

# STATE OF ARIZONA



## Tax Handbook 1996 - 98 Supplement

**JLBC**

Prepared by the Staff  
of the Joint Legislative Budget Committee



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# FOREWORD

Taxes have been at the forefront of government policy discussions in Arizona throughout the 1990's. Faced with the challenge of providing government services to a growing population, the Legislature has sought to strike a balance between public needs and taxpayer concerns. On the one hand, the state must collect sufficient revenue to pay for its services, while on the other hand the state has attempted to reduce its tax burden to stimulate economic growth. This decade has seen significant reductions in the income tax and the property tax, as well as numerous other tax revisions. To make informed tax policy decisions, the Arizona Legislature needs a reliable sourcebook containing all of the state's taxes in a practical, easy-to-use format. It is with this guiding principle that the JLBC Staff has prepared the 1996, 1997, and 1998 Supplement to the Arizona Tax Handbook.

The 1996, 1997, and 1998 supplement includes all tax law revisions enacted since the publication of the 1995 Arizona Tax Handbook. It is the Staff's intent to publish another supplement in 1999, followed by an Arizona Tax Handbook in 2000 that will once again provide comprehensive coverage of the Arizona system of taxation. Readers will find that the format of this supplement follows the format of previous supplements, with some exceptions. This supplement includes detailed tax overviews for the taxes that have undergone significant change since 1995—namely the Transaction Privilege Tax, Telecommunication Services Excise Tax, Individual Income Tax, Corporate Income Tax, General Property Tax, Government Property Lease Excise Tax, Vehicle License Tax, Flight Property Tax, and the Luxury Tax on Liquor. In addition, this supplement has eliminated the various legal terms used in previous editions to describe the effective date of laws and replaced them with simply the effective date. Finally, this supplement includes an index of all laws that appear in the book.

A few points are in order about the revenue numbers, organization, and intended use of this book. Readers should be aware that because fiscal year 1998 only recently ended, many of the FY 98 revenue numbers are estimates and may not be final. Note also that the book's chapters are organized by revenue category, and that within each chapter the taxes are ordered from biggest to smallest. Last, the Tax Handbook is intended to serve as a reference tool for legislators, state agencies, the business community, and all interested readers. It is not, however, a legal document, nor is it a guide for making tax payments.

# ACKNOWLEDGEMENTS

The publication of this supplement is the culmination of much hard work. Important contributions were made by many individuals, and I want to take the opportunity to acknowledge them. Contributors include:

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**TAX YIELD SUMMARY - ALPHABETICAL**  
**FY 1996, FY 1997, & FY 1998**

<u>TAXES</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 96-FY 98 % CHANGE</u>
Aircraft License	\$1,800,630	\$1,825,858	\$2,043,058	13.5%
Alcoholic Beverage	3,913,275	4,398,612	4,453,085	13.8
Aviation Fuel	512,328	514,687	485,333	(5.3)
Bingo	791,848	774,129	750,970	(5.2)
Boulder Canyon Projects	200,000	0	400,000	100.0
Boxing	24,007	9,892	11,201	(53.3)
Commercial Nuclear Generating	850,091	878,374	880,824	3.6
Corporate Income	448,039,484	600,890,432	528,061,073	17.9
Estate	54,207,976	65,432,336	62,902,674	16.0
Flight Property	18,564,298	17,679,764	15,165,878	(18.3)
Government Property Lease Excise	N/A	977,226	988,269	1.1
Individual Income	1,494,282,274	1,668,414,355	1,863,113,695	24.7
Insurance Premium	128,673,900	135,697,400	139,960,268	8.8
Intrastate Utility Corporation	6,536,600	7,042,800	7,587,354	16.1
Jet Fuel Excise and Use	4,862,372	5,155,956	5,499,717	13.1
Luxury-Cannabis	105,741	49,110	40,263	(61.9)
Luxury-Cigarettes	170,795,983	165,844,297	164,754,289	(3.5)
Luxury-Liquor	44,749,356	45,092,336	46,144,253	3.1
Motor Carrier	85,433,269	92,563,879	59,364,283	(30.5)
Motor Vehicle Fuel	369,058,121	373,986,908	374,672,782	1.5
Pari-Mutuel	2,844,490	2,628,255	2,735,654	(3.8)
Private Car	1,641,634	1,525,854	1,494,821	(8.9)
Property	188,296,312	51,211,398	38,136,021	(79.7)
Rental Occupancy	106,060	98,769	126,334	19.1
Severance-Minerals	41,058,549	27,053,314	27,072,460	(34.1)
Severance-Timber	45,638	41,563	52,132	14.2
Telecommunication Services	11,423,915	12,537,076	14,376,866	25.8
Transaction Privilege	2,554,305,344	2,688,797,389	2,863,786,084	12.1
Underground Storage Tank	25,641,600	24,031,100	26,223,634	2.3
Unemployment Insurance	234,080,468	221,693,417	222,826,885	(4.8)
Use	113,964,912	119,600,758	136,473,801	19.8
Use Fuel	114,779,960	124,748,225	142,166,607	23.9
Vehicle License	480,300,608	552,348,715	586,835,092	22.2
Voluntary Contributions-Districts	16,953,919	6,086,339	5,983,913	(64.7)
Voluntary Contributions-Game and Fish	183,500	165,500	185,188	0.9
Voluntary Contributions-Municipalities	543,718	545,506	574,086	5.6
Water Use	1,842,707	1,909,981	1,891,072	2.6
Watercraft License	1,596,016	1,634,369	1,683,698	5.5
Worker's Compensation	11,038,700	9,650,000	15,200,000	37.7
<b>TOTALS</b>	<b>\$6,634,049,603</b>	<b>\$7,033,535,879</b>	<b>\$7,365,103,617</b>	<b>11.0%</b>

