, but the Homeowner Property Tax Reduction Program will remain in effect due to the constitutional 1% limit on homeowners' property tax.
- (5) The state property tax rate for educational purposes was set at the rate of \$.47 per \$100 of assessed value in tax year 1990. The rate for general purposes remained at zero. For tax year 1990 only, the first installment of real and secured personal property taxes was moved back from October 1 to October 15 and the delinquency date set at November 15, instead of November 1.

Laws 1991, Chapter 6 allowed a county board of supervisors, for tax year 1990 only, by majority vote, to extend the delinquency date or the effective penalty date for the first installment of real and secured personal property tax; however, neither date may be extended beyond 5 p.m. January 31, 1991. (ER - September 27, 1991)

Laws 1991, Chapter 18 changed the penalty amounts on private car companies, railroad, and telecommunication companies for failing or refusing to file a timely annual informational statement prescribed by the Department of Revenue (DOR) for tax assessment purposes. The previous penalty was \$500 and \$100 for each day the company fails to file the required statement. Now the penalty is the lesser of one-half of 1% of the estimated value by DOR or \$100 for each day the company fails to file the required statement. This penalty calculation becomes the standard for all industries whose property is valued by DOR. (E - September 21, 1991)

Laws 1991, Chapter 54 included the land used in processing grapes for marketing into the agricultural property classification (Class 4) for property tax purposes. This property was previously designated as Class 3 property. (E - September 21, 1991)

Laws 1991, Chapter 77 established into statute real property improvements and personal property owned and controlled by a nonprofit organization exempt under A.R.S. § 43-104 as Class 4 property, which is agricultural property. (E - September 21, 1991)

Laws 1991, Chapter 134 phased down the assessment ratio for residential rental and day care (Class 6) property from 12% to 11% in 1993 and 10% in 1994 and thereafter. (E - September 21, 1991)

(Continued)

General Property Tax

Laws 1991, Chapter 162 established an income approach for valuation of feeder livestock using 1990 as a base year and adjusting those values yearly based on the difference between average annual percentage changes in beef cattle price index and the beef cattle prices paid index for the previous five years. Also, a new Class 9 property classification was created for personal property consisting of livestock, poultry, aquatic animals, and bee colonies. This Class 9 property will be assessed at 8% of its full cash value. (RTYBFA - December 31, 1990)

Laws 1991, Chapter 169 replaced the word church with "nonprofit organization owning property used primarily for religious worship" for property tax purposes. Provided for the refund or forgiveness of taxes paid on church property for tax year 1990. Authority to grant such refunds was given to the county board of supervisors. Refund claims must be submitted within 60 days after the effective date. (E - September 21, 1991)

Laws 1991, Chapter 182 clarified the classification of property for partially completed or vacant improvements. Also, this bill requires property owners to file a notice to the assessor when vacant land has been improved and the requirements, as set forth in this bill, are completed for reclassification of the property. This act applied retroactively to tax years beginning from and after December 31, 1985. (E - June 3, 1991)

Laws 1991, Chapter 196 prohibited the distribution of any refunds of taxes imposed by a law that was declared invalid by a final court judgement until the Legislature makes a specific appropriation for that purpose. State funds to counties for such invalid taxes collected are also subject to this provision. (E - September 21, 1991)

Laws 1991, Chapter 198 allowed County Assessors to approve the agricultural classification of property on approval by DOR even if the property (1) has fewer than the number of acres or animal units and has historically been used for grazing or (2) been in commercial agricultural production for less than the prescribed time period. To facilitate the change, the County Assessor will provide the notice of agricultural classification by December 1, 1991 for the 1992 tax year. (E - June 4, 1991)

Laws 1991, Chapter 203 authorized the County Treasurer to refund any erroneously paid taxes on residential property that was demolished but not removed from the tax roll. The taxpayer must submit a claim for refund within 60 days after the effective date of this act. The County Treasurer shall pay the refund 30 days after submission of the claim. (E - September 21, 1991)

Laws 1991, Chapter 221 subjected property held by the state retirement systems to either a possessory interest tax or voluntary contributions in lieu of paying property taxes. These are properties that are not used the entire year solely for governmental activities and that are acquired either by foreclosure of an authorized investment or for purposes of producing income for the retirement system or plan. If the system or plan pays a voluntary contribution, this bill authorizes the County Assessor to determine the full cash value and to compute the contribution amount. One-half of the amount is paid by the first Monday in November and the other one-half by the first Monday in May of the next year. (E - September 21, 1991)

Laws 1991, Chapter 226 required that all unpaid property taxes on a condemned property are withheld from the condemnation proceeds and paid to the county treasurer before issuance of a final condemnation order by the court. (E - September 21, 1991)

Laws 1991, Chapter 240 set the 1991 state property Tax rate for education purposes at \$.47 per \$100 of assessed valuation. The tax rate for general purposes remained at zero for 1991. (E - September 21, 1991)

Laws 1991, Chapter 302 exempted from possessory interest taxation the interests in United States "contractor-acquired" or "government-furnished" property defined under federal acquisition regulations. The property must be owned by, leased to, or acquired by the government, to the extent of being used for performing a government contract. (RTYBFA - December 31, 1989)

Laws 1991, Chapter 303 made several technical, non-substantive changes to Laws 1991, Chapter 182 (S.B. 1370). (E - June 28, 1991)

Laws 1991, Chapter 305 classified the real and secured personal property in an "activated" foreign trade zone or subzone as Class 8 property. (E - September 21, 1991)

(Continued)

General Property Tax

Laws 1991, 4th Special Session, Chapter 4 was one of four acts that implemented an AHCCCS Disproportionate Share Program which is subject to federal approval. Beginning after the effective date of this act, \$39,719,400 and \$7,777,800 in state Transaction Privilege Tax revenue-sharing will be withheld from Maricopa and Pima counties, respectively. The first \$26,554,050 shall be deposited in the state General Fund to reimburse the state General Fund for spending \$51,708,100 in FY 1992, while the remainder is reserved for FY 1993. Another provision required Maricopa and Pima counties to pay the state's portion of the Homeowner's Property Tax Rebate to school districts in their respective counties up to the same amounts withheld from their Transaction Privilege Tax distributions as stated above. Likewise, the first \$26,554,050 in savings will reimburse the state General Fund for spending in FY 1992 and the remainder is reserved for FY 1993. The net FY 1992 benefit to the state General Fund of \$5 million will help balance the budget for FY 1992. This act was conditional on the enactment of House Bill 2004, 40th Legislature, 4th Special Session, Chapter 3. (E - March 16, 1992)

Laws 1991, 4th Special Session, Chapter 6 extended through FY 1994 the \$10 million county property tax relief implemented by the Tax Reform Act of 1990. In FY 1993 the monies shall be distributed from the FY 1993 holding fund which was created as part of the Disproportionate Share Program; however, for FY 1994 the monies will be distributed from the state's portion of Transaction Privilege Tax revenues. This act was conditional on the enactment of House Bill 2006, 40th Legislature, 4th Special Session, Chapter 4. (E - March 16, 1992)

Laws 1992, Chapter 5 allowed a widow or widower who is exempt from property taxation and failed to file a waiver in the prescribed time to submit a petition for the property tax exemption after the statutory deadline. (E - September 30, 1992)

Laws 1992, Chapter 31 allowed the owner's designated agent to file the agricultural use application and to appeal the classification of property used for agricultural property. (E - September 30, 1992)

Laws 1992, Chapter 41 modified the allocation formula by designating the valuation of local telecommunication property as commercial (Class 3) property rather than utilities (Class 2) property. The bill excluded cellular mobile service revenues from this calculation and clarified that the allocation ratio calculated is multiplied by the full cash value of all telecommunication property in the state in order to determine the valuation for property tax purposes. (E - April 22, 1992)

Laws 1992, Chapter 51 made numerous changes in the Property Tax valuation of pipelines. Major revisions were as follows (ERTYBFA - December 31, 1991):

- (1) If the value change factor does not apply, then the preliminary system value is the system net book value of plant in service as of December 31 immediately preceding the current tax year.
- (2) Included noncapitalized leased operating property in computing the allocation factor.
- (3) Defined "major plant addition or retirement" as one which occurred in the year preceding the current tax year that resulted in an increase or decrease of at least 20% of the original plant costs.
- (4) Eliminated the maximum and minimum parameters of the value change factor. Also, provided that if the asset change factor does not apply, then the value change factor does not apply.
- (5) Redefined "base value" for new property and required that the change in earnings before interest and taxes (EBIT) reflects major plant additions or retirements.

Laws 1992, Chapter 290 was 1 of 7 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 1993. This bill continued the state Property Tax rate for education purposes at \$.47 per \$100 of assessed valuation for 1992. The tax rate for general purposes remained at zero for 1992. (E - September 30, 1992)

Laws 1992, Chapter 295 established a defense contractor restructuring program to assist Arizona-based qualified defense contractors to attract new Department of Defense contracts, diversify commercially, consolidate facilities into the state, and adopt new technologies. The tax incentives are as follows (Also see Page 3):

- (1) Qualified Defense Contractors: (ETYBFA - June 30, 1993)
 - Amortization of one-half the federal time period of capital investment in solely private

(Continued)

General Property Tax

commercial activity.

- A declining five-year nonrefundable income tax credit for net defense employment increases or net private commercial employment increases, but not both.
- A nonrefundable income tax credit of up to 40% of the portion of property taxes paid during the taxable year.

(2) **Military Reuse Zone:**

- A progressive five-year nonrefundable income tax credit for net aviation-related manufacturing employment gains for business located in a military reuse zone. (ETYBFA - June 30, 1993)
- A Class 8 commercial and industrial property established for property located in a military reuse zone and for aviation-related manufacturing. The assessment ratio will be 5% of full cash value. This is effective beginning in tax year 1993.
- A Transaction Privilege Tax exemption for military reuse zone construction contracts entered into within five 5 years of the zone's establishment with an aviation or aerospace company. (E - September 30, 1992)

Laws 1992, Chapter 344 provided that the personal property of persons who own at least \$200 of real property and who refused or fails to state the parcel number of the real property shall be listed and valued as unsecured by the County Assessor. (E - September 30, 1992)

Laws 1992, Chapter 347 established that sewer and wastewater properties be valued as centrally assessed property by the Department of Revenue. (E - July 13, 1992)

Laws 1992, Chapter 348 deleted the requirement for a person to exhaust the administrative appeals process before appealing a property valuation or classification to the Superior Court. However, an appeal to the Superior Court must be filed within 60 days of the mailing of the most recent administrative decision, but not later than November 1st of each year. (E - July 13, 1992)

Law 1992, Chapter 350 established commercial and non-commercial historic property classifications as follows (E - September 30, 1992):

- (1) Non-commercial historic property remains the same as the previous historic property classification which required real property be listed in the National Register of Historic Places and meeting the minimum standards of maintenance of the State Parks Board. No enterprise can be conducted on the property with the intent of earning a profit.
- (2) Commercial historic property meets the same criteria as Class 3 (commercial and industrial) or Class 6 (residential rental) property, but also is listed in the National Register of Historic Places and meets the minimum maintenance standards.
- (3) Non-commercial historic property continues to be classified as Class 8 property and assessed at 5% of its full cash value.
- (4) Commercial historic property meeting the Class 3 and Class 6 criteria shall be classified as Class 9 and Class 10 property, respectively, and assessed at the same respective ratio of the corresponding property classification, except that all but 1% of the value of approved modifications is deducted from the assessed value.
- (5) Classification as Class 9 or 10 property can be granted for only ten consecutive years after the year of application. The County Assessor can value such property using the market or cost approach.

Laws 1993, 2nd Special Session, Chapter 9 was 1 of 6 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 94. The bill accelerates the depreciation factors for Class 3 (commercial and industrial property) personal property initially assessed during tax year 1994, 1995 or 1996:

- (1) For the first tax year of assessment, the Assessor shall use 40% of the scheduled depreciated value.
- (2) For the second tax year of assessment, the Assessor shall use 56% of the scheduled depreciated value.
- (3) For the third tax year of assessment, the Assessor shall use 72% of the scheduled depreciated value.
- (4) For the fourth tax year of assessment, the Assessor shall use 88% of the scheduled depreciated value.
- (5) For the fifth and subsequent years, the existing depreciation schedule would be resumed.

This accelerated depreciation schedule is repealed from and after December 31, 2000. (E - June 15, 1993)

(Continued)

General Property Tax

The bill also stated the County Assessor shall not value or assess secured or unsecured personal property construction work in progress or place secured or unsecured personal property construction work in progress on the tax roll until the construction work has progressed to a sufficient degree for it to be useful for the purpose for which it is being constructed. Centrally assessed construction work in progress is currently valued at 50% and is not affected by this proposal. (EFA - December 31, 1993)

Law 1993, Chapter 3 continued the state Property Tax rate for education purposes at 47¢ per \$100 of assessed valuation for tax year 1993. The State Tax rate for general purposes remained at zero for tax year 1993. (E - July 17, 1993)

Laws 1993, Chapter 20 provided for disabled persons who are currently exempt from property taxes but submitted their exemption petition after the March 1 deadline to have the waiver redeemed by the county board of supervisors at any regular meeting. However, in no case shall any taxes due and payable prior to submission of the petition be refunded or abated. (E - July 17, 1993)

Laws 1993, Chapter 62 stipulated that the County Recorder shall refuse to record any deed and any contract relating to the sale of real property unless a complete affidavit is appended. (E - July 17, 1993)

Laws 1993, Chapter 78 prescribed that if the Department of Revenue (DOR) values property, then DOR and the Attorney General's Office will be responsible for defending the properties valuation in an appeal. The county that values and assesses property which is subject to an appeal is responsible for defending the appeal unless:

- (1) DOR determines that the issue is of statewide importance;
- (2) DOR disapproves a change in valuation or assessment submitted by the county and the county does not appeal or is unsuccessful in its appeal of the disapproval.

In the above circumstances, DOR and the Attorney General's Office are responsible for defending the appeal. (E - July 17, 1993)

Laws 1993, Chapter 79 expanded the Property Tax exemption for church property to include any property or buildings used or held primarily for religious worship whether or not they are appurtenant to the church. The bill also provides for refunds for taxes erroneously paid on such property by churches during tax years 1984 through 1992. Also, the bill authorizes refunds or forgiveness of taxes paid on historical society property during tax years 1988 through 1992. (E - July 17, 1993)

Laws 1993, Chapter 87 established a ten-member study committee on property tax valuation and appeals to:

- (1) Examine and analyze alternative valuation methods and calendars.
- (2) Examine and analyze the role and interaction of the various entities involved in Property Tax valuations and the administrative appeals process.
- (3) Examine and analyze the relationship between full cash values and market values.

The act is repealed from and after December 31, 1993. (E - April 12, 1993)

Laws 1993, Chapter 92 allowed property owners not satisfied with the valuation of their property by the Department of Revenue to appeal directly to the tax court rather than to the State Board of Tax Appeals. (E - July 17, 1993)

Laws 1993, Chapter 95 required the Department of Revenue and County Assessors to use and apply on a permanent basis the ratio standard guidelines issued by Department of Revenue for tax year 1993 in the same way they were applied that year. This section does not apply to property valued according to prescribed statutory methods or to property for which values are determined in the year after an appeal. (E - July 17, 1993)

Laws 1993, Chapter 100 provided for reclassification and refund for any excess taxes paid on real property, obtained voluntarily or involuntarily, as agricultural property if all of the following are true:

(Continued)

General Property Tax

- (1) Property was sold before September 1, 1989.
- (2) Current owner did not receive a notice of valuation for the tax year in question.
- (3) Former owner failed to apply for the agricultural status or appeal the denial of such status before the deadline of the tax year in question.
- (4) Property does qualify for agricultural status on September 16 of the tax year in question.
- (5) Current owner must apply for reclassification and reevaluation to the county assessor within four years from the date the property was regained.

Persons who own agricultural property that met the classification criteria, but did not file a certification of eligibility by September 16 for any tax year may file with the County Assessor by February 15, 1994 for a certificate of revaluation. The County Treasurer shall refund any excess tax paid upon submission of the certificate of revaluation. If the taxes have not been paid, the County Treasurer shall forgive the excess amount and any penalties incurred. The section on retroactive refunds and revaluation and refund is repealed from and after April 1, 1994. (E - April 14, 1993)

Laws 1993, Chapter 188 allowed the Chairman of Division 1 of the State Board of Tax Appeals to appoint 3 member panel for cases involving locally or centrally assessed property. Moreover, for cases that pertain to centrally assessed property a 5 member panel may be appointed to make orders and decisions for the Division. (E - April 21, 1993)

Laws 1993, Chapter 190 provided a Property Tax exemption to property owned by a qualified volunteer nonprofit organization that is operated exclusively to promote social welfare and provide community quasi-governmental services in an unincorporated area of a county. To qualify as providing quasi-governmental services, a volunteer nonprofit organization must be providing at least six of the following services:

- (1) Public information and complaint office.
- (2) Voter registration.
- (3) Property tax assessment information.
- (4) Building permit distribution.
- (5) Resident assistance with deed restrictions and violations.
- (6) County planning and zoning review.
- (7) Water resource planning and management.
- (8) Public safety planning oversight and maintenance.
- (9) Government liaison for regional planning activities.

The bill also provided a Property Tax exemption for property owned by community arts groups as long as the property is used for those purposes and not used or held for profit. (E - July 17, 1993)

Laws 1993, Chapter 191 restructured the possessory interest tax exemptions that were declared unconstitutional by the Arizona Tax Court in January of 1993. The bill provided exemptions for the following possessory interests:

- (1) Property held in trust for an Indian or an Indian tribe by the United States Government.
- (2) Leases and permits issued by federal, state county and municipal governments for agriculture, commercial livestock, grazing or mineral development and permits issued by the state for unpatented mining claims.
- (3) Property used for government programs including low-income and elderly public housing, government contractor property and property of municipal property corporations.

The bill established a new property Class 12, with a 1% assessment that included:

- (1) Leases or permits for lands that are under the jurisdiction of the State Land Department that are not otherwise exempt.
- (2) Interests in any publicly-owned facility that is used primarily for athletic, recreational, entertainment, artistic, cultural or convention activities.

(Continued)

General Property Tax

- (3) Interests in property located on state, city, town or county airports and public airports if the property is used for or in connection with aviation.
- (4) Leases issued on lands under the jurisdiction of the Arizona Board of Regents within a research park if the leased is used for either research and development or educational activities or is the regional or national headquarters of the lessee or its subsidiaries engaged in research and development or educational activities.
- (5) Leases of property held by a charitable organization that is not otherwise exempt.
- (6) Leases of property for private transportation demonstration projects.

The following possessory interest properties are valued on a unit-value basis:

- (1) Producing and closed mines, mills and smelters and producing oil, gas and geothermal interest.
- (2) Gas, water, sewer and wastewater and electric utilities and pipelines.
- (3) Flight property of an airline company.
- (4) Property of private car companies.
- (5) Property of railroad companies.
- (6) Telecommunications property.

The following possessory interest properties shall be taxed based on only the value of the land exclusive of the value of improvements for twenty years:

- (1) Leases or agreements entered into before April 1, 1985.
- (2) Leases or agreements entered into based on a redevelopment contract before April 1, 1985.
- (3) Leases entered into based on an agreement for a redevelopment project for which federal grant monies have been received and was entered into before April 1, 1985.
- (4) Leases issued on vacant land located at an airport owned on or before January 1, 1988 by a rural county, city or town if the property is used primarily for manufacturing, retail, distribution, research or commercial purposes.

The act contained a conditional enactment clause for all section except for exemptions related to possessory interest in research park property which was repealed in the bill. The effective date was delayed until judgement was entered in the Princess Resort Case on August 19, 1993 and the act became effective on that date. Maricopa County had previously challenged the constitutionality of several portions of the act and on July 21, 1993, the Arizona Tax Court struck down exemptions from taxation for:

- (1) Possessory interests in Indian lands.
- (2) Possessory interests in the form of leases of government land for certain purposes.
- (3) Possessory interests in property used for enumerated government purposes.

The court voided these exemptions because they exempted property in violation of the Arizona Constitution. The bill also included a severability clause. (E - July 17, 1993)

Laws 1993, Chapter 194 provided that a taxpayer who appeals their property tax valuation, and uses the income approach, shall file a sworn affidavit that the information provided in the petition is true and correct to the best of their knowledge. The taxpayer, an officer of a corporate taxpayer, a general partner or a designated agent may file the affidavit. (E - July 17, 1993)

Laws 1993, Chapter 209 clarified the basis for determining the assessed valuation of modifications intended to restore and rehabilitate Class 9 and 10 historical properties, by stating the assessed valuation is 1% of the full cash value for up to ten years. (E - July 17, 1993)

Laws 1993, Chapter 220 increased the valuation cap from \$100,000 to \$300,000 of full cash value of real and personal property in determining whether a taxpayer, other than an owner of Class 5 property, may file a dispute in Small Claims Court. The bill also lowers the filing fee in a small claim tax case from \$37.50 to \$10.00. (EFA -December 31, 1993)

(Continued)

General Property Tax

Laws 1993, Chapter 248 classified real and personal property owned or used by a qualified manufacturing business as Class 8 property for up to ten years. Qualified manufacturing business is defined as a manufacturing business in an enterprise zone that meets both of the following requirements: (E - July 17, 1993)

- (1) It is operated by a minority business or as a small business as described in 15 United States Code Section 631.
- (2) It uses property which is owned by another manufacturing business that after July 1, 1993 has invested at least \$2,000,000 in the qualified manufacturing business or made a capital investment which transformed the manufacturing business from a non-productive to productive use.

Laws 1993, Chapter 258 required the Department of Commerce (Commerce) to establish and conduct an environmental technology assistance program to promote business and economic development by recruiting and expanding companies that manufacture, produce, or process solar and other renewable energy products from recycled materials. Commerce has until June 30, 1996 to certify qualified environmental technology manufacturers, producers and processors for purposes of available tax incentives provided in the bill. The bill contains a severability clause. Various sections of this bill are delayed or have retroactive effective dates (for details see Chapter 1 of the [1993 Tax Handbook Supplement](#)). (E - April 22, 1993)

Laws 1994, Chapter 1 continued the state property tax rate for education purposes at \$.47 per \$100 of assessed valuation for tax year 1994. The State Tax rate for general purposes remained at zero for tax year 1994. (E - July 17, 1994)

Laws 1994, Chapter 20 required that property taxes on Real and Secured Property which total \$25 or less are due and payable on October 1. The prior ceiling was \$10 or less. (E - July 17, 1994)

Laws 1994, Chapter 41 contained the major components of the Tax Reduction Package known as the Middle Income Tax Relief Act (MITRA) of 1994. The act included the following changes to the classification of property for taxation (E - July 17, 1994):

Class 3 (commercial and industrial) and Class 4 (agricultural) were broken into two subclasses consisting of (R) real property and improvements and (P) personal property.

Phased down by 1% per year, the assessment ratio for Class 1 (mines) and Class 2 (utilities) from 30% of full cash value in tax year 1994 to 25% in tax year 1999 and thereafter.

Increased the maximum thresholds at which Class 3 and Class 4 personal property is assessed at 1%. The threshold is \$3,000 in tax year 1995, \$6,000 in tax year 1996; and \$10,000 in tax year 1997 and thereafter.

Expanded the accelerated depreciation schedule on Class 3 personal property, as passed by Laws 1993, Second Special Session, Chapter 9, to include Class 4 personal property and made the schedule permanent.

The act freezes the phase-out of the Homeowners' Property Tax rebate for school district primary property taxes. The percentage will remain at 35% for 1994 and thereafter (for details see Chapter 1 of the [1994 Tax Handbook Supplement](#)).

NOTE: Laws 1994, Chapters 41, 102, 293, 309 and 359 all makes changes to property tax classification and assessment.

Laws 1994, Chapter 63 provided for a refund or forgiveness of property taxes paid or due on historical society property for the 1992 tax year. The historical society must submit a claim for refund to the County Treasurer within 60 days after the effective date of this act. Property taxes due but not paid by any historical society, that is exempt from taxation, for the 1992 tax year are forgiven and no longer due and payable. (E - July 17, 1994)

Laws 1994, Chapter 65 provided that if the Assessor initially determines the valuation of property, for state property tax purposes, by using a computerized data processing or valuation program, and the change in valuation in any tax year is more than 15% above or below the valuation found for the same parcel of property in the preceding tax year, the Assessor shall review the valuation to determine if the change in valuation reflects the current status and conditions affecting the property before mailing

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General Property Tax

the notice of valuation. This does not apply in the case of parcel splits or consolidations, construction or destruction or improvements, changes in use or classification of the property, or other occurrences that would account for the change in valuation. (E - July 17, 1994)

Laws 1994, Chapter 66 provided that written notices of valuation, required to be sent out to property owners by the County Assessors, include a form with instructions on the procedure and deadlines for appealing the assessed valuation shown on the notice. Class 5 appeal forms shall contain simplified instructions and be separate from the appeal form for other classes of property. (E - July 17, 1994)

Laws 1994, Chapter 70 amended the definitions as to what constitutes an enterprise zone to include:

- (1) "Minority Business" -- a business of which a majority is owned by African-Americans, persons of Hispanic or Latin American ancestry and persons of Indian, Asian or other minority origin or descent.
- (2) "Small Business" -- a business with a net worth of no more than \$6,000,000 or a business with no more than 100 employees within the zone.
- (3) "Women-Owned Business" -- a business of which a majority of the business is owned by women.
- (4) Clarified the definition of "Qualified Manufacturing Business" in an enterprise zone:
 - a. A small business, minority-owned business or a woman-owned business.
 - b. At least a \$2,000,000 fixed asset investment has been made after July 1, 1993, by the business or by another entity on behalf of the qualified business in property within an enterprise zone that is used by a qualified business.

The act provided that the increase in valuation resulting from a fixed asset investment of not less than \$2,000,000 in property within an enterprise zone which is used or owned by a qualified manufacturing business shall be classified as Class 8 property. (E - July 17, 1994)

Laws 1994, Chapter 74 provided that beginning with the 1995 tax year, the owner of personal property valued by the Assessor may elect to apply a presumptive value to the property for purposes of taxation in lieu of a determination of full cash value. The property value shall not exceed \$25,000, and the owner must have reported the personal property in the three immediately preceding tax years. The initial presumptive value is the average value of the personal property reported by the owner for the 3 immediately preceding tax years or, if the value has increased in each of those three years, the value of the personal property in the immediately preceding tax year. The owner may continue to elect the presumptive value for four consecutive tax years if the valuation of the property does not exceed \$25,000 in any of those years. In each fifth succeeding tax year, the owner shall return a full property report to the Assessor, showing additions and deletions of personal property, and the valuation derived from this report is the presumptive value for the succeeding four tax years. The property statement issued by the Department of Revenue shall allow the owner of personal property the option of either returning the full property statement with respect to that property, or attesting that the value of the personal property does not exceed \$25,000 and electing the presumptive value. (EFA - December 31, 1994)

Laws 1994, Chapter 100 provided that if the ownership of agricultural property changes, an agricultural use application form must be filed by the new owner within 60 days after the change in ownership to maintain the agricultural use status. If all or part of the property ceases to qualify as agricultural property, the owner at the time of the change shall notify the Assessor within 60 days of the change. If the owner fails to provide the notification required, the property shall immediately be classified as nonagricultural property.

In addition, the act allows for certification of property as agricultural property, and a refund of excess taxes paid or the forgiveness of deficient taxes, for tax year 1993, if:

- (1) The property was acquired after September 16, 1992, and the property was used for agricultural purposes.
- (2) The prior owner failed to file the affidavit or annual certification of eligibility for tax year 1993.

(Continued)

General Property Tax

- (3) The current owner, based upon information provided by the County Assessor, filed a timely application under Laws 1993, Chapter 100.
- (4) The current owner, based upon information provided by the County Assessor, failed to appeal the incorrect classification of the property for tax year 1993 to the Superior Court during the property tax appeal period.
- (5) The current owner was left without a remedy when Laws 1993, Chapter 100, Section 2 was determined by the court to be invalid.

If a completed agricultural use application was filed before September 17, 1993, and the property qualified as agricultural use property, a new application does not have to be filed unless the ownership of the property changes. This act is repealed from and after December 31, 1994. (E - July 17, 1994)

NOTE: Section 3 of Laws 1994, Chapter 100, relating to reclassification of property as agricultural property, was included in Laws 1994, Chapter 330 as Section 5. It was passed as an emergency measure and became effective April 26, 1994. Both sections are repealed from and after December 31, 1994.

Laws 1994, Chapter 102 established eleven classes of property for taxation by eliminating the old Class 11 and renumbering Class 12 as the new Class 11. The act exempted for taxation livestock, poultry, aquatic animals, and colonies of bees. For purposes of the act, poultry includes ratites.

NOTE: This act became effective after the Constitution of Arizona was amended by a vote of the people in the November 1994 general election. The act was approved by the Governor on April 13, 1994.

Laws 1994, Chapter 105 clarified that the purchaser of a tax lien may bring action to foreclose the right to redeem in Superior Court in the county in which the property is located. At least 30 days before filing an action to foreclose the right to redeem, the purchaser shall send a Notice of Intent by certified mail to the property owner and to the Treasurer of the county in which the real property is located. The notice shall include the property owner's name, the real property tax parcel identification number, the legal description of the real property, the certificate of purchase number, and the proposed date of filing the action. (E - July 17, 1994)

Laws 1994, Chapter 112 exempted property owned by a United States veterans' organization that qualifies as a charitable organization and recognized under either Section 501(C)(3) or 501(C)(19) of the Internal Revenue Code, if the property is used exclusively for those purposes, and is not used or held for profit. (E - July 17, 1994)

Laws 1994, Chapter 156 provided for determination of golf course property values. The land shall now be valued at \$500 per acre. Improvement value is established by the Department of Revenue's 1988 per hole cost for the grade of golf course as described in the Assessment Practices Manual for Golf Courses Assessment, effective January 1, 1986. The per hole cost shall be multiplied by the number of holes included. The act provided guidelines to uniformly adjust the value for economic obsolescence.

By August 1 of each year, the County Assessor shall mail a form, prescribed by the Department of Revenue to the last known address of each golf course owner or manager. The form shall reflect the number of rounds played by month for the most recent twelve months ending July 31. The form shall be returned to the County Assessor by September 30 to receive the economic obsolescence adjustment.

For tax year 1995, the 1988 per hole improvement cost shall be used in valuing golf courses. Every tax year after 1995, the per hole improvement costs shall be adjusted by the GDP deflator. Per hole improvement cost values include landscaping, bridges, lakes, lake liners, practice ranges, irrigation systems, paths, golf greens and tees. The Legislature shall receive a report every three years from the Valuation Technical Advisory Committee regarding any recommended changes to the golf course valuation formula. (E - July 17, 1994)

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General Property Tax

Laws 1994, Chapter 167 clarified that any subsequent interest, fees and penalties from a property tax liability does not depend on receipt of the tax statement by either the mortgagor (property owner) or mortgagee (mortgage company). When a mortgagee either continues to receive or possesses an unsatisfied tax statement from the County Treasurer after the satisfaction of the mortgage, the mortgagee shall either:

- (1) Return the tax statement to the County Treasurer within 30 working days, together with the last known address of the mortgagor as shown on the records of the mortgagee.
- (2) Forward the tax statement or current taxes due information to the mortgagor and notify the County Treasurer of this action.

If a mortgagee fails to comply, and as a result the tax on the mortgagor's property becomes delinquent, the mortgagee is liable to the mortgagor for all interest and penalties for the delinquent tax. (E - July 17, 1994)

Laws 1994, Chapter 187 provided that if the County Assessor believes that any person has not returned a full and complete list of all property in his possession or control, he may make such investigation as he deems necessary to ascertain the extent and value of the property. The Assessor shall conduct the investigation in such a manner that would discover and correct errors in the taxpayer's favor as well as discover and correct any errors not in the taxpayer's favor. The act eliminated the provision that allows the Assessor to charge the property owner for the cost of such an investigation. (E- July 17, 1994)

Laws 1994, Chapter 191 codified in statute the Department of Revenue's current valuation method for operating railroad companies. On or before the first Monday in June each year, the Department of Revenue shall determine the valuations as of January 1, 1994, and each January 1 thereafter, as follows:

- (1) Determine the base value.
- (2) Compute the value change factor.
- (3) Compute the current year system full cash value by multiplying the base value by the value change factor.
- (4) Compute the allocation factor.
- (5) Multiply the current year system full cash value by the allocation factor.
- (6) Compute Arizona's full cash value by subtracting the Arizona licensed transportation equipment value from the value determined in step 5.

Formulas and definitions of all factors and terms used in computing the valuation of railroad property are defined in the act. To accurately assess on-going business operations, income and property adjustments may be necessary to minimize differences. Occurrences that may prompt such an adjustment are (E - July 17, 1994):

- (1) Extraordinary, unusual and infrequent events.
- (2) Material in nature, of a character different from the typical or customary business operations, not expected to recur frequently and not normally considered in evaluating the operation results of a business.
- (3) May include material increases or decreases in income and property as a result of such events as write-offs, write-downs and changes in accounting practices.

Laws 1994, Chapter 232 clarified that the County Attorney shall defend all locally valued and assessed property tax appeals. The act also clarified that the county that values and assesses the property which is subject to a Notice of Appeal shall be responsible for defending all defendants named in the appeal except in specified situations (R - July 17, 1993).

Laws 1994, Chapter 239 required that if the Director of the Department of Revenue extends the mailing date for property tax notices, the extension applies to all property valued by the Assessor. Except for property that is listed as Class 5 property, the notice shall separately list the full cash value of the land and the improvements associated with the land. Also, requires the County Assessor to notify by November 15 all property owners of full cash value and limited value listed on tax rolls regardless of the valuation in the prior year. (E - July 17, 1994)

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General Property Tax

Laws 1994, Chapter 271 separated the determination of the value of telecommunication companies in the state for property tax purposes between those providing local services and all others. On or before the first Monday in June each year, the Department of Revenue shall determine the following valuations as of January 1, 1994, and each January 1 thereafter:

- (1) The valuation of all property, franchises and intangible values of telecommunication companies operating in the state and providing local telecommunication service at their full cash value.
- (2) The valuation of the property of other telecommunication companies operating in this state at its full cash value. Real estate shall be valued at market value and personal property shall be valued on a unitary basis at its historical cost less depreciation. For purposes of this paragraph:
 - a. Depreciation is computed on the table adopted by the Department of Revenue in its Personal Property Manual in effect on January 1, 1993 for the following categories:
 - 1.) Buildings with a 25-year life.
 - 2.) Cable with a 15-year life.
 - 3.) Telecommunication equipment with a 5-year life.
 - 4.) Any other telecommunication's property not included in items 1, 2 or 3 with a 7-year life.
 - b. "Historical cost" means the original cost as reported on the company's books and records.
 - c. "Other telecommunication company" means a telecommunication company that does not provide local telecommunication service in this state.
 - d. For cellular telecommunication companies, the "taxable unit" shall be the applicable metropolitan statistical area or rural statistical area and shall not include the value of any license issued by the Federal Communications Commission.

The Department of Revenue shall compute the valuation of other telecommunication companies and multiply the determined valuation by 140% for tax year 1994, and by 120% for tax year 1995 for property tax purposes. (R - January 1, 1994)

Laws 1994, Chapter 287 provided that an action involving the imposition, assessment or collection of a tax, including questions of law or fact relating to a dispute about taxes, may be filed in either the Tax Court or the Superior Court. Clarified that if a party to an action described above exercises its right to a change of Judge, the action shall not be reassigned to the Tax Court. The refusal of a taxpayer to obey a subpoena issued by the Director of the Department of Revenue will be handled by the Superior Court. The act also rescinds the right of the Tax Court to publish and distribute decisions of the court which it finds are of general public interest. (E - July 17, 1994)

Laws 1994, Chapter 293 clarified the classification of possessory interest property enacted during the 1993 legislative session. The act compensates for the Tax Court ruling that struck down several of the exemptions passed last year. The act makes clarifying changes to Class 12 property and creates a new Class 13 property for possessory interests located on public land. Classes 12 and 13 have 1% assessment ratios.

The following previously exempt properties were included in Class 12:

- (1) To the extent allowed pursuant to federal law, interests in property held in trust for an Indian or an Indian tribe by the United States Government.
- (2) Leases and permits issued for agricultural, commercial livestock, grazing or mineral development and permits issued for unpatented mining claims.
- (3) Interests in property used for a governmental program or activity to furnish public housing for elderly persons and persons of low or moderate income.
- (4) Interests in property for a governmental program or activity used to provide space or facilities for or in connection with a program, activity or function of another government entity.
- (5) Interests in property that is defined as "contractor-acquired property" or "government-furnished property" in the Federal Acquisitions Regulations (48 Code of Federal Regulations, Section 45-101, as amended or superseded by a federal law or regulation) and that is owned by the government and used to perform a government contract.

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General Property Tax

The new Class 13 include the following properties:

- (1) Improvements located on public property that are used primarily for athletic, recreational, entertainment, artistic, cultural or convention activities, provided that the improvements become the property of the owner of the public property upon termination of the possessory interest in the property.
- (2) Improvements located on public property provided:
 - a. That the improvements shall become the property of the owner of the public property upon termination of the possessory interest in the property.
 - b. That both the improvements and the public property are used for or in connection with aviation, including hangers, tie-downs, aircraft maintenance, sales of aviation-related items, charter and rental activities, parking facilities and restaurants, stores and other services located in a terminal.
 - c. That both the improvements and the public property are located on a state, county, city or town airport or a public airport.
- (3) Property that is leased or acquired by the government and used to perform a government contract and that is defined as "contractor-acquired property" or "government-furnished property" in the federal acquisition regulations.
- (4) Property of a corporation organized by or at the direction of this state or a county, city or town to develop, construct, improve, repair, replace or own any property, improvements, buildings or other facility to be used for public purposes that the state, county, city or town pledges to lease or lease-purchase with state, county, or municipal special or general revenue and are not otherwise exempt.

The act also included a new section in the statutes that provides a property tax exemption to a possessory interest consisting of property or improvements leased from the state or its political subdivisions and used by an association or institution which has as its purpose educational or charitable activities. The association or institution shall have annual gross revenue of not more than \$50,000 and not be operated for profit.

The bill also provides that during FY 1994 and FY 1995, the Department of Revenue may provide technical and professional assistance to County Assessors in establishing the value of commercial, agricultural and vacant, residential and non-owner occupied residential properties for property tax purposes. The act provides Maricopa County with at least twenty full-time equivalent positions for one year, unless some other amount is agreed to by the Director of the Department of Revenue and the Chairmen of the appropriate County Board of Supervisors. The assistance provided for other counties will be determined by the Director of the Department of Revenue.

All possessory interests which were designated as exempt under Laws 1993, Chapter 91, Section 4 shall be assessed and taxed for tax year 1993 in accordance with the new Class 13 property regulations. No assessment shall be made for any tax year prior to 1993 for possessory interests which were previously designated as exempt. Nothing in this act allows this state or local governments to impose a tax on possessory interest in property held in trust for an Indian or an Indian tribe by the United States Government, if a court of competent jurisdiction issues a final order that this state or local government may not impose a tax on possessory interests in property held in trust for an Indian or Indian tribe by the United States Government. (RTYBFA - December 31, 1992)

Laws 1994, Chapter 309 included "ratites" as Class 11 personal property for tax purposes. "Ratites" are defined as ostriches, emus, rheas and cassowaries. "Poultry" is defined as chickens, turkeys, domesticated birds, game birds, fowl and waterfowl but does not include ratites. The act also provided a Transaction Privilege and Use Tax exemption to ratites used as breeding or production stock. The act contains provisions defined in Article IX, Section 22, Constitution of Arizona that requires the affirmative vote of at least 2/3rds of both houses. (E - April 25, 1994)

Laws 1994, Chapter 323 established the State Board of Equalization and provided that the Department of Revenue may contest any proposed valuation or classification or any proposed change in valuations or classifications before any County Board of Equalization, the State Board of Tax Appeals, and the State board of Equalization. If a decision of an Assessor is, in the

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General Property Tax

Director's opinion, erroneous, the Director may appeal the Assessor's decision to the County Board of Equalization or State Board of Equalization within 25 days after the Assessor's decision was mailed to the taxpayer and the Department of Revenue. (EFA - December 31, 1995)

The act also provided for correction of errors occurring in assessing or collecting property taxes, whether they inure to the benefit of the taxpayer or the government. (EFA - October 31, 1994)

For property that is valued by the Assessor, in the case of new construction, additions to or deletions from assessment parcels and changes in property use that occur after January 1 of the valuation year:

- (1) The Assessor shall notify the owner of the property of any change in the valuation on or before September 30 of the valuation year.
- (2) Within 25 days after the date of the Assessor's notice, the property owner may appeal the valuation to the State Board of Equalization if the property is located in a county with a population of 500,000 persons or more, or to the County Board of Equalization if the property is located in any other county.
- (3) The State Board of Equalization and County Board of Equalization shall complete all hearings and issue all decisions with respect to changes in valuations on or before November 15 of the valuation year.
- (4) An appeal to the Tax Court relating to changes in assessments must be filed on or before December 15 of the valuation year.