## TAX YIELD SUMMARY - BIGGEST TO SMALLEST

### FY 1996, FY 1997, & FY 1998

<u>TAXES</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 96-FY 98 % CHANGE</u>
Transaction Privilege	\$2,554,305,344	\$2,688,797,389	\$2,863,786,084	12.1%
Individual Income	1,494,282,274	1,668,414,355	1,863,113,695	24.7
Vehicle License	480,300,608	552,348,715	586,835,092	22.2
Corporate Income	448,039,484	600,890,432	528,061,073	17.9
Motor Vehicle Fuel	369,058,121	373,986,908	374,672,782	1.5
Unemployment Insurance	234,080,468	221,693,417	222,826,885	(4.8)
Luxury-Cigarettes	170,795,983	165,844,297	164,754,289	(3.5)
Use Fuel	114,779,960	124,748,225	142,166,607	23.9
Insurance Premium	128,673,900	135,697,400	139,960,268	8.8
Use	113,964,912	119,600,758	136,473,801	19.8
Estate	54,207,976	65,432,336	62,902,674	16.0
Motor Carrier	85,433,269	92,563,879	59,364,283	(30.5)
Luxury-Liquor	44,749,356	45,092,336	46,144,253	3.1
Property	188,296,312	51,211,398	38,136,021	(79.7)
Severance-Minerals	41,058,549	27,053,314	27,072,460	(34.1)
Underground Storage Tank	25,641,600	24,031,100	26,223,634	2.3
Worker's Compensation	11,038,700	9,650,000	15,200,000	37.7
Flight Property	18,564,298	17,679,764	15,165,878	(18.3)
Telecommunication Services	11,423,915	12,537,076	14,376,866	25.8
Intrastate Utility Corporation	6,536,600	7,042,800	7,587,354	16.1
Voluntary Contributions-Districts	16,953,919	6,086,339	5,983,913	(64.7)
Jet Fuel Excise and Use	4,862,372	5,155,956	5,499,717	13.1
Alcoholic Beverage	3,913,275	4,398,612	4,453,085	13.8
Pari-Mutuel	2,844,490	2,628,255	2,735,654	(3.8)
Aircraft License	1,800,630	1,825,858	2,043,058	13.5
Water Use	1,842,707	1,909,981	1,891,072	2.6
Watercraft License	1,596,016	1,634,369	1,683,698	5.5
Private Car	1,641,634	1,525,854	1,494,821	(8.9)
Government Property Lease Excise	N/A	977,226	988,269	1.1
Commercial Nuclear Generating	850,091	878,374	880,824	3.6
Bingo	791,848	774,129	750,970	(5.2)
Voluntary Contributions-Municipalities	543,718	545,506	574,086	5.6
Aviation Fuel	512,328	514,687	485,333	(5.3)
Boulder Canyon Projects	200,000	0	400,000	100.0
Voluntary Contributions-Game and Fish	183,500	165,500	185,188	0.9
Rental Occupancy	106,060	98,769	126,334	19.1
Severance-Timber	45,638	41,563	52,132	14.2
Luxury-Cannabis	105,741	49,110	40,263	(61.9)
Boxing	24,007	9,892	11,201	(53.3)
<b>TOTALS</b>	<b>\$6,634,049,603</b>	<b>\$7,033,535,879</b>	<b>\$7,365,103,617</b>	<b>11.0%</b>



## TAX YIELD SUMMARY - PERCENT CHANGE

### FY 1996, FY 1997, & FY 1998

<u>TAXES</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 96-FY 98 % CHANGE</u>
Boulder Canyon Projects	\$200,000	\$0	\$400,000	100.0%
Worker's Compensation	11,038,700	9,650,000	15,200,000	37.7
Telecommunication Services	11,423,915	12,537,076	14,376,866	25.8
Individual Income	1,494,282,274	1,668,414,355	1,863,113,695	24.7
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<b>TOTALS</b>	<b>\$6,634,049,603</b>	<b>\$7,033,535,879</b>	<b>\$7,365,103,617</b>	<b>11.0%</b>



# **CHAPTER I**

## **DISTRIBUTION BASE AND NON-SHARED TAXES**



## TRANSACTION PRIVILEGE TAX

TAX YIELD:	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$2,554,305,344
	1996-97	\$2,688,797,389
	1997-98 Est.	\$2,863,786,084

DISTRIBUTION OF TRANSACTION PRIVILEGE TAX			
<u>Fiscal Year</u>	<u>State General Fund</u>	<u>Counties</u>	<u>Cities</u>
1995-96	\$1,965,939,340	\$363,833,107	\$224,532,897
1996-97	\$2,074,663,192	\$379,767,613	\$234,366,584
1997-98 Est.	\$2,214,266,900	\$401,648,941	\$247,870,243

### 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 gross income of the business at the appropriate rate, which varies depending on the business activity. The current tax rate and distribution structure are derived from Laws 1985, Chapter 298, which consolidated the previous transaction privilege taxes and excise taxes into one transaction privilege tax. For distribution purposes, the transaction privilege, severance, rental occupancy, and jet fuel excise taxes form a tax base that is divided into two parts, the distribution base and the non-shared part.

**NOTE:** The technical rewrite of A.R.S. Title 42 (Taxation) by Laws 1997, Chapter 150 will result in a renumbering of statutes contained in this title starting January 1, 1999.

### 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.* Persons or companies 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.

(Continued)

## **Transaction Privilege Tax**

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 the Department of Revenue (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 that 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 statutes listed in the table below.)

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 table on the next page lists the types of business classifications, their corresponding exemption statute, if any, and the applicable tax rate.

### **TAX REFUNDS**

A.R.S. § 42-1322.01. *Motion Picture Production Tax 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. § 42-1322.04. *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. This accounting and reporting tax credit was repealed by Laws 1990, 3rd Special Session, Chapter 3 and then reinstated by Laws 1994, Chapter 346.

(Continued)

## Transaction Privilege Tax

### TRANSACTION PRIVILEGE TAX CLASSIFICATIONS

<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	0% <sup>1/</sup>
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%
Prime Contracting	42-1310.16	5%
Owner Builder Sales	42-1310.17	5%
Membership Camping	42-1310.18	5%

<sup>1/</sup> The tax rate for commercial leases was phased down to 2% for FY 1996, 1% for FY 1997, and is 0% in FY 1998 and thereafter.

### 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.* Payments filed 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. Payments filed in person 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.

- Beginning January 1, 1999, taxpayers with an estimated annual tax liability of \$500 or less may pay on an annual basis.
- Beginning January 1, 1999, taxpayers with an estimated annual tax liability of between \$500 and \$1,250 may pay on a quarterly basis.
- Taxpayers whose "business is of a transient character" may be required to pay on a daily, weekly, or transaction-by-transaction basis.