A new owner of property that was valued, and which valuation was not appealed by the former owner of the property, may appeal the valuation to the Tax Court on or before December 15 of the year in which the taxes are levied. For purposes of this section, "valuation year" means the calendar year preceding the year in which the taxes are levied. (EFA - December 31, 1995)

The act provided public access to the valuation and assessment information and made conforming changes to the statutes required as a result of the creation of the State Board of Equalization. (E - July 17, 1994)

Laws 1994, Chapter 326 established a study committee to study the effect of taxation of non-Indian property located on Indian reservations or in Indian country in this state by both Indian nations or tribes in this state; the laws governing taxation and the policies and economic impacts on this state and on Indian nations and tribes in this state. The act is repealed from and after December 31, 1996. (E - July 17, 1994)

Laws 1994, Chapter 330 clarified that bed and breakfast properties, together with furnishings, consisting of no more than four rooms that are leased or rented to transient lodgers at no more than a 50% average annual occupancy rate, and that serve no more than a breakfast meal by the owner of the property, shall be classified as Class 6 property for tax purposes. (R - January 1, 1994)

The act also provided that if a taxpayer fails to prepare and deliver a correct list of property to the Assessor within the period specified by law, but within 30 days thereafter, the Assessor may abate all or part of the penalty for failing to prepare and deliver the list. Also, the County Board of Equalization shall not consider property at the June meeting that has already been subject of an appeal for the current valuation year unless evidence is presented at the June meeting verifying that improvements to the property were in existence on the lien date, and the valuation of the improvements was not considered at any stage of the appeal prior to the June hearing. If an appeal is pending, any party may request the person or board hearing the appeal to consider any additional issue which could have been presented to the County Board of Equalization in the June meeting had no appeal been filed. Property shall not be considered, and the Board of Supervisors shall not approve, an adjustment in valuation if the property valuation has already been the subject of an appeal for the current valuation year unless it appears that the property was not valued, and/or there was a clerical error of defect in reporting or recording the valuation, or the property was destroyed or damaged prior to the lien date. If an appeal is pending, any party may request the person or board hearing the appeal to consider any additional issue which could have been supplied or corrected by the Assessor or the County Treasurer with prior approval of the Department of Revenue and the County Board of Supervisors had no appeal been filed. (E - April 26, 1994)

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General Property Tax

Laws 1994, Chapter 359 provided that in tax years 1996, 1997, 1998 and 1999, the Department of Revenue shall reduce the minimum value prescribed for Class 3 (commercial and industrial) personal property by 2.5% each year. This will reduce, from 20 to 10%, the minimum value to which Class 3 personal property may be depreciated for purposes of taxation. (E - July 17, 1994)

Laws 1994, Chapter 375 provided changes to the Taxpayers' Bill of Rights including provisions on installment payments of tax, abatement of penalties, and reimbursement of fees and other costs. The reimbursement of fees and other costs is effective after December 31, 1994. (E - July 17, 1994)

Laws 1995, 1st Special Session, Chapter 9 established the Property Tax Relief Fund and appropriated \$200 million from the General Fund for FY 1997 to reduce the aggregate amount of property taxes levied and collected. Established the Joint Legislative Property Tax Study Committee to study the property tax system and provide written recommendations.

Increased the threshold for the 1% assessment ratio for Class 3 (commercial and industrial) and Class 4 (agricultural) personal property to \$50,000 for tax year 1996 and thereafter; superseding the 1994 law which would have raised the thresholds to \$6,000 in tax year 1996 and \$10,000 in tax year 1997.

Continued the state property tax rate for education purposes at \$.47 per \$100 of assessed valuation for tax year 1995. The state rate for general purposes remained at zero for tax year 1995. (E - June 15, 1995)

Laws 1995, Chapter 29 clarified that if property taxes are paid prior to becoming delinquent, it is not necessary to designate the payment as under protest in order to test the validity or amount of the tax (EFA - December 31, 1995)

Laws 1995, Chapter 137 allowed the County Assessor to use aerial photography, applicable Department of Revenue records, building permits and other document sources or technology to ascertain all property in the county subject to taxation.

Reduced the minimum value of Class 4 (agricultural) personal property by 2 ½ percentage points in each of the tax years 1996, 1997, 1998 and 1999. The final reduced minimum value in 10%.

Extended for 10 to 30 days the time in which a property owner has to appeal a personal property notice of valuation and the time in which the Assessor must rule on such appeals. If the Assessor delivers a notice of refusal, the person may appeal to the County Board of Supervisors provided that the date of the Assessor's notice is at least 15 days prior to the next monthly meeting. (E - April 17, 1995)

Laws 1995, Chapter 170 authorized refunds and forgiveness of one-half of the property taxes paid by qualified veterans' organizations for tax year 1994. Refund claims must be submitted within 60 days after the effective date of the act. The County Treasurer is directed to pay the refund claim within 30 days after it is submitted. The County Treasurer is entitled to credit for the refund with the state and each of the political subdivisions to which the overpayment may have been transmitted. (E - July 123, 1995)

Laws 1995, Chapter 189 made technical and clarifying changes to the Taxpayers' Bill of Rights including replacing the court with the State Board of Tax Appeals as the ruling authority in matters concerning taxpayer reimbursement for Department of Revenue administrative proceedings. (ER - July 17, 1994)

Laws 1995, Chapter 249 made changes relating to the locally assessed property valuation and administrative appeal process, including:

- (1) Modified the personal property presumptive value procedure and increased from \$25,000 to \$50,000 the value threshold by which the procedure may be used. (EFA - December 31, 1995)

(Continued)

General Property Tax

- (2) Modified the definition of "valuation date" for the purposes of property on the secured tax roll to mean January 1 of the year preceding the year in which taxes are levied. (EFA - July 31, 1995)

Established a definition of "small flight property" and established a small flight property valuation of 30% of original cost less depreciation. (EFA - December 31, 1994)

Laws 1995, Chapter 252 replaced the requirement that the lessor of agricultural land, that is leased in excess of ninety days, submit an annual agricultural lease affidavit with the requirement that if an agricultural lease changes a new written statement of lease must be filed within 3 months after the change or prior to January 31, whichever is later. Eliminated the Class 2 misdemeanor charge for persons who knowingly fail to file or knowingly falsify an agricultural lease affidavit. (E - July 13, 1995)

Provided that the County Assessor shall not require a listing of the breed, number, age or location of livestock on hand if the livestock is exempt from taxation. (EFA - December 31, 1995)

Laws 1995, Chapter 294 eliminated the Class 12 property classification relating to possessory interest property and repealed the section in statute relating to possessory interests. Clarified that the Class 13 property classification related to improvements on federal, state, county or municipal property. Made clarifying changes to Class 7 (railroad) property needed because of the elimination of Class 12 property. Renumbered Class 13 property as Class 11 property (elimination of the old Class 11, relating to livestock was approved by voters in the 1994 election).

Added a procedure to deal with delinquent taxes on dwellings on possessory rights. Clarified that "dwellings of possessory rights" means a permanent improvement to real estate listed as Class 5 property where the owner of the improvement is not the owner of the real estate. The term does not include mobile homes. The bill included a non-severability clause and created a Joint Legislative Study Committee on Possessory Interests. (E - July 13, 1995)

CHAPTER VI

PAYMENTS IN LIEU OF PROPERTY TAXES

VEHICLE LICENSE TAX

DESCRIPTION

The Vehicle License Tax was originally imposed by an amendment to the Arizona Constitution, Article 9, Section 11. The tax is ad valorem in which a fixed amount is assessed against the value of the vehicle. Since the assessed value declines by a statutorily fixed percentage each year, a Minimum Vehicle License Tax is imposed so that the tax will not be below an established amount.

NOTE: The technical rewrite of A.R.S. Title 28 (Transportation) by Laws 1995, Chapter 132 will result in a renumbering of some current statutes starting January 1, 1997. In addition, Laws 1995, Chapter 147 provided for changes to A.R.S. Title 28 in conjunction with the technical rewrite. Legislative Council was instructed to prepare conforming legislation for the 1996 legislative session. These changes will be documented in future *Tax Handbook Supplements*.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>
1994-95	\$426,019,239
1993-94	377,593,859
1992-93	333,479,528
1991-92	314,914,865
1990-91	311,789,377
1989-90	297,267,498 ^{1/}
1988-89	267,293,501
1987-88	251,882,684
1986-87	228,840,811
1985-86	202,226,106
1984-85	169,827,230
1983-84	140,157,028
1982-83	110,420,638
1981-82	96,056,437
1980-81	82,030,958

^{1/} Includes the state's portion of the Minimum VLT (\$17.50) which amounted to \$14,957,745. This became effective on September 15, 1989 by Laws 1989, Chapter 312 and was phased-out in 1993 – see Laws 1990, 3rd Special Session, Chapter 3.

SOURCE: Department of Transportation, Office of Fiscal Planning - Report #MV 620-280-7 from the Motor Vehicle Division.

WHO PAYS THE TAX

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

TAX BASE

A.R.S. § 28-1591. *Taxable Value.* The Vehicle License Tax is levied on the value of each vehicle. Effectively, the tax is levied on ten classes of vehicles:

Vehicle License Tax

- (1) Passenger vehicles
- (2) Commercial vehicles
- (3) Non-commercial one-half ton pick-ups and similar vehicles
- (4) Buses
- (5) Taxis
- (6) Travel trailers
- (7) Trailers
- (8) Motorcycles and scooters
- (9) Privately owned motor vehicles used exclusively as a school bus
- (10) Motor vehicles powered by alternative fuels

The taxable value of vehicles in these classes is determined as follows:

Classes 1 through 8

During the first 12 months of the life of the vehicle (as determined by its initial registration) the value of the vehicle is 60% of the manufacturer's base retail price. During each succeeding 12-month period, the value of the vehicle is 15% less than the value for the preceding 12-month period.

Class 9 and Class 10

During the first 12 months of the life of the vehicle (as determined by its initial registration) the value of the vehicle is 1% of the manufacturer's base retail price. During each succeeding 12 month period, the value of the vehicle is 15% less than the value for the preceding 12 month period. [See A.R.S. § 28-1591.03]

If a Class 9 vehicle is temporarily used for purposes other than as a school bus, the taxable value is determined in the same manner as Class 1-8 vehicles. The tax is then assessed and collected monthly equal to one-tenth of the so calculated annual Vehicle License Tax for each full month the vehicle is operated for other purposes. [See A.R.S. § 28-1591.03(D)]

A.R.S. § 28-1591.01. *Veterans Exemptions.* A veteran who is a resident of Arizona and whose vehicle or replacement of such vehicle is acquired by financial aid from the Veteran's Administration is exempted from this license tax.

Disabled Veterans. No license tax or registration fee shall be collected for a vehicle that is personally owned by a veteran or a veteran and another party if such veteran is certified by the Veteran's Administration as 100% disabled and drawing compensation.

Limit. Only one vehicle or its replacement may claim this exemption during each 12-month period.

A.R.S. § 28-1591.02. *Disabled.* Any vehicle owned by a resident who receives disability payments under Title 16 of the Social Security Act. Such resident must show satisfactory proof of such assistance.

Limit. Only one vehicle may be claimed by a disabled resident.

TAX RATE

A.R.S. § 28-1591(A). *Rate.* The Vehicle License Tax rate is \$4.00 per \$100.00 of valuation for all classes of vehicles.

A.R.S. § 28-1591(A). *Minimum Tax.* The minimum amount of the Vehicle License Tax is \$10 per year for each vehicle subject to the tax.

Minimum Tax. For Class 9 and Class 10 vehicles, the Minimum Vehicle License Tax is \$5 per year. [See A.R.S. § 28-1591.03(B) and A.R.S. § 28-1591.04(B)] For Class 1 through 8 vehicles, the Minimum Vehicle License Tax is \$30 per year

(Continued)

Vehicle License Tax

through December 31, 1990. The Tax Reform Act of 1990 phases-down the tax to \$23.33 for calendar year 1991, \$16.66 for calendar year 1992, and \$10 for calendar year 1993 and thereafter.

A.R.S. § 28-226. *Additional Highway Use Tax.* Arizona-based interstate commercial vehicles that are proportionately registered in Arizona and other states are assessed an annual Additional Highway Use Tax. The fee imposed is reduced by the amount of Vehicle License Taxes paid. Foreign-based interstate commercial vehicles proportionally registered in Arizona or traveling through Arizona on a Single Trip Permit are subject to the Additional Highway Use Tax in lieu of the Vehicle License Tax. The tax is based on the age and weight of the vehicle. [See the statute for the various fee schedules]

PAYMENT SCHEDULE

A.R.S. § 28-1591(A). *Due Date.* Due and collected annually at the time of vehicle registration.

Collections. The County Assessor's Office or the Director of the Department of Transportation in counties where the County Assessor's Office has elected to transfer vehicle registration and titling duties to the Department of Transportation. [See A.R.S. § 28-301(B), and A.R.S. § 28-301.02]

DISTRIBUTION

A.R.S. § 28-1591(A). *Minimum Tax.*

A.R.S. § 28-1591(C). *Vehicle License Tax.* (1) By statute, 31.5% of all monies received by the County Treasurer or Director of the Department of Transportation from this tax, is distributed to the State Treasurer for deposit into the Highway User Revenue Fund (HURF). See Motor Vehicle Fuel Tax for distribution of HURF. (2) The remaining collections (68.5%) are distributed as follows:

- 20% to the state General Fund for general purposes
- 25% to the general fund of the county
- 25% to the state General Fund for state aid to education
- 25% to incorporated municipalities of the county
- 5% to the County Assessor to be placed in a special fund to cover administrative costs, unless the County Assessor has agreed to transfer registration and titling duties to the Department of Transportation, in which case the Department will receive the 5% amount

A.R.S. § 28-1591(E). *HURF Transfer.* This was more commonly referred to as the Usdane Shift, and was repealed by the Middle Income Tax Relief Act of 1994.

(Continued)

Vehicle License Tax

<u>Fiscal Year</u>	<u>State General Fund</u> ^{1/}	<u>HURF Transfer</u>	<u>HURF</u>
1994-95	\$132,012,609	\$ -0-	\$131,562,270
1993-94	115,891,109	-0-	113,990,470
1992-93	103,103,777	-0-	105,026,914
1991-92	99,849,737	-0-	96,145,963
1990-91	88,568,500	16,631,394	92,825,609
1989-90	87,518,000	15,198,300	91,389,982
1988-89	69,504,000	14,114,928	80,124,939
1987-88	47,398,000	11,727,970	79,240,150

^{1/} Includes the 20% for general purposes and the 25% for state aid to education that is distributed to the state General Fund.

NOTE: The HURF Transfer was suspended in FY 1992 and FY 1993 and repealed in FY 1994.

SOURCE: Arizona Department of Administration's Finance Division, Annual Financial Reports. State General Fund and HURF distributions are net of the HURF Transfer (Usdane Shift). The HURF net collections and transfers are from the Department of Transportation, Fiscal Planning, June 1981-1990 HURF Reports and Official Statement for Arizona 1990 HURF Bond Issue.

DISTRIBUTION OF HIGHWAY USER REVENUE FUND FROM ALL TAX SOURCES

<u>Fiscal Year</u>	<u>Arizona Highway Fund</u>	<u>Cities and Towns</u>	<u>Counties</u>	<u>Economic Strength Fund</u>	<u>DPS Transfer</u>	<u>Mandatory Insurance</u>	<u>Total</u>
1994-95	\$399,605,571	\$237,919,781	\$140,626,571	\$1,000,000	\$20,000,000	\$1,000,000	\$800,151,923
1993-94	385,844,000	228,605,640	135,156,995	1,000,000	24,925,000	532,000	776,063,343
1992-93	355,304,136	210,530,330	124,468,432	1,000,000	24,928,000	1,212,100	717,442,998
1991-92	339,806,432	201,394,204	119,068,430	1,000,000	12,453,300	1,472,900	675,195,266
1990-91	346,866,433	208,707,985	123,746,232	500,000	-0-	-0-	679,820,650

SOURCE: Department of Transportation, Office of Fiscal Planning, MVD HURF Reports.

HISTORY

The Vehicle License Tax (previously referred to as the Auto Lieu Tax) was imposed by an amendment to Article 9, Section 11 of the Arizona Constitution. The amendment provided that vehicles were taxed on 60% of the manufacturer's list price during the first calendar year of the vehicle's life and that this value is reduced by 25% during each succeeding calendar year. The tax rate was the average of the combined state and local tax rates for all tax districts during the preceding year. This rate was not to exceed \$4.00 per \$100 of value. The Vehicle License Tax was collected annually at the time of vehicle registration. The Legislature provided for distribution of the tax proceeds. The amendment was enacted at the General Election of November 5, 1940. (E - January 1, 1941)

Laws 1941, Chapter 77 provided that Vehicle License Taxes were collected by the County Assessor and distributed in the following manner (E - March 24, 1941):

(Continued)

Vehicle License Tax

- (1) In counties containing no incorporated cities or towns - 25% to the state General Fund, 37.5% to the county General Fund, 37.5% to the County Board of Supervisors for distribution among the school districts.
- (2) In counties containing one or more incorporated cities or towns - 25% to the state General Fund, 25% to the county General Fund, 25% to the incorporated cities and towns and 25% to the County Board of Supervisors for distribution among the school districts.
- (3) Vehicle License Taxes collected from motor carriers operated in interstate commerce were distributed 25% to the state General Fund, 25% to the several county General Funds, 25% to the several common and high school districts and 25% to the several incorporated cities and towns. All money collected from interstate motor carriers was to be expended on highway maintenance and construction.

Laws 1954, Chapter 150 provided that Vehicle License Taxes formerly deposited with the County Board of Supervisors were instead deposited in the County School Funds. (E - July 9, 1954)

NOTE: An amendment to Article 9, Section 11 of the Arizona Constitution exempted mobile homes from the Vehicle License Tax. The amendment provided for taxation of mobile homes under provisions of the Ad Valorem General Property Tax. The amendment was enacted at the General Election of November 5, 1968. The provisions of this law did not apply to mobile units under 40 feet long and 8 feet wide. (E - January 1, 1969)

Laws 1969, Chapter 147 amended the distribution formula in counties containing one or more incorporated cities and towns to provide funds for urban mass transportation. When the largest municipality in a county established a qualified urban mass transportation system, Motor Vehicle License Taxes were distributed 25% to the state General Fund, no less than 23.5% to the county General Fund, no less than 23.5% to the County School Funds, no less than 23.5% to the incorporated cities and towns, no more than 4.5% to the qualifying municipality. This distribution was effective only through September 15, 1970. (E - July 11, 1969)

Laws 1972, Chapter 170 provided for registration of vehicles on a staggered monthly basis. In order to facilitate staggered registration, vehicles could be registered for periods of up to 18 months with tax payments prorated accordingly. Enactment of this law was conditional on the passage of a constitutional amendment which was approved by the voters on November 7, 1972. (E - January 1, 1974)

NOTE: An amendment to Article 9, Section 11 of the Arizona Constitution authorized the Legislature to provide for different times or periods of registration between and within the several classes of vehicles. The amendment also removed the constitutional provisions that established the tax base and tax rate and provided that the Vehicle License Tax be levied as provided by law. This amendment was enacted at the General Election of November 7, 1972. (E - January 1, 1974)

Laws 1973, Chapter 148 established, in law, the method of determining the Vehicle License Tax. This was necessary since the specific provisions for determining the tax were removed from the Constitution in the General Election of November 7, 1972. Under this law, the Vehicle License Tax was determined in the same manner as it was before the election, until December 31, 1974. However, beginning January 1, 1975, license tax payments were determined from a schedule, based on the base retail price and age of the vehicle. The law also repealed the separate distribution formula for counties that have no incorporated cities and towns. The separate distribution formula for counties with urban mass transportation systems was reactivated from January 1, 1975 through September 15, 1976. (E - January 1, 1974)

Laws 1974, 1st Special Session, Chapter 3 provided that the share of Vehicle License Tax collections formerly deposited in the county school funds was deposited instead in a state school fund. (E - May 20, 1974)

Laws 1975, Chapter 98 provided that proven veterans acquiring automobiles with financial aid received from the Veterans' Administration shall be exempt from payment of license taxes. (E - September 12, 1975)

Laws 1975, Chapter 135 repealed the license tax rate schedule which became effective January 1, 1975 and provided for calculation of license tax liability in the manner in which it was determined prior to January 1, 1975. (E - June 11, 1975)

(Continued)

Vehicle License Tax

Laws 1976, Chapter 1 limited the veterans' exemption from Vehicle License Taxes to one new or replacement vehicle per 12-month period. (E - March 11, 1976)

Laws 1976, Chapter 66 eliminated the State School Fund. The portion of license tax collections that was formerly deposited in the fund was deposited in the state General Fund and used for school financial assistance. (E - May 27, 1976)

Laws 1977, Chapter 101 provided that counties receive an additional 5% of license tax collections from the state's share of collections unless they elected to transfer vehicle registration and titling duties to the Department of Transportation. (E - May 26, 1977)

Laws 1978, Chapter 9 extended the license tax exemption for 100% disabled veterans. (E - September 3, 1978)

Laws 1979, Chapter 51 provided for a Vehicle License Tax rate of \$4.00 per \$100 of value. Formerly the tax rate was set equal to the average of the summed tax rates for all taxing districts within the state during the preceding year, with a maximum rate of \$4.00 per \$100.00 of value. The bill also changed the method of valuing vehicles for tax purposes. Formerly, vehicles were taxed on 60% of the manufacturer's base retail price during the calendar year in which the vehicle was originally registered and this value was reduced by 25% each succeeding calendar year. Under provisions of this bill, vehicles are valued at 60% of the manufacturer's base retail price for the first 12 months of the vehicles life and the value is reduced by 25% each succeeding 12 month period. (E - October 1, 1979)

Laws 1979, Chapter 213 provided that 5% of a county's Vehicle License Tax collections shall be transferred to the Department of Transportation's Special Fund if the County Assessor's Office elects to transfer vehicle registration and titling duties to the Department of Transportation. Formerly, this amount was deposited in the state General Fund when the county transferred its duties to the state. (E - July 21, 1979)

Laws 1980, Chapter 184 provided that 12% of Vehicle License Tax collections shall be deposited in the Highway User Revenue Fund. The remaining collections are distributed according to the previous distribution formula. (E - July 31, 1980)

Laws 1981, 2nd Special Session, Chapter 2 (as amended by Laws of 1982, Chapter 5) made the following changes to the Vehicle License Tax:

- (1) Changed the yearly depreciation rate to determine the taxable value of vehicles. Formerly, vehicles were taxed on 60% of the manufacturer's base retail price during the first 12 months of the vehicle's life and this value was reduced by 25% in each succeeding 12-month period. Under this law, the value of each vehicle will be reduced by 15% in each succeeding 12 month period. (E - November 1, 1981)
- (2) Established a Minimum Vehicle License Tax equal to \$10 per year; formerly the Department of Transportation charged a minimum tax of \$3 per year. (E - November 1, 1981)
- (3) Changed the distribution of the Vehicle License Tax. Under this law, the share of collections distributed to the Highway User Revenue Fund was increased from 12% to 31.5%. The distribution of the balance of collections was not changed. (E - December 1, 1981)
- (4) Provided for a shift of Vehicle License Taxes deposited in the state General Fund for general purposes. When the growth in this amount exceeds 7% per year, the amount received in excess of 7% per year is distributed to the Highway User Revenue Fund. Originally, the amount transferred under this provision was to reduce the Gas Tax rate, but this requirement was repealed by Laws of 1982, Chapter 5. (Effective beginning with the 1983-84 tax year, but an amount specified in law will be transferred from the state General Fund share of collections to the Highway User Revenue Fund beginning in fiscal year 1982-83.)

Laws 1982, Chapter 257 provided for the distribution of Vehicle License Tax collections on a daily basis in counties where these taxes are collected by the Department of Transportation. (E - April 27, 1982)

(Continued)

Vehicle License Tax

Laws 1983, Chapter 64 required County Treasurers to distribute 31.5% of Vehicle License Tax collections to the Highway User Revenue Fund within 5 days after the collections are received. In counties where the Vehicle License Tax is collected by the Department of Transportation, the registering officers are also required to distribute the Highway User Revenue Fund share within 5 days of receipt. The remaining balance of Vehicle License Tax collections will continue to be distributed on the 15th day of the month following the month in which they are received. (E - July 27, 1983)

Laws 1983, Chapter 108 provided that privately owned motor vehicles used exclusively as a school bus are classified separately for Vehicle License Tax purposes. Under this law, the taxable value of these vehicles is 1% of the manufacturer's base retail price during the first 12 months of the vehicle's life. The taxable value is to be reduced by 15% during each succeeding 12 month period. The minimum tax for these vehicles is \$5 for any 1-year period. The law also established a means for determining the tax if the vehicle is temporarily operated for purposes other than as a school bus. [See TAX BASE] (E - July 27, 1983)

Laws 1985, Chapter 308 decreases to 10% the amount of funds placed in the state General Fund, used for general purposes, until July 1, 1990. During this time the "freed" 10% will be placed in the State Highway Fund. This reallocation of Vehicle License Tax monies is attributable to the Federal Government continuing the 8 cent cigarette tax. If at any time through FY 1990-91 the Federal Government drops the 8 cent tax, it will be assumed by the state. Such revenues will then allocate to the State Highway Fund. Under this scenario, Vehicle License Tax collections will be distributed as under prior law.

Laws 1986, Chapter 67 changed the time period of when the 31.5% of the Vehicle License Tax (VLT) collections are distributed to the Highway User Revenue Fund from within 5 days of receipt by the County Treasurer or the Director of the Department of Transportation to the 1st and 15th calendar day of each month. Distributions on the 1st calendar day shall include amounts collected from the 1st through the 15th calendar day of the preceding month. Distributions on the 15th calendar day shall include amounts collected from the 16th through the last day of the preceding month. This bill contained two versions:

- (1) Section 1 designated 10% of the remaining VLT collections to the state General Fund and 10% to the State Highway Fund until after June 30, 1990 when 20% goes to the General Fund, effective August 13, 1986.
- (2) Section 2 designated 20% of the remain VLT collections to the state General Fund, but this becomes effective only when the Federal Excise Tax on small cigarettes is reduced from \$8 per 1,000 to \$4 per 1,000 provided this occurs by June 30, 1990.

Laws 1986, Chapter 94 limited the Vehicle License Tax dollars distributed directly into the State Highway Fund for FY 1986 to \$5.8 million. Any amount in excess of this will go to the state General Fund. (E - April 18, 1986)

Laws 1988, Chapter 271 accelerated the scheduled 1¢ increase in the Motor Vehicle Fuel Tax rate from July 1, 1990 to September 1, 1988 at which time the rate would be 17¢ per gallon. The 1¢ increase was distributed to the State Highway Fund. Concurrently, the termination date of the transfer from the state General Fund's Vehicle License Tax revenues to the State Highway Fund became effective July 1, 1988 instead of July 1, 1990. The conditional enactments by Laws 1986, Chapter 209 and Chapter 67 were repealed. (E - July 1, 1988)

Laws 1988, Chapter 343 created a Joint Legislative Study Committee on the Vehicle License Tax with emphasis on the feasibility of establishing a flat rate tax. The committee must complete its findings on or before December 31, 1988. (E - September 30, 1988)

Laws 1989, Chapter 31 allowed previously certified veterans to renew their Vehicle License Tax exemptions by signing a sworn notarized statement affirming their eligibility. (E - September 15, 1989)

Laws 1989, Chapter 282 provided that a motor vehicle registration expires 12 months from the last day on the month in which the vehicle was initially purchased. (E - September 15, 1989)

(Continued)

Vehicle License Tax

Laws 1989, Chapter 312 was the General Revenue Act for FY 1990. The annual Minimum Vehicle License Tax was increased from \$10 to \$30. A provision distributed \$17.50 of the minimum \$30 tax collected to the state General Fund. (E - September 15, 1989)

Laws 1990, 3rd Special Session, Chapter 3 phased down the Minimum Vehicle License Tax from the current \$30 to \$10 over a 3-year period: Beginning January 1, 1991 –\$23.33; January 1, 1992 –\$16.66; January 1, 1993 and thereafter –\$10.00. In addition, the distribution to the General Fund is phased-out by 1993. The Legislature intended to restore the Minimum Vehicle License Tax and its distribution as it existed prior to changes contained in Laws 1989, Chapter 312.

Laws 1991, Chapter 107 allowed military personnel who served active duty in Operation Desert Shield or Storm to receive a 30-day permit to reregister or renew, without payment of any fees or Vehicle License Tax, up to two vehicle registrations which expired while the person was on active duty. This allowance was extended to the surviving spouse or personal representative of such military personnel. The permit can be obtained up to one year after the date of discharge or release from active military duty relating to such operations. This act is repealed from and after June 30, 1993. (ER - August 2, 1990)

Laws 1991, Chapter 176 provided a reduced Vehicle License Tax for vehicles powered by alternative fuels. The value will be set at 1% of the manufacturer's base retail price for the first year of the vehicle and declining 15% in value each succeeding year. The tax rate was set at \$4 for each \$100 in value. The Minimum Vehicle License Tax of \$5 per year was also established. This preferential tax treatment is set to be repealed on January 1, 1999. (E - September 21, 1991)

Laws 1991, Chapter 265 was 1 of 2 "Omnibus Reconciliation Bills" (ORBs) necessary to implement the General Appropriations Act for FY 1992. One provision for FY 1992 suspended the transfer of Vehicle License Tax collections in excess of 7% growth. This is commonly known as the Usdane Shift. (E - June 20, 1991)

Laws 1992, Chapter 61 allowed a city or town to conduct and certify an alternative special census prior to July 1, 1993 by contract with the U.S. Census Bureau for purposes of state shared revenues in the Transaction Privilege, Income, Highway User, and Vehicle License Taxes. The State Treasurer is not to accept another special census until after the year 2000. (E - September 30, 1992)

Laws 1992, Chapter 152 allowed, after June 30, 1992, military personnel who were leasing a vehicle when called to active duty in Operation Desert Shield or Storm to renew the registration of such vehicle without paying registration fees or the Vehicle License Tax. This is an one-time exception and there is a limit of two vehicles per person. (E - June 8, 1992)

Laws 1992, Chapter 219 required rental car companies to collect a 5% surcharge on rental contracts of 180 days or less. The surcharge collected reimburses the rental car company for its Vehicle License Tax (VLT) paid to the state. On February 15 annually, companies must report to the Motor Vehicle Division (MVD) the amount of VLT paid and the amount of surcharge in excess of the VLT paid. The excess amount of surcharge shall be remitted to the state. Pickup trucks or utility trailers rented for hauling property and subject to proportional registration are exempt from this surcharge. (E - September 30, 1992)

Laws 1992, Chapter 289 was 1 of 7 "Omnibus Reconciliation Bills" for FY 1993. This bill clarified that the Highway User Revenue Fund (HURF) is the funding source for the Motor Vehicle Liability Insurance Enforcement Fund in FY 1992 and FY 1993. Also, for FY 1993, the transfers to HURF from the state General Fund of Vehicle License Tax collections in excess of 7% growth, commonly known as the "Usdane Shift," was suspended. (E - September 30, 1992)

Laws 1993, 2nd Special Session, Chapter 3 was 1 of 6 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 1994. This bill extended for an additional year [FY 1994] the use of HURF revenues for the Vehicle Liability Insurance Enforcement Fund. (E - June 15, 1993)

Laws 1993, 2nd Special Session, Chapter 9 was 1 of 6 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 94. The bill suspended for FY 1994 the "Usdane Shift" which requires that if Vehicle License Tax

(Continued)

Vehicle License Tax

receipts from FY 1991-92 to FY 1992-93 increase greater than 7%, the amount in excess of 7% is to be deposited in the HURF rather than the state General Fund in FY 1993-94. (E - June 15, 1993)

Laws 1993, Chapter 88 extended the commercial motor vehicle gross weight fee exemption to include vehicles (vans or pickups) three-quarter ton or less provided the vehicle is not used more than 1000 hours in a vehicle registration year for commercial purposes. (E - July 17, 1993)

Laws 1994, Chapter 41 contained the major components of the Tax Reduction Package known as the Middle Income Tax Relief Act (MITRA) of 1994. The act contained the following major provisions affecting the Vehicle License Tax:

The act repeals the "Usdane Shift" which required that if the Vehicle License Tax, or other taxable auto related retail sales of tangible personal property, increases greater than 7%, then an amount determined by formula would be deposited in the HURF rather than the state General Fund (for details on this bill, see Page 3). (E - July 17, 1994)

Laws 1994, Chapter 173 expanded the exemption from motor vehicle registration fees to vehicles owned by a provider of ambulance, fire fighting or rescue services that are used solely for the purpose of providing emergency services. For purposes of applying the Vehicle License Tax (VLT), a separate class of vehicles was created consisting of privately-owned motor vehicles that are used solely for the purpose of providing ambulance or fire fighting services. For purposes of the act, "ambulance" means a vehicle for which a certificate of registration has been issued. These vehicles will be assessed an annual VLT of \$4 for each \$100 in value. During the first 12 months of the life of the vehicle, as determined by its initial registration, the value is 1% of the manufacturer's base retail price of the vehicle. During each succeeding 12-month period, the value of the vehicle is 15% less than the value of the preceding 12-month period. However, the minimum amount of the license tax computed shall be \$5 per year for each vehicle subject to the tax. Vehicles temporarily operated for purposes other than providing ambulance or fire fighting services will be assessed a VLT equal to one-tenth of the annual VLT for each calendar month that the motor vehicle is so operated in this state. The Registering Officer shall not apportion the VLT for any fraction of a calendar month. (E - July 17, 1994)

Laws 1995, Chapter 132 made technical changes to Title 28 (Transportation) and reorganizes the title to allow for the addition of new statutes. Repealed Arizona Revised Statutes Title 2 (Aeronautics), Title 18 (County Highways) and the current Title 28 and reenacts these provisions in a new Title 28. Moved some provisions to more appropriate titles including Title 20 (Insurance), Title 38 (Public Officers and Employees), Title 41 (State Government) and Title 48 (Special Taxing Districts). Instructed Legislative Council to prepare conforming legislation for next session. (EFA - December 31, 1996)

Laws 1995, Chapter 147 provided for changes to Title 28 (Transportation) in conjunction with, and conditional to the enactment of, the Title 28 technical rewrite (Laws 1995, Chapter 132). (EFA - December 31, 1996)

Laws 1995, Chapter 244 provided for the transfer and appropriation of State Highway Fund and state General Fund monies to the Department of Transportation to purchase land, buildings and inventory of the Maricopa County Auto Licensing Department. (E - July 13, 1995)

Laws 1995, Chapter 271 established a Joint Legislative Review Committee to study the possible implementation of a "vehicle plate to owner system" for the general public and report their findings by December 31, 1995. Allowed the Director of the Department of Transportation to provide for the biennial registration of any vehicle not subject to annual emissions testing. (E - July 13, 1995)

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 such properties.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>
1994-95	\$13,784,707
1993-94	12,278,607
1992-93	11,329,977
1991-92	6,934,381
1990-91	10,619,885
1989-90	8,626,536
1988-89	8,381,082
1987-88	6,859,428
1986-87	5,630,177
1985-86	3,568,308
1984-85	2,679,799
1983-84	2,782,822
1982-83	2,290,785
1981-82	3,217,100 ^{1/}
1980-81	5,585,255 ^{1/}
1979-80	2,563,230
1978-79	2,053,858
1977-78	2,064,993
1976-77	2,012,487
1975-76	1,782,664

^{1/} In 1980-81, the Department of Revenue altered the method of determining the portion of flight property value attributable to business transacted in Arizona based on a more literal interpretation of the statutes. As a result, tax collections increased significantly. In 1981-82, the method of determining Arizona's share of flight property value was again changed (See Laws of 1981, Chapter 25). Under this law the method of allocating flight property value was similar to the original pre-1980 method. As a result the collections were significantly reduced.

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

A.R.S. § 42-703 and § 42-705. *Taxpayer.* Airline companies operating flight property in air commerce within the state of Arizona.

TAX BASE

A.R.S. § 42-704. *Full Cash Value.* The Department of Revenue determines the full cash value of all flight property using the same method as for valuation of other unsecured personal property, except that a standard 45 minute in-state ground time is used

(Continued)

Flight Property Tax

for valuation apportionment. [See A.R.S. § 42-701(9)] The full cash value is the value determined as of January 1 of each tax year. Small flight property operated in this state in air commerce shall be valued at 30% of its original cost less depreciation.

Flight Property. All airline company aircraft of the types used in this state except aircraft permanently removed from operations.

Small Flight Property. All airline company aircraft of the types used in this state, not permanently removed from operations, with a maximum passenger capacity of less than 56 seats and a maximum payload capacity of less than 18,000 pounds.

Valuation Apportionment. Arizona's share of full cash value equals total full cash value of flight property multiplied by the sum of the following:

- 50% of the ratio of total in-state ground time during the preceding calendar year to total system wide ground time during the preceding calendar year.
- 50% of the ratio of total flight property mileage scheduled within this state for flights operated in Arizona during the preceding calendar year to the total flight property mileage scheduled within and outside this state for such flights during the preceding calendar year.

TAX RATE

A.R.S. § 42-705(A). *Average State Tax Rate.* Prior to 1980, the tax rate was set equal to the average of the tax rates levied for all property taxes in the various taxing districts of the state during the current tax year.

Since the beginning of the 1980 tax year, the tax rate has equaled the sum of the following:

- The average tax rate levied for primary property taxes in all taxing districts of the state during the current year, and
- The average tax rate levied for secondary property taxes in all taxing districts of the state during the current year.

TAX COMPUTATION

A.R.S. § 42-705. *Assessment Ratio.* Flight property is assessed as Class 7 property. The ratio depends on the type of tax levied: [See A.R.S. § 42-162 and A.R.S. § 42-227])

- For Secondary Property Taxes - the ratio that total net assessed valuation for secondary purposes of all taxable property in Classes 1, 2, 3 and 8 and personal property in Classes 4 and 11, bears to the total cash value of such property.
- For Primary Property Taxes - same formula as Secondary Property Taxes, except substitute primary purposes for secondary purposes.

Method. The assessment ratio for tax years 1995 is 26%. Since flight property is valued as unsecured personal property, all taxes on flight property are based on the property's full cash value. Thus, the taxable value of flight property for primary or secondary purposes can be determined by multiplying Arizona's share of the full cash value by the assessment ratio (24%) for Class 7 property. Finally, divide the resulting taxable value, commonly called assessed valuation by 100 and multiply the result by the average state tax rate as computed under TAX RATE below.

(Continued)

Flight Property Tax

HISTORICAL AVERAGE PROPERTY TAX RATES PER \$100 OF ASSESSED VALUATION

<u>Fiscal Year</u>	<u>Sum of Average State Tax Rates</u>	<u>Primary</u> ^{1/}	<u>Secondary</u>
1995	\$13.26	\$9.44	\$3.82
1994	12.78	9.35	3.43
1993	12.51	9.00	3.51
1992	12.19	8.82	3.37
1991	11.95	8.53	3.42
1990	11.43	8.33	3.10
1989	10.88	7.96	2.92
1988	10.76	7.84	2.92
1987	10.48	7.67	2.81
1986	10.05	7.39	2.66
1985	9.86	7.44	2.42
1984	9.46	7.40	2.06
1983	9.54	7.61	1.93
1982	9.33	7.47	1.86
1981	9.60	7.87	1.73
1980	10.60	8.57	2.03
1979	11.38	-0-	-0-
1978	11.31	-0-	-0-
1977	11.51	-0-	-0-
1976	11.36	-0-	-0-

^{1/} State Tax rate for 1990 to 1995 includes the minimum School Tax rate.

SOURCE: Arizona Property Tax Rates and Assessed Valuations published by Arizona Tax Research Association for 1985 and earlier. For year 1986 and after, the Department of Revenue's Annual Reports.

PAYMENT SCHEDULE

A.R.S. § 42-705(B). *Due and Delinquency Dates.* This tax is due and payable at the same time as real and secured personal property which is in two installments. One-half of the tax is due on October 1, unless the tax due is \$25 or less in which case the full amount is due, and delinquent on November 1. The remaining half is due the following March 1, and delinquent May 1. [See A.R.S. § 42-342]

Collecting Agency. By the Department of Revenue.

DISTRIBUTION

A.R.S. § 42-705(B). *State Aviation Fund.* Since January 1, 1989, all Flight Property Tax revenue has been deposited in the State Aviation Fund. Before this date, a portion of or all the taxes were deposited in the state General Fund. See Laws 1986, Chapter 369.

(Continued)

Flight Property Tax

HISTORY

Laws 1951, Chapter 59 levied a separate tax on the full cash value of flight property operated by airline companies in Arizona. The value of flight properties subject to the tax was determined annually by the State Tax Commission. The tax rate equaled the average annual rate of levy for all purposes in the several taxing districts of the state. Payments were made to the State Tax Commission on or before the third Monday in December. Amounts received by the State Tax Commission were deposited in the state General Fund. (E - March 14, 1951)

Laws 1967, Chapter 107 transferred the responsibility for determining the value of flight property to the Department of Property Valuation. (E - October 15, 1967)

Laws 1967, 3rd Special Session, Chapter 6 placed flight property in Property Class 1 (see General Property Tax) and provided that all Class 1 properties were taxed on 60% of their full cash value. (E - March 21, 1968)

Laws 1970, Chapter 82 changed the date for payment of Flight Property Taxes. Under this law, Flight Property Taxes were paid at the same time as the General Property Tax on Real and Secured Personal Property. (E - August 11, 1970)

Laws 1973, Chapter 123 established the Department of Revenue. The responsibility for valuing flight property and for collecting the tax were transferred to the new Department. (E - July 1, 1974)

Laws 1980, 2nd Special Session, Chapter 8 made the following changes to the Flight Property Tax (EFA - December 31, 1979):

- (1) Changed the method of determining the taxable value of most properties.
- (2) Reduced the assessment ratio for Class 1 properties. For the 1980 tax year, the assessment ratio was set at 52%. This ratio is reduced to 44% in 1983, 36% in 1986, 28% in 1989 and 25% in 1992.
- (3) Limited the total tax that could be levied on the property of small airline companies. Under this provision, taxes on property owned by small airlines can not exceed 1% of the property's full cash value.

Enactment of these provisions was conditional on the passage of Laws of 1980, 2nd Special Session, Chapter 9 and four Constitutional amendments that were approved by the voters in a special election held on June 3, 1980.

Laws 1980, Chapter 218 changed the method of determining the tax rate levied each year on flight property. (ERFA - December 31, 1979)

Laws 1980, Chapter 220 increased the interest rate on delinquent payments of the Flight Property Tax to 12% per year. (E - July 31, 1980)

Laws 1981, Chapter 25 changed the basis for determining the portion of flight property value attributable to business transacted in Arizona. This reduced the portion of full cash value allocated to Arizona for tax purposes. (ERTYBFA -December 31, 1980)

Laws 1982, Chapter 228 accelerated the decrease in the assessment ratio for Class 1 property. The assessment ratio was reduced to 38% beginning in tax year 1983. After 1983, the assessment ratio will be reduced by two percentage points each year until 1989. For 1990 and all subsequent years, the assessment ratio will be 25%. (E -July 24, 1982)

Laws 1983, Chapter 4 changed the interest rate on delinquent payments to equal the rate of interest established by Section 6621 of the Internal Revenue Code, compounded annually. (E - February 11, 1983)

Laws 1983, Chapter 35 changed flight property from property Class 1 (with mines and standing timber) to property Class 7 (with railroads and private car companies) in order to comply with a federal mandate. Since the assessment ratio for Class 7 properties is lower than the assessment ratio for Class 1 properties, this effectively reduced the tax on flight property. (E - April 1, 1983)

(Continued)

Flight Property Tax

Laws 1986, Chapter 369 shifted Flight Property Tax revenues from the state General Fund to the State Aviation Fund. This was phased-in over 3 calendar years beginning January 1, 1987 when 33% was deposited in the Aviation Fund, 66% starting January 1, 1988, and all tax collections in January 1, 1989. (E - August 13, 1986)

Laws 1995, Chapter 249 established a definition of "small flight property" and established a small flight property valuation of 30% of original cost less depreciation. (ERFA - December 31, 1994)

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 in lieu of 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.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u> ^{1/}
1994-95	\$4,220,053
1993-94	4,155,690
1992-93	4,091,560
1991-92	3,969,664
1990-91	3,929,471
1989-90	3,813,672
1988-89	3,447,428
1987-88	2,814,842
1986-87	2,358,078
1985-86	2,341,289
1984-85	2,299,111
1983-84	4,127,264
1982-83	5,549,641
1981-82	5,316,044
1980-81	5,299,982
1979-80	2,274,002
1978-79	2,743,282
1977-78	3,390,045
1976-77	3,143,541
1975-76	2,876,011

^{1/} Amounts shown for years prior to 1979-80 are also included in figures shown as General Property Tax collections. Includes only part of the total voluntary contributions made by Salt River Project.

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

DEDICATION

Voluntary contributions from special districts are dedicated to the state, its political subdivisions, and the people residing therein to assist in alleviating "the ever-increasing burden of taxation." (Laws 1963, 1st Special Session, Chapter 1)

WHO PAYS THE TAX

A.R.S. § 48-231. *Districts.* Any irrigation district, power district, electrical district, or agricultural improvement district organized under Arizona Laws which is directly engaged in the sale of electrical power or energy other than for irrigation purposes. Effectively, this law applies mainly to properties included within the Salt River Project.

(Continued)

Voluntary Contributions By Districts

TAX BASE

A.R.S. § 48-242. *Statewide Total Gross Voluntary Contribution.* This is the base from which to determine the statewide net voluntary contributions. See EXHIBIT SRP - step (1) for calculation of such net contribution.

Statewide Net Voluntary Contributions. This is the total amount of voluntary contributions paid to all taxing jurisdictions.

Reporting Factors. (1) The district must report by May 1 of each year to the County Assessor of each applicable county and the Department of Revenue the factor used to compute each county's proportion of the total deductions taken by the district; (2) the County Assessor must submit to the Board of Supervisors at the same time as the submission of the assessment roll, an estimate for the net contributions in the ensuing fiscal year.

PAYMENT SCHEDULE

A.R.S. § 48-242(E). *Payment Date.* One-half of the voluntary contribution is paid on the first Monday in November of each year and the other half is due on the first Monday of May of the succeeding calendar year.

Collecting Agency. The County Treasurer's Office in each county where such property is located. Each County Treasurer is to remit to the State Treasurer the state's portion of the Net Voluntary Contribution.

DISTRIBUTION

A.R.S. § 48-243. *Distribution Factor.* The County Treasurer shall remit to each applicable taxing jurisdiction all voluntary contributions, in the same manner as property taxes, in amounts derived by reducing the gross contribution applicable to each jurisdiction by the following factor:

- The ratio that Statewide Net Voluntary Contributions bear to the Statewide Total Gross Voluntary Contribution.

Voluntary Contributions By Districts

EXHIBIT SRP

CALCULATING STATEWIDE NET VOLUNTARY CONTRIBUTIONS

A.R.S. § 48-241, A.R.S. § 48-242. *Net Voluntary Contributions.* In determining the voluntary contribution which is paid by the Salt River Project in lieu of property taxes, the following steps are taken:

- (1) Calculate for all taxing districts combined, the total property tax to which the Salt River Project would be liable for 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 the appropriate property classification, which was 29% for FY 1995 in this case for Class 2 properties.
 - (b) The primary or secondary property tax rates for each taxing jurisdiction is then applied against the product calculated in (a) above to obtain the Statewide Total Gross Voluntary Contributions.
- (2) Subtract from the Total Gross Voluntary Contribution the following deductions:
 - (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. (Total kilowatt hours sold or used for pumping/total kilowatt hours sold or used.) ^{1/}
 - (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, (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. ^{2/}
 - (c) Any taxes or assessments paid to the State of Arizona or its political subdivisions during the preceding calendar year other than taxes or assessments to which the district was subject before April 18, 1969, such as Transaction Privilege, Highway and Unemployment Taxes or equipment weight fees and improvement district assessments.
 - (d) \$10,000.

^{1/} By statute, 10% is the maximum percent of electricity that may be claimed for pumping groundwater, unless the percent of kilowatt hours devoted to pumping groundwater exceeds 70% within a district.

^{2/} By statute, 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; however, 19% is the maximum percentage which may be claimed and has been the effective percentage since 1973. Municipal use is all water use other than for agricultural purposes.

(Continued)

Voluntary Contributions By Districts

HISTORY

Laws 1963, 1st Special Session, Chapter 1 authorized special districts which sell electricity for direct consumption and not otherwise subject to the General Property Tax, to make "voluntary" contributions to the state and other taxing units. The amount of the "voluntary" contributions was based on the assessed valuation of properties within the special district. This valuation was determined by the County Assessors. Districts were not subject to this payment on properties producing electricity for pumping groundwater and a credit was allowed for costs incurred by the district in producing and distributing water to municipalities. One-half of the payment was made on the first Monday in November and one-half was due on the first Monday in May of the succeeding year. The payment was made to the county treasurer of the county in which the property was located. County treasurers distributed the payments in the same manner as property taxes. (E - April 19, 1963)

Laws 1969, Chapter 135 clarified the procedure for determining the amount of voluntary contributions paid by each district. The responsibility for valuing district property was transferred to the Department of Property Valuation. The law also established a minimum level of contributions for each district. The minimum contribution was equal to a percent of the district's gross revenue from direct sales of electricity for "residential" and "commercial and industrial" purposes. (E - April 18, 1969)

Laws 1973, Chapter 123 transferred the responsibility for valuing district property from the Department of Property Valuation to the newly formed Department of Revenue. (E - July 1, 1974)

Laws 1979, Chapter 153 eliminated, for the 1979 tax year the provision that required districts to pay a minimum level of contributions based on a percent of their gross receipts. (E - July 21, 1979)

Laws 1980, 2nd Special Session, Chapter 8 eliminated the provision that required districts to pay a minimum level of contributions based on a percentage of their gross receipts, beginning in tax year 1984. In tax years 1980, 1981, 1982 and 1983 no minimum contribution level will be required unless provided for by the Legislature.

Laws 1985, Chapter 187 provided statutory authority for agricultural improvement districts to make voluntary contributions to other political subdivisions besides the state, counties, cities, and school districts. The allowable contributions will be phased-in over a 3-year period beginning in the 1986 property tax year.

Laws 1988, Chapter 271 included Salt River Project property in the basic state aid calculation, thereby reducing state aid to school districts where SRP property is located. (E - July 1, 1988)

AIRCRAFT LICENSE TAX

DESCRIPTION

The Arizona Aircraft License Tax originally commenced on January 1, 1965 after passage of a constitutional amendment (see Arizona Constitution, Article 9, Section 15). It is a tax in lieu of all ad valorem property tax on certain aircraft based and registered in the state.

NOTE: The technical rewrite of A.R.S. Title 28 (Transportation) by Laws 1995, Chapter 132 will result in a renumbering of some current statutes starting January 1, 1997. In addition, Laws 1995, Chapter 147 provided for changes to A.R.S. Title 28 in conjunction with the technical rewrite. Legislative Council was instructed to prepare conforming legislation for the 1996 legislative session. These changes will be documented in future *Tax Handbook Supplements*.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>
1994-95	\$1,507,555
1993-94	1,461,259
1992-93	1,429,867
1991-92	1,404,933
1990-91	1,361,153
1989-90	1,288,750
1988-89	1,121,900
1987-88	1,162,980
1986-87 ^{1/}	1,297,328
1985-86	2,567,490
1984-85	2,521,476
1983-84	2,196,831
1982-83	2,010,768
1981-82	1,631,047
1980-81	1,854,153
1979-80	1,614,242
1978-79	1,266,892
1977-78	935,331
1976-77	708,311
1975-76	511,330

^{1/} The Aircraft License Tax was reduced in half from 1% to 0.5% effective in FY 1986-87.

SOURCE: Arizona Department of Transportation, Aeronautics Division. Figures prior to FY 1985-86 are from the Annual Financial Report by the Arizona Department of Administration's Finance Division.

WHO PAYS THE TAX

A.R.S. § 28-1765. *Taxpayer.* Owners of aircraft based in the state are required to be registered, unless an exemption is provided for such aircraft.

(Continued)

Aircraft License Tax

TAX BASE

A.R.S. § 28-1765. *Fair Market Value.* The Aircraft License Tax is levied on the average fair market value of each aircraft subject to the tax. The fair market value is determined annually by the Division of Aeronautics, Department of Transportation using industry sources or dealer price guides for each particular make, model and year of aircraft or other recognized reliable sources of information.

A.R.S. § 28-1761. *Commercial Aircraft.* Aircraft except those operated by an airline company, entering the state to engage in commercial operations must first register with the state and thus is subject to the license tax.

A.R.S. § 28-1761. *Exemptions.* The following are exempt from the Aircraft License Tax:

- (1) Regularly scheduled aircraft operated by an airline company for hire. [See A.R.S. § 28-1761(A)]
- (2) Non-resident owned aircraft not used for intrastate commercial activities and not based in Arizona for more than 90 days per year. [See A.R.S. § 28-1765 and A.R.S. § 28-1761(A)]
- (3) Aircraft owned and held in inventory or for sale by a bonafide aircraft dealer. [See A.R.S. § 28-1761(B)]
- (4) Aircraft operated exclusively in the public service by the United States Government, the state, a political subdivision or the Civil Air Patrol. [See A.R.S. § 28-1761(B)]

TAX RATE

A.R.S. § 28-1765. *General Rate.* One half of a percentage point of the average fair market value, except that in no case shall the tax be less than \$20 per year unless an exemption has been established. The annual license tax for a salvage aircraft is \$5 and shall not be prorated. [See A.R.S. § 28-1765(E)]

Non-residents. A non-resident 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 one-tenth of 1% (0.1%) of the average fair market value of such aircraft.

Aircraft in Storage. The license tax for aircraft in storage or being repaired is \$20 for each aircraft.

Specialty Aircraft. The license tax for an antique, classic, warbird, glider, experimental, home built, or balloon aircraft is \$20 for each aircraft. [See A.R.S. § 28-1765(F)]

Manufacturer's Aircraft. The license tax for a manufacturer's aircraft is \$20 for each aircraft. [See A.R.S. § 28-1765(G)]

Nonresident Maintenance Aircraft. The license tax for a maintenance aircraft owned by a nonresident is \$20 for each aircraft unless an exception was established pursuant to A.R.S. § 28-1761.

New Registration. Aircrafts that are newly registered after the beginning of a calendar year shall pay the license tax on a pro rata basis.

PAYMENT SCHEDULE

A.R.S. § 28-1761. *Registration.* All aircraft based in the state, except those listed under Exemptions (1) and (2), must register with the Division of Aeronautics, Department of Transportation, within 60 days after purchase, lease, or entry into the state and renewed annually before the last day of February. No aircraft will be registered unless the license tax has been paid.

Fees. Registration fee is \$5. 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. [See A.R.S. § 28-1762]

(Continued)

Aircraft License Tax

A.R.S. § 28-1765(A). *Due Date.* The license tax is payable to the Division of Aeronautics upon initial registration and annually by the last day of February.

Aircraft in Storage and Salvage Aircraft. The owner of an aircraft in storage or being repaired and salvage aircraft shall pay the license tax, if any, on a pro rata basis immediately after such aircraft is returned to use.

DISTRIBUTION

A.R.S. § 28-1766. *State Aviation Fund.* All monies received from the license tax and registration and penalty fees are deposited in the state Aviation Fund.

Purpose. Revenues deposited in the state Aviation Fund are dedicated to the construction, development and improvement of airports in the state.

HISTORY

Laws 1964, Chapter 53, Section 1 established the first Arizona Aircraft License Tax. The tax was levied on all aircraft customarily kept and registered in the state. This did not include regularly scheduled aircraft that was operated by an airline company for hire or other types of aircraft specifically excluded. The tax was levied at a rate of 1.5% of the manufacturer's list price for the first year and thereafter at a rate of 1% of the fair market value of the aircraft. The minimum tax was \$20. The County Assessor's Office was responsible for collecting the tax. Tax collections were distributed 25% to the state General Fund, 25% to the county General Funds, 25% to the common and high school districts and 25% to the incorporated cities and towns. (The provisions of this law were not effective until passage of a constitutional amendment at the election of November 3, 1964.)

NOTE: A Constitutional Amendment passed by the voters on November 3, 1964 established an Aircraft License Tax in lieu of the ad valorem property tax on certain types of aircraft. (E - January 1, 1965)

Laws 1969, Chapter 11 provided that the Aircraft License Tax was paid annually on or before the last day of February. The minimum tax was changed from \$20 to \$10. The distribution of the tax was also changed. Under this law, 25% of collections went to the state General Fund and 75% went to the state Aviation Fund. The responsibility for collecting the Aircraft License Tax was transferred to the Department of Aeronautics. (E - March 6, 1969)

Laws 1972, Chapter 117 changed the Aircraft License Tax rate to 1% of the fair market value of the aircraft, regardless of the age of the aircraft. The law also established an exemption for aircrafts that are in storage from the beginning of the year or are placed in storage upon entry into the state. (E - May 8, 1972)

Laws 1973, Chapter 19 changed the distribution to allocate 100% of collections to the state Aviation Fund. (E - August 8, 1973)

Laws 1973, Chapter 146 replaced A.R.S. § 2-411 and 2-412 with A.R.S. § 28-1765 and 28-1766. This change replaced the state Department of Aeronautics with the Department of Transportation, Division of Aeronautics. The allocation of collections enacted in Chapter 19 was not incorporated into this amendment and consequently was repealed with the repeal of A.R.S. § 2-412. (E - July 1, 1974)

Laws 1974, Chapter 136 amended A.R.S. § 28-1766 to again allocate 100% of Aircraft License Tax collections to the state Aviation Fund. (E - August 9, 1974)

Laws 1976, Chapter 126 extended the tax exemption granted to aircraft in storage to cover aircraft under repair. (E - September 23, 1976)

Laws 1979, Chapter 173 increased the Minimum Aircraft License Tax payment from \$10 per year to \$20 per year. (E - July 21, 1979)

(Continued)

Aircraft License Tax

Laws 1986, Chapter 254 reduced for a non-resident the Aircraft License Tax rate from 1% to one-tenth of 1% of the average market value of the aircraft provided the aircraft is based in the state for more than 90 days, but less than 210 days in any one calendar year and the aircraft is not engaged in any intrastate commercial activity. (E - August 13, 1986)

Laws 1986, Chapter 370 reduced the Aircraft License Tax from 1% to 0.5% of the average fair market value. Also, provided for a reduction in the Motor Vehicle Fuel Tax refund from 15¢ per gallon to 11¢ per gallon when basis of claim was due to the fuel being used in an aircraft. (E - August 13, 1986)

Laws 1990, Chapter 232 eliminated the exemption from registration, the registration fee, and the Aircraft License Tax for aircrafts which are in storage or repair. The license tax is \$20 for each aircraft, but not to exceed the aggregate annual total of \$200 for all aircrafts by the same owner. Owners of aircrafts placed in storage before November 1990 must file affidavits for the Vehicle License Tax before January 1, 1991. (R - January 1, 1990)

Laws 1991, Chapter 17 provided definitions for these types of aircrafts: antique, balloon, classic, experimental, glider, home built, maintenance, manufacturer's, salvage, and warbird. This bill established a \$20 annual license tax for all such aircrafts, except the license tax for a salvage aircraft shall be \$5. Other pertinent changes: (E - September 21, 1991)

- (1) Required that registration be accomplished within 60 days after aircraft is brought into Arizona. Eliminated the "60 days after purchase or lease" provision for registration.
- (2) Set a penalty fee for delinquent registration at \$25 for the first month and \$5 for each subsequent month of delinquency.
- (3) Increased the fee from \$1 to \$4 for a duplicate license decal.
- (4) Changed the days from 30 to 60 for a person who has been assigned an aircraft registration certificate to register such aircraft in that person's name. The same delinquent registration penalty also applies to these assignments.
- (5) Eliminated the maximum aggregate total tax of \$200 in one year for aircraft(s) in storage. Also, required the owner of such aircraft to notify the Division of Aeronautics within 10 days of the date the aircraft is returned to use.

Laws 1995, Chapter 25 modified the procedures by which the Assistant Director of the Department of Transportation assesses registration fees, license taxes and penalties for general aviation aircraft. Reduced from 90 to 60 days the period of time for declaring an aircraft "abandoned" and the time a seized aircraft must be held before sale. Clarified procedures and rules for registering governmental aircraft. Licensed aircraft dealers who purchase planes with intent to sell must register, within 10 days after purchase, the plane as "aircraft held for purpose of sale". (E - July 13, 1995)

WATERCRAFT LICENSE TAX

DESCRIPTION

The Arizona Constitution, Article 9, Section 15 exempts all watercraft registered for operation in the state, excluding those owned and operated for commercial purposes, from the ad valorem property taxes. Instead, such watercraft may be subject to the Watercraft License Tax as prescribed by statute.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>
1994-95	\$1,543,993
1993-94	1,316,700
1992-93	1,618,546
1991-92	1,141,849
1990-91	1,139,446
1989-90	1,079,180
1988-89	1,119,496
1987-88	1,083,145
1986-87	1,039,100
1985-86	1,010,365
1984-85	826,300
1983-84	810,100
1982-83	762,200
1981-82	832,012
1980-81	395,677
1979-80	371,375
1978-79	353,201
1977-78	322,260
1976-77	301,332
1975-76	283,008

SOURCE: Department of Administration Revenue Codes - Org. Codes #'s 8123, 5776, 5768 and Sub-object Code # 4129. For fiscal years prior to 1981-82, figures are from the Department of Administration's Annual Financial Reports.

WHO PAYS THE TAX

A.R.S. § 5-321 and A.R.S. § 5-322. *Taxpayer.* Persons owning a watercraft which requires numbering by this state. Numbering is required for all undocumented watercraft underway, moored or anchored on the waters of this state.

Definition. Persons includes individual, firm, corporation, partnership or association, and agent, assignee, trustee, executor, receiver or representative thereof. [See A.R.S. § 5-301]

TAX BASE

A.R.S. § 5-321(B). *Measurement.* The Watercraft License Tax is levied on watercraft on each foot of length or fraction thereof. The length of each watercraft is measured from the forward most part of the bow excluding bow sprit or jib boom, over the centerline to the rear most part of the transom excluding sheer, outboard motor, rudder, handles or other attachments.

(Continued)

Watercraft License Tax

Use Tax Restrictions. No number certificate will be issued or transferred to a person subject to the Use Tax, unless such tax is shown paid by a receipt from the collecting officer.

A.R.S. § 5-322. Exemptions.

- (1) Foreign watercraft temporarily using the waters of the state.
- (2) Military or public vessels of the United States, except recreational type public vessels.
- (3) Watercraft used solely as life boats.
- (4) Undocumented watercraft operating under a valid temporary certificate.
- (5) Watercraft owned and operated by the state or any political subdivision of the state must be numbered, but no tax or registration fee is required.
- (6) Watercraft owned by non-residents, which are in the course of interstate operation and display a valid number issued by the U.S. Coast Guard or a state or possession of the U.S. Government may be operated for 90 days after entering the state without an Arizona registration.
- (7) Watercraft owned by non-residents, which are in the course of interstate operation and not required to be numbered in the state of their principal use, may be operated for 90 days after entering the state without an Arizona registration.
- (8) Watercraft displaying a valid number issued under a federally approved numbering system and used principally in the state of Arizona may be operated for 90 days after entering the state without an Arizona registration. Upon expiration of 90 days, the owner must number the watercraft.
- (9) Watercraft used for demonstration by dealers or manufacturers engaged in the sale of watercraft must obtain a dealer watercraft certificate.
- (10) Watercraft owned and operated for commercial purposes and other watercraft not exempt from the Ad Valorem Property Tax.
- (11) Watercraft possessed by licensed marine dealers which will be offered for resale (see A.R.S. § 5-321C).
- (12) Watercraft used by non-resident U.S. military personnel where Arizona is the state of principal use. (Title 50, U.S. Code, Section 574)

TAX RATE

A.R.S. § 5-321(A-1). For Resident Owners of Watercraft:

- 45¢ per foot of length (or fraction of a foot) up to and including 18 feet and
- 68¢ per foot of length (or fraction of a foot) over 18 feet.

A.R.S. § 5-321(A-2). For Non-Resident Owners of Watercraft:

- \$1.40 per foot of length (or fraction of a foot) up to and including 18 feet.
- \$2.75 per foot of length (or fraction of a foot) over 18 feet.

PAYMENT SCHEDULE

A.R.S. § 5-321(A). Due Date. Watercraft License Taxes, along with a registration fee, are due at the time of application for watercraft registration and upon renewal of such watercraft.

A.R.S. § 5-321.01. Staggered Registration. Laws 1982, Chapter 255 authorized the 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(A). Collection Agency. Arizona Game and Fish Department.

Watercraft License Tax

DISTRIBUTION

A.R.S. § 5-323(B). *Disposition.* Each month, Watercraft License Tax revenues are deposited as follows:

- **Watercraft Licensing Fund.** Forty-five percent of license tax revenues. Such monies are subject to legislative appropriation. Amounts deposited in this fund are used for administration and enforcement of watercraft laws and monies in excess of \$290,000 in a fiscal year is used for providing an education program related to boating and boating safety.
- **Remainder.** Fifty-five percent is deposited by Arizona Game and Fish as follows: (1) Fifteen percent to the State Lake Improvement Fund. Monies deposited in the State Lake Improvement Fund may be used only for administration of the State Lake Improvement Fund, for administration of the Boating Safety Fund, for preparation of a statewide lake development and improvement plan, or for improvement projects on state waterways that have been approved by Arizona Outdoor Recreation Coordinating Commission (see A.R.S. § 5-382) and (2) Eighty-five percent to the Law Enforcement and Boating Safety Fund. Amounts deposited in this fund are distributed to the counties for boating law enforcement, personnel, equipment and training. [See A.R.S. § 5-383]

HISTORY

Laws 1966, Chapter 116 established the Watercraft License Tax. Non-powered watercraft were exempt from the tax if they were 12 feet or less in length and were not used for commercial purposes. The tax was levied at a rate of 25 cents per foot of length (or fraction of a foot) up to and including 18 feet. For each foot of length (or fraction of a foot) over 18 feet, the tax was 50 cents per foot. The tax was collected annually by the Motor Vehicle Division. Proceeds were deposited in the State Lake Improvement Fund. (The provisions of this act did not become effective until the Constitution was amended in the special election of November 8, 1966.)

NOTE: An amendment to the Constitution approved by the voters on November 8, 1966, repealed the General Property Tax on all watercraft except watercraft owned and operated for commercial purposes. Under this amendment, watercraft that were exempt from the General Property Tax were subject to a Watercraft License Tax, as provided by law. (E - January 1, 1967)

Laws 1968, Chapter 184 extended the Watercraft License Tax to include all watercraft registered and used in the State of Arizona except watercraft still subject to the ad valorem property tax or otherwise specifically exempted. The responsibility for collecting the tax was transferred from the Motor Vehicle Division to the Arizona Game and Fish Department. (E - June 20, 1968)

Laws 1972, Chapter 166 provided that the Watercraft License Tax be paid at the time of watercraft registration. Watercraft registrations expired on December 31 of each year and were renewed before the following March 1. The law extended the types of watercraft that were exempt from payment of the Watercraft License Tax. The distribution of the license tax was also changed. Under this law, \$40,000 of the amount collected was deposited in the Watercraft Licensing Fund. The remaining collections were deposited in the State Lake Improvement Fund. (E - August 13, 1972)

Laws 1975, Chapter 38 exempted licensed marine dealers from registering watercraft in their possessions when they were to be offered for resale. (E - September 12, 1975)

Laws 1981, Chapter 269 changed the Watercraft License Tax rate and provided that a separate tax rate should be levied on resident and non-resident taxpayers. For resident owners of watercraft, the license tax rate was changed to 50 cents per foot of length, or fraction of a foot, up to and including 18 feet and 75 cents per foot of length, or fraction of a foot, greater than 18 feet. For non-resident owners of watercraft, the license tax rate was changed to 65 cents per foot of length, or fraction of a foot, up to and including 18 feet and \$1.25 per foot of length, or fraction of a foot, greater than 18 feet. This law also changed the distribution of receipts from the Watercraft License Tax, beginning January 1, 1982. Under the new distribution formula, 25% of receipts (up to a maximum of \$190,000) will be deposited in the Watercraft Licensing Fund. Of the

(Continued)

Watercraft License Tax

remaining receipts, 60% will go to the State Lake Improvement Fund and 40% will go to the newly established Law Enforcement and Boating Safety Fund.

Laws 1982, Chapter 90 provided that monies deposited in the State Lake Improvement Fund may be used to administer the Law Enforcement and Boating Safety Fund in addition to other authorized uses. (E - July 24, 1982)

Laws 1982, Chapter 255 authorized the Game and Fish Commission to establish rules for registering watercraft on a staggered monthly basis. In order to implement a staggered registration system, the law also authorized registration periods of less than 12 months or more than 12 months with license taxes prorated accordingly. Although this law was effective August 31, 1982, staggered registration will not be initiated until the Game and Fish Commission has established rules and the rules have gone through due process. Until that time all watercraft will be registered annually before March 1.

Laws 1987, Chapter 228 redefined distribution of Watercraft License Tax revenues:

- (1) Forty-five percent (previously 25%) will go to the Watercraft Licensing Fund used to administer and enforce boating laws. Monies in this fund from license taxes which exceed \$290,000 in a fiscal year shall be used for boating education and safety programs.
- (2) The remaining 55% of the license taxes received each month shall be distributed by the Arizona Game and Fish Department as follows: Fifteen percent (previously 60%) of the amount shall go to the State Lake Improvement Fund, and eighty-five percent (previously 40%) to the Law Enforcement and Boating Safety Fund. (E - May 7, 1987)

Laws 1994, Chapter 79 increased the license tax levied on nonresident owners of watercraft and decreased the license tax on resident owners. The license tax for nonresident owners was increase from 65¢ to \$1.45 per foot of length, or fraction thereof, on each watercraft up to and including 18 feet, and from \$1.25 to \$2.75 per foot of length for each foot or fraction thereof over 18. The license tax for resident owners was decreased from 50¢ to 45¢ per foot of length, or fraction thereof, on each watercraft up to and including 18 feet, and from 75¢ to 68¢ per foot or fraction thereof over 18 feet. The act contains provisions defined in Article IX, Section 22, Constitution of Arizona that requires the affirmative vote of at 2/3rds of both houses. (E - April 12, 1994)

LIEU TAX ON PRIVATE CAR COMPANIES

DESCRIPTION

This is a tax on the property of private car companies in lieu of all other taxes on such property and the business of such companies except for the annual license tax and registration fee.

YIELD

<u>Fiscal Year</u>	<u>Gross Collections</u>
1994-95	\$1,240,453
1994-94	1,036,897
1992-93	894,851
1991-92	878,618
1990-91	824,207
1989-90	702,678
1988-89	675,653
1987-88	541,639
1986-87	654,627
1985-86	951,942
1984-85	750,036
1983-84	626,198
1982-83	566,505
1981-82	538,855
1980-81	692,366
1979-80	536,773
1978-79	999,759
1977-78	1,348,215
1976-77	1,277,441
1975-76	1,389,157

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

A.R.S. § 42-741. *Definition.* Private car companies. Private car company means a person engaged in the business of operating, furnishing or leasing cars for transporting persons or freight over railroad lines located wholly or partly within the state, not owned, leased or operated by the person supplying the cars. A person may be a private car company whether or not he or she owns the cars that are furnished and regardless of the name that is applied to the cars.

TAX BASE

A.R.S. § 42-745. *Full Cash Value.* For personal property the "limited property value" is not defined and full cash value is used as the basis for levying all personal property taxes. [See A.R.S. § 42-201.02G] Since private car company property is valued as secured personal property, all taxes on private car companies are based on the property's full cash value. Thus, the taxable value of private car companies for primary and secondary property taxes are determined as follows:

- (1) Use the full cash value of property owned by private car companies which is the value determined as of January 1 of the tax year.

(Continued)

Lieu Tax on Private Car Companies

- (2) Determine the assessment ratio that is applied to secured property in the property class (Class 7) containing private car companies. For 1990, the assessment ratio was 24%.
- (3) Multiply the value obtained in (1) above by the assessment ratio obtained in (2) above, to obtain the resulting taxable value. See General Property Tax - Real and Secured Personal Property for the chart on Arizona Classifications and Assessment Ratios of Property.

TAX RATE

A.R.S. § 42-746. *Sum of Average Rates.* Prior to 1980, the tax rate was equal to the average of the tax rates levied for all purposes in the various taxing districts of the state during the current tax year. Since the beginning of the 1980 tax year, the tax rate has equaled the sum of the following:

- (1) The average tax rate levied for Primary Property Taxes in all taxing districts of the state during the current year, and
- (2) The average tax rate levied for Secondary Property Taxes in all taxing districts of the state during the current year.

HISTORICAL AVERAGE PROPERTY TAX RATES PER \$100 OF ASSESSED VALUATION

<u>Fiscal Year</u>	<u>Sum of Average State Tax Rate</u>	<u>Primary ^{1/}</u>	<u>Secondary</u>
1995	\$13.26	\$9.44	\$3.82
1994	12.78	9.35	3.43
1993	12.51	9.00	3.51
1992	12.19	8.32	3.37
1991	11.95	8.53	3.42
1990	11.43	8.33	3.10
1989	10.88	7.96	2.92
1988	10.76	7.84	2.92
1987	10.48	7.67	2.81
1986	10.05	7.39	2.66
1985	9.86	7.44	2.42
1984	9.46	7.40	2.06
1983	9.54	7.61	1.93
1982	9.33	7.47	1.86
1981	9.60	7.87	1.73
1980	10.60	8.57	2.03
1979	11.38	-0-	-0-
1978	11.31	-0-	-0-
1977	11.51	-0-	-0-
1976	11.36	-0-	-0-

^{1/} State tax rate for 1990 to 1995 includes the minimum school tax.

SOURCE: "Arizona Property Tax Rates and Assessed Valuations" published by Arizona Tax Research Association for 1985 and earlier. For year 1986 and after, the Department of Revenue's Annual Report.

Lieu Tax on Private Car Companies

PAYMENT SCHEDULE

A.R.S. § 42-745. *Value Determination Date.* The Department of Revenue must determine the full cash value by October 15th of the tax year.

A.R.S. § 42-746. *Due and Delinquent Dates.* This tax is due and payable on and after December 15, and delinquent after the following January 15.

A.R.S. § 42-746. *Collecting Agency.* The Department of Revenue.

DISTRIBUTION

A.R.S. § 42-747(D). *State General Fund.* The Department of Revenue remits to the State Treasurer each month all taxes collected for deposit in the state General Fund.

HISTORY

Laws 1912, Chapter 39 levied a tax on the property of private car companies in lieu of all other taxes upon such property. Prior to the enactment of this law, private car companies were taxed under the provisions of the General Property Tax. The lieu tax established by this law was levied at a rate of 7% on the gross receipts of private car companies from business within the state of Arizona. The State Tax Commission was responsible for determining the value of gross receipts subject to the tax. The tax was paid before the third Monday in December. The payments were collected by the State Treasurer and all collections were credited to the state General Fund. (E - May 16, 1912)

Laws 1913, 3rd Special Session, Chapter 29 changed the lieu tax rate to equal the average annual rate of levy for all purposes in the several taxing districts of the state. This tax was levied on the full cash value of the property of private car companies during the preceding year ending June 30. The full cash value was assessed and determined by the State Tax Commission. The tax was paid to the State Treasurer on or before the third Monday in December. [See Revised Statutes of Arizona, 1913 Civil Code, paragraphs 4955, 4959 and 4961]

Laws 1949, Chapter 32 transferred the responsibility for collecting the lieu tax to the State Tax Commission. (E - June 18, 1949)

Laws 1967, Chapter 107 created the Department of Property Valuation and transferred the responsibility for determining the full cash value of private car company property to this new Department. (E - October 15, 1967)

Laws 1967, 3rd Special Session, Chapter 6 placed property owned by private car companies in Property Class 1 (see General Property Tax) and provided that all Class 1 properties were taxed on 60% of their full cash value. (E - March 21, 1968)

Laws 1972, Chapter 14 changed the basis for determining the full cash value of private car companies from a fiscal year to a calendar year basis. Under this law, the tax was payable on and after December 15 and would be delinquent after January 15. (E - August 13, 1972)

Laws 1973, Chapter 123 established the Department of Revenue and transferred the responsibility for valuing property of private car companies to the new Department. The Department of Revenue also replaced the State Tax Commission as the collecting agency. (E - July 1, 1974)

Laws 1979, Chapter 142 provided that property owned by private car companies was taxed on 36% of its full cash value during the 1979 tax year.

Laws 1980, 2nd Special Session, Chapter 8 placed property owned by private car companies in a separate class of property with railroads. [See General Property Tax] For the 1980 tax year, properties in this class were assessed at 34% of their full cash value. After 1980, this assessment ratio was annually set at the average ratio for all commercial and industrial properties in the state. This law also changed the method for determining the taxable value of most types of property. The effect of this change on private car companies is explained under TAX BASE. (Enactment of these provisions was conditional on the

(Continued)

Lieu Tax on Private Car Companies

passage of Laws of 1980, 2nd Special Session, Chapter 9 and four Constitutional amendments that were approved by the voters in a special election held on June 3, 1980.)

Laws 1980, Chapter 218 changed the method of determining the tax rate levied on the property of private car companies. (EFA - December 31, 1979)

Laws 1980, Chapter 220 increased the interest rate on delinquent payments of the lieu tax on private car companies to 12% per year. (E - July 31, 1980)

Laws 1983, Chapter 4 changed the interest rate on delinquent payments to equal the rate of interest established by Section 6621 of the Internal Revenue Code, compounded annually. (E - February 11, 1983)

VOLUNTARY CONTRIBUTIONS BY MUNICIPALITIES

DESCRIPTION

Voluntary Contributions By Municipalities required cities and towns to make voluntary contributions to the state, county, school districts, and other taxing districts under Title 48 in lieu of property taxes on remote municipal property. The Legislature intended to compensate counties or political subdivisions in which the remote property is located for their reduced taxing and bonding capacity due to the municipal property being removed from their tax rolls.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>
1994-95	\$588,341
1993-94	588,341
1992-93	143,513 ^{1/}

^{1/} Initial payments of this tax were due on the first Monday of November, 1992 for property tax year 1992.

SOURCE: State Treasurer's Office.

WHO PAYS THE TAX

A.R.S. § 9-432. *City, Town, or Political Subdivisions.* A city, town, or a successor political subdivision may make voluntary contributions of money in lieu of property taxes on its remote municipal property.

A.R.S. § 42-257(D). *Definitions.* "Remote Municipal Property" means either:

- Property owned by a city, town, or successor political subdivision that is not located in the same county as such political entities and from which water may be withdrawn or diverted and transported for use in the county of such political entities, or
- Privately owned property that previously met the requirements as stated above.

A.R.S. § 9-432(C). *Exception.* A city or town may alienate all or part of its interests in the remote municipal property and, thereby, terminate its contributions for the alienated property.

TAX BASE AND RATE

A.R.S. § 42-257(A-B). *Tax Base.* The voluntary contributions are based on the amount of primary and secondary property taxes otherwise payable on the remote municipal property. The County Assessor shall value the property at full cash value as provided in this statute.

Tax Rate. The rates are the same as those set for Real and Secured Personal Property for agricultural purposes or Class 4 property.

PAYMENT SCHEDULE

A.R.S. § 9-433(B-C). *Due-Dates.* One-half of the contribution payment is due the first Monday in November and the other half is due the first Monday in May of the next year. The payments are made solely from a city or town's revenues from any utility undertaking or, if no such undertaking exists, the payments are solely from excise taxes.

(Continued)

Voluntary Contributions By Municipalities

Collecting Agency. The State Treasurer.

Penalty Rate. Late or delinquent payments will incur a penalty of 16% per year.

DISTRIBUTION

A.R.S. § 9-433(c) and § 9-434(A). *Urban In Lieu Fund.* The State Treasurer deposits all contributions in the Urban In Lieu Fund. Then the State Treasurer shall transfer all monies in the fund to the state General Fund on July 1 and January 1 of each year.

A.R.S. § 42-1342.01(A-B). *Redistribution of Contributions.* From the Distribution Base of the Transaction Privilege Tax, the State Treasurer shall distribute, each month, to eligible political subdivisions where remote municipal property is located one-tenth of the total contribution amount computed by the County Board of Supervisors. This distribution begins in September and continues through June each fiscal year.