*Estimated Tax Payments.* Taxpayers who pay income taxes and whose business had an annual 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

(Continued)

## Transaction Privilege Tax

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days of June. The due and delinquent dates are the same as for the regular payments, except that estimated 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 that levy transaction privilege taxes to provide for unified or coordinated licensing, collection, and auditing programs. The Department of Revenue collected transaction privilege and use tax for some 74 Arizona cities and towns in FY 1997 (see Arizona Department of Revenue, 1997 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 payments of estimated taxes and 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). The remaining monies (non-shared) are not included in the distribution base and are credited to the state General Fund, except as needed for school capital finance in accordance with A.R.S. § 42-5030.01, which was established by Students FIRST and is effective beginning in FY 2000.

The formula for the sharing of distribution base monies was changed by Laws 1994, 8th Special Session, Chapter 8. Municipalities continued to receive 25%, 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 with a hold harmless provision, and the state share was reduced from 36.92% to 34.49%.

Monthly allocations from the distribution base are made in the following way:

- 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.
  - (2) 2.43% is distributed to counties receiving less under the population formula than under the old property valuation formula, to hold the counties harmless from the change in distribution methods. Any amount left after this distribution is distributed based on the new population formula.
- Of the remaining 34.49% of the distribution base, the State Treasurer shall distribute to various school capital funds sufficient amounts to meet statutory requirements, beginning in FY 2000. This provision is part of the Students FIRST legislation passed in the 5th Special Session of the 43rd Legislature. Distribution base monies are also credited, in accordance with A.R.S. § 42-1342.01, A.R.S. § 42-1342.02, and A.R.S. § 42-1342.03, to political subdivisions in which remote municipal property is located, multipurpose facility districts, and counties that enter into an intergovernmental agreement with the Department of Transportation for construction of a bridge. In addition, monies are transferred to the Water Quality Assurance Revolving Fund, as required by A.R.S. § 49-282. The amount of distribution base monies that remain is credited to the state General Fund. From this amount, the following appropriations are required by statute:
  - (1) The Department of Revenue—monies sufficient to cover administrative expenses.
  - (2) The Department of Economic Security—for the purposes stated in Title 46, Chapter 1.
  - (3) The Arts Endowment Fund—the amount by which amusement tax revenues for the current fiscal year exceed the revenues that were derived from the amusement tax in FY 1994, up to \$2,000,000.
  - (4) The Tourism Fund—as the result of a session law provision in Laws 1997, 1st Special Session, Chapter 3, in FY 1998 and FY 1999 this fund is to receive 3% of the state share of the total revenue collected in the prior fiscal year from the transient lodging classification. The intent, however, had been for the Tourism Fund to receive 3% of total revenue from

(Continued)



## **Transaction Privilege Tax**

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the transient lodging tax (not just 3% of the state share). Due to a wording technicality, the fund will indeed receive approximately 3% of the total revenue.

### **1996, 1997, AND 1998 TAX LAWS**

**Laws 1996, Chapter 93** expanded military reuse zone sales tax incentives by allowing a deduction from the prime contracting classification of the transaction privilege tax for the gross income received from a contract entered into for the construction or alteration of any building or road that provides aviation or aerospace services and that is located in a military reuse zone. (Effective April 5, 1996)

**Laws 1996, Chapter 99** exempted the following from the transaction privilege, use, or other similar tax:

1. Sales of warranty or service contracts.
  2. Sales of motor vehicles to nonresidents if the vehicle will be used outside the state and the vendor delivers the vehicle to a destination outside the state.
  3. Interest on finance contracts.
  4. Dealer documentation fees on the sales of motor vehicles.
- (Effective July 20, 1996)

**Laws 1996, Chapter 141** increased the bed tax in Pima County for the benefit of spring training facilities for major league baseball teams. The act raised the bed tax rate from an allowable maximum of 1% to an allowable maximum of 2% from January 1, 1997 through December 31, 2012. During this time, up to one-half of the revenue collected from the tax will be used to enhance spring training facilities, and the remaining money will continue to go to Pima County for tourism. On January 1, 2013, the bed tax will revert to the original 1% for tourism and the additional tax for spring training baseball facilities shall be eliminated. (Effective July 20, 1996)

**Laws 1996, Chapter 186** established the Arizona Arts Endowment Fund to create a public-private partnership for the support of the arts in Arizona. The Arts Endowment Fund is funded by an annual appropriation from the state General Fund in an amount equal to the difference between the FY 1994 collection of amusement taxes and the current fiscal year's collection of amusement taxes, up to \$2 million. Any money above \$2 million more than FY 1994 amusement tax collections is to be deposited into the General Fund. This funding provision expires after FY 2007. (Effective July 1, 1997)

**Laws 1996, Chapter 317** reduced the tax reporting burden on small business taxpayers and the cost of tax administration on state government by allowing an alternative method for payment of transaction privilege taxes. Taxpayers may elect to pay by electronic funds transfer provided that payment is made by the twenty-fifth day of the month after the month that the tax was accrued. This payment due date is consistent with the due date of the mailed transaction privilege payments. The act further stipulated that taxpayers subject to the annual estimated transaction privilege taxes must make any electronic funds transfer by June 25.

For tax reporting periods after December 31, 1996, the Department of Revenue may authorize quarterly and annual payments for taxpayers that have established sufficient payment history to indicate that they are current and in good standing. (Effective July 20, 1996)

**Laws 1996, Chapter 319** allowed a prime contracting tax deduction for the installation, assembly, repair, or maintenance of machinery, equipment, or other tangible personal property, provided that the property is deducted from the tax base of the retail classification, and not permanently attached to a building, highway, road, railroad, excavation, or manufactured building or other structure.

The term *permanently attached* is defined to mean at least one of the following:

- Incorporated into real property.
- Being so affixed to real property that it becomes part of the real property.

(Continued)

## Transaction Privilege Tax

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- Being attached to the real property in a manner which would damage the property if it was removed.