HISTORY

Laws 1991, Chapter 212 required cities and towns to make voluntary contributions to the state, county, school districts, and other taxing districts under Title 48 in lieu of property taxes on remote municipal property. Water may not be transported by a municipality from the remote property unless this voluntary contribution has been paid to the state beginning in the year the property was purchased or January 1, 1992, whichever is later. The Legislature intended to compensate counties or political subdivisions in which the remote property is located for their reduced taxing and bonding capacity due to the municipal property being removed from their tax rolls. Therefore, the total contribution collected is distributed each month beginning in September through June to "eligible political subdivisions" where the remote municipal property (water farm) is located. One-tenth of the contribution amount is distributed each month through the Distribution Base of the Transaction Privilege Tax. (E - was September 21, 1991)

PAYMENTS IN LIEU OF TAXES

BOULDER CANYON PROJECTS

DESCRIPTION

These are payments made by the United States or its instrumentalities in lieu of taxes from the proceeds of the Boulder Canyon Projects on the Colorado River.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>	
1994-95	\$300,000	
1993-94	300,000	
1992-93	300,000	
1991-92	300,000	
1990-91	300,000	
1989-90	300,000	
1988-89	300,000	
1987-88	300,000	
1986-87	300,000	
1985-86	300,000	
1984-85	300,000	
1983-84	300,000	
1982-83	-0-	
1981-82	600,000	^{1/}
1980-81	300,000	
1979-80	300,000	
1978-79	300,000	
1977-78	300,000	
1976-77	300,000	
1975-76	300,000	

^{1/} In 1981-82, two payments were received on the Boulder Canyon Projects. One payment was received in July of 1981 and the second payment in June of 1982. The June payment was an early payment of the 1982-83 Lieu Tax which would normally be payable in August of 1982.

SOURCE: State Treasurer's Office. Net collections from Boulder Canyon Projects are derived by summing the payments to the General Fund and to Mohave County. Prior to 1980-81, the amount paid to Mohave County was shown in the Department of Administration's Annual Financial Report under "Shared Taxes and Other Assistance to Counties."

Payments in Lieu of Taxes - Boulder Canyon Projects

WHO PAYS THE TAX

Department of the Interior - Bureau of Reclamation.

TAX BASE

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 in August of each year.

A.R.S. § 45-1331. *Collecting Agency.* State Treasurer.

DISTRIBUTION

A.R.S. § 45-1331(B). *State General Fund.* Two-thirds of payments received are dedicated to the state General Fund.

Special Fund. 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.

HISTORY

Laws 1954, Chapter 63 established a procedure for distributing payments received from the Federal Government in lieu of taxes on hydroelectric power developments located on the Colorado River. These payments are authorized under Acts of Congress. [See U.S. Statutes at Large, Laws 1940, Chapter 643] (E - March 24, 1954)

Laws 1980, 4th Special Session, Chapter 1, Section 85 changed the legal citation of the statutory section that covers the Lieu Tax. The citation was changed from A.R.S. § 45-601 to A.R.S. § 45-761. (E - June 12, 1980)

Laws 1987, Chapter 2 renumbered the statutory citation from A.R.S. § 45-761 to A.R.S. § 45-1331. (E - February 27, 1987)

VOLUNTARY CONTRIBUTIONS BY THE GAME AND FISH COMMISSION

DESCRIPTION

Required the Game and Fish Commission 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.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>
1994-95	\$3,302
1993-94	-0- 1/

1/ The act became effective on July 17, 1993.

SOURCE: Arizona Game and Fish Department, Habitat Branch.

WHO PAYS THE TAX

A.R.S. § 17-272(A). *The Game and Fish Commission.* The Game and Fish Commission may make voluntary contributions of money in lieu of property taxes if the Commission purchases the following types of real property:

- (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.

A.R.S. § 17-272(F). *Exceptions.* The Game and Fish Commission shall not 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.

TAX BASE AND RATE

A.R.S. § 17-272(B). *Tax Base.* The Game and Fish Commission shall consult with the assessor of the county in which the property is located and determine the assessed valuation as Class 4 agricultural property. The assessed valuation of the property shall not be increased from one tax year to the next by more than 2%.

A.R.S. § 17-272(C). *Tax Rate.* The rates are the same as those set for Real and Secured Personal Property for agricultural purposes or Class 4 property. The amount of the contribution is determined by applying the current aggregate property tax rate to the determined valuation.

PAYMENT SCHEDULE

A.R.S. § 17-272(A&D). *Same Manner as Property Taxes.* The County Treasurer shall collect from the Game and Fish Commission the amount of contribution at the same time and in the same manner as ad valorem property taxes which is collected in two annual installments with one-half paid by November 1st and one-half paid by the following May 1st. The contributions may be made by the Game and Fish Commission from the Game, Nongame, Fish and Endangered Species Fund, the Conservation

(Continued)

Voluntary Contributions By The Game and Fish Commission

Development Fund, the Waterfowl Conservation Fund, the Arizona Game and Fish Commission Heritage Fund or any other source of monies available and budgeted by the Commission.

DISTRIBUTION

A.R.S. § 17-272(E). *Same Manner as Property Taxes.* The County Treasurer shall distribute the monies received to the various taxing districts in which the property is located in the same manner as property taxes are distributed (see DISTRIBUTION under the Real and Secured Property Tax Chapter).

HISTORY

Laws 1993, Chapter 192 allowed the Game and Fish Commission 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. The contribution is computed assuming classification as Class 4 agricultural property. The contribution is collected and distributed in the same manner as ad valorem property taxes. The effective date of this act was July 17, 1993.

CHAPTER VII

HIGHWAY USER TAXES

MOTOR VEHICLE FUEL TAX

DESCRIPTION

The Motor Vehicle Fuel Tax is a tax on each gallon of fuel commonly or commercially known as gasoline that is possessed, refined, manufactured, produced, blended, compounded, or imported in this state by a distributor.

NOTE: The technical rewrite of A.R.S. Title 28 (Transportation) by Laws 1995, Chapter 132 will result in a renumbering of some current statutes starting January 1, 1997. In addition, Laws 1995, Chapter 147 provided for changes to A.R.S. Title 28 in conjunction with the technical rewrite. Legislative Council was instructed to prepare conforming legislation for the 1996 legislative session. These changes will be documented in future *Tax Handbook Supplements*.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u> ^{1/}
1994-95	\$351,038,867
1993-94	341,252,229
1992-93	322,572,576
1991-92	317,996,785
1990-91	305,756,113
1989-90	294,050,829
1988-89	292,334,836
1987-88	271,459,606
1986-87	268,958,183
1985-86	222,687,959
1984-85	195,621,567
1983-84	172,295,106
1982-83	135,257,637
1981-82	108,169,873
1980-81	105,990,786
1979-80	108,870,672
1978-79	113,921,598
1977-78	107,83,634
1976-77	101,669,165
1975-76	97,307,183

^{1/} Includes Special Funds and Refunds, but excludes Use Fuel Tax collections.

SOURCE: Department of Transportation, Fiscal Planning, HURF Reports and the Motor Vehicle Division breakdown of Refunds and Distributions to Special Funds. Prior to FY 1985-86, figures are from Statements of Debits and Credits to the account of the Motor Vehicle Division.

WHO PAYS THE TAX

A.R.S. § 28-1501. *Distributor of Motor Vehicle Fuel.* Such a distributor is defined as any person who refines, manufactures, produces, compounds, blends or imports motor vehicle fuel in the original package or container or otherwise. This includes every person importing motor vehicle fuel by means of a pipeline but does not include persons importing motor vehicle fuel in the fuel tank of a motor vehicle. [See A.R.S. § 28-101]

(Continued)

Motor Vehicle Fuel Tax

TAX BASE

A.R.S. § 28-1501. *Motor Vehicle Fuel.* The Motor Vehicle Fuel Tax is levied on each gallon of motor vehicle fuel possessed, refined, manufactured, produced, blended or compounded in this state by the distributor, or imported by the distributor. Motor vehicle fuel includes all varieties of gasoline and all flammable liquids that are composed 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. [See A.R.S. § 28-101]

Exemptions:

- (1) Aviation or jet fuel. [A.R.S. § 28-101]
- (2) Motor vehicle fuel used or transported in railroad common carriers and which will not be resold or distributed for use in motor vehicles operated upon the highways of the State. [A.R.S. § 28-1518]
- (3) Motor vehicle fuel moving in interstate or foreign commerce which will not be consumed in this state. [A.R.S. § 28-1519]
- (4) Motor vehicle fuel sold to the United States Armed Forces for consumption in ships or aircraft or for use outside this state. [(A.R.S. § 28-1519)]
- (5) Motor vehicle fuel used in equipment other than motor vehicles, watercraft, or motor vehicles operating on a transportation facility or toll road, operated in this state. [A.R.S. § 28-1520(A)]
- (6) The tax on each gallon of motor vehicle fuel used in aircraft is refundable upon application except that 5¢ of the tax on each gallon remains in the State Aviation Fund. [A.R.S. § 28-1520(C)]
- (7) The tax on fuel exported or lost by fire, theft or other accident is refundable upon application. [A.R.S. § 28-1520(A)]

A.R.S. § 28-1520. *Refunds.* Consumers exempt under any of the above provisions may apply to the Motor Vehicle Division of the Department of Transportation for a refund of taxes paid. There is a limit of one application for refund per person in any 12-month period if the total allowable gallonage is less than 200 gallons.

TAX RATE

A.R.S. § 28-1501. *Rates.* The tax rate is 18¢ per gallon.

PAYMENT SCHEDULE

A.R.S. § 28-1502. *Due Date.* The Motor Vehicle Fuel Tax is due on or before the 25th of the month following the month in which the tax accrues. This payment period is only applicable for distributors who post a bond equal to one and one-half times the Director of the Department of Transportation's estimate of the distributor's monthly fuel tax collections. If a distributor wishes to post a bond equal to one and one-half times the weekly fuel tax collections, the Motor Vehicle Fuel Tax collections accrued during each week ending on Saturday will instead become due on the following Tuesday. [See A.R.S. § 28-1510(b)]

Collecting Agency. Motor Vehicle Division, Department of Transportation.

Disposition. The Director of the Department of Transportation, after deductions for exemptions and refunds, shall distribute the tax monies to the State Treasurer.

DEDICATION

A.R.S. § 28-1502. *HURF.* Taxes on motor vehicle fuel consumed in vehicles operated on the roads and highways of this state are deposited in the Highway User Revenue Fund. The Highway User Revenue Fund may be expended only for the following purposes (see Arizona Constitution, Article 9, Section 14):

(Continued)

Motor Vehicle Fuel Tax

- The cost of administering taxes deposited in the fund.
- Refunds and adjustments provided for by law.
- Payment of highway obligations.
- The cost of construction, reconstruction, maintenance and repair of public highways and bridges and county, city and town roads and streets.
- The cost of state enforcement of traffic laws.
- The cost of publication and distribution of Arizona Highways magazine.
- Distribution to counties, incorporated cities and towns according to law.

A.R.S. § 28-1502.01. *Watercrafts*. The tax on fuel used in watercraft are dedicated to the following purposes:

- The costs of conducting a survey to determine the percent of fuel taxes collected from watercraft.
- One percent of collections is retained by the Department of Transportation to defray the administrative expense of collecting the tax.
- The remaining collections are deposited in the State Lake Improvement Fund. Such monies may be used for administration of the State Lake Improvement Fund and the Law Enforcement and Boating Safety Fund, for preparation of a statewide lake development and improvement plan, or for projects on any waters of the state as approved by the Arizona Outdoor Recreation Coordinating Commission. [See A.R.S. § 5-382]

DISTRIBUTION

Motor Vehicle Fuel Tax collections are distributed on the following basis: [See A.R.S. § 28-1502]

- *Watercraft*. Tax collections on fuel for watercrafts pay for the costs of conducting a survey to determine the percent of fuel taxes collected from watercraft. One percent of such collections are retained by the State Highway Department to defray administrative expenses. The remaining collections are deposited in the State Lake Improvement Fund. [See A.R.S. § 28-1502.01]
- *Off-Highway Vehicles*. By statute, 0.55% of the tax collections on motor vehicle fuel is transferred to the Off-Highway Vehicle Recreation Fund on a monthly basis. [See A.R.S. § 28-1502.03]
- *Aircraft*. Taxes collected from sales of motor vehicle fuel consumed in aircraft are distributed to the Division of Aeronautics for deposit in the State Aviation Fund; however, if a refund is claimed, 5¢ of the tax collected remains in the State Aviation Fund and the balance is refunded to the taxpayer. [See A.R.S. § 28-1502 and §28-1520(C)]
- *Remainder*. The net collections remaining after refunds and the above distributions are deposited in the Highway User Revenue Fund. [See MOTOR CARRIER TAX for distribution of the Highway User Revenue Fund]

(Continued)

Motor Vehicle Fuel Tax

DISTRIBUTION OF MOTOR VEHICLE FUEL TAX COLLECTIONS (1974-75 THROUGH 1994-95)

Fiscal Year	Highway User Revenue Fund	Special Funds and Refunds
1994-95	\$342,229,293	\$8,739,574
1993-94	334,643,264	6,608,965
1992-93	315,227,469	7,345,107
1991-92	307,879,175	10,117,610
1990-91	296,316,495	8,939,628
1989-90	286,237,290	7,813,539
1988-89	286,101,273	6,233,563
1987-88	267,317,687	4,141,919
1986-87	264,592,684	4,365,499
1985-86	218,666,021	4,021,938
1984-85	191,952,052	3,669,515
1983-84	168,203,663	4,091,443
1982-83	131,931,860	3,325,777
1981-82	104,982,738	3,187,135
1980-81	102,624,037	3,366,749
1979-80	105,330,191	3,540,481
1978-79	110,087,666	3,833,932
1977-78	104,423,890	3,419,744
1976-77	97,821,671	3,847,495
1975-76	93,282,442	4,024,739
1974-75	67,328,308	3,429,682

1/ Use Fuel Tax collections excluded.

2/ In 1974-75, distributions to the Highway User Revenue Fund represent collections for October - June. Motor Vehicle Fuel Taxes collected during July, August and September of 1974 (\$22,419,789) were distributed under the old formula.

SOURCE: Department of Transportation, Fiscal Planning, HURF Reports and the Motor Vehicle Division breakdown of Refunds and Distributions to Special Funds.

Motor Vehicle Fuel Tax

DISTRIBUTION OF MOTOR VEHICLE FUEL TAX COLLECTIONS (YEARS PRIOR TO 1974-75)

<u>Fiscal Year</u>	<u>State</u> ^{1/}	<u>Counties</u> ^{1/}	<u>Cities</u> ^{1/}	<u>Special Funds And Refunds</u> ^{1/}
1973-74	45,890,470	20,282,054	8,605,943	3,092,128
1972-73	47,309,554	20,909,612	8,877,248	3,023,444
1971-72	42,530,227	18,798,320	7,995,105	2,902,218
1970-71	38,724,180	17,116,187	7,248,954	2,627,562
1969-70	35,240,492	15,573,340	6,583,807	2,562,979
1968-69	32,457,973	14,344,482	6,074,911	2,613,274
1967-68	28,906,059	12,774,736	5,409,938	2,543,936
1966-67	27,873,909	12,317,472	5,216,352	2,534,510
1965-66	26,079,934	12,339,673	4,387,177	2,142,228
1964-65	20,528,302	14,688,136	-	2,047,133
1963-64	20,073,791	14,401,502	-	2,111,397
1962-63	18,670,551	9,148,257	-	1,849,086
1961-62	17,883,254	7,664,252	-	1,842,381
1960-61	16,884,380	7,219,020	-	2,235,201

^{1/} The figures are from Department of Transportation's report of actual distributions titled "Fuel Revenue Comparison Data."

^{2/} "Special Funds and Refunds" are from the Statement of Debits and Credits of the Motor Vehicle Division, Department of Transportation (June closing statement). For a breakdown see the table "Breakdown of Refunds and Distributions to Special Funds."

SOURCE: The 1985 Arizona Tax Handbook.

(Continued)

Motor Vehicle Fuel Tax

BREAKDOWN OF REFUNDS AND DISTRIBUTIONS TO SPECIAL FUNDS

<u>Fiscal Year</u>	<u>Refund to Taxpayers</u>	<u>State Aviation Fund</u>	<u>Lake Improvement Fund</u>	<u>Watercraft Fuel Tax Administration</u>	<u>Watercraft Fuel Survey</u>	<u>Off-Highway Fund</u>
1994-95	\$ 925	\$488,267	\$6,259,135	\$63,224	\$ -0-	\$1,928,023
1993-94	98,507	539,211	4,730,398	47,782	-0-	1,193,067
1992-93	828,441	503,205	4,455,929	45,009	-0-	1,512,522
1991-92	3,340,090	497,185	4,352,403	43,964	1,883,968	-0- ^{1/}
1990-91	4,110,505	614,690	4,172,289	42,144	-0-	-0-
1989-90	2,263,232	536,044	4,023,620	40,643	-0-	-0-
1988-89	1,593,377	524,804	4,024,728	40,654	-0-	-0-
1987-88	1,671,180	306,775	2,142,324	21,640	-0-	-0-
1986-87	2,031,033	371,830	1,943,010	19,626	-0-	-0-
1985-86	1,873,173	378,641	1,752,423	17,701	-0-	-0-
1984-85	1,461,729	382,111	1,807,408	18,267	-0-	-0-
1983-84	1,959,154	367,026	1,747,610	17,653	-0-	-0-
1982-83	1,619,569	314,639	1,377,713	13,856	-0-	-0-
1981-82	1,720,005	380,557	1,052,708	10,866	23,000	-0-
1980-81	1,803,396	442,275	1,109,867	11,211	-0-	-0-
1979-80	2,081,372	314,970	1,108,064	11,441	24,634	-0-
1978-79	2,287,437	334,554	1,199,822	12,119	-0-	-0-
1977-78	1,990,026	280,128	1,138,094	11,496	-0-	-0-
1976-77	2,511,930	258,658	1,049,643	10,769	16,495	-0-
1975-76	2,754,480	243,325	1,016,665	10,269	-0-	-0-

^{1/} Deposits to the Off-Highway Fund became effective retroactively to January 1, 1991. The "Refund to Taxpayers" column for the 1991-92 fiscal year includes \$1,375,346 in Off-Highway Funds.

SOURCE: Department of Transportation, Motor Vehicle Division, Breakdown of Refunds and Distributions to Special Funds.

HISTORY

Laws 1921, Chapter 116 first authorized the Arizona Motor Vehicle Fuel Tax. The tax was levied at a rate of 1¢ per gallon. Taxes were paid to the Secretary of State on or before the 15th day of each month and were deposited in the Gasoline Tax Fund. Collections in the Gasoline Tax Fund paid the expenses of the Secretary of State in administering the tax. The remaining deposits were transferred to the State Road Tax Fund. Under the provisions of Arizona Civil Code of 1913, Section 5123, 25% of collections in the State Road Tax Fund went to the state and 75% of the collections were apportioned to the counties for construction and maintenance of highways, roads and bridges. (E - June 9, 1921)

Laws 1922, Chapter 35 provided that monies formerly deposited in the State Road Tax Fund were deposited in two separate accounts within the General Fund. The share of State Road Tax Funds dedicated to the state was kept in the "25% apportionment account" and the share of road tax funds dedicated to the counties was kept in the "75% apportionment account." Under this law, all collections from the Gasoline Tax were deposited into one of these accounts within the General Fund and the Secretary of State's expenses in administering the tax were paid by an appropriation from the General Fund. (E - April 12, 1922)

Laws 1923, Chapter 76 increased the tax rate to 3¢ on each gallon of motor vehicle fuel sold. Under this law, 25% of fuel tax collections was deposited in the "25% apportionment account" in the General Fund and 25% of fuel tax collections was deposited

(Continued)

Motor Vehicle Fuel Tax

in the "75% apportionment account" in the General Fund. The remaining 50% of fuel tax collections was distributed to several County Treasurers in proportion to the amount of fuel taxes received from each county. These provisions of the bill were vetoed by the Governor but the veto was ruled unconstitutional. [See Texas Co. vs. State (1927)]

Laws 1927, 4th Special Session, Chapter 2 established the State Highway Department and transferred the responsibility for administering the Motor Vehicle Fuel Tax to the new Department. The fuel tax rate was increased to 4¢ per gallon and taxpayers were allowed to claim a 1% reduction in tax liability for shrinkage of fuel. Under this law, 5/8 of the total fuel tax collections was dedicated to the newly created Highway Fund. The remaining 3/8 of collections was distributed to the County Treasurers in proportion to the fuel taxes received from each county. (E - August 11, 1927)

Laws 1931, Chapter 2 increased the tax rate to 5¢ per gallon until February 1, 1933. The distribution formula was amended to allocate 70% of net collections to the State Highway Fund and 30% to the counties until February 1, 1933. From and after February 1, 1933, the distribution was 3/8 to the counties and 5/8 to the State Highway Fund. (E - January 30, 1931)

Laws 1931-32, 1st Special Session, Chapter 16 extended the 5¢ per gallon fuel tax rate through June 30, 1933. The law also changed the distribution of fuel taxes. Under this law, 30% of the tax was distributed to the counties and 70% of the tax was distributed to the State Highway Fund till July 1, 1932. After July 1, 1932, the tax was distributed 40% to the counties and 60% to the State Highway Fund. (E - January 18, 1932)

Laws 1933, Chapter 27 permanently increased the tax rate to 5¢ per gallon. The law also changed the distribution of fuel tax collections beginning July 1, 1933. Under the new distribution, 60% of the fuel tax was dedicated to the State Highway Fund, 30% was dedicated to the counties and 10% was dedicated to the Reconstruction Finance Corporation. The share of taxes dedicated to the Reconstruction Finance Corporation was reallocated to the State Highway Fund after a period of two years. (E - March 2, 1933)

Laws 1943, Chapter 43 changed the due date for payment of fuel taxes to the 25th day of the month following the month in which the tax accrues. (E - March 12, 1943)

NOTE: (1) An initiative measure enacted in the election of November 5, 1946 provided that one-third of the amount distributed to the counties was redistributed by the counties to the incorporated cities and towns. (E - November 25, 1946)
(2) An amendment to the Arizona Constitution, enacted at the election of November 4, 1952, provided that the statutory formula allocating tax revenue to the counties and incorporated cities and towns could not be changed to reduce the percentage of net collections allocated to the counties or incorporated cities and towns. The amendment also provided that revenues derived from the fuel tax could only be used for highway-related purposes. (E - November 24, 1952)

Laws 1960, Chapter 130 provided that unclaimed and unrefunded taxes from sales of fuel used in watercraft were deposited in the State Lake Improvement Fund and unclaimed and unrefunded taxes from sales of fuel used in aircraft were deposited in the State Aviation Fund. (E - June 25, 1960)

Laws 1962, Chapter 21 provided that all taxes collected on gasoline sold for use in watercraft were retained by the state. Under this law, a fixed percentage of fuel tax collections was designated to be collections from sales of fuel used in watercraft. This percentage was to be established every three years through a survey conducted by the Highway Department or a public or private agency. Of the total amount of taxes collected from fuel used in watercraft, 90% was distributed to the State Lake Improvement Fund and 10% was used to pay the expense of conducting the survey and other expenses related to boating administrative duties. This distribution began in the month following the conclusion of the survey. (E - June 21, 1962)

Laws 1963, Chapter 84 increased the Motor Vehicle Fuel Tax rate to 6¢ on each gallon. The additional penny tax was distributed to the counties in proportion to their vehicle fuel sales. Under this law, 80% of the amount distributed to each county from the additional tax was redistributed to the incorporated cities and towns within the county in proportion to their populations. (E - April 4, 1963)

(Continued)

Motor Vehicle Fuel Tax

Laws 1964, Chapter 75 established the Arizona Highway Patrol Fund and authorized the Legislature to appropriate monies from the State Highway Fund to the new Highway Patrol Fund. The Highway Patrol Fund received 1/8 of any amount appropriated from the Highway Fund in each of the first eight months of the fiscal year. (E - July 1, 1964)

Laws 1965, Chapter 99 increased the Motor Vehicle Fuel Tax rate to 7¢ on each gallon. Of the 7¢, 2¢ was distributed as follows: Twenty percent to the counties in proportion to fuel sales within the county, 40% to incorporated cities and towns in proportion to population, and 40% to the State Highway Fund. The remaining 5¢ was distributed as before (70% to the State Highway Fund, 20% to the counties and 10% to the counties for redistribution to the incorporated cities and towns). (E - July 20, 1965)

Laws 1969, Chapter 10 provided that 1¢ of the Motor Vehicle Fuel Tax collected on each gallon of motor vehicle fuel sold for use in aircraft should be deposited in the State Aviation Fund. (EFA - June 30, 1969)

NOTE: A constitutional amendment enacted at the election of November 3, 1970, provided that the 14 Arizona counties should not receive fewer highway user revenue dollars than they received in fiscal 1969-70, as long as total highway user revenues equal or exceed the total for fiscal year 1969-70. (E - November 27, 1970)

Laws 1970, Chapter 76 modified the distribution of tax collections from fuel sold for use in watercraft. Under this law, 1% of the tax was dedicated to the State Highway Department to defray administrative expenses. The law also set aside an amount sufficient to cover the cost of the survey conducted to determine the portion of fuel used in watercraft. The remaining collections were transferred to the State Lake Improvement Fund. (E - August 11, 1970)

Laws 1973, Chapter 146 established the state Department of Transportation and transferred the responsibility for administering the fuel tax to the new Department. (E - July 1, 1974)

Laws 1974, Chapter 139 provided for the repeal of the 2¢ per gallon gasoline tax which had been imposed by A.R.S. § 28-1501.01, and increased from 5 to 8¢ per gallon, the rate imposed by A.R.S. § 28-1501. The net effect raised the tax from 7 to 8¢. The law also established the Arizona Highway User Revenue Fund. All fuel taxes other than fuel taxes received from Watercraft or Aircraft and Fuel Taxes refunded to taxpayers were deposited in this fund. Collections in the Highway User Revenue Fund were distributed as follows: Eleven percent to the Arizona Highway Patrol Fund, 57% to the State Highway Fund, 15% to the counties and 17% to the incorporated cities and towns. The Highway Patrol Fund received seven-eighths of an estimate of its share of Highway User Revenue Funds during the first eight months of each fiscal year. (E - September 1, 1974)

Laws 1979, Chapter 123 provided that the entire amount received from the tax on fuel used in aircraft was deposited in the State Aviation Fund. Refunds of 7¢ per gallon were paid from this fund when claimed by taxpayers. (E - October 1, 1979)

Laws 1980, Chapter 128 repealed the provision that permitted distributors of motor vehicle fuel to deduct 1% from their tax liability to allow for shrinkage. Taxpayers who suffered losses of fuel due to fire, theft or other accident were authorized to apply for a refund of taxes on the basis of the loss. (E - July 31, 1980)

Laws 1981, Chapter 269 changed the timing of the survey taken to determine the percent of fuel that is sold for use in watercraft. Under this law, a survey was to be completed by the fiscal year ending in 1982 and in every three years thereafter. (E - April 27, 1981)

Laws 1981, 2nd Special Session, Chapter 2 changed the distribution of the Highway User Revenue Fund. Under this law, a fixed amount was distributed each year from the Highway User Revenue Fund to the Highway Patrol Fund. The balance of collections after making this distribution was allocated as follows: Fifty percent to the State Highway Fund, 20% to the counties and 30% to the incorporated cities and towns. Seven percent of the amount distributed to the State Highway Fund was to be apportioned among cities with a population greater than 300,000. This provision of the law was effective November 1, 1981. In addition to this provision, the law also increased the Motor Vehicle Fuel Tax rate. The tax rate was 9.6¢ per gallon for the period beginning January 1, 1982 and ending December 31, 1982. After December 31, 1982, the rate was set each January 1

(Continued)

Motor Vehicle Fuel Tax

and July 1 at 8% of the average retail selling price of fuel. Due to a referendum filed by the voters, the rate increase never became effective. The rate provisions of this law were repealed by Laws 1982, Chapter 5.

Laws 1982, Chapter 5 repealed the tax rate provisions that were enacted by Laws 1981, 2nd Special Session, Chapter 2. In place of these provisions, the fuel tax rate was increased by 5¢ per gallon over a 3-year period. The tax was imposed at a rate of 10¢ per gallon from July 1, 1982 through June 30, 1983, 12¢ per gallon from July 1, 1983 through June 30, 1984 and 13¢ per gallon thereafter.

Laws 1983, Chapter 6 provided that \$8,000,000 of the amount distributed from the Highway User Revenue Fund to the State Highway Fund was reallocated to the Arizona Highway Patrol Fund in fiscal year 1982-83. (E - February 11, 1983)

Laws 1985, Chapter 308 replaced the final phase of the 3-year 5¢ per gallon increase enacted in 1982. Until January 1, 1986 the Motor Vehicle Fuel Tax stands at 13¢. From January 1, 1986 through June 30, 1990 the rate is legislated to be 16¢ per gallon and beginning July 1, 1990 17¢. The additional 1¢ increase per gallon beginning July 1990 is a result of the federal government continuing its 8¢ per pack cigarette tax. The proceeds are earmarked for the State Highway Fund. If at any time through FY 1990-91, the Federal Government abolishes the 8¢ tax the 1¢ increase will be dropped. Under this scenario the state would pick up the 8¢ cigarette tax and direct the monies to the State Highway Fund.

Laws 1986, Chapter 66 required an interstate carrier transporting motor vehicle fuel into the state to file reports to the Director of the Department of Transportation. Failure to file such reports in a timely manner will result in a \$25 fine. An unlicensed distributor failing to pay the Motor Vehicle Fuel Tax is subject to a penalty equal to the fuel tax and 12% interest. (E - April 1, 1986)

Laws 1986, Chapter 209 continued the Motor Vehicle Fuel Tax rate of 16¢ per gallon by eliminating the termination date of June 30, 1990, provided the federal cigarette tax is reduced from \$8 per thousand to \$4 per thousand by this same date. This conditional enactment was repealed by Laws 1988, Chapter 271. This bill allowed the use of state Highway Funds to acquire, construct, or improve entry roads to state prisons. (E - August 13, 1986)

Laws 1986, Chapter 375 required the State Treasurer to adjust the monthly distribution of HURF revenues due to overages and shortages in the prior 24 months as determined by the Department of Transportation. (E - May 21, 1986)

Laws 1987, Chapter 43 required non-licensed distributors who import motor vehicle fuel from outside the state to pay a license tax before importing the fuel. The bill further required the importer to pay a \$25 processing fee and limited a non-licensed importer to no more than 76,000 gallons of motor vehicle fuel per calendar year. (E- August 18, 1987)

Laws 1987, Chapter 294 provided a refund for tax paid on aviation fuel used for seeding, fertilizing, or applying pesticides and made conforming changes in the motor vehicle fuel, transaction privilege and use tax statutes. (E - August 18, 1987)

Laws 1988, Chapter 271 accelerated the scheduled 1¢ increase in the Motor Vehicle Fuel Tax rate from July 1, 1990 to September 1, 1988 at which time the rate would be 17¢ per gallon. The 1¢ increase was distributed to the State Highway Fund. Concurrently, the termination date of the transfer from the state General Fund's Vehicle License Tax revenues to the State Highway Fund became effective July 1, 1988 instead of July 1, 1990. The conditional enactments by Laws 1986, Chapter 209 and Chapter 67 were repealed. (E - July 1, 1988)

Laws 1989, Chapter 193 established an Off-Highway Vehicle Recreation Fund (OHV) consisting of revenue from legislative appropriations, federal or private grants, and a percentage of the Motor Vehicle Fuel Tax. A survey will be conducted every 3 years to determine the percentage of fuel tax paid by off-highway vehicles and this will be used to determine the amount of taxes to allocate to the OHV Fund. (E - September 15, 1989)

Laws 1990, Chapter 371 allocated from the Highway User Revenue Fund to the Department of Transportation a distribution of \$235,000 for FY 1990-1991 to establish the Motor Vehicle Liability Insurance Enforcement Fund. (E - September 27, 1990)

(Continued)

Motor Vehicle Fuel Tax

Laws 1990, 3rd Special Session, Chapter 2 raised the Motor Vehicle Fuel Tax from 17¢ per gallon to 18¢ per gallon. Revenues from the 1¢ increase are allocated to the State Highway Fund to cover the costs of the Highway Patrol. This bill is connected with the General Appropriations Act, Laws 1990, Chapter 1, 3rd Special Session, where funding for the Highway Patrol was partially transferred from the state General Fund to the State Highway Fund by \$15.6 million which is the projected amount generated by the 1¢ increase in the Motor Vehicle Fuel Tax. (E - October 1, 1990)

Laws 1991, Chapter 3 required that any adjusted monthly HURF allocation by the Department of Transportation to a city or county due to an overage be at least 85% of the amount otherwise allocated. This minimum 85% provision is effective until June 30, 1993, after which the minimum requirement will revert to the previous 50% minimum. (E - March 25, 1991)

Laws 1991, Chapter 180 increased from \$500,000 to \$1 million the annual allocation from the Highway User Revenue Fund (HURF) to the Economic Strength Project Fund. (E - September 21, 1991)

Laws 1991, Chapter 265 was 1 of 2 "Omnibus Reconciliation Bills" (ORBs) related to the General Appropriations Act for FY 1992. One provision allowed monies in the Highway User Revenue Fund (HURF) to be appropriated by the Legislature to the Department of Public Safety to fund Highway Patrol costs. (E - June 30, 1991)

Laws 1991, Chapter 267 established the monthly transfer of 0.55% of total Motor Vehicle Fuel Tax collections to the Off-Highway Vehicle Recreation Fund. Also, repealed the previous statutes requiring a triennial survey of off-highway vehicle fuel usage that contributed to the Motor Vehicle Fuel Tax. (ER -January 1, 1991)

Laws 1991, Chapter 304 permitted the Department of Transportation to enter into written agreements with private entities for the construction or lease of transportation facility pilot projects. Any person who pays a toll for the use of such a facility can apply for a refund or credit for Motor Vehicle Fuel Taxes, Use Fuel Taxes, or Motor Carrier Taxes paid while operating a motor vehicle on such a transportation facility. (E - September 21, 1991)

Laws 1992, Chapter 61 allowed a city or town to conduct and certify an alternative special census prior to July 1, 1993 by contract with the U.S. Census Bureau for purposes of state shared revenues in the Transaction Privilege, Income, Highway User, and Vehicle License Taxes. The State Treasurer is not to accept another special census until after the year 2000. (E - September 30, 1992)

Laws 1992, Chapter 289 was 1 of 7 "Omnibus Reconciliation Bills" for FY 1993. This bill clarified that the Highway User Revenue Fund (HURF) is the funding source for the Motor Vehicle Liability Insurance Enforcement Fund in FY 1992 and FY 1993. Also, for FY 1993, the transfers to HURF from the state General Fund of Vehicle License Tax collections in excess of 7% growth, commonly known as the "Usdane Shift," was suspended. (E - September 30, 1992)

Laws 1993, Chapter 4 revised the population definition used to distribute highway user revenues to include revisions to the decennial or special census certified by the United States Bureau of the Census. (E - July 17, 1993)

Laws 1993, Chapter 249 limited the amount of monies that can be used by the Department of Public Safety (DPS) for funding of highway patrol costs. The distribution to DPS from either the Highway User Revenue Fund or the State Highway Fund shall not exceed:

- (1) For FY 1995 - \$20 million
- (2) For FY 1996 - \$17.5 million
- (3) For FY 1997 - \$15 million
- (4) For FY 1998 - \$12.5 million
- (5) For FY 1999 and thereafter - \$10 million

The bill also provided \$500,000, for FY 1994, from the State Highway Fund for transportation projects on Arizona's southern border. (E -July 19, 1993)

(Continued)

Motor Vehicle Fuel Tax

Laws 1995, 1st Special Session, Chapter 3 deferred the phase-down of the Arizona Highway User Revenue Fund and the State Highway Fund distributions to the Department of Public Safety by one year. The distribution for FY 1996 will remain at the FY 1995 level of \$20 million. (E - June 15, 1995)

Laws 1995, Chapter 20 allowed the Director of the Department of Transportation to enter into agreements, for the purpose of accepting fees and taxes imposed, by alternative methods, including credit cards, debit cards and electronic fund transfers. Excluded transmix for the definition of "motor vehicle fuel." (EFA - December 31, 1995)

Laws 1995, Chapter 132 made technical changes to Title 28 (Transportation) and reorganizes the title to allow for the addition of new statutes. Repealed Arizona Revised Statutes Title 2 (Aeronautics), Title 18 (County Highways) and the current Title 28 and reenacts these provisions in a new Title 28. Moved some provisions to more appropriate titles including Title 20 (Insurance), Title 38 (Public Officers and Employees), Title 41 (State Government) and Title 48 (Special Taxing Districts). Instructed Legislative Council to prepare conforming legislation for next session. (EFA - December 31, 1996)

Laws 1995, Chapter 147 provided for changes to Title 28 (Transportation) in conjunction with, and conditional to the enactment of, the Title 28 technical rewrite (Laws 1995, Chapter 132). (EFA - December 31, 1996)

USE FUEL TAX

DESCRIPTION

The Use Tax applies to all fuel used to propel motor vehicles, except for fuels subject to the Motor Vehicle Fuel Tax. The excise tax imposed is in lieu of the Motor Vehicle Fuel Tax.

NOTE: The technical rewrite of A.R.S. Title 28 (Transportation) by Laws 1995, Chapter 132 will result in a renumbering of some current statutes starting January 1, 1997. In addition, Laws 1995, Chapter 147 provided for changes to A.R.S. Title 28 in conjunction with the technical rewrite. Legislative Council was instructed to prepare conforming legislation for the 1996 legislative session. These changes will be documented in future *Tax Handbook Supplements*.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>
1994-95	\$72,008,139
1993-94	87,912,597
1992-93	72,008,139
1991-92	61,909,894
1990-91	65,201,576
1989-90	52,876,043
1988-89	50,796,681
1987-88	47,610,243
1986-87	44,947,980
1985-86	38,778,620
1984-85	31,782,244
1983-84	26,491,463
1982-83	19,227,151
1981-82	17,361,166
1980-81	17,807,699
1979-80	17,568,211
1978-79	17,496,538
1977-78	15,593,367
1976-77	13,685,395
1975-76	13,053,397
1974-75	12,421,307

SOURCE: Arizona Department of Transportation, Fiscal Planning, HURF Reports. Figures prior to 1974-75 are from the report titled "Fuel Revenue Comparison Data." Figures for 1974-75 through 1981-82 are from monthly statements titled "Motor Vehicle Fuel - Taxable Acquisitions and Refunds" by the Motor Vehicle Division. Since these reports show cumulative Use Fuel Tax revenues on an accrual basis, Use Fuel Taxes collected during each fiscal year was calculated by summing the following:

- (1) The amount identified as cumulative use fuel collections on the statement showing taxes accrued in May of the fiscal year (August-June collections).
- (2) The amount identified as current month collections on the statement showing taxes accrued in June of the previous fiscal year (July collections).

Use Fuel Tax

WHO PAYS THE TAX

A.R.S. §28-1552(A). *Vendors.* Vendors, distributors, restricted vendors and users of use fuel consumed in propelling motor vehicles on Arizona roads and highways.

A.R.S. §28-1551. *Definitions.* Vendor includes every person who sells use fuel in Arizona and places it in a fuel tank of a motor vehicle. Examples are service station dealers, brokers, or distributors. Restricted vendors are persons who place use fuel from bulk storage in this state into the fuel tank of a light class motor vehicle owned or operated by such person.

Gaseous Use Fuel includes all nonliquid use fuels, including liquid propane gas, propane, butane or compressed natural gas, that are used or suitable for use to propel vehicles, except gaseous fuels subject to the Motor Vehicle Fuel Tax.

Liquid Use Fuel includes liquid fuels, including diesel and kerosene, that are used or suitable for use to propel vehicles, except liquid fuels subject to the Motor Vehicle Fuel Tax.

TAX BASE

A.R.S. §28-1552. *Each Gallon.* The Use Fuel Tax is levied on each gallon of use fuel consumed in propelling a motor vehicle on any highway within this state.

The method of measuring the amount of use fuel subject to the Use Fuel Tax depends on the type of taxpayer: [See A.R.S. §28-1552]

- *Vendors.* Taxed on the volume of gaseous use fuel sold and delivered in the vehicle fuel tank of others.
- *Distributors.* Taxed on the volume of liquid use fuel a) delivered by the distributor to anyone other than another licensed distributor or a certified bulk purchaser or b) delivered to any vendor location owned or operated by the distributor. Distributors who sell use fuel for delivery directly into a vehicle fuel tank, shall be licensed as a vendor also and maintain separate business records.
- *Restricted Vendors.* Taxed on the volume of use fuel, delivered into the fuel tank of a motor vehicle owned or operated by the restricted vendor, on which the tax has not been paid. "Certified bulk purchases," who have been authorized to purchase liquid use fuel without payment of the use fuel tax at the time of purchase, may not sell, trade or barter liquid use fuel.
- *Users.* Taxed on the volume of use fuel imported into Arizona or acquired without paying the use fuel tax to a vendor. The tax is applied only to use fuel that is acquired for propulsion of "use class vehicles" on the highways of this state. For vehicles traveling in interstate commerce, the taxable gallons of use fuel is computed based on the ratio of miles traveled in Arizona to total miles traveled by the vehicle (see A.R.S. § 28-1572). "Use class motor vehicles" are defined as road tractor, truck tractor, trucks having more than two axles or weighing more than 26,000 pounds, or passenger vehicles designed for more than 20 passengers.

A.R.S. §28-1552.01. *Clean Burning Use Fuel.* The Use Tax on this type of fuel is 1¢ per gallon. Such fuel is defined as compressed natural gas.

A.R.S. §28-1553. *Exemptions.* Use fuel used in the following vehicles are exempt from this tax:

- Farm tractors and implements of husbandry designed primarily for use in agriculture and only incidentally operated on highways.
- Road rollers or vehicles designed and used primarily for grading, paving, earth moving and other construction work on highways and which are not designed or used primarily for transportation of persons or property and incidentally operated on highways.

(Continued)

Use Fuel Tax

TAX RATE

A.R.S. §28-1552. *Same as Motor Vehicle Fuel Tax Rate.* The rate levied on each gallon of use fuel consumed on Arizona's roads and highways is the same as the rate levied on motor vehicle fuel, which is 18¢ per gallon after September 30, 1990.

TAX COMPUTATION

A.R.S. § 28-1572. *Vendors, Distributors, Restricted Vendors and Users.* Multiply the taxable gallonage, as determined under TAX BASE, by the tax rate to obtain the amount of tax due.

A.R.S. §28-1559. *Single Trip Permit.* Unlicensed users who operate "use class motor vehicles" in the course of interstate traffic may purchase a Single Trip Use Fuel Tax Permit instead of paying the regular Use Fuel Tax. A Single Trip Permit is only effective during the specific trip for which it is issued. The Use Fuel Tax on a Single Trip Permit is \$12.00 for 50 miles or less and \$49.00 for more than 50 miles traveled on the highways of this state plus a one dollar fee for each permit issued.

A.R.S. §28-1559(C). *Special 30-Day Permit.* The Department may issue Special 30-day Use Fuel Tax permits for vehicles that are not in the commercial transportation business, are only in the state for a limited period of time and will make limited use of Arizona's highways. The Use Fuel Tax for a Special 30-Day Permit is \$98.

PAYMENT SCHEDULE

A.R.S. §28-1557. *Due Date.* Use Fuel Tax payments are due on or before the 25th day of the month following the month in which the tax accrues. However, the Director of the Department of Transportation may change the Use Fuel Tax payment period if it will facilitate the administration of the tax. The Assistant Director of the Motor Vehicle Division may permit licensed users or restricted vendors to file reports and pay taxes for a combination of calendar months. The reporting period must be at least one calendar month and not exceed 12 calendar months [see A.R.S. §28-1571(C-E)]. Vendors of use fuel may file reports and pay the tax on a weekly basis if approved by the Director. The reporting requirements apply to every licensee, except vendors that sell only liquid use fuel.

A.R.S. §28-1555. *Collections.* Generally, a vendor of use fuel shall collect the tax from the user at the time of sale and give the user a receipt. Vendors must remit tax payments to the Department of Transportation according to the above schedule.

DEDICATION

A.R.S. §28-1557. *Purposes.* Collections from the Use Fuel Tax are transferred to the State Treasurer who deposits the monies into the Arizona Highway User Revenue Fund. See MOTOR CARRIER TAX for dedicated purposes of the Highway User Revenue Fund.

DISTRIBUTION

A.R.S. §28-1598. *Highway User Revenue Fund.* Net collections from the Use Fuel Tax are deposited into the Arizona Highway User Revenue Fund. See MOTOR CARRIER TAX for distribution of the Highway User Revenue Fund.

Use Fuel Tax

DISTRIBUTION OF USE FUEL TAX COLLECTIONS (1974-75 THROUGH 1994-95)

<u>Fiscal Year</u>	<u>Highway User Revenue Fund</u> ^{1/}
1994-95	\$72,008,139
1993-94	87,912,597
1992-93	72,008,139
1991-92	61,909,894
1990-91	65,201,576
1989-90	52,876,043
1988-89	50,796,681
1987-88	47,610,243
1986-87	44,947,980
1985-86	38,778,620
1984-85	31,782,244
1983-84	26,491,463
1982-83	19,227,151
1981-82	17,361,166
1980-81	17,807,699
1979-80	17,568,211
1978-79	17,496,538
1977-78	15,593,367
1976-77	13,685,395
1975-76	13,053,397
1974-75	8,876,504 ^{2/}

^{1/} Beginning in October of 1974, all Use Fuel Tax Collections were deposited to the Highway User Revenue Fund.

^{2/} In 1974-75, distributions to the Highway User Revenue Fund represented collections for October - June. Use Fuel Taxes during July, August and September of 1974 (\$3,544,803) were distributed under the old formula (state - 70%, counties - 30%).

SOURCE: Arizona Department of Transportation, Fiscal Planning, HURF reports.

Use Fuel Tax

DISTRIBUTION OF USE FUEL TAX COLLECTIONS (YEARS PRIOR TO 1974-75)

<u>Fiscal Year</u>	<u>State</u>	<u>Counties</u>
1973-74	7,471,150	3,201,921
1972-73	6,875,200	3,946,515
1971-72	6,003,787	2,573,051
1970-71	5,006,194	2,145,512
1969-70	4,959,634	2,125,557
1968-69	4,301,224	1,843,382
1967-68	3,715,328	1,592,284
1966-67	3,397,068	1,455,886
1965-66	3,064,103	1,313,187
1964-65	2,487,421	1,066,037
1963-64	2,362,652	1,012,565
1962-63	1,917,376	821,733
1961-62	1,731,726	742,168
1960-61	1,611,380	690,591

SOURCE: Arizona Department of Transportation records of actual distributions in the report titled "Fuel Revenue Comparison Data."

HISTORY

Laws 1941, Chapter 108 imposed the Use Fuel Tax at a rate of 5¢ per gallon. The tax applied to fuels used to propel motor vehicles on the highways of Arizona when these fuels are not subject to (or specifically exempted from) the Motor Vehicle Fuel Tax. Under this law, the Use Fuel Tax was paid from the Highway Department on or before the 15th day of the month following the month in which the tax accrues. Of the total amount collected, 70% was paid to the State Highway Fund and 30% was distributed to the counties in proportion to the Use Fuel Taxes collected from each county. (E - July 1, 1941)

Laws 1947, Chapter 65 changed the due date for paying the Use Fuel Tax to the 20th day of the month following the month in which the tax accrues. (E - June 19, 1947)

NOTE: An amendment to the Arizona Constitution, enacted at the election of November 4, 1952 provided that the distribution formula allocating 70% of the 5¢ tax to the state and 30% to the 14 Arizona counties could not be changed to reduce the county share. The amendment also provided that revenues derived from the Use Fuel Tax could only be used for highway-related purposes. (E - November 24, 1952)

Laws 1963, Chapter 84 increased the Use Fuel Tax rate to 6¢ on each gallon of fuel used in Arizona. (E - April 4, 1963)

Laws 1964, Chapter 75 established the Arizona Highway Patrol Fund and authorized the Legislature to appropriate monies from the State Highway Fund to the new Highway Patrol Fund. The Highway Patrol Fund was to receive one-eighth of any amount appropriated from the Highway Fund during each of the first 8 months of the fiscal year. (E - July 1, 1964)

Laws 1965, Chapter 99 increased the Use Fuel Tax rate to 7¢ on each gallon of fuel used in Arizona. (E - July 20, 1965)

Laws 1968, Chapter 46 provided that the Use Fuel Tax was levied on vendors of use fuel and on users who acquire fuel without making payment to a vendor. Vendors subject to the tax were authorized to claim a 1% reduction in tax liability as compensation

(Continued)

Use Fuel Tax

for collecting the tax. Persons paying the Use Fuel Tax as a user were authorized to pay the tax based only on the amount of fuel used in Arizona. For users traveling in interstate commerce, the share of fuel used in Arizona was determined based on the ratio of miles traveled in Arizona to total miles traveled by the vehicle. The due date for paying the Use Fuel Tax was changed to the 25th day of the month following the month in which the tax accrues. (EFA - June 30, 1969)

NOTE: A constitutional amendment enacted at the election of November 3, 1970 provided that the 14 Arizona counties should not receive fewer highway user revenue dollars than received in fiscal 1969-70, as long as total highway user revenues equal or exceed the total for fiscal year 1969-70. (E - November 27, 1970)

Laws 1973, Chapter 146 established the Arizona State Department of Transportation and transferred the responsibility for administering the Use Fuel Tax to the new department. (E - July 1, 1974)

Laws 1974, Chapter 139 increased the Use Fuel Tax rate to 8¢ on each gallon of fuel used in Arizona. The law also established the Arizona Highway User Revenue Fund and provided that all collections from the Use Fuel Tax were deposited in this fund. Collections in the Highway User Revenue Fund were distributed as follows: Eleven percent to the Arizona Highway Patrol Fund, 57% to the State Highway Fund, 15% to the counties and 17% to the incorporated cities and towns. The Highway Patrol Fund received seven-eighths of an estimate of its share of Highway User Revenue Funds during the first 8 months of each fiscal year. (E - September 1, 1974)

Laws 1979, Chapter 62 authorized the Motor Vehicle Division to permit motor carriers to file reports and pay taxes for a combination of calendar months. (E - July 21, 1979)

Laws 1980, Chapter 66 provided that owners and operators of two-axle use fuel powered trucks or passenger automobiles may purchase an annual use fuel permit in lieu of filing a Use Fuel Tax report and paying the tax at the time the report is filed. (E - July 31, 1980)

Laws 1981, 2nd Special Session, Chapter 2 changed the distribution of the Highway User Revenue Fund. Under this law, a fixed amount was distributed each year from the Highway User Revenue Fund to the Highway Patrol Fund. The balance of collections after making this distribution was allocated as follows: 50% to the State Highway Fund, 20% to the counties and 30% to the incorporated cities and town. Seven percent of the amount distributed to the State Highway Fund was apportioned among cities with a population greater than 300,000. These provisions of the law were effective November 1, 1981. In addition to these provisions, the law also changed the Use Fuel Tax rate to equal the Motor Vehicle Fuel Tax rate. The Motor Vehicle Fuel Tax rate was increased periodically, beginning January 1, 1982. Due to a referendum filed by the voters, the rate increases scheduled for the Motor Vehicle Fuel Tax never became effective. (See Motor Vehicle Fuel Tax)

Laws 1982, Chapter 5 repealed the scheduled increase in the Motor Vehicle Fuel Tax that was enacted by Laws 1981, 2nd Special Session, Chapter 2. In place of this provision, the Vehicle Fuel Tax rate was increased by 5¢ per gallon over a 3-year period. Since the Use Fuel Tax rate was equal to the Vehicle Fuel Tax rate, the Use Fuel Tax was raised as well. The tax was to be imposed at a rate of 10¢ per gallon from July 1, 1982 through June 30, 1983, 12¢ per gallon from July 1, 1983 through June 30, 1984 and 13¢ per gallon thereafter. (E - February 26, 1982)

Laws 1982, Chapter 109 repealed the provision that allowed use fuel-powered trucks and automobiles with fewer than 3 axles to purchase a Use Fuel Permit instead of paying the Use Fuel Tax. This law established instead a "light class" of vehicles which includes all use fuel-powered vehicles other than "use class motor vehicles." "Use class motor vehicles" are defined as road tractors, truck tractors, trucks with more than two axles or passenger vehicles designed for more than twenty passengers. Under the provisions of this law, use fuel used in "light class" motor vehicles is taxed at the pump instead of being taxed as the fuel is imported or used. This law was effective beginning on January 1, 1983.

Laws 1983, Chapter 6 provided that \$8,000,000 of the amount distributed from the Highway User Revenue Fund to the State Highway Fund was reallocated to the Arizona Highway Patrol Fund in fiscal year 1982-83. (E - February 11, 1983)

(Continued)

Use Fuel Tax

Laws 1983, Chapter 110 authorized persons to purchase use fuel without paying the tax to a vendor, if they hold a valid Single Trip Use Fuel Tax Permit. Persons with a single trip permit were authorized to purchase a maximum of 300 hundred gallons without paying the tax to a vendor. (E - July 27, 1983).

Laws 1983, Chapter 173 increased the Use Fuel Tax on vehicles operating under a Single Trip Use Fuel Tax Permit. Formerly the tax was \$3 for vehicles traveling 50 miles or less and \$12 for vehicles traveling more than 50 miles on the highways of this state. Under this law, the rate was changed to \$3.75 for vehicles traveling 50 miles or less and \$15 for vehicles traveling more than 50 miles on the highways of this state. The law also authorized the Department of Transportation to issue a Special 30-Day Use Fuel Tax Permit for vehicles that are not in the commercial transportation business, are in the state for a limited period of time and will make limited use of this state's highways. The Use Fuel Tax on this type of permit was \$30. (E - July 27, 1983)

Laws 1987, Chapter 12 imposed a \$25 administrative penalty for failure to file required reports under the Use Fuel and Motor Carrier Tax. The bill clarified that the use fuel on light class motor vehicles applies only to fuel consumed on Arizona highways and a restricted vendor need only to report highway consumption for use tax purposes. (E - August 18, 1987)

Laws 1987, Chapter 108 required a licensee to be liable for any Use Fuel or Motor Carrier Tax which accrues to each issued cab card. If a cab card is lost, stolen, or destroyed, liability is relieved 24 hours after the Director receives notice of the loss. (E - August 18, 1987)

Laws 1987, Chapter 139 prescribed 1.25 terms as the natural gas equivalent to one gallon of motor vehicle fuel for use tax purposes. (E - August 18, 1987)

Laws 1988, Chapter 122 removed language allowing anyone holding a valid use fuel tax license and bond to buy fuel without paying the Use Fuel Tax to the vendor at time of purchase. Those holding a valid Single Trip Permit are still exempt from the tax. This bill is conditional on New Mexico enacting a similar law which required a vendor to collect the tax from a user upon sale or delivery of the fuel into the user's fuel tank. (E - September 30, 1988)

Laws 1988, Chapter 252 imposed a lower use fuel tax of 1¢ per gallon on clean burning fuel beginning September 30, 1988. Allowed \$250,000 to be transferred annually from the Air Quality Fund to HURF as reimbursement for revenues lost from the lower use fuel tax. Once lost revenues reach \$250,000 as determined by Department of Transportation, the following tax schedule will be in effect beginning the next January 1 or July 1, whichever occurs first:

- (1) 5¢ per gallon for balance of calendar year in which rate is raised
- (2) 10¢ per gallon for second year
- (3) 15¢ per gallon for third year
- (4) 17¢ per gallon for fourth year and thereafter

Laws 1988, Chapter 271 distributed from HURF the 1¢ tax increase (16¢ to 17¢) on motor vehicle fuel and use fuel to the State Highway Fund. (E - July 1, 1988)

Laws 1989, Chapter 103 required a vendor to sell and deliver use fuel to an operator of a use class motor vehicle only if the operator holds:

- (1) A valid use fuel tax license
- (2) A valid single trip tax permit
- (3) Operator is exempt from the use fuel tax

Other provisions prescribed issuance of an ex-tax cab card or a tax cab card to certain licensees. Required the Director of the Department of Transportation to estimate and report the net effect of these amendments to the Speaker of the House and President of the Senate by December 1, 1990. (EFA - March 31, 1990)

(Continued)

Use Fuel Tax

Laws 1989, Chapter 261 clarified various changes to the oxygenated fuels and clean burning use fuel tax legislation of 1988 regarding market penetration of oxygenated fuels and definition of manufacturer's proving ground. (EFA - August 31, 1989)

Laws 1990, 3rd Special Session, Chapter 2 distributed from HURF the 1¢ tax increase (17¢ to 18¢) on motor vehicle fuel and use fuel to the State Highway Fund. (E - October 1, 1990)

Laws 1991, Chapter 304 permitted the Department of Transportation to enter into written agreements with private entities for the construction or lease of transportation facility pilot projects. Any person who pays a toll for the use of such a facility can apply for a refund or credit for Motor Vehicle Fuel Taxes, Use Fuel Taxes, or Motor Carrier Taxes paid while operating a motor vehicle on such a transportation facility. (E - September 21, 1991)

Laws 1992, Chapter 332 made several changes to the taxation of use fuel (EFA - December 31, 1992):

- (1) Distinguished between gaseous and liquid use fuel for payment on the Use Fuel Tax. The collection of liquid use fuel taxes is now required at the distributor level, while gaseous use fuel taxes are collected by the vendor.
- (2) Required a distributor who sells use fuel directly into a vehicle fuel tank be licensed as a vendor and maintain separate business records.
- (3) Eliminated the authority of the Director of Transportation to impose a Use Fuel Tax on use fuel delivered into bulk storage, but applied a one-time 18¢ tax on each gallon of liquid use fuel in bulk storage as of January 1, 1993 on all vendors and users, except certified bulk purchasers.
- (4) Allowed certified bulk purchasers or another licensed distributor to buy liquid use fuel from a distributor without paying the Use Fuel Tax.
- (5) Prohibited certified bulk purchasers from selling, trading, or bartering liquid use fuel.
- (6) Deleted provisions concerning the purchase of fuel from a vendor without payment of the Use Fuel Tax for holders of a valid single trip, Use Fuel Tax permits, use fuel ex-tax cab cards, or use fuel tax bonds.
- (7) Eliminated the 1% tax reimbursement to vendors for costs incurred in collecting the Use Fuel Tax in behalf of the state.
- (8) Expanded the definition of a restricted vendor to include every person who places untaxed use fuel from bulk storage into the fuel tank of a motor vehicle, rather than only light class motor vehicles.
- (9) Repealed the licensure and reporting requirement for restricted distributors of motor vehicle or aviation fuel.

Laws 1993, Chapter 4 revised the population definition used to distribute highway user revenues to include revisions to the decennial or special census certified by the United States Bureau of the Census. (E - July 17, 1993)

Laws 1993, Chapter 134 contained the following provision affecting the Use Fuel Tax. The bill increases the Special Single Trip Use Fuel Tax Permit from \$15 to \$49 for travel over 50 miles in the state and from \$3.75 to \$12 for travel under 50 miles. The fee for a 30-Day Permit was increased from \$30 to \$98. A use fuel surcharge of 8¢ per gallon was imposed on use fuel used in the propulsion of a use class motor vehicle on a highway in this state to offset the reduction in motor carrier tax rates. A 1¢ per gallon use fuel tax credit is available if:

- (1) The excise tax was paid on use fuel purchased in this state.
- (2) The use fuel was consumed outside this state.
- (3) Paid a use fuel tax in one or more other states or jurisdictions.

The bill established a 5-member Use Fuel Advisory Council to review the determinations of the Department of Transportation regarding the growth or shortfall of use fuel collections to fund further reductions in the motor carrier tax. The bill establishes a Joint Legislative Study Committee on highway user revenues that will develop and submit a report to the Governor, the Speaker of the House of Representatives and the President of the Senate by December 1, 1994. (EFA - December 31, 1993)

Laws 1993, Chapter 249 limited the amount of monies that can be used by Department of Public Safety (DPS) for funding of highway patrol costs. The distribution to DPS from either the Highway User Revenue Fund or the State Highway Fund shall not exceed:

(Continued)

Use Fuel Tax

- (1) For FY 1995—\$20 million
- (2) For FY 1996—\$17.5 million
- (3) For FY 1997—\$15 million
- (4) For FY 1998—\$12.5 million
- (5) For FY 1999 and thereafter—\$10 million

The bill also provided \$500,000, for FY 1994, from the State Highway Fund for transportation projects on Arizona's southern border. (E - July 19, 1993)

Laws 1994, Chapter 55 authorized the Director of the Department of Transportation to allow third parties to issue fuel tax permits in accordance with the rules adopted by the Director. The act also clarified that motor vehicles, trailers and semi-trailers that are exempted from the weight fee are also exempt from the use fuel surcharge of 8¢ per gallon. (ER - January 1, 1994)

The Director of the Department of Transportation may exempt a user from the monthly reporting requirements of use fuel vendors if the user meets all of the following requirements:

- (1) The user holds a valid Fuel Tax License.
- (2) The user establishes, to the satisfaction of the Director that the user's operations are exclusively intrastate.
- (3) The user is exempt from the use fuel surcharge imposed by this section.
- (4) The user is not a user of use fuel for which a tax has not been paid.

The exemption will remain in effect until such time as any condition of the exemption no longer prevails. A user who has been granted an exemption from the monthly reporting requirements and who leaves Arizona may be required, on the user's reentry into the state, to purchase a Single Trip Use Fuel Tax Permit. The fees for the Single Trip Use Fuel Tax Permit shall be computed in the same manner as prescribed for an unlicensed interstate user. The act contains provisions defined in Article IX, Section 22, Constitution of Arizona that requires the affirmative vote of at least two-thirds of both houses. (E - April 8, 1994)

Laws 1995, 1st Special Session, Chapter 3 deferred the phase-down of the Arizona Highway User Revenue Fund and the State Highway Fund distributions to the Arizona Department of Public Safety by one year. The distribution for FY 1996 will remain at the FY 1995 level of \$20 million. (E - June 15, 1995)

Laws 1995, Chapter 20 allowed the Arizona Department of Transportation (ADOT) to accept a valid Use Fuel Tax License (in place of a cab card) when registering a motor carrier. Allowed the Director of ADOT to enter into agreements, for the purpose of accepting fees and taxes imposed, by alternative methods, including credit cards, debit cards and electronic fund transfers. Provided rules and procedures by which the Director of ADOT may authorize third parties to issue use fuel and motor carrier licenses. Excluded transmix for the definition of "motor vehicle fuel." (EFA - December 31, 1995)

Provided that when a use fuel collection shortfall exists, revised rates shall be effective from and after June 30, instead of April 30. (ER - January 1, 1995)

Laws 1995, Chapter 132 made technical changes to Title 28 (Transportation) and reorganizes the title to allow for the addition of new statutes. Repealed Arizona Revised Statutes Title 2 (Aeronautics), Title 18 (County Highways) and the current Title 28 and reenacts these provisions in a new Title 28. Moved some provisions to more appropriate titles including Title 20 (Insurance), Title 38 (Public Officers and Employees), Title 41 (State Government) and Title 48 (Special Taxing Districts). Instructed Legislative Council to prepare conforming legislation for next session. (EFA - December 31, 1996)

Laws 1995, Chapter 147 provided for changes to Title 28 (Transportation) in conjunction with, and conditional to the enactment of, the Title 28 technical rewrite (Laws 1995, Chapter 132). (EFA - December 31, 1996)

MOTOR CARRIER TAX

DESCRIPTION

The Motor Carrier Tax replaced the Motor Carrier License Tax in FY 1983 which had been based on the gross receipts of each motor vehicle transporting persons or property in Arizona for compensation. Whereas, the Motor Carrier Tax is based on the gross weight and miles traveled within Arizona for use of the state's public highways as established in the Arizona Constitution, Article 9, Section 14.

NOTE: The technical rewrite of A.R.S. Title 28 (Transportation) by Laws 1995, Chapter 132 will result in a renumbering of some current statutes starting January 1, 1997. In addition, Laws 1995, Chapter 147 provided for changes to A.R.S. Title 28 in conjunction with the technical rewrite. Legislative Council was instructed to prepare conforming legislation for the 1996 legislative session. These changes will be documented in future *Tax Handbook Supplements*.

YIELD

<u>Fiscal Year</u>	<u>Net Collections ^{1/}</u>
1994-95	\$ 92,103,162
1993-94	118,530,292
1992-93	120,303,202
1991-92	109,573,046
1990-91	108,655,299
1989-90	104,339,191
1988-89	104,709,460
1987-88	98,707,138
1986-87	92,704,002
1985-86	86,833,875
1984-85	78,147,870
1983-84	70,326,336
1982-83	55,186,818

^{1/} Includes motor carrier penalties, station fees, distributor license fees, and tax collections.

SOURCE: Arizona Department of Transportation, Fiscal Planning, HURF Reports.

WHO PAYS THE TAX

A.R.S. § 28-1599.05. *Motor Carrier.* The Motor Carrier Tax is paid by persons who are required to register a self-propelled motor vehicle with a declared gross weight in excess of 12,000 pounds. Persons who purchase a Single-Trip Motor Carrier Tax Permit or a Special 30-day Motor Carrier Tax Permit are also required to pay the tax.

TAX BASE

A.R.S. § 28-1599.05(C). *Lightweight Motor Vehicles.* Lightweight motor vehicles pay a flat fee that varies with the weight class of the vehicle. Lightweight motor vehicles are vehicles with a gross vehicle weight of more than 12,000 pounds and less than or equal to 26,000 pounds.

(Continued)

Motor Carrier Tax

Motor Vehicles. For vehicles with a gross weight exceeding 26,000 pounds, the Motor Carrier Use Tax is based on the weight class of the vehicle and the number of miles traveled by the vehicle within the state. The tax is determined by multiplying the vehicle's in-state mileage by the tax rate for vehicles in that weight class.

A.R.S. § 28-1599 #3,5 and § 28-302(B). **Exemptions.** The following vehicles are exempt from this tax:

- Farm tractors, trailers, implements of husbandry, and other vehicles designed primarily for or used in agricultural operations and only incidentally operated or moved upon a highway.
- Road-rollers or road machinery, including power sweepers, temporarily operating or moved upon a highway.
- Owners permitted to operate a vehicle under special provisions relating to lienholders, manufacturers, dealers and non-residents.
- Motorized or non-motorized equipment designed primarily for and used in mining operations which are only incidentally operated on a highway.
- Motor vehicles being towed by a registered tow truck with a permit.
- Golf carts used in the operation of a golf course and only incidentally operated or moved on a highway.
- Motor vehicles owned and operated by religious institutions and used exclusively for transporting property that is produced and distributed for charitable purposes.
- Motor vehicles owned and operated by non-profit schools, recognized as being tax exempt by the federal government and used exclusively for the transportation of pupils in connection with the school curriculum.
- Motor vehicles owned by any non-profit organization in this state when the vehicles are used exclusively for disaster or search and rescue assistance. To qualify for this exemption, the organization must present to the Motor Vehicle Division a form approved by the Director of the Division of Emergency Services, indicating that the vehicles are exempt from weight fees.
- Vehicles owned and operated by a foreign government, a consul or any other official representative of a foreign government.
- Vehicles owned and operated by the United States, a state or a political subdivision of a state.
- Vehicles owned and operated by an Indian tribal government.
- School buses. [See A.R.S. § 28-1599.05(K)]
- Motor vehicles used in the production of motion pictures. [See A.R.S. § 28-1599.05(K)]

TAX RATE

A.R.S. § 28-1599.05(C). **Lightweight Motor Vehicles.** The annual Motor Carrier Tax for such vehicles is determined according to the following table:

<u>Vehicle Weight</u>	<u>Tax</u>
12,001 - 14,000 lbs.	\$ 64.00
14,001 - 16,000 lbs.	73.00
16,001 - 18,000 lbs.	82.00
18,001 - 20,000 lbs.	91.00
20,001 - 22,000 lbs.	101.00
22,001 - 24,000 lbs.	110.00
24,001 - 26,000 lbs.	119.00

A.R.S. § 28-1599.05(B). **Motor Vehicles in Excess of 26,000 Pounds.** The vehicle's in-state mileage is multiplied by the tax rate for the weight class of the vehicle. The tax rate for each weight class is shown in the following table:

(Continued)

Motor Carrier Tax

<u>Vehicle Weight</u>	<u>Rate Per Mile</u>
26,001 - 28,000 lbs.	\$.01002
28,001 - 30,000 lbs.	.01074
30,001 - 32,000 lbs.	.01288
32,001 - 36,000 lbs.	.01431
36,001 - 40,000 lbs.	.01610
40,001 - 45,000 lbs.	.01789
45,001 - 50,000 lbs.	.01968
50,001 - 55,000 lbs.	.02147
55,001 - 60,000 lbs.	.03486
60,001 - 65,000 lbs.	.03755
65,001 - 70,000 lbs.	.05701
70,001 - 75,000 lbs.	.06080
75,001 - 80,000 lbs.	.08000

A.R.S. § 28-1599.05(E) and A.R.S. § 28-1599.13. *Reduced Rate.* Motor vehicles and lightweight motor vehicles may pay a reduced tax rate if (1) at least 45% of their mileage during the registration year is traveled with an empty load or with certain equipment or commodities being returned due to damage, misfiles, or rejections or (2) they are used only for transporting agricultural products or transporting specific products on a one-way haul. The reduced tax rate in each of these cases is equal to 70% of the full tax rate. To qualify for the reduced rate, the owner or operator of the motor vehicle must do the following:

- Apply to the Motor Vehicle Division to be classified under the Motor Carrier Use Tax laws, provide whatever information is required by the Director of the Department of Transportation to determine the vehicle's eligibility under the Motor Carrier Tax laws, and receive approval of such classification.
- A lightweight motor vehicle must prequalify with the Motor Vehicle Division by signing an affidavit declaring the required information necessary to classify the vehicle.

A.R.S. § 28-1599.01(F) and § 28-1599.05(D). *Single-Trip Permit.* Non-resident motor carriers or non-resident persons who operate a motor vehicle in this state may purchase a Single-Trip Motor Carrier Tax Permit instead of paying the regular Motor Carrier Tax. A Single-Trip Permit is only effective during the specific trip for which it is issued. The Motor Carrier Tax 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. § 28-1599.05(D). *Special 30-Day Permit.* The Department of Transportation may also issue a Special 30-Day Motor Carrier Tax 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 Tax for a Special 30-Day Permit is \$96.00.

PAYMENT SCHEDULE

A.R.S. § 28-1599.05(C). *Lightweight Motor Vehicle.* The Motor Carrier Tax on lightweight motor vehicles is payable at the time the vehicle is registered.

A.R.S. § 28-1599.06. *Motor Vehicles in Excess of 26,000 Pounds.* For such vehicles, the tax is payable on or before the 25th day of the month following the close of the taxpayer's reporting period. The reporting period for each taxpayer is established by the Department and is related to the amount of Motor Carrier Tax liability and the taxpayer's record of compliance with the tax laws. The reporting periods must be at least one calendar month and must not exceed twelve calendar months.

A.R.S. § 28-1599.06. *Collecting Agency.* Arizona Department of Transportation.

(Continued)

Motor Carrier Tax

DISTRIBUTION

A.R.S. § 28-1595. *Dedication.* Collections from the Motor Carrier Tax are deposited in the Arizona Highway User Revenue Fund. The Highway User Revenue Fund 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.

A.R.S. § 28-1598. *Highway User Revenue Fund.* This fund is distributed each fiscal year in the following manner:

- (1) One million dollars is allocated to the Economic Strength Project Fund.
- (2) Two cents of the license tax collected for each gallon of motor vehicle fuel and use fuel is distributed to the State Highway Fund. This is from the 1¢ (16¢ and 17¢) increase enacted by Laws 1985, Chapter 308 as amended by Laws 1988, Chapter 271, effective September 1, 1988 and the 1¢ (17¢ to 18¢) increase enacted by Laws 1990, 3rd Special Session, Chapter 2, effective October 1, 1990. [See A.R.S. § 28-1598.01]
- (3) Each fiscal year a portion of the monies in the Highway User Revenue Fund is distributed to the Department of Public Safety for funding a portion of highway patrol costs. The distribution is made in 8 installments in each of the first eight months of the fiscal year not to exceed:
 - (a) \$20,000,000 for FY 1996
 - (b) \$17,500,000 for FY 1997
 - (c) \$15,000,000 for FY 1998
 - (d) \$12,000,000 for FY 1999
 - (e) \$10,000,000 for FY 2000 and thereafter
- (4) Three cents of the license tax collected for each gallon of motor vehicle fuel or use fuel is distributed as follows:
 - 64% State Highway Fund
 - 14% Maricopa County and Cities in Maricopa County
 - 8.5% Pima County and Cities in Pima County
 - 8% Other Counties (unincorporated population)
 - 5.5% Other Cities (incorporated population)
- (5) The balance of collections after making the above distributions are allocated as follows:
 - 50% State Highway Fund*
 - 20% Counties
 - 30% Incorporated cities and towns

* Seven percent of the amount distributed to the State Highway Fund is apportioned on the basis of population among cities with a population greater than 300,000.

NOTE: Tax revenues allocated to counties and incorporated cities and towns in #(5) above are further distributed - see A.R.S. § 28-1598(H) #s 1-3 for the apportionment formulas. Also, 15% of all revenues allocated to the State Highway Fund is further distributed according to A.R.S. § 28-1598(N).

Motor Carrier Tax

DISTRIBUTION OF HIGHWAY USER REVENUE FUND FROM ALL TAX SOURCES

<u>Fiscal Year</u>	<u>Arizona Highway Fund</u>	<u>Cities and Towns</u>	<u>Counties</u>	<u>Economic Strength Fund</u>	<u>DPS Transfer</u>	<u>Mandatory Insurance</u>	<u>Total</u>
1994-95	\$399,605,571	\$237,919,781	\$140,626,571	\$1,000,000	\$20,000,000	\$1,000,000	\$800,151,923
1993-94	385,844,000	228,605,640	135,156,995	1,000,000	24,925,000	532,000	776,063,343
1992-93	355,304,136	210,530,330	124,468,432	1,000,000	24,928,000	1,212,100	717,442,998
1991-92	339,806,432	201,394,204	119,068,430	1,000,000	12,453,300	1,472,900	675,195,266
1990-91	346,866,433	208,707,985	123,746,232	500,000	-0-	-0-	679,820,650

SOURCE: Arizona Department of Transportation, Office of Fiscal Planning, MVD HURF Reports.

HISTORY

Laws 1979, Chapter 203 established the Motor Carrier Use Tax which was levied on private motor carriers with a gross weight in excess of 28,000 pounds and on common motor carriers with a gross weight in excess of 12,000 pounds. The tax on motor carriers was based on the weight of the vehicle and the number of miles traveled by the vehicle within the state. Each vehicle paid a tax determined by multiplying the vehicle's in-state mileage by the Use Tax rate for motor vehicles in that weight class. The Department of Transportation sets a schedule of tax rates that increase in equal increments from the lowest weight class to the highest weight class. The Use Tax rates were established so that collections in the first year would total \$21,000,000. The tax established by this law was paid each month to the Department of Transportation. All proceeds from the tax were deposited in the Highway User Revenue Fund as follows: Eleven percent to the Highway Patrol Fund, 57% to the State Highway Fund, 15% to the counties and 17% to the cities and towns. The law was effective July 1, 1982 conditional on the passage of S.C.R. 1015, a constitutional amendment deregulating motor carriers. S.C.R. 1015 was passed by the Arizona voters on November 4, 1980.

Laws 1981, Chapter 207 repealed the Motor Carrier Use Tax that was established by Laws 1979, Chapter 203 and replaced it with a new Motor Carrier Tax. Under the new law, separate schedules of tax rates were established for motor vehicles and vehicle combinations in excess of 26,000 pounds and for motor vehicles and vehicle combinations between 12,000 and 26,000 pounds. The Motor Carrier Tax levied on motor vehicles weighing more than 26,000 pounds was determined by multiplying the vehicle's in-state mileage by the tax rate for the weight class of the vehicle. The rate charged per mile ranged from \$.005 upward depending on the vehicle's weight. Lightweight vehicles (vehicles between 12,000 and 26,000 pounds) paid an annual flat-rate Motor Carrier Tax that ranged from \$8 to \$90 depending on the weight class of the vehicle. Under certain circumstances, a vehicle could qualify to pay a reduced Motor Carrier Tax if at least 45% of its mileage for the year was traveled with an empty load. Certain carriers were authorized to purchase Single-Trip Permits and pay the Motor Carrier Tax on that basis in lieu of paying the regular tax. The Motor Carrier Tax on lightweight motor vehicles was payable at the time of registration. The tax on other vehicles was paid on or before the 25th day of the month following the close of the taxpayer's reporting period. All proceeds from the tax were deposited in the Highway User Revenue Fund. (E - July 1, 1982)

Laws 1981, 2nd Special Session, Chapter 2 increased the tax rates applied to motor vehicles subject to the Motor Carrier Use Tax. The new carrier tax levied on motor vehicles weighing more than 26,000 pounds ranged upward from \$.01319 per mile, depending on the weight class of the vehicle. The new carrier tax levied on lightweight vehicles (vehicles between 12,000 and 26,000 pounds) ranged from a flat rate of \$64 per year to a flat rate of \$119 per year depending on the vehicle's weight class. School buses were exempted from payment of the Motor Carrier Tax. The law also changed the distribution of Motor Carrier Taxes deposited in the Highway User Revenue Fund. Under this law, a fixed amount was distributed each year from the Highway User Revenue Fund to the Highway Patrol Fund. The balance of collections after making this distribution was allocated as follows: Fifty percent to the State Highway Fund, 20% to the counties and 30% to the incorporated cities and towns. Seven percent of the amount distributed to the State Highway Fund was apportioned among

(Continued)

Motor Carrier Tax

cities with a population greater than 300,000. (E - July 1, 1982)

Laws 1982, Chapter 36 increased the Motor Carrier Tax on Single-Trip Permits. Formerly the tax was \$5 for vehicles traveling 50 miles or less and \$15 for vehicles traveling more than 50 miles on the highways of this state. Under this law, the rate was changed to \$12 for vehicles traveling 50 miles or less and \$48 for vehicles traveling more than 50 miles on the highways of this state. (E - July 24, 1982)

Laws 1983, Chapter 6 provided that \$8,000,000 of the amount distributed from the Highway User Revenue Fund to the State Highway Fund was reallocated to the Arizona Highway Patrol Fund in fiscal year 1982-83. (E - February 11, 1983)

Laws 1983, Chapter 41 eliminated the Motor Carrier Tax on vehicle weights in excess of 80,000 pounds. These weights were subject instead to excess weight fees. (E - July 27, 1983)

Laws 1983, Chapter 42 provided that the Motor Carrier Tax was levied on each vehicle separately and not on vehicle combinations. Certain vehicles were exempted from payment of the Motor Carrier Tax when they were not subject to gross weight fees. This exemption pertained mostly to vehicles owned by government entities and non-profit organizations. The law also authorized the Department of Transportation to issue a Special 30-day Motor Carrier Tax Permit for vehicles not in the commercial transportation business, and in the state for a limited period of time while making limited use of this state's highways. The Motor Carrier Tax on this type of permit was \$96. (E - July 27, 1983)

Laws 1983, Chapter 70 provided for a reduced Motor Carrier Tax on certain vehicles used only for transporting agricultural products. This provision also applied to lightweight motor vehicles. Lightweight motor vehicles were also authorized to claim a reduced tax if 45% of their mileage was traveled with an empty load. This option was already available to other vehicles. (E - July 27, 1983)

Laws 1986, Chapter 64 statutorily separated the lightweight motor vehicle from other vehicles in applying a reduced Motor Carrier Tax. The reduced rate is 7/10ths of the full rate. The owner or operator of such vehicles is required to pre-qualify by applying and signing an affidavit declaring the necessary eligibility. (E - August 13, 1986)

Laws 1986, Chapter 130 assessed an interest penalty of 12% per year against the outstanding Motor Carrier or Use Fuel Tax due. (E - August 13, 1986)

Laws 1987, Chapter 12 imposed a \$25 administrative penalty for failure to file required reports under the Use Fuel and Motor Carrier Tax. The bill clarified that the use fuel on light class motor vehicles applies only to fuel consumed on Arizona highways and a restricted vendor need only to report highway consumption for use tax purposes. (E - August 18, 1987)

Laws 1987, Chapter 108 required a licensee to be liable for any Use Fuel or Motor Carrier Tax which accrues to each issued cab card. If a cab card is lost, stolen, or destroyed, liability is relieved 24 hours after the Director receives notice of the loss. (E - August 18, 1987)

Laws 1987, Chapter 149 allowed a motor vehicle or a fleet of motor vehicles and lightweight motor vehicles on a one-way haul transporting a specific product or products to be eligible for the reduced Motor Carrier Tax which is 7/10 of the full rate. The Motor Vehicle Division will pre-qualify vehicles to be eligible for the reduced rate. (E - August 18, 1987)

Laws 1990, Chapter 20 permitted a person who obtains a Special 30-Day Non-Resident Registration on a semi-trailer manufactured in Arizona to transport goods from this state. (E - September 27, 1990)

Laws 1991, Chapter 7 required the Director of the Department of Transportation (ADOT) to consolidate the Motor Carrier Tax with the gross weight fee imposed on owners and operators of lightweight motor vehicles. The purpose of the consolidation is to reduce the administrative activities of the Department and the owners or operators of such vehicles. (E - September 21, 1991)

(Continued)

Motor Carrier Tax

Laws 1991, Chapter 27 established a "midway point" rule for vehicles in a routed service where the motor vehicle's load must be more than 55% empty at the midway point of a qualifying trip to qualify for the reduced tax rate. The bill also established in law the current ADOT practice of allowing a fleet of motor vehicles of the same registered class to qualify for the reduced tax rate, if at least 45% of the reported mileage was traveled without a load. Motor vehicles transporting agricultural products are still eligible for the reduced rate, but the one-way haul language was eliminated. (E - September 21, 1991)

Laws 1991, Chapter 265 was 1 of 2 "Omnibus Reconciliation Bills" (ORBs) related to the General Appropriations Act for FY 1992. One provision allowed monies in the Highway User Revenue Fund (HURF) to be appropriated by the Legislature to the Department of Public Safety to fund highway patrol costs. (E - June 30, 1991)

Laws 1991, Chapter 304 permitted the Department of Transportation to enter into written agreements with private entities for the construction or lease of transportation facility pilot projects. Any person who pays a toll for the use of such a facility can apply for a refund or credit for Motor Vehicle Fuel Taxes, Use Fuel Taxes, or Motor Carrier Taxes paid while operating a motor vehicle on such a transportation facility. (E - September 21, 1991)

Laws 1992, Chapter 61 allowed a city or town to conduct and certify an alternative special census prior to July 1, 1993 by contract with the U.S. Census Bureau for purposes of state shared revenues in the Transaction Privilege, Income, Highway User, and Vehicle License Taxes. The State Treasurer is not to accept another special census until after the year 2000. (E - September 30, 1992)

Laws 1993, Chapter 4 revised the population definition used to distribute highway user revenues to include revisions to the decennial or special census certified by the United States Bureau of the Census. (E - July 17, 1993)

Laws 1993, Chapter 45 exempted motor vehicles used in motion picture and television productions from the Weight Distance Tax. (E - July 17, 1993)

Laws 1993, Chapter 134 included the following provisions affecting the Motor Carrier Tax (EFA - December 31, 1993):

- (1) Provided a 24% reduction in the Motor Carrier Tax.
- (2) Redefined "use class motor vehicle" to include trucks with a declared gross vehicle weight of more than 26,000 pounds.
- (3) Created a formula for future reductions in the Motor Carrier Tax based on the number of gallons of use fuel purchased and used in the state.
- (4) Provided for a reimbursement to cities and counties when it was determined a use fuel collection shortfall exists.
- (5) Established a 5-member Use Fuel Advisory Council to review the determinations of the Department of Transportation regarding the growth or shortfall of use fuel collections in funding further reductions in the Motor Carrier Taxes.
- (6) Established a Joint Legislative Study Committee on highway user revenues that will develop and submit a report to the Governor, the Speaker of the House of Representatives, and the President of the Senate by December 1, 1994.