If a deduction for machinery, equipment, or other tangible personal property has been utilized under the retail classification in order to facilitate the installation, assembly, repair, or removal of this machinery or equipment, then a deduction for the same machinery or equipment is not permitted under prime contracting activity.

The act also expanded the deduction from prime contracting activities for military reuse zones (see Chapter 93) to include the construction, addition, alteration, repair, or removal of any manufactured buildings. (Effective July 1, 1997)

**Laws 1996, Chapter 322** exempted machinery and equipment used for motion picture, multimedia, or interactive video production in a sound stage complex from the transaction privilege and use taxes, provided that the sound stage complex is constructed after June 30, 1996 and before January 1, 2002. The exemption applies only to machinery and equipment purchased within five years after construction of the complex begins.

The act also eliminated a provision that would have repealed the tax exemption for solar energy devices. This exemption will continue to provide a retail sales tax deduction for the sale of a solar energy device whose value is \$5,000 or less and which results in a tax benefit of no more than \$250 per device. (Effective July 20, 1996)

**Laws 1996, Chapter 326** exempted from the transaction privilege tax the activities and events, or fees and assessments, received by homeowners' organizations, unless they are taxable under other statutes. Homeowners' organizations are defined as mandatory membership organizations whose primary purpose is to provide for the acquisition, maintenance, or management of their property. Moreover, no part of the organization's net earnings may inure to the benefit of any private shareholder or individual. (Effective January 1, 1994)

**Laws 1996, 6th Special Session, Chapter 1** excluded from the transaction privilege and use tax bases any tangible personal property used to receive, produce, generate, transmit, etc., telecommunications information by either a direct broadcast satellite television or data transmission service, or any satellite television or data transmission facility if the following conditions are met:

1. Over two-thirds of the information transmitted by the facility during the test period is to or on behalf of one or more direct broadcast satellite television or data transmission services.
2. Over two-thirds of the transmissions by or on behalf of the direct broadcast television or data transmission services must be transmitted by the facility to or on behalf of those services.

The act defined the test period as the 365-day period beginning on the later of the date on which the tangible personal property is purchased or the date on which the direct broadcast satellite television or data transmission service first transmits information.

If a seller is entitled to the transaction privilege and use tax deduction for tangible personal property sold to a satellite television or data transmission facility, the purchaser must establish that the above requirements have been satisfied. If the purchaser cannot establish this, the purchaser becomes liable for any tax, penalty, and interest. (Effective January 1, 1996)

**Laws 1997, Chapter 3** provided an exemption from the commercial lease classification of the transaction privilege tax for the lease of another person's land to mine minerals (known as *profit a prendre* rights). The practice of taxing royalties within commercial lease agreements is also prohibited. However, the exclusion does not apply to any commercial uses that the leaseholder has to the property that are separate from the *profit a prendre* rights. The bill also applied the standard four year statute of limitations for Department of Revenue assessments if a taxpayer fails to report income derived from granting a right of *profit a prendre*. (Effective March 23, 1998)

**Laws 1997, Chapter 4** allocated an amount of sales tax revenue to low-wealth school districts based on a distribution formula. This bill was in response to the *Roosevelt v. Bishop* court case regarding school capital finance, but it was ruled unconstitutional by the court and repealed. (Effective July 1, 1997)

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## **Transaction Privilege Tax**

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**Laws 1997, Chapter 61** clarified that cleanrooms and related machinery and equipment are exempted from sales and use taxes. The bill codified the historical administrative practice of valuing and assessing cleanrooms. (Effective July 21, 1997)

**Laws 1997, Chapter 109** allocated \$5 million of state transaction privilege taxes over a 12-year period to Maricopa County to aid in building the Gila River Bridge. The bridge is to provide direct access to commercial, residential, and recreational facilities. (Effective October 1, 1997)

**Laws 1997, Chapter 110** exempted "for hire" commercial vehicles that are less than 12,000 pounds from the transporting classification of the transaction privilege tax, provided that an annual light motor vehicle fee of \$64 has been paid for the vehicle. Payment of the fee does not, however, exempt a person from paying sales tax on transactions involving the retail sale of property or freight transported in a light motor vehicle. (Effective October 1, 1997)

**Laws 1997, Chapter 116** provided transaction privilege tax and use tax exemptions for wireless telecommunication equipment sold to consumers as an inducement to enter into or continue contracts for telecommunication services. The bill excludes from the transaction privilege tax the compensation received by a retailer for selling or transferring wireless telecommunication equipment to a customer as an inducement to contract for service. It also specifies that sale of such equipment to a person who holds the equipment for sale or transfer to a customer as an inducement to enter into or continue a contract for telecommunication services is a sale for resale, and consequently exempt from taxation. (Effective January 1, 1990)

**Laws 1997, Chapter 150** recodified Title 42 of the Arizona tax code, which regards property, transaction privilege, use, and luxury taxation. The bill made numerous technical changes, removed references to gender, and restructured and renumbered several statutes. It provided that the interpretation of the tax code is not to be changed solely due to changes made by the recodification. Immunities, exemptions, claims, proceedings, etc. that existed before the recodification are to remain in effect. (Effective January 1, 1999)

**Laws 1997, Chapter 165** allowed municipalities to each designate a commercial enhancement reuse district. These districts are required to be 25 acres or less, have recreational, commercial, and retail facilities, and have developed a lake facility by December 31, 2004. The bill provides exemptions from the prime contracting tax and the use tax for lake facility construction costs of up to \$125 million. Lake facility developments must contribute to the long-term vitality of the commercial enhancement reuse district and entail an investment of at least \$40 million. (Effective July 21, 1997)

**Laws 1997, Chapter 178** provided transaction privilege and use tax exemptions for sales of alternative fuel to a used oil fuel burner who has received a permit from the Department of Environmental Quality to burn used oil or used oil fuel. (Effective July 21, 1997)

**Laws 1997, Chapter 227** exempted sales of printed, photographic, electronic, or digital media materials purchased by publicly-funded libraries for public use from the transaction privilege and use tax. (Exemptions for printed or photographic materials are effective beginning August 7, 1985. Exemptions for electronic or digital media materials are effective beginning July 17, 1994.)

**Laws 1997, Chapter 245** authorized refunds for prime contracting taxes paid by a contractor for tangible personal property incorporated or installed in an unlicensed residential care facility operated in conjunction with a licensed nursing care institution. The refunds are given for contracting taxes paid between January 1, 1982 and July 17, 1993. Claims for refunds must be submitted by October 31, 1997, and contractors that request refunds are required to remit the refunds to the residential care facility. The residential care facility must, in turn, return the refund monies to past, current, or future residents who have paid or are paying the taxes. Finally, the interest rate paid for refunds is set at 1% per year compounded annually until June 30, 1998, and the maximum amount of refunds issued in FY 1999 is capped at \$2 million. (Effective July 21, 1997)

**Laws 1997, Chapter 274** provided a transaction privilege and use tax exemption for food and beverage items sold to a commercial airline to be consumed by passengers on flights. The act also authorized sales and use tax exemptions for the

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## **Transaction Privilege Tax**

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purchase of tangible personal property by contractors for use in environmental remediation. (Exemptions for airline food and beverages are effective beginning January 1, 1982. Exemptions for property used for environmental remediation are effective on July 1, 1997.)

**Laws 1997, Chapter 287** assured \$18 million annually in funding for the Water Quality Assurance Revolving Fund (WQARF) beginning July 1, 1999. This funding level is achieved by combining a transfer of \$15 million from the corporate income tax with monies collected from various fees and appropriations. At the end of the fiscal year, if the corporate income tax transfer together with the total of the fees and appropriations is not sufficient to reach the \$18 million level, the State Treasurer shall adjust the \$15 million transfer of corporate income tax revenues upward in the necessary amount. If corporate income tax revenues are insufficient to supplement collected fees and appropriations, transaction privilege tax revenues are to be used. (Effective April 29, 1997)

**Laws 1997, Chapter 297** allowed two or more municipalities located in the same county to create a multipurpose facility district for the purpose of financing and constructing a multipurpose facility. A multipurpose facility is defined as a facility designed to accommodate sporting and entertainment, cultural, civic, meeting, or convention events. The bill authorized the use of transaction privilege tax collections and excise taxes to finance the acquisition of land, construction, maintenance, operation, and marketing of the facility.

Upon voter approval, a multipurpose facility district is authorized to levy a transaction privilege tax of up to 5% of the state tax rate that was in effect on January 1, 1990 on businesses conducting sales in the district. In addition, districts with a facility that costs at least \$200 million to construct and that have issued bonds are to receive from the State Treasurer half of the state transaction privilege taxes paid each year by businesses at the facility. These payments from the state continue for ten years after the bonds are issued or until the bonds are paid in full, whichever comes first.

Other funding mechanisms for generating revenue during national championship sporting events or international games hosted in the multipurpose facility are also authorized to secure the bonds, subject to voter approval. These include receiving the incremental increases in municipal transaction privilege tax revenues associated with such sporting events or international games hosted in the facility; surcharges on car rentals or recreational vehicle spaces during these events; and the imposition of an additional 1% sales tax on businesses in the transient lodging and restaurant and bar classifications during these events. (Effective July 21, 1997)

**Laws 1997, 1st Special Session, Chapter 3** modified the distribution of the transient lodging classification so that in FY 1998 and FY 1999 a total of 3% of the state share of the revenue collected from this classification in the prior fiscal year is deposited in the Tourism Fund. (Effective June 26, 1997)

**Laws 1998, Chapter 88** provided an exemption under the transporting classification of the transaction privilege tax for the proceeds of sales resulting from the shipment of freight or property, by a railroad operating exclusively in Arizona, as part of a single shipment that involves more than one railroad and that originates or terminates across the state line. (Effective January 1, 1988)

**Laws 1998, Chapter 90** exempted from the prime contracting tax the gross proceeds of sales or gross income attributable to the purchase of machinery, equipment, or other personal property. The act provided contracting tax exemptions for purchases used in a wide range of activities, including qualifying health care organizations, manufacturing, telecommunications, and oil and gas extraction, among others. (Effective January 1, 1999)

**Laws 1998, Chapter 105** codified the historical tax treatment of pipelines, the machinery and equipment used to operate pipelines, and the use of pipelines by hospitals. Specifically, it extended retail and use tax exemptions to include the parts used to operate pipes and valves that are at least four inches in diameter and used to transport oil, natural gas, artificial gas, water, or coal slurry. In addition, an exemption from the pipeline classification of the transaction privilege tax is provided for the income derived from pipeline services to qualifying hospitals and qualifying health care organizations if the oil and gas being transported is used to provide health and medical related educational and charitable services. (The provision

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## **Transaction Privilege Tax**

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regarding parts used to operate pipes and valves is effective December 3, 1981. The health care provision is effective July 2, 1989.)

**Laws 1998, Chapter 132** exempted from the retail and use tax the chemicals used directly in the production process of a printing operation. A printing operation is defined as a commercial printing operation and includes job printing, engraving, embossing, copying, and book binding. (Effective January 1, 1999)

**Laws 1998, Chapter 165** increased the threshold limits for quarterly and annual payments of the sales tax. Previously, taxpayers were allowed to make quarterly payments if their annual sales tax liability was between \$200 and \$500, and annual payments were permitted if their annual liability was less than \$200. Under this act, quarterly payments are allowed for taxpayers with a sales tax liability between \$500 and \$1,250, and annual payments are permitted for those with a liability of less than \$500. (Effective January 1, 1999)

**Laws 1998, Chapter 177** authorized transaction privilege tax exemptions for leases or rentals of aircraft, flight simulators, or similar training equipment to students or staff by nonprofit educational institutions that offer degrees in aviation or aerospace related fields. (Effective July 1, 1988)

**Laws 1998, Chapter 206** exempted prepaid calling cards that are taxable under the retail classification of the sales tax from the telecommunications classification of the sales tax. (Effective January 1, 1999)

**Laws 1998, Chapter 221** allowed sales and use tax exemptions for the lease or purchase of new alternative fuel vehicles and for the lease or purchase of equipment used to convert a conventional vehicle to an alternative fuel vehicle. (Effective January 1, 1999)