Laws 1993, Chapter 249 limited the amount of monies that can be used by Department of Public Safety (DPS) for funding of highway patrol costs. The distribution to DPS from either the Highway User Revenue Fund or the State Highway Fund shall not exceed:

- (1) For FY 1995—\$20 million
- (2) For FY 1996—\$17.5 million
- (3) For FY 1997—\$15 million
- (4) For FY 1998—\$12.5 million
- (5) For FY 1999 and thereafter—\$10 million

(Continued)

Motor Carrier Tax

The bill also provided \$500,000, for FY 1994, from the State Highway Fund for transportation projects on Arizona's southern border. (E - July 19, 1993)

Laws 1994, Chapter 55 increased the fee for an Excess Weight Permit from \$25 to \$75 for each permit and each 30-day Permit. The act also limited a non-articulated bus to 45 feet and clarified that motor vehicles, trailers and semi-trailers that are exempted from the weight fee are also exempt from the use fuel surcharge of 8¢ per gallon. (ER - January 1, 1994)

The Director of the Department of Transportation shall compute a Motor Carrier Tax that is 1% per mile less than the tax rate for a vehicle combination in the vehicle weight category of 75,001-80,000 pounds if all of the following apply:

- (1) The owner or operator of the vehicle combination provides proof satisfactory to the Director that the vehicle combination has at least 6 axles, not including a variable load axle.
- (2) The owner or operator of the vehicle combination provides proof satisfactory to the Director that the vehicle combination has a set of tridem axles and the set of tridem axles has at least 10 wheels.
- (3) The owner or operator of the vehicle combination has established Use Fuel and Motor Carrier Tax accounts with the Department.
- (4) The vehicle combination is not a triple trailer configuration.
- (5) The vehicle combination is not being operated or moved at a size or weight exceeding the maximum specified.

The Department of Transportation will abate the full amount of any penalty assessed in conjunction with a tax or fee imposed that is directly attributable to erroneous written advice furnished to a person by an employee of the Department acting in his official capacity if the person reasonably relied on the written advice, unless the penalty results from the failure of the person to provide adequate or accurate information. The Director may abate all or part of any penalty for reasonable cause.

"Reasonable cause" means a basis for the person to believe that the tax or fee did not apply. The Department of Transportation shall refund user fuel surcharges that are exempted by this act, but were paid between January 1, 1994, and the effective date of the act. The act contains provisions defined in Article IX, Section 22, Constitution of Arizona that requires the affirmative vote of at least 2/3rds of both houses. (E - April 8, 1994)

Laws 1994, Chapter 238 provided that gross weight fees imposed on commercial vehicles be calculated beginning on the 1st day of the month following the date of a transfer. The fee shall be reduced by 1/12th for each month of the year which has elapsed since the 1st day of the month following the date of transfer of the vehicle or vehicle combination, or the date the vehicle or vehicle combination becomes subject to registration. (E - July 17, 1994)

Laws 1994, Chapter 328 clarified that payment of the Motor Carrier Tax by a motor carrier or a person who operates a lightweight motor vehicle shall exempt the motor carrier or lightweight motor vehicle operator from the Transaction Privilege and Use Tax or any similar tax imposed by any taxing authority within this state. The exemption includes leasing or renting, and any repair and replacement parts that are sold to a licensed motor carrier or a lightweight motor vehicle operator who is engaged in the business of leasing or renting such property. (RTYBFA - June 30, 1982)

Laws 1995, 1st Special Session, Chapter 3 deferred the phase-down of the Arizona Highway User Revenue Fund and the State Highway Fund distributions to the Arizona Department of Public Safety by 1 year. The distribution for FY 1996 will remain at the FY 1995 level of \$20 million. (E - June 15, 1995)

Laws 1995, Chapter 20 allowed the Arizona Department of Transportation (ADOT) to accept a valid Use Fuel Tax License (in place of a cab card) when registering a motor carrier. Allowed the Director of ADOT to enter into agreements, for the purpose of accepting fees and taxes imposed, by alternative methods, including credit cards, debit cards and electronic fund transfers. Provided that, for motor vehicles not previously registered, the use fee on commercial motor vehicles will be reduced by 1/12th for each month of the registration year already expired. Provided rules and procedures by which the Director of ADOT may authorize third parties to issue use fuel and Motor Carrier Licenses. Clarified that "tandem axles" means 2 or more consecutive axles more than 40 inches but not more than 96 inches apart. (EFA - December 31, 1995)

(Continued)

Motor Carrier Tax

Laws 1995, Chapter 52 exempted from maximum gross weight limitations, trucks for which a special permit has been issued and meet all of the following requirements:

- (1) Is equipped with a conveyor bed
- (2) Is used solely as a fiber and forage module mover
- (3) Does not exceed 48 feet in length
- (4) Is only operated each year from August 1 through January 30

Pursuant to Article IX, Section 22, Constitution of Arizona, required two-thirds of both houses to vote in the affirmative and became effective immediately upon the signature of the Governor. (E - April 5, 1995)

Laws 1995, Chapter 132 made technical changes to Title 28 (Transportation) and reorganizes the title to allow for the addition of new statutes. Repealed Arizona Revised Statutes Title 2 (Aeronautics), Title 18 (County Highways) and the current Title 28 and reenacts these provisions in a new Title 28. Moved some provisions to more appropriate titles including Title 20 (Insurance), Title 38 (Public Officers and Employees), Title 41 (State Government) and Title 48 (Special Taxing Districts). Instructed Legislative Council to prepare conforming legislation for next session. (EFA - December 31, 1996)

Laws 1995, Chapter 147 provided for changes to Title 28 (Transportation) in conjunction with, and conditional to the enactment of, the Title 28 technical rewrite (Laws 1995, Chapter 132). (EFA - December 31, 1996)

Laws 1995, Chapter 271 authorized the Department of Transportation (ADOT) to implement a "vehicle plate to owner system" for the registration of inter or intra-state commercial fleets. The provision is conditional upon legislative appropriation of monies for the system. (E - January 1, 1997)

Established a Joint Legislative Review Committee to study the possible implementation of a "vehicle plate to owner system" for the general public and report their findings by December 31, 1995. Changed the definition of fleet to mean 3 (down from 25) or more vehicles owned by a person and registered in Arizona. Allowed the Director of ADOT to provide for the biennial registration of any vehicle not subject to annual emissions testing. (E - July 13, 1995)

AVIATION FUEL TAX

DESCRIPTION

Laws 1987, Chapter 294 established an Aviation Fuel Tax by statutorily separating aviation fuel from the definition of motor vehicle fuel and imposing an Aviation Fuel Tax rate.

NOTE: The technical rewrite of A.R.S. Title 28 (Transportation) by Laws 1995, Chapter 132 will result in a renumbering of some current statutes starting January 1, 1997. In addition, Laws 1995, Chapter 147 provided for changes to A.R.S. Title 28 in conjunction with the technical rewrite. Legislative Council was instructed to prepare conforming legislation for the 1996 legislative session. These changes will be documented in future *Tax Handbook Supplements*.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>
1994-95	\$442,980
1993-94	690,752
1992-93	396,733
1991-92	497,186
1990-91	582,110
1989-90	526,739
1988-89	512,297

NOTE: Prior to FY 1989 the Motor Vehicle Division did not monitor aviation fuel as a revenue source. Though legislation was enacted in FY 1987, the Division continued to receive refund requests that covered the twelve months preceding the legislation; thus it was unable to separately identify Motor Vehicle Fuel and Aviation Fuel Tax collections.

SOURCE: Arizona Department of Transportation, Motor Vehicle Division.

WHO PAYS THE TAX

A.R.S. § 28-1765.01. *Distributors.* Distributor of aviation fuel is defined as any person who refines, manufactures, produces, compounds, blends, or imports aviation fuel in the original package, container or otherwise. This includes every person importing aviation fuel by means of a pipeline but not persons importing such fuel in the fuel tank of an aircraft. [See A.R.S. § 28-101]

TAX BASE

A.R.S. § 28-1765.01. *Aviation Fuel.* The tax is levied on each gallon of aviation fuel possessed, refined, manufactured, produced, blended, or compounded in Arizona by the distributor, or imported in the original container or otherwise.

A.R.S. § 28-101 (4). *Definition.* Aviation fuel is all flammable liquids composed of a mixture of selected hydrocarbons expressly manufactured and blended for the purpose of operating an internal combustion engine in an aircraft, but excluding fuel for a jet or turbine powered aircraft.

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Aviation Fuel Tax

A.R.S. § 28-1518. *Exemption of Railroad Common Carrier.* Aviation fuel transported in railroad common carriers and which will not be resold or distributed for use in aircraft is exempt from the tax, but the distributor must make a report to the Director of the Department of Transportation showing the amount of fuel imported into this state.

A.R.S. § 28-1519. *Other Exemptions:*

- Aviation Fuel moving in interstate or foreign commerce which will not be used in Arizona.
- Aviation Fuel sold to the United States armed forces for use in ships or aircraft, or for use outside this state.

A.R.S. § 28-1520. *Refunds.* Any person who buys aviation fuel for aircraft applying seeds, fertilizer or pesticides, exports such fuel, or loses fuel by fire, theft, or other accident and has paid the Aviation Fuel Tax, shall be refunded the amount of tax paid upon application to the Director.

Limits. The refund is allowed only on applications of less than 200 gallons of such fuel and there can be only one application per person in any 12-month period.

TAX RATE

A.R.S. § 28-1765.01(A). *Rate.* Five cents per gallon of aviation fuel.

PAYMENT SCHEDULE

A.R.S. § 28-1765.01(B). *Due Date.* The Aviation Fuel Tax is due on or before the 25th of the month following the month in which the tax accrues. The administration of this tax is the same as the Motor Vehicle Fuel Tax. [See A.R.S. § 28-1502]

Collecting Agency. Department of Transportation.

DISTRIBUTION

A.R.S. § 28-1766. *State Aviation Fund.* All tax monies received are deposited in the State Aviation Fund.

Purpose. Tax Revenues are dedicated to the construction, development and improvement of airports in the state.

HISTORY

Laws 1987, Chapter 294 established an Aviation Fuel Tax by statutorily separating aviation fuel from the definition of motor vehicle fuel and imposing an Aviation Fuel Tax rate. The Aviation Fuel Tax is levied at the rate of 5¢ per gallon of aviation fuel and applies to fuel expressly manufactured for the purpose of operating an internal combustion engine in an aircraft.

CHAPTER VIII

LUXURY TAXES AND LICENSES

LUXURY TAX

CIGARETTES AND TOBACCO

DESCRIPTION

This is a luxury tax on cigarettes, cigars, cavendish, and smoking or chewing tobacco purchased by licensed distributors in Arizona. A county, city, town or other political subdivision of this state shall not levy a luxury tax so long as the Urban Revenue Sharing Fund is maintained. [See A.R.S. § 43-206]

Proposition 200, an initiative approved by voters in the November 1994 election, added additional taxes to the existing cigarette and tobacco taxes, and dedicated the additional revenues to health care programs and services.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u> ^{1/}	^{2/}
1994-95	\$109,189,329	
1993-94	53,077,203	
1992-93	53,647,389	
1991-92	52,548,184	
1990-91	51,796,050	
1989-90	46,942,200	
1988-89	50,529,043	
1987-88	52,407,371	
1986-87	51,219,849	
1985-86	50,775,933	
1984-85	49,525,903	
1983-84	41,475,105	
1982-83	40,905,970	
1981-82	40,766,193	
1980-81	39,744,982	
1979-80	39,883,900	
1978-79	37,757,379	
1977-78	36,790,865	
1976-77	35,484,089	
1975-76	34,958,043	

^{1/} Figures include license fees as an insignificant fraction of the total.
^{2/} Beginning November 28, 1994, the Luxury Tax on Cigarettes and Tobacco products increased and the revenue was dedicated to the Tobacco Tax and Health Care Fund. [See TAX BASE AND RATE]

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

A.R.S. § 42-1207(A & D). *Licensed Distributors.* Licensed distributors of cigarettes pay the tax through the purchase of tax stamps or meter indicia from the Department of Revenue. Every pack of cigarettes sold in Arizona must bear a colored stamp

(Continued)

Luxury Tax Cigarettes and Tobacco

as a method of providing proof that a retailer or distributor is in compliance with Arizona's luxury tax laws. Licensed distributors of cigars and other tobacco products submit tax payments together with a monthly return. [See A.R.S. § 42-1212.01]

Proposition 200 amended Title 42, Chapter 7, Arizona Revised Statutes by adding Article 1.3 relating to tobacco taxes on Indian reservations. [See A.R.S. § 42-1251 through § 42-1257] The tax is a direct tax on the consumer, and is to be precollected and paid to the Department of Revenue by the distributors and is dedicated to health care programs and services.

TAX BASE AND RATE

A.R.S. § 42-1204, 42-1241(A) and 42-1252(A). The tax base consists of the following products:

- *Cigarettes.*
- *Tobacco.* Including smoking tobacco, snuff, five-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.* Including 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.

A.R.S. § 42-1204(A-6). *Exemption.* Tobacco powder or tobacco products used exclusively for agricultural or horticultural purposes and unfit for human consumption.

A.R.S. § 42-1204, 42-1241(A), 42-1252(A). *Rates.* The following are the general and dedicated tax rates for each product:

<u>Item</u>	<u>General Tax Rate</u>	<u>Tax Rate Dedicated To Health Care</u> ^{1/}	<u>Total Tax Rate</u>
Cigarettes ^{2/}	0.9¢ each (18¢ per 20)	2¢ each (40¢ per 20)	2.9¢ each (58¢ per 20)
Tobacco	2¢ per ounce	4.5¢ per ounce	6.5¢ per ounce
Cavendish	0.5¢ per ounce	1.1¢ per ounce	1.6¢ per ounce
Small cigars	4¢ per 29	8.9¢ per 20	12.9¢ per 20
Large cigars 5¢ or less	2¢ per 3	4.4¢ per 3	6.4¢ per 3
Large cigars more than 5¢	2¢ each	4.4¢ each	6.4¢ each

^{1/} The tax rate dedicated to health care became effective from and after November 28, 1994.

^{2/} Effectively, the tax rate on cigarettes may be slightly less than 58¢ per 20 since licensed distributors pay the tax through the purchase of stamps obtainable from the Department of Revenue at a discounted price. The price for the first \$36,000 worth of stamps purchased by a licensed distributor in any month is 96% of face value. The price for the second \$36,000 worth of stamps is 97% of face value. The price for the next \$93,000 worth of stamps is 98% of face value. If a distributor purchases stamps in excess of \$165,000, the difference between the face value and the discounted value of the first \$72,000 worth of stamps will be offset against the discount, or refunded by the distributor. The price for all additional stamps is 98%. [See A.R.S. § 42-1296(D)]

PAYMENT SCHEDULE

A.R.S. § 42-1207(E). *Cigarettes.* Licensed distributors of cigarettes who do not have a qualifying Surety Bond must pay for stamps at the time of purchase. Licensed distributors of cigarettes may, at their option, furnish a bond equal to 2½ times their monthly stamp purchase. Such bonds must be purchased from surety bonding companies qualified to do business in Arizona.

(Continued)

Luxury Tax Cigarettes and Tobacco

With the qualifying bond, licensed distributors may make payment for stamps or meter indicia on the 20th day of the month following the month in which the stamps were purchased.

A.R.S. § 42-1212.01. *Cigars and Tobacco Products.* Licensed distributors of cigars or tobacco products other than cigarettes must pay the luxury tax monthly on or before the 20th day of the next month succeeding the month in which the tax accrues. Failure to pay the tax by the above due date will result in penalty and interest charges from time tax was due until paid.

A.R.S. § 42-1202. *Collecting Agency.* Department of Revenue.

DISTRIBUTION

A.R.S. § 42-1204(B-3), § 42-1231, and 42-1241. *Cigarette Tax monies are distributed as follows:*

- *Corrections Fund.* Two cents of the 18¢ tax per pack of 20 cigarettes through June 30, 2000; after which time, these monies will be deposited in the state General Fund.
- *State General Fund.* Tax monies are divided into 2 purposes: (1) 5¢ of the 18¢ tax is for defraying necessary and ordinary expenses of the state and (2) 11¢ is for the purpose of raising monies for state school aid (Subsection C of A.R.S. § 42-1231 provides that 3.5¢ of the 11¢ must be allocated for the purpose of raising state school aid).
- *Tobacco Tax and Health Care Fund.* Forty cents per pack of 20 cigarettes is divided and deposited to the following accounts: [See A.R.S. § 42-1241(C)]
 - a. Medically Needy Account 70%
 - b. Health Education Account 23%
 - c. Health Research Account 5%
 - d. Corrections Fund Adjustment Account 2%

A.R.S. § 42-1204(B 3&4) and 42-1241. *Tobacco products tax monies are distributed as follows:*

- *Corrections Fund.* Fifty percent of all general tax rate monies collected from such products through June 30, 2000; after which time, these monies will be deposited into the state General Fund.
- *State General Fund.* The remaining general tax rate monies (50%) collected are deposited here for the purpose of defraying necessary and ordinary expenses of the state.
- *Tobacco Tax and Health Care Fund.* All monies collected from the tax rate dedicated to health care are deposited in the fund and divided into 4 separate accounts described above under cigarette tax monies.

(Continued)

Luxury Tax Cigarettes and Tobacco

DISTRIBUTION OF CIGARETTE AND TOBACCO LUXURY TAXES

<u>Fiscal Year</u>	<u>State General Fund</u> ^{1/}	<u>Corrections Fund</u> ^{2/}	<u>Tobacco Tax and Health Care Fund</u>
1994-95	\$47,728,667	\$6,837,337 ^{2/}	\$54,623,325 ^{3/}
1993-94	46,870,529	6,206,674	-0-
1992-93	47,385,665	6,261,724	-0-
1991-92	46,419,433	6,128,751	-0-
1990-91	45,474,466	6,321,584	-0-

^{1/} Includes license fees as an insignificant fraction of the total.

^{2/} Includes \$514,087 transferred to the Corrections Fund from the Corrections Fund Adjustment Account.

^{3/} The tax took effect on November 28, 1994.

SOURCE: Department of Revenue, Luxury Tax Section.

HISTORY

Laws 1933, 1st Special Session, Chapter 18 levied the first Luxury Tax on Cigarettes and Tobacco products in the State of Arizona. The tax rates established by this law are shown below:

- 2¢ on each 20 cigarettes or fractional part thereof
- 1¢ per ounce on smoking tobacco, snuff, fine cut chewing tobacco and related products
- ¼¢ per ounce on all cavendish, plug or twist tobacco
- 2¢ on each 20 small cigars or fractional part thereof, weighing not more than 3 pounds per thousand
- 1¢ on every 3 cigars weighing more than 3 pounds per thousand and retailing at 5¢ each or less
- 1¢ per cigar on cigars weighing more than 3 pounds per thousand and retailing at more than 5¢ each

The tax was paid for by the purchase of stamps that were affixed to each package or container of cigarettes and tobacco products and canceled prior to sale. Taxes were payable to the State Tax Commission prior to or at the time of the sale of the product. Of the total receipts, 96% was dedicated to the Board of Public Welfare and the remaining 4% was appropriated for the use of the State Tax Commission. The tax was a temporary tax and expired on March 1, 1935. (E - June 28, 1933)

Laws 1935, Chapter 14 extended the provisions of Laws 1933, 1st Special Session, Chapter 18 to May 1, 1935. (E - February 20, 1935)

Laws 1935, Chapter 78 permanently enacted the provisions of Laws 1933, 1st Special Session, Chapter 18, with respect to the Luxury Tax on Cigarettes and Tobacco products. The law also changed the distribution of luxury tax receipts. Of the total amount collected from the Luxury Tax on Liquor and Tobacco products, 4% was allocated to the "Luxury Tax Administration Fund" for use by the State Tax Commission and \$5,000 per month was appropriated to the Governor's Relief Fund. During fiscal years 1935-36 and 1936-37, the sum of \$3,000 was also appropriated to the State Auditor for use in auditing the State Board of Public Welfare. The balance of collections was distributed to the State Board of Public Welfare. (E - March 23, 1935)

Laws 1937, 2nd Special Session, Chapter 16 changed the distribution of collections from the luxury tax. Under the new law, the "Luxury Tax Administration Fund" continued to receive 4% of the total collections. The State Auditor's share was changed to \$3,000 per month or any lesser amount that would defray the expenses of auditing the State Board of Social Security and Welfare. This change was to be effective July 1, 1937. The bill also allocated \$60,000 per year to crippled children services

(Continued)

Luxury Tax Cigarettes and Tobacco

beginning July 1, 1937 and eliminated the share that was deposited in the Governor's Relief Fund. The balance of receipts was dedicated to the State Board of Social Security and Welfare. (E - June 26, 1937)

Laws 1945, Chapter 51 provided that tax stamps purchased in payment of the luxury tax could be obtained by wholesalers or retailers at 95% of the face price. (E - March 9, 1945)

Laws 1946, 3rd Special Session, Chapter 12 changed the distribution of luxury tax receipts again. Under this law, all receipts from the Luxury Tax on Tobacco products were deposited with the State Treasurer and used for unemployment and welfare relief. (E - September 30, 1946)

Laws 1965, 3rd Special Session, Chapter 2 increased the tax on each 20 cigarettes or fractional part thereof from 2¢ to 6-1/2¢. In addition a Floor Stock Tax was levied which was to be effective only during calendar year 1965. This tax was set at a rate of 4-1/2¢ on each 20 cigarettes or fractional part thereof held by wholesalers and retailers on June 29, 1965. The Floor Tax was paid to the State Tax Commission on July 14, 1965. Collections from the 4-1/2¢ tax increase and the 4-1/2¢ Floor Tax were deposited in the General Fund and used for school equalization. The law also changed the purchase price of tax stamps from 95% of the face value to 98.5% of the face value. (E - June 29, 1965)

Laws 1967, 3rd Special Session, Chapter 18 increased the tax on each 20 cigarettes or fractional part thereof from 6-1/2¢ to 10¢. A Floor Stock Tax was levied at a rate of 3-1/2¢ on each 20 cigarettes or fractional part thereof held by wholesalers or retailers on the effective date of the act (March 23, 1968). The Floor Stock Tax was effective only during calendar year 1968 and was paid to the State Tax Commission by April 7 of that year. Collections from the 3.5¢ tax increase and the 3.5¢ Floor Tax were deposited in the General Fund and used for the central Arizona project and for school equalization and financial assistance. (E - March 23, 1968)

Laws 1970, Chapter 46 provided that qualified purchasers could defer payment for stamps until the 20th day of the month following the month in which the tax stamps were purchased. To qualify under this provision, wholesalers and retailers were required to furnish a bond equal to 2-1/2 times the monthly amount paid for tax stamps. The use of tax indicia (stamps) was eliminated on all tobacco products other than cigarettes. Instead, wholesalers and retailers of these products were required to pay the tax on or before the 15th day of the month following the month in which the tax accrued. (E - June 30, 1970)

NOTE: A constitutional amendment enacted in the election of November 7, 1972 prohibited political subdivisions of the state from levying a luxury tax as long as they received Urban Revenue Sharing Funds. (E - July 1, 1973)

Laws 1973, Chapter 8 authorized a discount on the price of tax stamps purchased in payment of the luxury tax on cigarettes. The price for the first \$30,000 worth of stamps purchased by a wholesaler or retailer in any month was 96% of the face value. The price for the second \$30,000 worth of stamps was 97% of face value. The price for all additional stamps was 98% of face value. (E - July 1, 1973)

Laws 1973, Chapter 123 created the Department of Revenue and transferred the responsibility for the collection of the tax from the State Tax Commission to the new Department. (E - July 1, 1974)

Laws 1974, Chapter 151 enacted a cigarette Floor Stock Tax which was effective for the calendar year 1974. The tax was levied at a rate of 3¢ on each 20 cigarettes or fractional part thereof held by wholesalers or retailers on July 1, 1974. The tax was payable to the Department of Revenue on or before July 16, 1974. Receipts were used for funding the Central Arizona Project and the State School Fund. (E - May 13, 1974)

Laws 1974, 1st Special Session, Chapter 2 increased the tax on each 20 cigarettes or fractional part thereof to 13¢. Collections from 11¢ of the 13¢ tax were dedicated to the central Arizona project and the State School Fund. Collections from the remaining 2¢ tax continued to be deposited with the State Treasurer for use in providing welfare relief. (E - July 1, 1974)

(Continued)

Luxury Tax Cigarettes and Tobacco

Laws 1976, Chapter 66 eliminated the State School Fund but provided that the share of luxury tax collections formerly dedicated to this fund was still used for state school aid. (E - May 27, 1976)

Laws 1976, Chapter 158 provided that the share of luxury tax revenues formerly dedicated to the Central Arizona Project and for State School Aid was to be used for state school aid only. (E - September 23, 1976)

Laws 1981, Chapter 188 changed the Luxury Tax on Cigarettes and Tobacco products from a tax on retailers and wholesalers to a tax on distributors. The law also changed the due date for paying the tax on tobacco products (other than cigarettes) to the 1st day of the second month following the month in which the tax accrues. The interest rate on delinquent payments of the luxury tax on tobacco products was increased to 12% per year. (E - July 25, 1981)

Laws 1983, Chapter 4 changed the interest rate on delinquent tax payments to equal the rate established by Section 6621 of the Internal Revenue Code, compounded annually. (E - February 11, 1983)

Laws 1984, Chapter 336 accelerated the due date for the collection of certain luxury taxes. From and after April 30, 1984, the tax liability is due on or before the 20th day of the month next succeeding the month of accrual. Penalties of 10% are imposed upon taxpayers who fail to pay such tax within ten days after the due date.

A Cigarette Floor Tax of 1/10th¢ per cigarette was imposed on all cigarettes held by wholesalers on June 30, 1984.

Laws 1984, Chapter 13 prescribed new luxury tax rates. The following changes were made:

- (1) Cigarettes increased to \$.15 per 20 cigarettes
- (2) Other tobacco increased to \$.02 per ounce
- (3) Cavendish and plug tobacco increased to \$.005 per ounce
- (4) Small cigars increased to \$.04 per 20 cigars
- (5) Other cigars increased to \$.02 per cigar, if manufactured at retail at more than 5¢ each.

Laws 1990, Chapter 3, 3rd Special Session was the Tax Reform Act of 1990. This act increased the luxury tax on cigarettes from 15¢ to 18¢ per pack of 20 cigarettes. To implement the tax increase on cigarettes, a Floor Stock Tax of 3¢ per pack of 20 cigarettes was imposed on all cigarettes held by wholesalers on October 1, 1990. (EFA - September 30, 1990)

Laws 1992, Eighth Special Session, Chapter 2 extended the distribution of certain luxury tax revenues into the Corrections Fund until June 30, 2000. The original expiration date was June 30, 1994. (E - September 26, 1992)

Laws 1992, Chapter 55 revised the monthly purchase of cigarette luxury stamps needed to qualify for a discount:

- (1) For the first \$36,000 (previously \$30,000) a rate of 96% of the face value applies.
- (2) For the second \$36,000 (previously \$30,000) a rate of 97% of the face value applies.
- (3) For purchases in excess of \$72,000 a rate of 98% of the face value applies, except for purchases above \$165,000 the Department of Revenue shall offset or recover the discount given for the first \$72,000 worth of stamps purchased.

Also, the bond requirement for a licensed cigarette distributor was reduced from 2 ½ to two times the amount of current monthly stamp purchases. (E - September 30, 1992)

Laws 1995, Chapter 93 required all cigarettes subject to tax to have a luxury tax stamp affixed. Made it a Class 5 Felony for an unlicensed distributor to transport or willingly sell or offer for sale 10,000 or more unstamped or unlawfully stamped cigarettes. Made it a Class 5 Felony for any person to wilfully sell or offer for sale off the reservation cigarettes stamped for on-reservation sales. The possession or transportation in this state at any time by any person, other than a licensed distributor, of 10,000 or more cigarettes in an unstamped or unlawfully stamped condition is presumptive evidence that the cigarettes are for the purpose of sale and are subject to tax. A person convicted of an offense is permanently ineligible to hold a license permitting the sale of tobacco, cigars or cigarettes. (E - July 13, 1995)

LUXURY TAX

LIQUOR

DESCRIPTION

The Luxury Tax on Liquor is paid for by wholesalers who purchase stamps that are affixed to each container of liquor. A county, city, town or political subdivision of this state shall not levy a luxury tax so long as the Urban Revenue Sharing Fund is maintained. [See A.R.S. § 43-206]

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>
1994-95	\$42,033,814
1993-94	42,262,933
1992-93	40,850,384
1991-92	41,091,249
1990-91	39,809,083
1989-90	40,305,323
1988-89	40,543,536
1987-88	40,954,991
1986-87	40,818,853
1985-86	40,848,796
1984-85	37,937,376
1983-84	25,499,174
1982-83	23,712,539
1981-82	23,340,495
1980-81	22,801,034
1979-80	22,094,870
1978-79	21,055,359
1977-78	19,149,392
1976-77	17,779,669
1975-76	17,139,490

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

A.R.S. § 42-1205(B-D). *Taxpayers.* The Luxury Tax on Liquor is added to the sales price and is paid by:

- Wholesalers who purchase vinous or malt liquors for resale within Arizona.
- Wholesalers who sell spirituous liquors within Arizona.
- Every domestic farm winery or micro brewery that sells vinous or malt liquor at retail or to certain retail licensees.

TAX BASE AND RATE

A.R.S. § 42-1204(A1-4). *Liquor Types.* The following are the tax rate and base for each liquor type. A proportionate rate is applied to each liquor type for greater or lesser quantities:

(Continued)

Luxury Tax Liquor

- *Spirituos Liquor.* Three dollars per gallon on each sealed container.
- *Vinous Liquor With High Alcohol Content.* Twenty-five cents on each container of 8 ounces or less of vinous liquor having an alcoholic content greater than 24%. Containers exceeding 8 ounces are taxed at a rate of 25¢ per 8 ounces.
- *Vinous Liquors With Low Alcohol Content.* Eighty-four cents per gallon on each container for vinous liquor having an alcohol content of 24% or less.
- *Malt Liquor.* Sixteen cents on each gallon of malt liquor.

A.R.S. § 42-1201(B). *Exemptions.* Spirituous, vinous and malt liquors used for medicinal purposes and not suitable for beverage purposes.

PAYMENT SCHEDULE

A.R.S. § 42-1205. *Due and Delinquent Dates.* Domestic farm wineries and wholesalers of liquors must pay the luxury tax monthly on or before the 20th day of the month following the month in which the tax accrues. The tax must be paid within ten days of the due date to avoid penalty and interest charges.

A.R.S. § 42-1202(A). *Collecting Agency.* Department of Revenue.

DISTRIBUTION

A.R.S. § 42-1204(B). *State school aid.* (1) Three and one-half cents of the tax rate collected on each gallon of spirituous liquor and (2) each 8 ounces of vinous liquor with an alcohol content greater than 24% is used for state school aid.

A.R.S. § 42-1204(B-3). *Corrections Fund.* Twenty percent of monies collected from spirituous liquor, and 50% of monies collected from all vinous liquor, regardless of the alcohol content, and malt liquor is deposited in the Corrections Fund. This is effective through June 30, 2000, after which time all such monies which previously went to the Corrections Fund will be deposited into the state General Fund.

A.R.S. § 42-1204(B-4). *Wine Promotional Fund.* Fifty percent of monies collected from domestic farm wineries or an in-state producer are deposited in the Arizona Wine Promotional Fund.

A.R.S. § 42-1204(B-5). *State General Fund.* All remaining tax monies after the above three distributions shall be deposited in the state General Fund.

DISTRIBUTION OF LIQUOR LUXURY TAXES

<u>Fiscal Year</u>	<u>State General Fund</u> ^{1/}	<u>Corrections Fund</u>	<u>Wine Promotional Fund</u>
1994-95	\$26,311,189	\$15,714,326	\$8,299
1993-94	26,462,911	15,792,486	7,536 ^{2/}
1992-93	25,684,226	15,166,158	-0-
1991-92	25,839,029	15,252,220	-0-
1990-91	24,929,069	14,880,014	-0-

^{1/} Includes monies to be used for state school aid.

^{2/} Beginning in FY 1994, a distribution of a portion of the revenues from the Luxury Tax on Vinous Liquor is made to the Arizona Wine Promotional Fund.

SOURCE: Department of Revenue, Luxury Tax Section.

(Continued)

Luxury Tax Liquor

HISTORY

Laws 1933, 1st Special Session, Chapter 18 levied the first Arizona state Luxury Tax on Liquor. The tax rates established by this law are shown below:

- 10¢ on each 16 ounces, or fractional part thereof, for malt extracts
- 10¢ on each container of spirituous liquor containing 16 ounces or less
- 10¢ on each 16 ounces of spirituous liquor in containers of more than 16 ounces
- 3¢ on each container of vinous liquor containing 16 ounces or less
- 3¢ on each 16 ounces of vinous liquor in containers of more than 16 ounces
- 5¢ on each gallon of malt liquor

The tax was paid by the purchase of stamps affixed to each container of liquor and malt extract and canceled prior to sale. Taxes were payable to the State Tax Commission, prior to or at the time of the sale of the product. Of the total receipts collected, 96% was dedicated to the Board of Public Welfare and the remaining 4% was appropriated for the use of the State Tax Commission. The tax was a temporary tax and expired on March 1, 1935. (E - June 28, 1933)

Laws 1935, Chapter 14 extended the provisions of Laws 1933, 1st Special Session, Chapter 18 to May 1, 1935. (E - February 20, 1935)

Laws 1935, Chapter 78 permanently enacted the provisions of Laws 1933, 1st Special Session, Chapter 18, with respect to the Luxury tax on Liquor. The tax rates levied on containers of spirituous liquor and vinous liquor were replaced with the rates shown below:

- 5¢ on each container of spirituous liquor containing 8 ounces or less
- 5¢ on each 8 ounces of spirituous liquor in containers of more than 8 ounces
- 3¢ on each container of vinous liquor containing 16 ounces or less if the alcohol content is 24% or less
- 3¢ on each 16 ounces of vinous liquor in containers of more than 16 ounces if the alcohol content is 24% or less
- 5¢ on each container of vinous liquor containing 8 ounces or less if the alcohol content is greater than 24%
- 5¢ on each 8 ounces of vinous liquor in containers of more than 8 ounces if the alcohol content is greater than 24%

The rates levied on malt extracts and malt liquor were not changed. Of the total amount collected from the Luxury Tax on Liquor and Tobacco products, 4% was allocated to the "Luxury tax Administration Fund" for use by the State Tax Commission and \$5,000 per month was appropriated to the Governor's Relief Fund. During fiscal years 1935-36 and 1936-37 the sum of \$3,000 was also appropriated to the State Auditor for use in auditing the State Board of Public Welfare. The balance of collections was distributed to the State Board of Public Welfare. (E - March 23, 1935)

Laws 1937, 2nd Special Session, Chapter 16 changed the distribution of collections from the luxury tax. Under the new law, the "Luxury tax Administration Fund" continued to receive 4% of the total collections. The State Auditor's share was changed to \$3,000 per month or any lesser amount that would defray the expense of auditing the State Board of Social Security and Welfare. This change was effective July 1, 1937. The bill also allocated \$60,000 per year to crippled children services beginning July 1, 1937 and eliminated the share deposited in the Governor's Relief Fund. The balance of receipts was dedicated to the State Board of Social Security and Welfare. (E - June 26, 1937)

Laws 1943, Chapter 84 changed the method for payment of the Luxury Tax on Liquor by requiring all wholesalers of alcoholic beverages to report and pay the tax on the 10th day of the month following the month in which the tax accrued. The change in the method of payment did not apply to malt extracts. (E - April 1, 1943)

Laws 1945, Chapter 51 provided that tax stamps purchased in payment of the tax on malt extracts could be acquired from the State Tax Commission for 95% of the face price. (E - March 9, 1945)

(Continued)

Luxury Tax Liquor

Laws 1946, 3rd Special Session, Chapter 12 increased the tax rate upon alcoholic beverages and malt syrup to provide additional funds for old age assistance. The following rate changes were made:

- (1) For malt extracts, the rate was increased from 10¢ to 15¢ on each 16 ounces, or fractional part thereof.
- (2) For spirituous liquor, sold in containers of 8 ounces or less, the rate was increased from 5¢ to 7-1/2¢.
- (3) For spirituous liquor sold in containers of more than 8 ounces, the rate was increased from 5¢ to 7-1/2¢ on each 8 ounces.
- (4) For vinous liquor with an alcohol content of 24% or less, the rate for containers of 16 ounces or less was increased from 3¢ to 4.5¢ and the rate for containers of more than 16 ounces was increased from 3¢ to 4.5¢ for each 16 ounces.
- (5) For vinous liquor with an alcohol content greater than 24%, the rate for containers of 8 ounces or less was increased from 5¢ to 7.5¢ and the rate for containers of more than 8 ounces was increased from 5¢ to 7.5¢ for each 8 ounces.
- (6) For malt liquor, the rate was increased from 5¢ to 7.5¢ on each gallon.

Under this law, all receipts from the Luxury Tax on Liquor were deposited with the State Treasurer and used for unemployment and welfare relief. (E - September 30, 1946)

Laws 1962, Chapter 142 increased the tax rate on liquors as follows (E - March 28, 1962):

- (1) For spirituous liquor, the rate for containers of 8 ounces or less was increased from 7.5¢ to 9¢ and the rate for containers of more than 8 ounces was increased from 7.5¢ to 9¢ on each 8 ounces.
- (2) For vinous liquor with an alcohol content of 24% or less, the rate for containers of 16 ounces or less was increased from 4.5¢ to 5.25¢ and the rate for containers of more than 16 ounces was increased from 4.5¢ to 5.25¢ for each 16 ounces.
- (3) For vinous liquor with an alcohol content greater than 24%, the rate for containers of 8 ounces or less was increased from 7.5¢ to 9¢ and the rate for containers of more than 8 ounces was increased from 7.5¢ to 9¢ for each 8 ounces.
- (4) For malt liquor, the rate was increased from 7.5¢ to 8¢ on each gallon.
- (5) The rate for malt extracts was not changed by this law.

Laws 1967, 3rd Special Session, Chapter 9 increased the tax rates upon liquor as follows:

- (1) For spirituous liquor, the rate for containers of 8 ounces or less was increased from 9¢ to 12.5¢ and the rate for containers of more than 8 ounces was increased from 9¢ to 12.5¢ on each 8 ounces.
- (2) For vinous liquor with an alcohol content greater than 24%, the rate for containers of 8 ounces or less was increased from 9¢ to 12.5¢ and the rate for containers of more than 8 ounces was increased from 9¢ to 12.5¢ for each 8 ounces.