**Laws 1998, Chapter 225** authorized Maricopa County to levy a jail facilities excise tax, subject to voter approval in the 1998 general election, that would raise the transaction privilege tax rate in the county by one-fifth of one percent for nine years or until \$900 million is collected, whichever comes first. The County Board of Supervisors is permitted to modify the tax rate. Monies collected are to be used to finance and construct new jail facilities, to maintain and operate jail facilities, and to fund specified programs to reduce the expense of jail facilities. (Effective August 21, 1998)

**Laws 1998, Chapter 272** prohibited cities, towns, and other taxing jurisdictions from levying any taxes or fees on the gross proceeds of sales or gross income derived from incarcerating or detaining prisoners in a privately operated prison. (Effective April 1, 1987)

**Laws 1998, Chapter 286** provided a broad range of sales tax exemptions and income tax credits designed to promote the use of pollution control devices. Exemptions from retail, contracting, and use taxes are given for the purchase of machinery or equipment used to control agriculture pollution and for the construction or improvement of property used to control agriculture pollution. This provision is effective January 1, 1999. In addition, the act provided retail and use tax exemptions for the purchase of machinery or equipment used for poultry farming, and a contracting tax exemption for the construction of an environmentally controlled poultry facility. This provision is effective January 1, 1998.

Sales and use tax exemptions are also extended to include the purchase of machinery or equipment used in a number of industries to meet or exceed government pollution standards. This provision's retroactive date of May 19, 1977 allows taxpayers to file for refunds of taxes paid subsequent to this date for purchases of environmental protection equipment. Refund claims must be made by December 31, 1998, and the total amount of the refunds is capped at \$100,000.

The act also specified that the diversion of gas from a pipeline by a person in the business of operating a pipeline, for the sole purpose of fueling compressor equipment to pressurize the pipeline, does not constitute a sale of the gas to the operator of the pipeline and is therefore not subject to the transaction privilege tax. This provision is effective January 1, 1992.

Retail and use tax exemptions are extended to machinery or equipment that enables a television station to comply with the Telecommunications Act of 1996 and the Federal Communications Commission Order that mandates television stations to

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## **Transaction Privilege Tax**

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originate and broadcast digital television signals. However, the exemption may not be claimed for the repair or replacement of machinery and equipment for which an exemption has already been claimed. This provision is effective August 21, 1998 and is discontinued after November 1, 2009, or after a station has ceased analog broadcasting, whichever comes first.

Finally, the act provided a contracting tax exemption for the income derived from the installation or maintenance of clean rooms that have received a retail tax exemption. This provision is effective retroactive to January 1, 1990, and refunds are authorized for tax payments made subsequent to this date.

**Laws 1998, 5th Special Session, Chapter 1** changed the distribution of the transaction privilege tax beginning in FY 2000. The newly created School Facilities Board is authorized to allocate monies from the state's share of the distribution base and from the non-shared base to various school capital funds in order to finance school facilities. This provision is part of the Students FIRST legislation enacted in response to a court decision that required Arizona to alter the way schools are financed in this state. (Effective July 9, 1998)

## USE TAX

TAX YIELD:	<u>Fiscal Year</u>	<u>Total Collections</u>
	1995-96	\$113,964,912
	1996-97	\$119,600,758
	1997-98 Est.	\$136,473,801
DISTRIBUTION: State General Fund		

### 1996, 1997, AND 1998 TAX LAWS

Does not include laws that changed both the use tax and the transaction privilege tax.

**Laws 1997, Chapter 75** applied a four-year statute of limitations to assessments of use taxes levied against vendors who sell to a purchaser licensed or registered by the Department of Revenue to remit use tax. The Department of Revenue is required to provide a credit or offset for interest and penalties paid by the purchaser if and when the department issues a use tax deficiency assessment against a seller. (Effective June 2, 1996)

## SEVERANCE TAX ON METALLIFEROUS MINERALS

TAX YIELD:	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$41,058,549
	1996-97	\$27,053,314
	1997-98 Est.	\$27,072,460

DISTRIBUTION OF TAX ON METALLIFEROUS MINERALS			
<u>Fiscal Year</u>	<u>State General Fund</u>	<u>Counties</u>	<u>Cities</u>
1995-96	\$19,540,585	\$13,306,254	\$8,211,710
1996-97	\$12,875,213	\$ 8,767,438	\$5,410,663
1997-98 Est.	\$12,884,325	\$ 8,773,643	\$5,414,492

There were no changes enacted to this tax in 1996, 1997, or 1998.

## JET FUEL EXCISE AND USE TAX

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Excise Tax</u>	<u>Use Tax</u>	<u>Total</u>
	1995-96	\$4,249,120	\$613,252	\$4,862,372
	1996-97	\$4,623,505	\$532,451	\$5,155,956
	1997-98 Est.	\$5,104,928	\$394,789	\$5,499,717

<u>DISTRIBUTION OF JET FUEL EXCISE TAX</u>			
<u>Fiscal Year</u>	<u>State General Fund</u>	<u>Counties</u>	<u>Cities</u>
1995-96	\$3,135,681	\$688,527	\$424,912
1996-97	\$3,411,961	\$749,193	\$462,351
1997-98 Est.	\$3,767,232	\$827,203	\$510,493

<u>DISTRIBUTION OF JET FUEL USE TAX</u>	
<u>Fiscal Year</u>	<u>State General Fund</u>
1995-96	\$613,252
1996-97	\$532,451
1997-98 Est.	\$394,789

There were no changes enacted to this tax in 1996, 1997, or 1998.



## RENTAL OCCUPANCY TAX

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Gross Collections</u>
	1995-96	\$106,060
	1996-97	\$ 98,769
	1997-98 Est.	\$126,334

### DISTRIBUTION OF RENTAL OCCUPANCY TAX

<u>Fiscal Year</u>	<u>State General Fund</u>	<u>Counties</u>	<u>Cities</u>
1995-96	\$59,739	\$28,644	\$17,677
1996-97	\$55,632	\$26,675	\$16,462
1997-98 Est.	\$71,158	\$34,120	\$21,056

There were no changes enacted to this tax in 1996, 1997, or 1998.