Revenues from the additional 3.5¢ tax on these items were used for funding the central Arizona project, common and high school equalization, and financial assistance. Tax rates on other liquor categories were not changed. (E - March 23, 1968)

Laws 1969, Chapter 108 provided that the tax on spirituous liquor would be at a rate of \$2 per gallon and at a proportionate rate for any greater or lesser quantities. (E - July 11, 1969)

NOTE: A constitutional amendment enacted in the election of November 7, 1972 prohibited political subdivisions of the state from levying a luxury tax as long as they received Urban Revenue Sharing Funds. (E - July 1, 1973)

Laws 1973, Chapter 123 created the Department of Revenue and transferred the responsibility for the collection of the tax from the State Tax Commission to the new Department. (E - July 1, 1974)

Laws 1974, 1st Special Session, Chapter 2 increased the tax on spirituous liquor to a rate of \$2.50 per gallon with a proportionate rate for greater or lesser quantities. Under this law, the portion of the luxury tax that was dedicated to the central Arizona project, common and high school equalization and financial assistance [see Laws 1967, 3rd Special Session, Chapter 9] was reallocated to the central Arizona project and the State School Fund. (E - July 1, 1974)

(Continued)

Luxury Tax Liquor

Laws 1976, Chapter 66 eliminated the State School Fund but provided that the share of luxury tax collections formerly dedicated to this fund was still to be used for state school aid. (E - May 27, 1976)

Laws 1976, Chapter 158 provided that the share of luxury tax revenues formerly dedicated to the central Arizona project and for state school aid was to be used for state school aid only. (E - September 23, 1976)

Laws 1979, Chapter 45 provided that containers of vinous liquor with an alcohol content of 24% or less shall be taxed at a rate of 42¢ per gallon or at a proportionate rate for any lesser or greater quantities. (E - July 21, 1979)

Laws 1980, Chapter 148 changed the due date for payment of the Luxury Tax on Liquor to the 1st day of the second month following the month in which the tax accrues. Formerly the tax was due on the 10th day of the first month following the month in which the tax accrues. This law also changed the interest rate imposed on delinquent tax payments to 12% per year. (E - July 31, 1980)

Laws 1982, Chapter 297 provided that domestic farm wineries selling vinous liquor manufactured or produced on the premises are subject to the Luxury Tax on Liquor. (E - July 24, 1982)

Laws 1983, Chapter 4 changed the interest rate on delinquent tax payments to equal the rate established by Section 6621 of the Internal Revenue Code, compounded annually. (E - February 11, 1983)

Laws 1983, Chapter 185 repealed the luxury tax on malt extracts and derivatives of malt extracts. (E - July 27, 1983)

Laws 1984, Chapter 336 accelerated the due date for the collection of certain luxury taxes. From and after April 30, 1984, the tax liability is due on or before the 20th day of the month next succeeding the month of accrual. Penalties of 10% are imposed upon taxpayers who fail to pay such tax within ten days after the due date.

Laws 1984, Chapter 13 prescribed new luxury tax rates. The following changes were made:

- (1) Spirituous liquor increased to \$3.00 per gallon
- (2) Wine (less than 24% alcohol) increased to \$.84 per gallon
- (3) Wine (greater than 24% alcohol) increased to \$.25 per 8 ounces
- (4) Malt liquor increased to \$.16 per gallon

Laws 1985, Chapter 336 defined "acquisition of control" by a wholesaler or on-sale retailer or controlling person. Such acquisitions must be approved by the Superintendent of the Department of Liquor Licenses and Control. A list of exemptions are provided. (E - August 7, 1985)

Laws 1985, Chapter 217 allowed for the issuance of interim retail permits to applicants for non-transferrable spirituous liquor licenses. (E - August 7, 1985)

Laws 1989, Chapter 234 made numerous changes to the liquor laws. Pertaining to license fees, the registration fee for an agent whose place of manufacture or business is out-of-state increased from \$10 to \$50 and the penalty to renew a liquor license was raised to equal 100% of the renewal fee. (E-September 15, 1989)

Laws 1993, Chapter 40 established the Arizona Wine Commission and the Arizona Wine Promotional Fund to promote the wine industry in the state. This bill also allocated 50% of the taxes collected from in-state producers of vinous liquors be deposited in the Arizona Wine Promotional Fund. (E - July 17, 1993)

ALCOHOLIC BEVERAGE LICENSES

DESCRIPTION

The Alcoholic Beverage License Fees are part of the state's method of regulating the sale and production of alcoholic beverages in Arizona.

YIELD

<u>Fiscal Year</u>	<u>Net Collections Distributed During the Year</u>
1994-95	\$3,639,600
1993-94	3,426,400
1992-93	3,092,600
1991-92	3,108,308
1990-91	3,304,200
1989-90	3,249,311
1988-89	3,340,887
1987-88	3,109,773
1986-87	3,391,100
1985-86	3,114,100
1984-85	2,720,109
1983-84	2,264,700
1982-83	2,449,557
1981-82	2,335,349
1980-81	2,252,300
1979-80	2,035,007
1978-79	2,245,792
1977-78	1,205,224
1976-77	1,576,846
1975-76	1,529,871

SOURCE: Department of Liquor Licenses and Control, Fiscal Division. Fiscal years prior to FY 1979-80 are from the 1985 Arizona Tax Handbook.

WHO PAYS THE TAX

A.R.S. § 4-209. *Taxpayers.* Manufacturers, wholesalers, out-of-state producers, exporters, importers or rectifiers, retailers of alcoholic beverages, businesses authorized by local governments to sell liquor and domestic farm wineries or micro brewery.

TAX BASE

A.R.S. § 4-209, and A.R.S. § 4-203.01, .02 and .03. *License and Permits.* A flat fee is charged for an original license, annual license renewals, transfers of licenses, assignments of agents and interim permits. Every license expires annually. In addition, from and after October 31, 1992, for each additional original license issued there will be levied an additional issuance fee equal to the license's fair market value which will be deposited in the state General Fund. [See A.R.S. § 42-206.01]

A.R.S. § 4-206.01. *Maximum Additional Licenses Per County.* The total number of bar, beer and wine bar or liquor store licenses are limited in a single county:

(Continued)

Alcoholic Beverage Licenses

- Counties with a population less than 500,000 to 1 license, of each type, for each additional 4,000 person increase over the population in that county as of July 1, 1992.
- Counties with a population of 500,000 or more to 1 license, of each type, for each additional 5,000 person increase over the population in that county as of July 1, 1992.

A.R.S. § 4-226. *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.

TAX RATE

A.R.S. § 4-209(A). *Application Fees:*

- Original license—\$100
- Transfer of license—\$100

A.R.S. § 4-209(B). *Issuance fees for original licenses:*

(1) In-state producers of spirituous liquors	\$1,500
(2) Out-of-state producer's, exporter's, importer's, or rectifier's license, except an out-of-state winery selling 50 or fewer cases of wine in a calendar year	200
(3) Domestic micro brewery license	300
(4) Wholesalers of spirituous liquors	1,500
(5) Local government licenses	100
(6) On-sale retailers on all spirituous liquors and bar license	1,500
(7) On-sale retailers beer and wine bar license	1,500
(8) Railroads, airlines or boats, conveyance licenses	1,500
(9) Off-sale retailers on all spirituous liquors, liquor store license	1,500
(10) Off-sale retailers beer and wine store license	1,500
(11) Hotels and motels	1,500
(12) Restaurants	1,500
(13) Domestic farm winery	100
(14) Clubs	1,000
(15) Out-of-state winery selling 50 or fewer cases of wine in a calendar year	25

A.R.S. § 4-209(D). *Annual License Fees:*

(Continued)

Alcoholic Beverage Licenses

(1) In-state producer of spirituous liquors	\$350
(2) Out-of-state producer's, exporter's, importer's or rectifier's license, except an out-of-state winery selling 50 or fewer cases of wine in a calendar year	50
(3) Domestic micro brewery license	300
(4) Wholesaler's of spirituous liquors	250
(5) Local government 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 license	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
(13) Domestic farm winery	100
(14) Clubs	150
(15) Out-of-state winery selling 25 or fewer cases of wine in a calendar year	25

- NOTE:** (1) 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 following annual license fee. [See A.R.S. § 4-209(C)]
- (2) Establishments operating on a seasonal basis not exceeding 6 months in any year are subject to license fees equal to half the annual rate. [See A.R.S. § 4-209(E)]
- (3) Certain licenses are assessed various surcharges as part of the annual license renewal fee. The revenues from these surcharges are dedicated to specific purposes. [See A.R.S. § 4-209(J&K)]

A.R.S. § 4-209(F-G). *Transfer Fees For Spirituous Liquor Licenses:*

- | | |
|-------------------------------|--------|
| (1) From Person to Person | \$ 300 |
| (2) From Location to Location | 100 |

A.R.S. § 4-209(H). *Assignment Fees.* A \$100 fee is charged for a change of agent. For a holder of multiple licenses, the fee is \$100 for the first license and all remaining licenses transferred to the same agent shall be \$50 each, with a maximum fee of \$1,000.

NOTE: License transfers are not permitted for restaurants, hotels, motels, clubs or domestic farm wineries or micro brewery, except that clubs may transfer a license from location to location.

A.R.S. § 4-203.01. *Interim Permit Fees.* For original license pending or license transfer pending, the fee is \$100.

A.R.S. § 4-203.02 and § 4-203.03. *Other Licenses.* In addition, special event licenses are issued on a daily basis at a fee of \$25 per day. The domestic wine festival license fee is \$15 per event.

(Continued)

Alcoholic Beverage Licenses

PAYMENT SCHEDULE

A.R.S. § 4-209(A). *Due Dates.* 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 which are not renewed on the due date are subject to a penalty equal of \$150.

A.R.S. § 4-112. *Collecting Agency.* Department of Liquor Licenses and Control.

DISTRIBUTION

A.R.S. § 4-116. *Club Licenses and Applications.* The revenues derived from club licensing and applications are dedicated to the Department of Economic Security–Mental Retardation, Capital Investment Fund.

A.R.S. § 4-203.02(A). *Special Event Licenses.* Collections are dedicated to the Health Department for use in the evaluation and treatment of alcoholics.

A.R.S. § 4-115(B). *All Other Licenses.* These are divided as follows:

Counties. Except for club and special event license fees, one-third of the license fees collected in counties with a population of 500,000 or less are to be paid monthly by the State Treasurer to the treasurer of those counties. From the remaining one-third of the license fees, \$3,000 for each new license issued in unincorporated areas of counties with a population of more than 500,000 is paid monthly to the County Treasurer, up to a maximum of \$150,000. The remainder of the one-third of the license fees collected in counties with a population of 500,000 or more is retained by the Department of Liquor Licenses and Control for the purchase and maintenance of an automated records filing and retrieval system until June 15, 1995, at which time, the money will be deposited in the state General Fund.

State General Fund. All remaining collections are dedicated to the state General Fund.

DISTRIBUTION OF ALCOHOLIC BEVERAGE LICENSE FEES

<u>Year</u>	<u>General Fund</u>	<u>Department of Economic Security</u>	<u>Department of Health Services</u>	<u>Counties</u>	<u>Automated File and Retrieval Fund</u>	<u>Surcharge on Renewals</u>
1994-95	\$2,404,500	\$57,100	\$34,400	\$337,700	\$517,600	\$288,300
1993-94	2,577,500	54,900	36,100	343,100	309,200	105,600
1992-93	2,034,000	51,400	33,400	762,700	156,700	54,400
1991-92	2,166,604	70,130	30,575	840,999	-0-	-0-
1990-91	2,385,400	39,000	29,300	850,500	-0-	-0-

SOURCE: Department of Liquor Licenses and Control, Fiscal Division.

HISTORY

Licensing the sale and production of alcoholic beverages in Arizona dates back to the early years of the territory. [See Arizona Civil Code of 1913, Sections 3584-3585, 3591, 3599-3610]

During "prohibition," licensing ceased. However, immediately after prohibition ended in 1933, state control of the sale of alcoholic beverages again became necessary. Provisions were made for such control by the enactment of Laws 1933, Chapter 76. The responsibility for licensing producers and sellers was given to the State Tax Commission. Rates for various classes of licensing were as follows:

(Continued)

Alcoholic Beverage Licenses

Distiller's License	\$250
Winer's License	250
Brewer's License	250
Wholesalers - Spirituous Liquor License	100
Wholesalers - Beer and Wine License	50
Hotels - Spirituous Liquor License	100
Hotels - Beer and Wine License	50
Restaurants - Spirituous Liquor License	100
Restaurants - Beer and Wine License	50
Retailers - Spirituous Liquor License	25
Retailers - Beer and Wine License	25

The initial fee for an Alcoholic Beverage License was paid at the time of application for the license. Licenses were issued for 1 calendar year only. The fee for renewal was the same as the initial fee and was payable annually on or before the 10th of January. (E - June 13, 1933)

Laws 1933, 1st Special Session, Chapter 9 reduced the initial license fee by 25% for each quarter of the year that had passed before a business applied for a license. (E - June 26, 1933)

Laws 1935, Chapter 46 changed the rates for Alcoholic Beverage Licenses. The new annual license fees were set as follows:

Distiller's License	\$350
Winer's License	150
Brewer's License	350
Wholesalers - Spirituous Liquor License	250
Wholesalers - Beer and Wine License	100
Hotels - Spirituous Liquor License	150
Hotels - Beer and Wine License	75
Restaurants - Spirituous Liquor License	150
Restaurants - Beer and Wine License	50
Restaurants - Beer License	25
Package Retailers - Spirituous Liquor License	50
Package Retailers - Beer and Wine License	50
Package Retailer s- Beer License	25

Fees for an initial license were half the annual rate if the business applied for a license after July 1 of the year. The law also provided for the distribution of collections from the sale of licenses. Under this law, one-third of the revenue from each liquor license was distributed to the county in which the licensed business was located. The remaining collections were used for the cost of administering the licenses and to defray the necessary and ordinary expenses of the state. (E -March 19, 1935)

Laws 1939, Chapter 64 transferred the responsibility for licensing the manufacture and sale of alcoholic beverages from the State Tax Commission to the Department of Liquor Licenses and Control. The total number of licenses available in each county was restricted by this law. For purposes of issuing a license, hotels, restaurants, package liquor dealers and similar establishments were recategorized as on-sale retailers or off-sale retailers depending on whether they were licensed to sell liquor for consumption on or off the premises. The fees charged for licensing these establishments were set as follows:

(Continued)

Alcoholic Beverage Licenses

Distiller's License	\$250
Winer's License	250
Brewer's License	250
Wholesalers - Spirituous Liquor License	100
Wholesalers - Beer and Wine License	50
Hotels - Spirituous Liquor License	100
Hotels - Beer and Wine License	50
Restaurants - Spirituous Liquor License	100
Restaurants - Beer and Wine License	50
Retailers - Spirituous Liquor License	25
Retailers - Beer and Wine License	25

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Distiller's License	\$350
Winer's License	150
Brewer's License	350
Wholesalers - Spirituous Liquor License	250
Wholesalers - Beer and Wine License	100
Hotels - Spirituous Liquor License	150
Hotels - Beer and Wine License	75
Restaurants - Spirituous Liquor License	150
Restaurants - Beer and Wine License	50
Restaurants - Beer License	25
Package Retailers - Spirituous Liquor License	50
Package Retailers - Beer and Wine License	50
Package Retailers - Beer License	25

Fees for an initial license were half the annual rate if the business applied for a license after July 1 of the year. The law also provided for the distribution of collections from the sale of licenses. Under this law, one-third of the revenue from each liquor license was distributed to the county in which the licensed business was located. The remaining collections were used for the cost of administering the licenses and to defray the necessary and ordinary expenses of the state. (E - March 19, 1935)

Laws 1939, Chapter 64 transferred the responsibility for licensing the manufacture and sale of alcoholic beverages from the State Tax Commission to the Department of Liquor Licenses and Control. The total number of licenses available in each county was restricted by this law. For purposes of issuing a license, hotels, restaurants, package liquor dealers and similar establishments were recategorized as on-sale retailers or off-sale retailers depending on whether they were licensed to sell liquor for consumption on or off the premises. The fees charged for licensing these establishments were set as follows:

(Continued)

Alcoholic Beverage Licenses

Hotels or On-sale Retailers - Spirituous	\$150
Hotels or On-sale Retailers - Wine and Beer	750
On-sale Retailers - Beer	250
Off-sale Retailers - Spirituous	50
Off-sale Retailers - Wine and Beer	50
Off-sale Retailers - Beer	250

Railroad license fees were also established at \$225 per year. The annual fees for distillers, winers, brewers and wholesalers were not changed. Under this law, all collections from alcoholic beverage licenses were credited to the Liquor License Administration Fund, but one-third of the fees collected from each licensed business were to be returned to the county in which the business was located. This law also provided for the issuance of seasonal licenses at a reduced rate. (E - March 13, 1939)

Laws 1941, Chapter 8 again changed the distribution of liquor license fees. Under this law, the balance of collections after distributing the counties' share was deposited in the state General Fund. (E - July 1, 1941)

Laws 1950, 1st Special Session, Chapter 60 established club licenses which were to be issued at an annual rate of \$150. Revenues from club licenses were dedicated to the Arizona Children's Colony Capital Investment Fund. The law also established a schedule of application fees in addition to the annual license fee schedule. Under this law, the application fee for an original license was to be \$50 for all retailers that were applying for a license to sell beer or beer and wine. Retailers were required to pay a \$100 application fee when applying for a license to sell all spirituous liquors. Wholesalers, distillers, brewers, winers, railroads and clubs were also subject to a \$100 application fee for an original license. All application fees were refundable if the application was denied. A schedule of fees was also established for transferring a license from one person to another. The fees for this type of transfer were set at the same rates as the annual license renewal fees. The fee for transferring a license from location to location was set at \$25. (E - March 30, 1950)

Laws 1961, 1st Special Session, Chapter 2 set all application fees for an original license at \$50 and provided that these fees were non-refundable. The law established a schedule of fees for the issuance of an original license that was separate from the annual license fee schedule. The fees for issuing an original license were set as follows:

Distiller's License	\$500
Brewer's License	500
Winer's License	500
Wholesaler's License - Spirituous Liquor	500
Wholesaler's License - Beer and Wine	500
On-Sale Retailer's License - Spirituous Liquor	500
On-Sale Retailer's License - Beer and Wine	150
On-Sale Retailer's License - Beer	100
Off-Sale Retailer's License - Spirituous Liquor	500
Off-Sale Retailer's License - Beer and Wine	150
Off-Sale Retailer's License - Beer	100
Railroad License	500
Airline License	500
Club License	100
Restaurant License	1,000
Hotel-Motel License	1,000

(Continued)

Alcoholic Beverage Licenses

The annual license fees for restaurants and hotels were separated from the fees for on-sale and off-sale retailers. Under this law, the annual fees for restaurants and hotels were increased to \$500. Wholesalers of liquor, in addition to paying their annual license fees, were required to pay a percentage of their gross sales of spirituous liquor during the preceding calendar year. An annual license fee of \$225 was also established for airlines. In addition to these changes, the fees for transferring a license from person to person were increased as follows:

	<u>From</u>	<u>To</u>
Distiller's License	\$350	\$500
Brewers	350	500
Winers	150	300
Wholesalers of Spirituous Liquor	250	500
Wholesalers of Wine and Beer	100	200
On-sale Retailers - Spirituous Liquor	150	300
On-sale Retailers- Wine and Beer	75	150
On-sale Retailers - Beer	25	50
Off-sale Retailers - Spirituous Liquor	50	100
Off-sale Retailers - Wine and Beer	50	100
Off-sale Retailers- Beer	25	50
Railroads	225	450
Airlines	225	450

Licenses for restaurants, hotels and motels were not transferable under this law. The fee for transferring a license from location to location was increased to \$100. (E - October 30, 1961)

Laws 1962, Chapter 142 repealed the provision which required wholesalers to pay a percentage of their gross sales of spirituous liquor each year in addition to their annual license fee. See Laws 1961, 1st Special Session, Chapter 2. (E - March 28, 1962)

Laws 1965, Chapter 103 increased the fees for issuing an original license as follows (EFA - December 31, 1965):

	<u>From</u>	<u>To</u>
Distiller's License	\$500	\$1,500
Brewers	500	1,500
Winer's License	500	1,500
Wholesaler's License - Spirituous	500	1,500
Wholesaler's License - Beer and Wine	500	1,500
On-sale Retailer's - Spirituous	500	1,500
On-sale Retailer's - Beer and Wine	150	300
On-sale Retailer's - Beer	100	200
Off-sale Retailer's - Spirituous	500	1,000
Off-sale Retailers - Beer and Wine	150	300
Off-sale Retailer's - Beer	100	200
Railroad Liquor License	500	1,500
Airline License	500	1,500
Club License	100	1,000
Restaurant License	1,000	1,500
Hotel-Motel License	1,000	1,500

Alcoholic Beverage Licenses

Laws 1971, Chapter 77 provided that the share of licenses formerly dedicated to the Arizona Children's Colony was deposited instead in the Department of Mental Retardation Capital Investment Fund. (E - August 13, 1971)

Laws 1974, Chapter 175 provided for a random method of selection for the issue of spirituous liquor licenses when the number of qualified applicants exceeds the number of available licenses. Allowance was also made for the issue of additional spirituous liquor licenses in the years 1975-1980. The number of additional licenses available each year was not to exceed 3% of the number of licenses issued and in effect as of December 31, 1973. (E - August 9, 1974)

Laws 1977, Chapter 74 provided for the issuance of interim retail permits so that retail establishments could continue to operate while applications for license transfer were pending or, in the case of hotels, motels and restaurants, while applications for original license were pending. The fees that were established for interim permits were to equal 20% of the establishment's annual license fee or \$15 whichever was greater. (E - August 27, 1977)

Laws 1978, Chapter 88 provided that no transfer or assignment fee shall be charged for an assignment of a liquor license in probate or pursuant to the provisions of a will. (E - September 3, 1978)

Laws 1980, Chapter 78 established fees for government licenses issued in the name of a county, city or town. The original license fee and the annual license fee were both set at \$100. (E - July 31, 1980)

Laws 1980, Chapter 84 added license fees for out-of-state distillers, out-of-state brewers, out-of-state vintners and out-of-state exporters, importers and rectifiers. Under this law, these taxpayers were required to pay an original license fee of \$100 and an annual renewal fee of \$50. The license transfer fee for these taxpayers was set at \$100. This law also authorized clubs to transfer licenses from location to location upon payment of a \$100 transfer fee. (E - July 31, 1980)

Laws 1981, Chapter 201 clarified the meaning of the term "license fees" for the purpose of determining the amount of receipts that are divided between the counties (receiving 1/3rd) and the state General Fund (receiving 2/3rds). (E - July 25, 1981)

Laws 1982, Chapter 297 established alcoholic beverage license fees for domestic farm wineries. The issuance fee for an original license was set at \$100 and the annual renewal fee was set at \$100. (E - July 24, 1982)

Laws 1982, Chapter 329 increased the application fees for all alcoholic beverage licenses from \$50 to \$100. (E - July 24, 1982)

Laws 1986, Chapter 73 reduced the kinds of liquor licenses by combining 22 narrowly defined licenses to 14 broadly defined ones. Beer and wine issuance fees for both on-sale and off-sale retailers' license increased from \$300 to \$1,500. Prescribed for issuance of conveyance license for excursion boats. Also, the limitation on the number of liquor licenses issued in a single county was changed. (E - August 13, 1986)

Laws 1986, Chapter 293 prohibited the issuance of a retailer's liquor license to any premise within 300 feet of a church, school, or fenced recreational area adjacent to a church or school. Exempted restaurants, special events, hotel/motel or government licenses from this restriction. Grand fathered existing licenses including person who acquires an existing license. (E - August 13, 1986)

Laws 1987, Chapter 32 allowed a holder of an in-state producer's license to sell beer as a retailer if this manufacturer also holds an on-sale retail license and sells only the produced beer through his own on-sale retail premises which must be located on or adjacent to the production site. Also, subjected this manufacturer-retailer to the luxury and privilege tax for such sales. (E - August 18, 1987)

Laws 1988, Chapter 294 allowed a beer and wine bar license to be transferable with a \$300 transfer fee. Empowered the Superintendent of the Department of Liquor Licenses and Control to issue up to 8 wine festival licenses per year for up to 2 days

(Continued)

Alcoholic Beverage Licenses

each, provided at least 3 domestic wineries agree to participate in the festival before issuance. Also, allowed the Department to issue licenses with staggered renewal dates. (E - July 8, 1988)

Laws 1988, Chapter 325 clarified that an in-state producer who is producing and selling his own beer may also sell other spirituous liquor provided he holds an on-sale retail license. Prohibited the consumption of spirituous liquor in an unlicensed establishment or premises that sells food or beverages, entertainment is provided, a membership or admission fee is charged, or a minimum purchase or rental of goods or services is required. (E - September 30, 1988)

Laws 1991, Chapter 293 granted extensive responsibilities to the superintendent of the Department of Liquor Licenses and Control for the issuance and revocation of liquor licenses. (E - September 21, 1991)

Laws 1992, Chapter 258 was the Omnibus Liquor Bill. Provisions affecting license or permit fees were as follows (E - September 30, 1992):

- (1) A license in nonuse status more than 5 months was subject to a \$100 surcharge per month thereafter. A license automatically reverts to the state after continuous nonuse for more than 36 months. Failure to pay a surcharge or report the nonuse period is grounds for revocation of the license.
- (2) Allowed the issue of an interim permit if the Superintendent of the Department of Liquor Licenses and Control has good cause to believe the licensee is no longer in possession of the licensed premises. Moreover, the interim permit fee was raised to \$100.
- (3) Established a fee of \$15 for a domestic farm winery fair license.
- (4) Failure to renew license by the due date will incur a penalty of \$150.
- (5) Reduced the domestic farm winery license issuance and renewal fee from \$300 to \$100.
- (6) For 2 years starting January 1, 1993, the Superintendent will assess a \$20 annual surcharge on bar, beer and wine bar, and restaurant licenses for an auditor to review compliance that licensees derive 40% of gross revenue from food sales.

Laws 1995, 1st Special Session, Chapter 3 eliminated the diversion of a portion of the liquor license fees collected in Maricopa and Pima Counties, that were to be used by the Department of Liquor Licenses and Control for the purchase of an automated records filing and retrieval system, and deposited the funds in the General Fund. (E - June 15, 1995)

Laws 1995, Chapter 186 defined "vintage wine" to mean a wine bottled more than 10 calendar years before the date of sale. Allowed issuance of a daily off-sale special event license authorizing a charitable wine auction. Allowed the licensee to receive vintage wine from a donor if no payment is made, either directly or indirectly, other than any tax benefits that might result. Limited the licensee to the sale of not more than twenty cases of vintage wine annually. Provided that up to 25% of the gross receipts of the wine auction may be used to pay reasonable and necessary costs incurred. (E - July 13, 1995)

LUXURY TAX ON CANNABIS AND CONTROLLED SUBSTANCES

DESCRIPTION

This is a Luxury Tax on Cannabis and Controlled Substances and paid by dealers of such substances. A county, city, town or other political subdivision of this state shall not levy a luxury tax so long as the Urban Revenue Sharing Fund is maintained (see A.R.S. § 43-206).

YIELD

<u>Fiscal Year</u>	<u>Collections</u>
1994-95	\$62,529
1993-94	18,293
1992-93	7,054
1991-92	3,375
1990-91	6,345
1989-90	8,575
1988-89	3,000
1987-88	6,725
1986-87	5,046
1985-86	37,247
1984-85	56,775
1983-84	94,669

SOURCE: Department of Revenue.

WHO PAYS THE TAX

A.R.S. § 42-1212.02. *Taxpayer.* Dealers of cannabis and controlled substances.

A.R.S. § 42-1201(A-7). *Definition.* For purposes of levying this tax, the term "dealer" refers to any person in this state who manufactures, produces, ships, transports or imports into this state, or in any manner acquires or possesses cannabis or a controlled substance on which the tax has not been paid.

A.R.S. § 42-1204. *Exemptions.* The following persons are not subject to the luxury tax: [See A.R.S. § 36-2522]

- Controlled substances possessed by persons registered under the Federal Controlled Substances Act to manufacture, distribute, dispense or use these substances for scientific purposes.
- Controlled substances possessed by an agent or employee of any registered manufacturer, distributor or dispenser of the substance if acting in the usual course of business or employment.
- Controlled substances possessed by a common or contract carrier or warehouseman or any of their employees when acting in the usual course of business or employment.
- Controlled substances in the possession of an ultimate user when obtained by lawful order of a medical practitioner.
- Controlled substances in the possession of an officer or employee of the Department of Public Safety or other peace officer while in the lawful performance of his or her duty.

TAX BASE

A.R.S. § 42-1204. *Each Ounce.* The tax is levied on each ounce of cannabis or on whole cannabis plants and each ounce of controlled substance.

(Continued)

Luxury Tax on Controlled Substances

A.R.S. § 42-1201. *Definition.* The term cannabis refers to marijuana, any part of a plant of the genus cannabis that is not specifically exempted, and any compound, manufacture, salt, derivative, mixture or preparation which contains the plant's resin or parts of the plant from which the resin has not been extracted. The term "controlled substance" means a drug or substance or the immediate precursor of a drug or substance that is illegally held, possessed, transported, sold or offered for sale in violation of the laws of this state. [See A.R.S. § 36-2501]

TAX RATE

A.R.S. § 42-1204. *Rates.* The following are tax rates by type of substance:

- *Cannabis.* The tax on cannabis is levied at a rate of \$10 per ounce or a proportionate rate for any greater or lesser quantity.
- *Whole Cannabis Plants.* Five hundred dollars for 3 whole cannabis plants and \$500 for each additional whole plant.
- *Controlled Substances.* The tax on controlled substances is levied at a rate of \$250 per ounce or a proportionate rate for any greater or lesser quantity.

PAYMENT SCHEDULE

A.R.S. § 42-1212.02(A-B). *Due and Payable.* The Luxury Tax on Cannabis and Controlled Substances is due and payable immediately upon acquisition or possession of the substance by a dealer in this state. Dealers are to pay the tax through the purchase of tax stamps or indicia. The stamps must be affixed to each substance within 24 hours from the time the substance is acquired or possessed. Dealers must pay for each stamp at the time the stamp is purchased.

A.R.S. § 42-1202. *Collecting Agency.* Department of Revenue.

DISTRIBUTION

A.R.S. § 42-1204(B-2). Distribution of taxes collected is as follows:

- *State General Fund.* Five percent of the monies collected.
- *RICO Fund.* The remainder (95%) is deposited in the Anti-Racketeering Revolving Fund for the benefit of the agency(ies) responsible for seizure of the cannabis or controlled substance.

DISTRIBUTION OF CANNABIS AND CONTROLLED SUBSTANCES LUXURY TAXES		
<u>Fiscal</u>	<u>State General</u>	<u>RICO</u>
1994-95	NA	NA
1993-94	\$1,171	\$17,122
1992-93	353	6,701
1991-92	169	3,206
1990-91	317	6,028

SOURCE: Department of Revenue.

HISTORY

Laws 1983, Chapter 185 established a Luxury Tax on Cannabis (marijuana) and on Controlled Substances that are illegally held, possessed, transported, sold or offered for sale in violation of the laws of this state. The tax on cannabis was levied at a rate of \$10 per ounce or a proportionate rate for any greater or lesser quantity. The tax on controlled substances was set at \$125 per ounce or a proportionate rate for any greater or lesser quantity. The tax was paid to the Department of Revenue through the purchase of stamps or other indicia. These stamps were affixed to each package of cannabis and each controlled substance prior

(Continued)

Luxury Tax on Controlled Substances

to sale. Collections from the Luxury Tax on Cannabis and Controlled Substances were divided equally between the Department of Public Safety and the Department of Corrections (E - July 27, 1983)

Laws 1986, Chapter 106 allocated in equal shares the monies collected from the Luxury Tax on Cannabis or Controlled Substances to the government agency whose investigation resulted in such seizure and the County Attorney where the seizure was made provided the County Attorney prosecuted the case. (E - August 13, 1986)

Laws 1987, Chapter 134 required the Department of Public Safety, each County Sheriff, and municipal Police Department to notify the Department of Revenue of each person found in possession of cannabis or any controlled substance whether or not official revenue stamps have been affixed as required. (ER - July 1, 1986)

Laws 1990, Chapter 354 prescribed a luxury tax on whole cannabis plants. For 3 whole cannabis plants, the tax is \$500 and \$500 for each additional whole plant. Also, the luxury tax on each ounce of controlled substance was increased from \$125 to \$250. Monies collected from the above 2 items will be distributed in the following manner:

- (a) Five percent shall be deposited in the state General Fund.
- (b) The remainder is deposited in the Attorney General's Anti-Racketeering Revolving Fund (RICO) for the benefit of agencies responsible for the seizure of the cannabis or controlled substances. (E - September 27, 1990)

CHAPTER IX

MISCELLANEOUS TAXES

UNEMPLOYMENT INSURANCE TAX

DESCRIPTION

To reduce the economic insecurity due to unemployment, the Legislature enacted laws for the compulsory setting aside of unemployment reserves for the benefit of persons unemployed through no fault of their own. Thus, each employer is required to make contributions to the state based on wages paid for employment. These contributions are deposited in the Unemployment Compensation Fund and used to pay benefits to such unemployed persons.

YIELD

<u>Fiscal Year</u>	<u>Total Collections</u>	<u>Unemployment Tax Contributions</u>	<u>Reimbursement Payments In Lieu of Tax</u>	<u>Federal Reimbursements</u>
1994-95	\$230,902,093	\$211,727,500	\$10,727,993	\$8,446,600
1993-94	195,023,452	174,893,682	11,103,155	9,026,615
1992-93	147,269,444	124,839,134	10,575,310	11,855,000
1991-92	118,359,664	99,307,405	10,032,259	9,020,000
1990-91	113,606,086	99,799,840	7,491,246	6,315,000
1989-90	121,038,767	105,222,899	9,870,868	5,945,000
1988-89	124,227,365	112,569,050	6,393,315	5,265,000
1987-88	129,267,809	117,408,470	6,729,339	5,130,000
1986-87	130,793,972	120,284,369	5,459,603	5,050,000
1985-86	143,480,442	133,574,265	5,006,177	4,900,000
1984-85	145,302,534	136,159,534	5,043,000	4,100,000
1983-84	106,519,437	100,164,728	6,354,709	-0-
1982-83	70,127,927	62,024,922	8,103,005	-0-
1981-82	72,093,506	66,564,227	5,529,279	-0-
1980-81	82,697,563	78,193,472	4,504,091	-0-
1979-80	99,045,813	96,486,633	2,559,180	-0-
1978-79	110,050,117	108,127,877	1,922,240	-0-
1977-78	92,980,248	90,743,211	2,237,037	-0-
1976-77	65,132,721	61,854,581	3,278,140	-0-

SOURCE: Department of Economic Security, Research and Reports Section of the Unemployment Insurance Administration. For FY 1984-85 to FY 1989-90, figures are from the Department of Economic Security, Office of Budget, Planning, Policy and Project Control - U.I. Financial Transaction Summary for the Unemployment Fund.

WHO PAYS THE TAX

A.R.S. § 23-726. *Taxpayer.* Arizona employer or an employing Unit. [See A.R.S. § 23-613 for definition of employer]

A.R.S. § 23-613. *Exclusions.* The following employers are excluded from the definition of employer and thus not subject to the tax:

- (1) Any employer who 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:

(Continued)

Unemployment Insurance Tax

- (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 volunteers 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.

NOTE: Employers, once covered by unemployment insurance, are not permitted to terminate coverage simply by virtue of this exemption. [See A.R.S. § 23-725]

TAX BASE

A.R.S. § 23-622. *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 means remunerations for services from whatever source including commissions, bonuses, fringe benefits and the cash value of remuneration in any medium other than cash. Exclusions from the statutory definition of wages are provided in A.R.S. § 23-622(B).

A.R.S. § 23-615 and § 23-617. *Exemptions.* The following services are not included in definition of employment:

- (1) Service performed outside of the United States on or in connection with a foreign vessel or aircraft.
- (2) Service performed in the employ of a son, daughter or spouse.
- (3) Service performed by an individual under the age of 21 in the employ of his father or mother.
- (4) Service performed while in the employ of the United States Government.
- (5) Service performed while in the employ of an instrumentality of the United States Government which is wholly or partially owned by the United States or is exempt from the tax imposed by Section 3301 of the Federal Internal Revenue Code, unless unemployment taxation by the states is permitted by federal law.
- (6) Service performed entirely in the employ of another state or its political subdivisions or in the employ of an instrumentality which is wholly owned by one or more states or political subdivisions and which exercises only governmental as distinguished from proprietary functions.
- (7) Services performed in the employ of political subdivisions or other states if exempt under the United States Constitution from the tax imposed by Section 3301 of the Federal Internal Revenue Code, unless performed in the employ of this state and one or more other states or their instrumentalities.
- (8) Services performed in the employ of this state, its political subdivisions or any instrumentalities of this state and its subdivision in any of the following capacities:
 - (a) As an elected official or member of a legislative body or the judiciary.
 - (b) In a major nontenure policy-making or advisory position or a policy-making or advisory position that does not require more than 8 hours per week to perform.
 - (c) As a member of the State National Guard or Air National Guard.
 - (d) On a temporary basis when an emergency has been declared.
- (9) Services performed in the employ of this state or any of its instrumentalities, for a hospital or institution of higher education located in this state, or services performed for a religious, charitable, educational, or other organization exempt from the Federal Unemployment Tax Act under Section 3306(C.) in any of the following capacities:

(Continued)

Unemployment Insurance Tax

- (a) As part of an unemployment work-relief or work-training program financed in whole or in part by a government entity.
 - (b) In connection with a rehabilitation program for individuals whose earnings capacity is impaired by age or physical or mental deficiency or injury.
 - (c) Services performed by inmates of custodial and penal institutions.
 - (d) Services performed in the employ of a church, convention or association of churches or an organization operated primarily for religious purposes under the direction of a church or convention or association of churches.
 - (e) Services performed by an ordained or licensed minister or by a member of a religious order in performance of duties required by the order.
- (10) Service for which unemployment compensation is payable under a system established by an act of Congress unless a credit is offered against such payments for contributions to a State Unemployment Fund.
- (11) Services performed in any calendar quarter in the employ of an organization exempt from income tax under Sections 501a or 521 of the Federal Internal Revenue Code, if remuneration for such service is less than \$50. This exemption does not apply to organizations described in Section 401a of the Internal Revenue Code.
- (12) Service performed in the employ of a school, college or university by a) a student regularly attending classes, or b) the spouse of a student, if the spouse is advised that the employment is provided under a program of financial assistance to the student and that the employment will not be covered by any program of unemployment compensation.
- (13) Services performed in the employ of a non-profit religious, charitable, scientific, educational or literary organization or in the employ of societies for the prevention of cruelty to children or animals or organizations performing testing for public safety. This exemption does not apply to the following services:
- (a) Services performed in the employ of an organization that had in its employ four or more individuals for some portion of a day in each of 20 weeks during the current or preceding calendar year, if these organizations are exempt from Section 3306(C.) of the Federal Unemployment Tax Act.
 - (b) Services performed in the employ of an organization liable for any federal tax against which credit may be taken for contributions paid into the State Unemployment Insurance Fund.

NOTE: According to the Unemployment Insurance Administration within the Department of Economic Security, none of the organizations listed are exempt under this provision because of the effects of (a) and (b).

- (14) Services performed by student nurses and interns while in the employ of a hospital or nurses training school.
- (15) Service performed by an individual under the age of 18 in the distribution or delivery of newspapers to the ultimate consumer.
- (16) Service performed by an individual in the sale of newspapers or magazines to the ultimate consumer, when the sales are made under an arrangement by which the employee's compensation is based on the retention of the amount he receives in excess of what was charged for the newspapers or magazines.
- (17) Service performed in the employ of a foreign government.
- (18) Service performed in the employ of an instrumentality wholly owned by a foreign government, if the foreign government grants an equivalent exemption to employees of the United States government for service of a similar nature.
- (19) Service covered by an arrangement between the Department of Economic Security and agencies charged with the administration of any other state or Federal Unemployment Compensation Law when services performed for the agency are deemed to be performed within that agency's state.
- (20) Casual labor not in the course of the employer's trade or business.
- (21) Services performed by an individual for an employing unit as an insurance agent, insurance solicitor, licensed real estate salesman or broker, licensed cemetery salesman or broker or a securities salesman, if such service is performed for remuneration solely by way of commission.
- (22) Services performed by an individual enrolled as a full-time student at a nonprofit or public educational institution in a program that combines academic instruction with work experience. This exemption does not apply to services 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.

(Continued)

Unemployment Insurance Tax

- (23) Service performed by a patient in the employ of a hospital.
- (24) Services performed by individuals engaged in door-to-door sales of consumer goods who receive commissions, overrides or profits based on such sales. This exemption does not apply to employees of nonprofit organizations or employees of this state or its political subdivisions or instrumentalities.
- (25) Services performed by individuals in the preparation of tax returns, if the only remuneration received for such service is in the form of a commission. This exemption does not apply to employees of nonprofit organizations or employees of this state or its political subdivisions or instrumentalities.

TAX RATE

A.R.S. § 23-728. **Standard Rate.** The standard rate of contribution is 5.40%.

A.R.S. § 23-729. **Reduced Rate.** 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, shall pay a contribution rate of 2.7%.

A.R.S. § 23-730. **Variations From the Standard Rate.** A revised contribution rate is computed if the employer's account has been subject to charges for benefits for the above period. The revised rate will depend on the employer's reserve which is the contributions received from the employer versus benefits charged:

- (1) If the employer's total contributions, paid on or before July 31 of the preceding calendar year from wages paid prior to July 1 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 with respect to weeks of unemployment beginning prior to July 1; 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 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 below:

<u>Positive Reserve Ratio</u>		<u>Contribution Rate</u>
less than	3%	2.70%
3% but less than	4%	2.50
4% " " "	5%	2.25
5% " " "	6%	2.00
6% " " "	7%	1.75
7% " " "	8%	1.50
8% " " "	9%	1.25
9% " " "	10%	1.00
10% " " "	11%	0.75
11% " " "	12%	0.50
12% " " "	13%	0.50
13% or more		0.10

- (2) If an employer's reserve equals zero, the contribution rate for the ensuing calendar year shall be 2.70%.
- (3) If the total of all employer's contributions, paid on or before July 31 of the preceding calendar year from wages paid by an employer prior to July 1 of such year, is less than the total benefits chargeable to the employer's account prior to July 1 of such year, with respect to the weeks of unemployment beginning prior to July 1, the employer's contribution rate for the ensuing calendar year shall be determined from the employer's Negative Reserve Ratio in accordance with the table provided below. An employer's Negative Reserve Ratio is the percentage resulting from dividing the employer's reserve deficit (the excess of benefits charged over contributions paid) by the employer's average annual taxable payroll.

(Continued)

Unemployment Insurance Tax

NOTE: Benefits paid as a result of unemployment due to a labor dispute, strike or lockout is not used as a factor in determining the contribution rate of affected employers. [See A.R.S. § 23-777(C)]

The table applicable to rate computation for calendar year 1987 and thereafter is:

<u>Negative Reserve Ratio</u>		<u>Contribution Rate</u>
less than	3%	2.90%
3% but less than	4%	3.10
4% " " "	5%	3.35
5% " " "	6%	3.60
6% " " "	7%	3.85
7% " " "	8%	4.10
8% " " "	9%	4.35
9% " " "	10%	4.60
10% " " "	11%	4.85
11% " " "	12%	5.10
12% " " "	13%	5.35
13% or more		5.40

A.R.S. § 23-730. Further Adjustments. Employer contribution rates may be further adjusted depending on the level of assets in the Unemployment Compensation Fund. 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 Required Income Rate in accordance with the following schedule:

<u>Fund Ratio</u>		<u>Required Income Rate</u>
12.0% or more		0.50%
10.0% but less than	12.0%	0.60%
9.5% " " "	10.0%	0.70%
9.0% " " "	9.5%	0.80%
8.5% " " "	8.5%	0.90%
8.0% " " "	8.0%	1.00%
7.5% " " "	7.5%	1.10%
7.0% " " "	7.0%	1.20%
6.5% " " "	6.5%	1.30%
6.0% " " "	6.0%	1.40%
5.5% " " "	5.5%	1.50%
5.0% " " "	5.0%	1.60%
4.5% " " "	4.5%	1.80%
4.0% " " "	4.5%	1.90%
3.5% " " "	4.0%	2.10%
3.0% " " "	3.0%	2.30%
less than 3.0%		2.50%

Estimated Required Tax Yield. 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

(Continued)

Unemployment Insurance Tax

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 0.10%.

A.R.S. § 23-750. *In Lieu Payments.* Certain non-profit organizations, this state or other states and their 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. § 23-765. *Shared Work Plans.* Since 1982, certain employers who implement a Shared Work Plan have been assigned an extra contribution rate in addition to the regular unemployment contribution rate. A Shared Work Plan is a written plan under which an employer arranges to secure unemployment benefits for a group of his employees working a reduced work week, as an alternative to a complete lay off of some or all these employees. The law provides that the additional rate is paid by employers with Shared Work Plans only when they have a Negative Reserve Ratio as follows:

<u>Reserve Ratio</u>	<u>Percentage Added to Regular Contribution Rate for the Next Calendar Year</u>
-.05 or less and greater than -.15	1%
-.15 or less	2%

The additional rate does not apply if any of the following conditions apply:

- (1) The employer has a positive reserve ratio or a reserve ratio equal to zero.
- (2) The employer's account has not been charged with shared work benefits during the prior 12-month period, if the employer's reserve ratio is more favorable than it was as of the least computation date.
- (3) The employer's account has not been charged with shared work benefits during the prior 24-month period.

PAYMENT SCHEDULE

A.R.S. § 23-604. *Computation Date.* This is July 1 of each calendar year with respect to applicable contribution rates for the following calendar year beginning January 1.

A.R.S. § 23-723. *Due Dates.* Contributions are paid by employers on a quarterly basis with due dates determined by the Department of Economic Security.

A.R.S. § 23-726(A). *Collecting Agency.* Department of Economic Security.

DISTRIBUTION

A.R.S. § 23-701(B). *Unemployment Compensation Fund.* Contributions are deposited in the Unemployment Compensation Fund and are used for the benefit of persons unemployed through no fault of their own.

HISTORY

Laws 1936, 1st Special Session, Chapter 13 established the Unemployment Compensation Fund from which benefits were paid to unemployed Arizona workers. A 3-member Unemployment Compensation Commission was created to administer the fund. The fund consisted of contributions paid by Arizona employers at a rate equal to 0.9% of total payroll wages for 1936, 1.8% for 1937 and 2.7% thereafter. Contributions were not to be deducted from wages paid to employees. Beginning in 1941, each employer's contribution rate was established based on an experience rating schedule. Under this schedule an employer could qualify for a contribution rate smaller than 2.7%, provided that contributions exceeded total benefits charged to employer's

(Continued)

Unemployment Insurance Tax

account. An employer could only qualify for a lower contribution rate after employees had been eligible to receive Unemployment Compensation for 3 calendar years. If the benefits charged against an employer's account were larger than the contributions to the Unemployment Compensation Fund, the employer's contribution rate was increased to 3.6%. The contribution rates of employers with good experience ratings was reduced below 2.7% if the total assets of the Unemployment Compensation Fund exceeded the total benefits paid during the preceding calendar year. The minimum rate under this experience rating schedule was 0.9%. (E - December 2, 1936)

Laws 1937, Chapter 68 changed the contribution rates paid by employers with good experience ratings after 1941. Under this law, the minimum allowable contribution rate paid by employers was changed from 0.9% to 1.0%. (E - March 23, 1937)

Laws 1941, Chapter 124 abolished the Unemployment Compensation Commission and transferred its powers and duties to a new body entitled the Employment Security Commission. The taxable wage base was modified to include only the first \$3,000 of each employee's wages plus certain payments for employee benefits. Under this law, an employer could not qualify for a reduced contribution rate, unless employees had been eligible for Unemployment Compensation for at least 36 months on June 30 of the preceding calendar year. (E - June 16, 1941)

Laws 1947, Chapter 75 again changed the range of contribution rates paid by employers. Under this law, the maximum contribution rate was 2.7%. Employers with good experience ratings could qualify for reduced contribution rates that ranged from 0.5% to 2.7%. Each employer's contribution rate was determined on the basis of excess contributions to the Unemployment Compensation Fund. Excess contributions are the amount by which the employer's contributions to the Unemployment Compensation Fund exceed the benefits paid from the fund. Employers who had accumulated a large amount of excess contributions (when measured as a percent of their total payrolls) were entitled to the lowest contribution rates. The contribution rates were determined as follows:

Excess contributions as a percent of the annual payroll	Required rate of contribution to the Unemployment Compensation Fund
less than 5%	2.7%
5% but less than 7%	2.0
7% but less than 9%	1.5
9% but less than 11%	1.0
11% or more	0.5

This law also authorized an adjustment in the rates of contribution based on the level of assets in the Unemployment Compensation Fund. (E - June 30, 1947)

Laws 1951, Chapter 32 modified the schedule of contribution rates for employers with good experience ratings. Under the new schedule, each employer's contribution rate was determined as follows (Effective at Midnight of June 16, 1951)

(Continued)

Unemployment Insurance Tax

Excess contributions as a percent of the annual payroll	Required rate of contribution to the Unemployment Compensation Fund
less than 5%	2.70%
5% but less than 6%	2.00
6% but less than 7%	1.75
7% but less than 8%	1.50
8% but less than 9%	1.25
9% but less than 10%	1.00
10% but less than 11%	.75
11% or more	.50

Laws 1952, Chapter 122 again changed the schedule of contribution rates for employers with good experience ratings. Under this schedule, each employer's contribution rate was determined as follows:

Excess contributions as a percent of the annual payroll	Required rate of contribution to the Unemployment Compensation Fund
less than 3%	2.70%
3% but less than 4%	2.50
4% but less than 5%	2.25
5% but less than 6%	2.00
6% but less than 7%	1.75
7% but less than 8%	1.50
8% but less than 9%	1.25
9% but less than 10%	1.00
10% but less than 11%	.75
11% or more	.50

The method of adjusting the contribution rates based on total assets in the Unemployment Compensation Fund was also changed. (E - July 1, 1952)

Laws 1953, Chapter 115 authorized employers who were not covered under the Unemployment Insurance Tax, to volunteer for coverage. (Effective at Midnight of June 29, 1953)

Laws 1958, Chapter 30 again modified the schedule that was used to determine employer contribution rates. Under this schedule, each employer's contribution rate was determined as follows:

(Continued)

Unemployment Insurance Tax

Excess contributions as a percent of the annual payroll	Required rate of contribution to the Unemployment Compensation Fund
less than 3%	2.70%
3% but less than 4%	2.50
4% but less than 5%	2.25
5% but less than 6%	2.00
6% but less than 7%	1.75
7% but less than 8%	1.50
8% but less than 9%	1.25
9% but less than 10%	1.00
10% but less than 11%	.75
11% but less than 12%	.50
12% or more	.25

The method of adjusting these contribution rates based on total assets in the Unemployment Compensation Fund was also changed. (E - July 1, 1958) **Laws 1962, Chapter 81** provided that employers were eligible to pay a reduced contribution rate under the experience rating schedule after their employee's had been eligible for unemployment benefits for the 12-month period ending on June 30 of the preceding calendar year. Formerly, employers had to wait till their employees had been eligible for 36 months before qualifying. (E - July 1, 1962)

Laws 1964, Chapter 88 increased the taxable wage base to include the first \$3,600 of each employee's wages. (E - January 1, 1965)

Laws 1966, Chapter 52 required employers to pay a contribution rate of 2.9% if their contributions to the Unemployment Compensation Fund were less than the benefits paid from the fund on their behalf. This law also changed the method of adjusting these contribution rates based on total assets in the Unemployment Compensation Fund. (E - July 23, 1966)

Laws 1970, Chapter 29 suspended, for calendar years 1970 and 1971, that portion of the law which adjusted the contribution rates based on the level of total assets in the Unemployment Compensation Fund. (E - March 27, 1970)

Laws 1971, Chapter 172 provided a new method of adjusting employer contribution rates based on the level of assets in the Unemployment Compensation Fund. This method replaced the one suspended in 1970 and 1971. The taxable wage base was increased to include the first \$4,200 of each employee's wages beginning in calendar year 1972. Unemployment coverage was extended to nonprofit organizations and state and local hospitals and institutions of higher education. These entities were given the option to reimburse the Department of Economic Security for their proportionate share of actual benefits paid to former employees, in lieu of paying the Unemployment Insurance Tax. Any reimbursements received from these organizations were deposited in the Unemployment Compensation Fund. (E - August 15, 1971)

Laws 1972, Chapter 142 transferred the powers and duties of the Employment Security Commission to the Department of Economic Security. (Effective no Later than July 1, 1973)

Laws 1974, Chapter 80 extended Unemployment Tax coverage to include state government employers not covered by Laws 1971, Chapter 172. Government employers included under this law were given the option to reimburse the Department of Economic Security for their share of actual benefits paid to former employees, in lieu of paying the Unemployment Insurance Tax. (Effective for Service Performed After December 31, 1973)

(Continued)

Unemployment Insurance Tax

Laws 1974, Chapter 155 established a new schedule for determining an employer's contribution rate that became effective in calendar year 1975. Under this schedule, an employer's contribution rate continued to be determined from the reserve ratio. An employer's reserve ratio is the percentage that results from dividing the reserve (the excess of the contributions paid to the Unemployment Fund over benefits charged against employer's account) by the average annual payroll. The following table illustrates the contribution rates applicable under this statute:

<u>Reserve Ratio</u>	<u>Contribution Rate</u>
less than 3%	2.70%
3% but less than 4%	2.50
4% " " " 5%	2.25
5% " " " 6%	2.00
6% " " " 7%	1.75
7% " " " 8%	1.50
8% " " " 9%	1.25
9% " " " 10%	1.00
10% " " " 11%	0.75
11% " " " 12%	0.50
12% " " " 13%	0.25
13% or greater	0.10

The method of adjusting these contribution rates based on the level of assets in the Unemployment Compensation Fund was also changed. (E - August 11, 1974)

Laws 1976, Chapter 143 raised the taxable wage base to include the first \$6,000 of each employee's wages. The law also provided for the levy of a surtax on each employer's contribution rate. The surtax was to equal 50% of the employer's contribution rate or a maximum of 1.2%. The surtax, which was levied only if the assets of the fund were less than \$50,000,000 on December 31, 1976, was determined to be unnecessary. (E - September 23, 1976)

Laws 1977, Chapter 166 extended unemployment insurance coverage placing Arizona laws in compliance with the requirements of the Federal Social Security Act and the Federal Unemployment Tax Act. Coverage was extended to agricultural employers, domestic employers, local governments (including special districts and school districts) and non-profit elementary or secondary schools. (E - January 1, 1978)

Laws 1978, Chapter 76 exempted certain services from unemployment insurance coverage when the compensation received for the services was in the form of a commission or similar form of remuneration. (E - September 3, 1978)

Laws 1981, Chapter 84 provided that employers who implement a Shared Work Plan may be subject to payment of an extra contribution rate in addition to the regular unemployment contribution rate. A Shared Work Plan is a written plan under which an employer arranges to secure unemployment benefits for a group of his employees working a reduced work week, as an alternative to a complete lay off of these employees. The law provides that the additional rate is paid by employers with shared work plans only when they have a Negative Reserve Ratio. An employer's reserve ratio is the percentage that results from dividing the reserve (the excess of contributions paid by an employer over benefits charged against employer's account) by the employer's average annual payroll. The amount of the additional contribution rate paid by employers depends on the level of their reserve ratio. The following table shows the additional rate associated with reserve ratios of different levels (Effective from January 1, 1982 until December 31, 1983)

(Continued)

Unemployment Insurance Tax

<u>Reserve Ratio</u>	<u>Amount to be added to the regular contribution rate for the next calendar year</u>
positive or 0	0.00%
less than 0 and greater than minus .05	0.25
-0.5 or less and greater than minus .15	1.00
minus .15 or less	3.00

Laws 1983, Chapter 16 permanently enacted the provisions of Laws 1981, Chapter 84 relative to Shared Work Plans. Originally this law was set to expire after calendar year 1983. (E - March 18, 1983)

Laws 1983, Chapter 203 excluded from the taxable wage base certain remuneration received by individuals for drill, training and other national guard or reserve activities. (E - April 20, 1983)

Laws 1984, Chapter 176 changed the following items relating to employer contribution rates:

- (1) The standard rate of contributions beginning with calendar year 1985, has been increased from 2.7% to 5.4% of paid annual wages.
- (2) It is no longer necessary for an employer's account to have been chargeable with benefits for the 36 consecutive months ending June 30 of the prior year in order to have a rate computed in accordance with A.R.S. § 23-730. The requirement has been reduced to 12 consecutive months. If the employer's account has not been chargeable for that 12-month period, the reduce rate of will be applied.
- (3) Variation and adjustment of contribution rates, beginning with calendar year 1985, are now determined based on Positive or Negative Reserve Ratios. A Positive (Negative) Reserve Ratio is applicable if employer contributions paid on or before July 31 of the preceding calendar year equal or exceed (are less than) total chargeable benefits. A Positive Reserve Ratio is calculated by dividing the employer's reserve surplus (amount of contributions paid above benefits charged) by average annual taxable payroll. A Negative Reserve Ratio is determined by dividing the employer's reserve deficit (the excess of benefits charged over contributions paid) by average annual taxable payroll. The rate determined based on a Negative Reserve Ratio is subject to an adjustment increase but not a reduction.
- (4) A.R.S. § 23-765 was repealed dealing with shared work plans and the following information was enacted in its place.
 - (a) An employer's contribution rate, determined according to A.R.S. § 23-730 for the following calendar year, is subject to increase (1% if the Negative Reserve Ratio is at least 5% but less than 15% and 2% if it is 15% or greater) if prior to the computation date shared work benefits are paid under the Shared Work Plan.
 - (b) The above does not apply if: (1) as of the computation date the employer's reserve ratio is positive or zero; or (2) the employer's account has not been charged with shared work benefits during the 12 months immediately preceding the computation date and the reserve ratio is presently more favorable than at the previous computation date; or (3) the employer's account has not been charged with benefits under the shared work plan for the 24-months preceding the computation date.

Laws 1985, Chapter 175 changed the statutory definition of "wages" to specifically include fringe benefits.

Laws 1986, Chapter 180 provided collection procedures for delinquent and deficient unemployment insurance contributions by granting the Department of Economic Security authority to collect these taxes or direct the sheriff's office to execute a levy to collect these taxes in the same manner as a writ of execution. The levy shall include power of distraint and seizure, but certain properties are exempt from the levy. (E - August 13, 1986)

UNDERGROUND STORAGE TANK TAX

DESCRIPTION

The tax applies to certain petroleum products and hazardous substances regulated under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980. The tax will mainly finance the Assurance Account of the Underground Storage Tank Revolving Fund to provide partial coverage for corrective action costs incurred by the Department of Environmental Quality (DEQ) and owners, operators, or political subdivisions. This tax became effective from and after July 1, 1990.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>
1994-95	\$23,125,400
1993-94	24,785,500
1992-93	18,572,600
1991-92	18,405,130
1990-91	17,284,600

SOURCE: Department of Environmental Quality, Office of Fiscal Services, Budget Section.

WHO PAYS THE TAX

A.R.S. § 49-1001 and 49-1031(B). *Definition.* The operator and owner of an underground storage tank which serves as the final dispenser of motor vehicle fuel, aviation fuel, diesel and other regulated substances is responsible for payment of this tax. Underground storage tank means tank(s) used to contain regulated substances with at least 10% of its volume underground.

Exclusions. The definition excludes (1) non-commercial types of tanks and certain regulated pipeline facilities and (2) tanks owned and operated by Indian tribes are also excluded, but through an intergovernmental agreement may participate in the partial coverage by paying the UST Tax. A complete listing is found under A.R.S. § 49-1001, Paragraph 17. [See A.R.S. § 49-1055]

A.R.S. § 28-1599.45(H). *License.* A separate license is not required for payment of this tax.

TAX BASE AND RATE

A.R.S. § 49-1031. *Rate.* The rate is 1¢ per gallon of regulated substance placed in a tank in any calendar year.

A.R.S. § 49-1001. *Base.* "Regulated substance" means petroleum or a substance defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, not including a substance regulated as hazardous waste under the Solid Waste Disposal Act of 1984.

A.R.S. § 49-1031(C). *Exemptions.* The tax does not apply to (1) underground storage tanks operated by the Federal or State Government or (2) USTs used for jet fuel.

ADDITIONAL FEES

A.R.S. § 49-1020. *Annual Registration.* Owners and operators subject to the UST Tax shall pay an annual registration fee of \$100 for each tank.

(Continued)

Underground Storage Tank Tax

PAYMENT SCHEDULE

A.R.S. § 49-1032. *Due and Delinquency Dates.* The tax is due and payable annually by March 31 for the preceding 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. But most taxpayers shall make periodic payments to the Department of Transportation (ADOT) at the same time and manner as the Motor Vehicle Fuel Tax. This refers to those distributions of products that ADOT normally collects for, such as gasoline, aviation fuel, and diesel oxygenated fuel. Other regulated substances kerosene, new and used oil, and CERCLA hazardous substances shall be collected by Department of Environmental Quality (DEQ) at the annual March 31 date mentioned above. [See A.R.S. § 28-1599.45(D)]

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

DISPOSITION

A.R.S. § 28-1599.45. *Collection Agent.* The Director of ADOT shall act 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. The tax monies are then credited into the Underground Storage Tank Revolving Fund as follows. [See A.R.S. § 49-1036]

- Nine-tenths to the Assurance Account.
- One-tenth to the Grant Account. When the balance exceeds \$5,600,000, the excess amount is credited to the Assurance Account. The cap was reached in August 1994 and deposits are now credited to the Assurance Account.

No tax monies are credited to the Regulatory Account which consists of monies appropriated by the Legislature, expenses, costs and judgements recovered, fees and gifts.

Monies generated and collected from Maricopa County are segregated from the monies collected and generated in other counties and are deposited in an Area A Account. [See A.R.S. § 49-541]

Beginning in FY 1997, 50% of the monies received from the Area A portion of the Underground Storage Tank Tax and 50% of the interest income earned by the Area A portion of the fund will be deposited in the Emissions Inspection Fund. [See A.R.S. § 49-544]

DISTRIBUTION

A.R.S. § 49-1051. *Assurance Account.* Tax monies in this account can be used in the following manner:

- Partial coverage for corrective action costs incurred by a political subdivision or an owner or an operator of an underground storage tank which is subject to the tax.
- Reimburse DEQ for costs in taking corrective actions. [Also see A.R.S. § 49-1017]
- Reimburse the Department of Environmental Quality for "reasonable" administration costs.

Legislative Report. The Director of DEQ by December 1st each year shall report to the Legislature the Assurance Account activities and make recommendations for any revisions to the tax rate in order to maintain an average Assurance Account balance of \$36,000,000.

A.R.S. § 49-1054. *Reimbursable Costs.* The Assurance Account may be used to reimburse costs of corrective actions incurred in soil and groundwater remediation. Effective July 1, 1996 groundwater and soil remediation coverage ceilings are raised to \$1,000,000 from \$225,000 for those persons with a \$25,000 deductible policy.

(Continued)

Underground Storage Tank Tax

A.R.S. § 49-1056. *Assurance Account Termination.* The Assurance Account and DEQ's authority to provide such coverage ends after December 31, 2003. All monies remaining or received after termination reverts to the state General Fund.

A.R.S. § 49-1071. *Grant Account.* Tax monies in this account can be used in the following manner:

- Make grants to operators and owners of USTs which are subject to the tax.
- Reimburse DEQ for "reasonable" administration costs of this account.

Grants of not more than \$100,000 are available. The purposes and eligibility requirements are found under A.R.S. § 49-1072.

A.R.S. § 49-1073. *Grant Account Termination.* The Grant Account and the DEQ's authority to issue grants terminates on December 22, 2002. All monies remaining or received after termination reverts to the Assurance Account.

HISTORY

Laws 1990, Chapter 328 established the Underground Storage Tank (UST) Tax on certain petroleum products and hazardous substances regulated under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980. The tax rate is 1¢ per gallon of regulated substance placed in a tank in a calendar year and the Director of ADOT acts as the collecting agent for the Director of DEQ.

Laws 1991, Chapter 214 amended the definition of an owner of an underground storage tank (UST) to include a person who owns or owned the property at the time on which an UST was located if:

- (1) The Department of Environmental Quality is unable to determine the person who owned the tank immediately before discontinuation of its use, and
- (2) The property owner uses the tank for storing or dispensing the regulated substances.

This bill excluded (1) a person who holds a certain indicia of ownership and (2) the state or a political subdivision that comes into the possession of property upon which an UST is located pursuant to eminent domain or environmental nuisances. (E - September 21, 1991)

Laws 1993, 6th Special Session, Chapter 1 segregated monies that were collected and generated in Maricopa County from monies collected and generated in other counties. Monies from Maricopa County were to be placed in an Area A Account. Beginning in FY 1997, 50% of the monies received from the Area A portion of the Underground Storage Tank Tax and 50% of the interest income earned will be deposited in the Emission Inspection Fund. (E - February 10, 1993)

Laws 1995, Chapter 229 clarified that the Assurance Account may be used to provide for reimbursable costs of corrective actions pertaining to soil and groundwater remediation and raised the coverage ceiling from \$225,000 to \$1,000,000 for persons with a \$25,000 deductible policy. (E - July 1, 1996)

Laws 1995, Chapter 235 changed in A.R.S. Title 49, Chapter 6 (Underground Storage Tank Regulation), the heading of Article 4 from "Loan Account" to "Grant Account" and corrected loan account references in statute. (E - July 13, 1995)

INTRASTATE UTILITY CORPORATION ASSESSMENTS

DESCRIPTION

Two separate assessments are imposed on public service corporations to support the statutory duties of the Corporation Commission's Utilities Division and the Residential Utility Consumer Office.

YIELD

<u>Fiscal Year</u>	<u>Utilities Division Net Collections</u>	<u>RUCO Net Collections</u>
1994-95	\$5,439,400	\$1,009,000
1993-94	5,491,000	925,300
1992-93	5,688,327	814,946
1991-92	5,529,776	880,198
1990-91	6,405,140	1,044,569
1989-90	4,925,721	932,737
1988-89	5,045,999	900,308
1987-88	5,022,530	884,037
1986-87	4,395,391	839,826
1985-86	4,502,670	729,934
1984-85	3,777,186	720,413
1983-84	2,790,680	109,400
1982-83	3,254,160	400,000 ^{1/}
1981-82	3,986,221	-0-
1980-81	3,476,400	-0-
1979-80	3,473,392	-0-
1978-79	2,176,880	-0-
1977-78	2,197,566	-0-
1976-77	1,878,877	-0-
1975-76	1,664,939	-0-

^{1/} Fiscal year 1982-83 was the first year for the RUCO assessment.

SOURCE: Corporation Commission, Annual Reports.

WHO PAYS THE TAX

A.R.S. § 40-401 and § 40-401.01. *Public Service Corporations.* Public service corporations with gross operating revenues exceeding \$250,000 from intrastate operations during the preceding calendar year.

Exceptions. Corporations that are not required to hold certificates of convenience and necessity. In effect, this exception applies mainly to railroads. [See A.R.S. § 40-281(A)] The Residential Utility Consumer Assessment also does not apply to member-owned nonprofit cooperative corporations. [See A.R.S. § 40-461]

TAX BASE

A.R.S. § 40-401(C). *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.

(Continued)

Intrastate Utility Corporation Assessments

A.R.S. § 40-401.01(C). *Residential Utility Consumer Office*. The assessment for the Residential Utility Consumer Office is levied on the gross operating revenue during the preceding calendar year from each corporation's intrastate operations that served residential consumers.

TAX RATE

A.R.S. § 40-401(B). *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:

- (1) Determine the amount appropriated by the Legislature to operate the Utilities Division for the following fiscal year.
- (2) Multiply the amount determined in (1) by 1.2.
- (3) Subtract the monies estimated to remain unexpended in the Utility Regulation Revolving Fund at the end of the current fiscal year. The difference computed is the amount to be raised by the assessment.

The assessment for the Residential Utility Consumer Office is set at a rate that will raise monies equal to the amount determined as follows: [See A.R.S. § 40-401.01(B)]

- (1) Determine the amount appropriated by the Legislature for operating the Residential Utility Consumer Office for the following fiscal year.
- (2) Subtract the monies estimated to remain in the Residential Utility Consumer Office Revolving Fund at the end of the current fiscal year. The difference computed is the amount to be raised by the assessment.

A.R.S. § 40-401(C) and § 40-401.01(C). *Maximum Combined Rate*. The combined assessment rates may not exceed 0.2% of any corporation's gross operating revenues from intrastate operations during the preceding calendar year.

PAYMENT SCHEDULE

A.R.S. § 40-401(D) and § 40-401.01(D). *Due Date*. Both assessments must be levied by the Corporation Commission 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. § 40-408(B) and § 40-409(B). *Collecting Agency*. The Corporation Commission.

A.R.S. § 40-401(E-F), and § 40-401.01(E). *Filing Dates*. Public service corporations with gross operating revenues exceeding \$250,000 must file an estimate of its gross operating revenues from intrastate operations during the previous calendar year on or before January 10. All other public service corporations must file by May 1, a statement showing the amount of such revenues received during the prior calendar year.

DISTRIBUTION

A.R.S. § 40-408(B-C). *Utilities Division*. Proceeds from the Utilities Division assessment are dedicated to the Utility Regulation Revolving Fund to pay representing attorneys and the expenses of the Utilities Division of the Corporation Commission.

A.R.S. § 40-409(B-C). *Residential Utility Consumer Office*. Proceeds from the Residential Utility Consumer Office assessment are dedicated to the Residential Utility Consumer Office Revolving Fund for the operation of the Residential Utility Consumer Office.

A.R.S. § 40-408(D-F) and § 40-409(D-F). *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 is used to calculate the annual assessments.

(Continued)

Intrastate Utility Corporation Assessments

HISTORY

Laws 1947, Chapter 79 levied an annual assessment against utility corporations that were required to hold certificates of convenience and necessity. The assessment was levied on the gross operating revenue derived from each utility's intrastate operations during the preceding calendar year. The assessment rate was 0.1% on the first \$250,000 of operating revenue and 0.2% on revenue above \$250,000. The Corporation Commission levied the assessment no later than July 1 of each year and sent notice of the assessment to each corporation by registered mail. The assessment was payable within 15 days after the mailing. All proceeds from the assessment were collected by the Corporation Commission and deposited in the state General Fund. (E - June 19, 1947)

Laws 1983, Chapter 308 replaced the intrastate utility corporation assessment with two separate assessments. One assessment was levied for the support of the Corporation Commission's Utilities Division. The second assessment was levied for the support of the newly established Residential Utility Consumer Office (RUCO). The provisions of this law are currently in effect. (E - April 29, 1983)

Laws 1985, Chapter 276 required public service corporations with gross operating revenues exceeding \$250,000 to file a statement by January 10th of its estimated gross intrastate operating revenues during the preceding calendar year. (E - August 7, 1985)

Laws 1994, Chapter 273 exempted member-owned nonprofit cooperative corporations from the jurisdiction of the Residential Utility Consumer Officer (RUCO) and required assessments to be sent by certified, rather than registered, mail. (E - July 17, 1994)

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) to replace the annual legislative appropriations from the repealed Laws 1986, Chapter 368, Sections 149 and 150 which had appropriated monies from the state General Fund.

YIELD

<u>Fiscal Year</u>	<u>Net Collections</u>
1994-95	\$1,653,929
1993-94	1,637,633
1992-93	1,469,845
1991-92	1,490,480
1990-91	829,722 ^{1/}

^{1/} The tax took effect on October 1, 1990.

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

A.R.S. § 42-1551 and § 42-1552. *Owner or Operator.* The owner or operator of a municipal water delivery system shall pay the tax.

Definition. A "municipal water delivery system" is an entity that distributes or sells potable water mainly through a pipeline system owned by either:

- An incorporated city or town.
- A private entity regulated as a public service corporation by the Arizona Corporation Commission.
- A special taxing district under Title 48, Chapter 6 of the Arizona Revised Statutes.
- An entity regulated as a water supply system by the Department of Environmental Quality.

TAX BASE AND RATE

A.R.S. § 42-1552(A). *Tax Base.* Gallons of water delivered to customers of such a system.

Exemptions. Water delivered to a customer for resale is exempt from this tax.

Tax Rate. The rate is 0.65 of 1¢ per 1,000 gallons of water delivered to customers.

PAYMENT SCHEDULE

A.R.S. § 42-1552(B). *Due and Delinquent Dates.* 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 with the Transaction Privilege Tax. Otherwise, the due and delinquent date is the same as the Transaction Privilege Tax. [See A.R.S. § 42-1322]

(Continued)

Water Use Tax

License and Bond. A separate license and bond is not required for this tax.

Collecting Agency. The Department of Revenue.

DISTRIBUTION

A.R.S. § 42-1554. *Water Quality Assurance Revolving Fund.* Net tax collections (gross collections less collection fees) are deposited in the Water Quality Assurance Revolving Fund by the State Treasurer. For purposes of WQARF, see A.R.S. § 49-282.

HISTORY

Laws 1990, Chapter 230 established a tax on water use by a municipal water delivery system. The tax rate is 0.65 of 1¢ per 1,000 gallons of water delivered to customers and is paid in the same manner as the Transaction Privilege Tax.

Laws 1992, Chapter 300 set maximum WQARF fees and taxes for a person engaging in mining as the lesser of:

- (1) \$10,000 in a calendar year per individual mining site or
- (2) \$25,000 in a calendar year per mining entity.

The Water Use Tax is subject to this limitation. (ERFA - June 17, 1992)

COMMERCIAL NUCLEAR GENERATING STATIONS ASSESSMENT

DESCRIPTION

This is an annual assessment on each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station. In effect, only the Palo Verde nuclear generating station is taxed by this law.

YIELD

<u>Fiscal Year</u>	<u>Total Collections</u>
1994-95	\$858,564
1993-94	870,000
1992-93	833,000
1991-92	1,613,000 ^{1/}
1990-91	651,200
1989-90	635,100
1988-89	601,100
1987-88	483,700
1986-87	458,200
1985-86	412,015
1984-85	410,515
1983-84	573,751
1982-83	968,456
1981-82	300,000

^{1/} Includes two deposits. \$770,000 was deposited in 7/91 and \$843,000 was deposited in 6/92.

SOURCE: Department of Revenue, Annual Reports.

DEDICATION

A.R.S. §26-306.01(A). *Purpose.* The assessment will allow the state to meet a nuclear emergency by:

- Providing for the development and maintenance of a state plan for off-site response to an emergency caused by an accident at a commercial nuclear generating station.
- Providing for the equipment, personnel, facilities, training and testing necessary to comply with federal criteria for preparation and evaluation of emergency response plans in support of commercial nuclear generating stations.

WHO PAYS THE TAX

A.R.S. §26-306.01(D). *Consortium.* Each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station.

(Continued)

Commercial Nuclear Generating Stations Assessment

TAX BASE AND RATE

A.R.S. §26-306.01. *Appropriation Amount.* Each year, the assessment is equal to the amount appropriated by the Legislature plus 10% interest per year to fund the state's Nuclear Emergency Response Plan.

PAYMENT SCHEDULE

A.R.S. §26-306.01(D). *Due Date.* The assessment is due each year on the date that the appropriation for the Nuclear Emergency Response Plan 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 one year, the Legislature may require the Director of Emergency Services to notify the United States Nuclear Regulatory Commission.

A.R.S. §26-306.01(D). *Collecting Agency.* Department of Revenue.

DISTRIBUTION

A.R.S. §26-306.01(D). *State General Fund.* All receipts from the assessment are deposited in the state General Fund.

HISTORY

Laws 1981, Chapter 212 established an annual assessment on commercial nuclear generating stations, to fund the development and maintenance of a state Nuclear Emergency Response Plan. The assessment was levied against each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station. Each year the assessment is equal to the amount appropriated by the Legislature to fund the state's Nuclear Emergency Response Plan. The assessment was collected by the Department of Revenue. One-half of the assessment was due on October 1 and delinquent the following November 1. The remaining half was due on March 1 and was delinquent on the following May 1. All receipts from the assessment were deposited in the state General Fund. The initial assessment was \$300,000. (E - April 27, 1981)

Laws 1982, Chapter 85 assessed \$547,000 against each consortium constructing a commercial nuclear generating station. (E - April 13, 1982)

Laws 1983, Chapter 20 changed the due date for payment of the annual assessment. Under this law, the assessment was payable on the date that the appropriations for the Nuclear Emergency Response Plan became available for expenditure. If the assessment was not paid on this date, interest was charged at the rate of 10% per year until payment was received. The annual assessment for FY 1984 was \$708,531 plus 10% annual interest. (E - March 24, 1983)

Laws 1984, Chapter 98 assessed against each consortium constructing a commercial nuclear generating station in Arizona the sum of \$286,676. (E - August 3, 1984)

Laws 1985, Chapter 27 assessed \$410,515 plus 10% annual interest on each such consortium. (E - August 7, 1985)

Laws 1986, Chapter 131 assessed \$458,200 plus 10% annual interest on each such consortium. (E - August 13, 1986)

Laws 1987, Chapter 96 assessed \$483,700 plus 10% annual interest on each such consortium. (E - August 18, 1987)

Laws 1988, Chapter 59 assessed \$601,100 plus 10% annual interest on each such consortium. (E - September 30, 1988)

Laws 1989, Chapter 136 assessed \$635,100 plus 10% annual interest on each such consortium. (E - September 15, 1989)

Laws 1990, Chapter 72 assessed \$651,200 plus 10% annual interest on each such consortium. (E - September 27, 1990)

(Continued)

Commercial Nuclear Generating Stations Assessment

Laws 1991, Chapter 88 assessed \$770,000, plus any applicable interest against each consortium constructing or operating a commercial nuclear generating station in Arizona. (E - May 13, 1991)

Laws 1992, Chapter 138 assessed \$843,000 plus any applicable interest against each consortium constructing or operating a commercial nuclear generating station in Arizona. (E - June 10, 1992)

Laws 1993, Chapter 182 assessed \$833,000 plus interest against each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station in Arizona. (E - April 20, 1993)

Laws 1994, Chapter 28 assessed \$870,000 plus interest against each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station in Arizona. (E - April 7, 1994)

Laws 1995, Chapter 28 assessed \$858,564 plus interest against each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station in Arizona. (E - March 30, 1995)

CHAPTER X

TAXES REPEALED SINCE 1990

STATE COMPENSATION FUND IN-LIEU TAX

HISTORY

Laws 1992, 7th Special Session, Chapter 3, known as House Bill 2001, amended the provisions established in Laws 1990, Chapter 249 that required the State Compensation Fund (SCF) to transmit to the state General Fund an amount equivalent to the federal tax as if the SCF was a private insurance carrier. This bill changed the basis of calculation from all "premiums collected or contracted for" to all "sources of income." The bill further provided that SCF transfers the determined amount or \$500,000, whichever is greater, before April 15th of each year. Also, another provision required the SCF to transfer \$1.5 million to the state General Fund in FY 1992 for amounts owned for 1990, 1991, and 1992. However, the SCF refused to make the transfer (the State Treasurer does not manage their funds) and instead, sued the state over the legality of the tax. ^{1/} (ER - January 1, 1990)

Laws 1993, Chapter 115 repealed the requirement that the State Compensation Fund (SCF) determines the amount of equivalent federal tax due on all sources of income as if it was a private insurance carrier and transmit that amount or \$500,000 to the State Treasurer for deposit in the state General Fund. (ER - April 14, 1992)

^{1/} The SCF claimed that under the language in Laws 1990 Chapter 249, there would have been no federal tax liability; therefore, no amount was ever transferred even though the Legislature approved a 1991 appropriation of \$500,000 to pay for the in-lieu tax. In response, the Legislature passed H.B. 2001 in 1992 with the intent to "level the playing field" and to lessen SCF's advantage over private insurers as recommended by the State Auditor General. The SCF filed a lawsuit against the State of Arizona claiming that H.B. 2001 was unconstitutional. Laws 1993, Chapter 115 repealed the equivalency and alternative minimum tax requirements as the result of a ruling by the state Supreme Court. The court ruled the alternative minimum tax of \$500,000 was unconstitutional, and because the federal equivalency tax was not severable it, too, was invalid.

ENVIRONMENTALLY HAZARDOUS PRODUCTS SURTAX

HISTORY

This tax was established by **Laws 1990, Chapter 230**. The tax is in addition to the Transaction Privilege Tax and is levied on every person engaging or continuing in the retail sale of environmentally hazardous products within Arizona. The imposition of the tax begins from and after June 30, 1991.

Laws 1991, Chapter 184 repealed the Environmentally Hazardous Products Surtax and replaced it with an annual license fee. The fee is \$10 for each business location; however, for 1991 the fee was \$12, which was due by August 31, 1991. Beginning September 1, 1991, any person with a valid transaction privilege tax (TPT) license must obtain an environmentally hazardous products license from the Department of Revenue. The license will expire on August 31 each year and must be renewed annually. All monies collected will be deposited in the Water Quality Assurance Revolving Fund. (E - June 3, 1991)

Laws 1992, Chapter 290 repealed the environmentally hazardous products license fee and replaced it with an annual \$2.9 million General Fund appropriation to WQARF. [NOTE: This appropriation is not automatic; in FY 1995 and FY 1996 the sum of \$1.55 million was appropriated.] The appropriation will be distributed from the Distribution Base of the Transaction Privilege and Severance Tax Clearing Account. (EFA - August 31, 1992)