## SEVERANCE TAX ON TIMBER

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$45,638
	1996-97	\$41,563
	1997-98 Est.	\$52,132

### DISTRIBUTION OF SEVERANCE TAX ON TIMBER

<u>Fiscal Year</u>	<u>State General Fund</u>	<u>Counties</u>	<u>Cities</u>
1995-96	\$21,720	\$14,791	\$9,127
1996-97	\$19,781	\$13,470	\$8,312
1997-98 Est.	\$24,812	\$16,894	\$10,426

There were no changes enacted to this tax in 1996, 1997, or 1998.



## **CHAPTER II**

### **OTHER GROSS RECEIPTS TAXES**



## INSURANCE PREMIUM TAX

TAX YIELD:	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$128,673,900
	1996-97	\$135,697,400
	1997-98 Est.	\$139,960,268

DISTRIBUTION OF INSURANCE TAX COLLECTIONS <sup>1/</sup>			
<u>Fiscal Year</u>	<u>General Fund</u>	<u>Transfer to DPS and Highway Patrol Funds</u>	<u>Transfer to Fire Districts</u>
1995-96	\$114,153,900	\$8,904,400	\$5,627,300
1996-97	\$120,518,800	\$9,761,100	\$5,418,300
1997-98 Est.	\$124,603,122	\$10,208,838	\$5,090,836

<sup>1/</sup> Distributions do not equal Net Collections because of the presence of a carry-forward in the Insurance Premium Tax clearing account.

There were no changes enacted to this tax in 1996, 1997, or 1998.

## LIEU TAX ON WORKERS' COMPENSATION INSURANCE PREMIUMS

TAX YIELD:	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$11,038,700
	1996-97	\$ 9,650,000
	1997-98 Est.	\$15,200,000

DISTRIBUTION: Administrative Fund

There were no changes enacted to this tax in 1996, 1997, or 1998.

## TELECOMMUNICATION SERVICES EXCISE TAX

TAX YIELD:			Telecommunications	
	<u>Fiscal Year</u>	<u>911 Excise Tax</u>	<u>Devices</u>	<u>Total</u>
	1995-96	\$6,068,018	\$5,355,897	\$11,423,915
	1996-97	\$6,668,099	\$5,868,977	\$12,537,076
	1997-98 Est.	\$7,652,326	\$6,724,540	\$14,376,866

DISTRIBUTION OF TELECOMMUNICATION SERVICES EXCISE TAX			
<u>Fiscal Year</u>	Emergency Telecommunication Services Revolving Fund	Telecommunications Fund for the Deaf	Poison Control Fund
1995-96	\$6,068,018	\$5,355,897	\$0
1996-97	\$6,668,099	\$4,284,353	\$1,584,624
1997-98 Est.	\$7,652,326	\$4,908,914	\$1,815,626

### 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, the telecommunications services excise tax was enacted to finance 911 emergency telecommunication services and telecommunication devices for the deaf and severely hearing impaired.

### WHO PAYS THE TAX

A.R.S. § 42-1471. *Definition.* A public service corporation offering telephone or telecommunications services, including wireless services, which provides 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, and on a wireless provider's activated wireless service.

### TAX RATE

A.R.S. § 42-1472(A-1). *Tax on Public Service Corporations for Financing Emergency Telecommunication Services.* Not to exceed 1.5% of the amount charged by a provider of exchange access services. The tax levied under this paragraph is to finance 911 emergency telecommunication services.

A.R.S. § 42-1472(A-2,3). *Tax on Wireless Providers for Financing Emergency Telecommunication Services.* Through FY 1999, the rate is 1.1% for each activated wireless service, for the purpose of financing telecommunication devices for the deaf and poison control services. Beginning in FY 2000, the tax rate for each activated wireless service is not to exceed \$0.20 per month, for the purpose of financing 911 emergency telecommunication services.

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## **Telecommunication Services Excise Tax**

A.R.S. § 42-1472(A-4). *Tax on Public Service Corporations for Financing Telecommunication Devices for the Deaf.* Not to exceed 1.6% of the amount charged by a provider of exchange access services. The tax levied under this paragraph is for financing telecommunication 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.

### **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 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 of exchange access services is deposited in this fund. Also, in FY 2000 up to \$0.20 per activated wireless service is deposited into 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 of exchange access services is deposited in this fund. Also, this fund receives 0.8% of the 1.1% tax on wireless providers through FY 1999.

Laws 1997, 1st Special Session, Chapter 5. *Poison Control Fund.* Established by session law, this fund receives 0.3% of the 1.1% tax on wireless providers. This distribution will continue through FY 1999.

### **1996, 1997, AND 1998 TAX LAWS**

**Laws 1996, 5th Special Session, Chapter 5** established, for FY 1997, the rate of the telecommunication services excise tax and changed the tax distribution. The act established a tax rate of 1.1%, while also creating a Poison Control Fund which is to receive 0.3% of the total 1.1% tax levy. The other 0.8% of collections continue to be deposited in the Telecommunications Fund for the Deaf. (Effective June 24, 1996)

**Laws 1996, 6th Special Session, Chapter 1** exempted the following two types of sales from the tax base of the telecommunications tax:

1. The sales of intrastate telecommunications services to a direct broadcast satellite television or data transmission service for use in its operation.
  2. The sales of direct broadcast satellite television services by a direct broadcast satellite television service.
- (Effective January 1, 1996)

**Laws 1997, Chapter 258** broadened the telecommunication services excise tax to include wireless services, such as cellular phone service. The bill also authorizes a tax rate of \$0.10 per month through June 30, 1999 for each activated wireless service, for the purpose of financing emergency 911 service. After June 30, 1999 the maximum tax rate increases to \$0.20 per month. (Effective April 29, 1997)

**Laws 1997, 1st Special Session, Chapter 5** continued, for FY 1998 and FY 1999, the tax rate and distribution of the telecommunication services excise tax that was established by Laws 1996, 5th Special Session, Chapter 5. (Effective July 1, 1997)

## PARI-MUTUEL TAX

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Pari-Mutuel Taxes</u>	<u>Licenses</u>
	1995-96	\$2,844,490	\$173,655
	1996-97	\$2,628,255	\$ 58,126
	1997-98 Est.	\$2,735,654	\$ 88,530

<u>DISTRIBUTION OF PARI-MUTUEL TAXES</u>						
	<u>PARI-MUTUEL</u>			<u>LICENSES</u>		
	<u>Fiscal Year 1995-96</u>	<u>Fiscal Year 1996-97</u>	<u>Fiscal Year 1997-98</u>	<u>Fiscal Year 1995-96</u>	<u>Fiscal Year 1996-97</u>	<u>Fiscal Year 1997-98</u>
Racing Betterment Fund	\$628,348	\$580,582	\$ 601,844	\$35,697	\$ 12,797	\$19,416
Livestock & Agric. Promotion Fund	\$942,948	\$871,266	\$ 902,766	\$53,570	\$ 19,202	\$29,124
Breeders Award Fund	\$628,348	\$580,581	\$ 601,844	\$35,697	\$ 12,796	\$19,416
Stallion Award Fund	\$ 31,289	\$ 28,911	\$ 27,357	\$ 1,778	\$ 637	\$ 883
County Fair Racing Fund	\$235,524	\$217,620	\$ 246,209	\$13,380	\$ 4,796	\$ 7,943
Agric. Consulting & Training Fund	\$ 28,445	\$ 26,283	\$ 27,357	\$ 1,725	\$ 579	\$ 883
Administration of Funds	\$ 35,272	\$ 32,590	\$ 27,357	\$ 2,004	\$ 718	\$ 883
Coliseum & Exposition Center Fund	\$314,316	\$290,422	\$300,922	\$17,857	\$ 6,401	\$ 9,708
Greyhound Adoption Fund	\$ 0	\$ 0	\$ 0	\$ 1,163	\$ 200	\$ 275
State General Fund	\$ 0	\$ 0	\$ 0	\$10,784	\$ 0	\$ 0

There were no changes enacted to this tax in 1996, 1997, or 1998.



## **BINGO LICENSE AND LIEU TAX**

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Gross Collections</u>
	1995-96	\$791,848
	1996-97	\$774,129
	1997-98 Est.	\$750,970
DISTRIBUTION: State General Fund		

There were no changes enacted to this tax in 1996, 1997, or 1998.

## **BOXING RECEIPTS TAX**

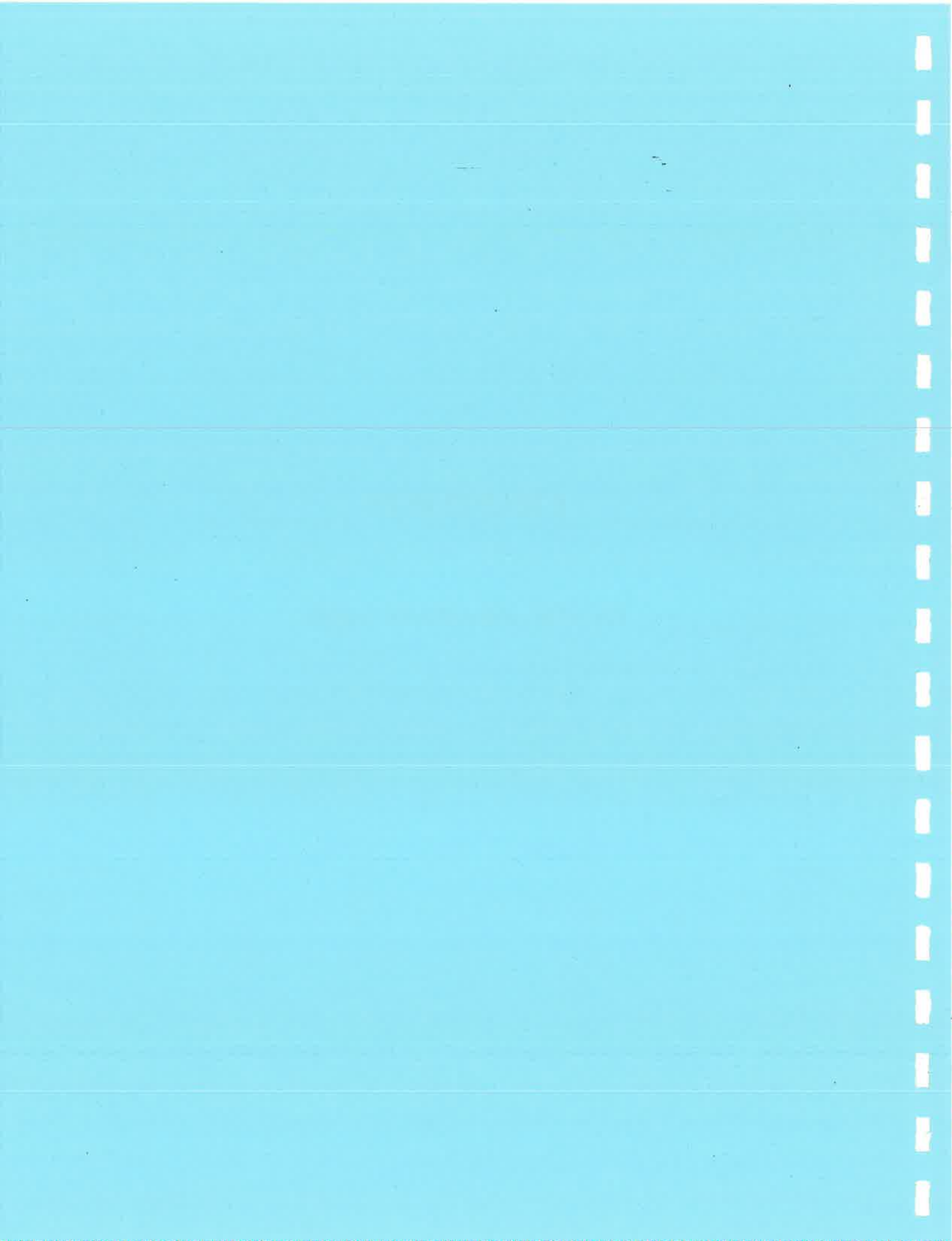
<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Total Collections</u>	<u>Licenses</u>
	1995-96	\$24,007	\$5,975
	1996-97	\$ 9,892	\$4,650
	1997-98 Est.	\$11,201	\$5,005
DISTRIBUTION: State General Fund			

There were no changes enacted to this tax in 1996, 1997, or 1998.



## **CHAPTER III**

### **INCOME AND ESTATE TAXES**



## INDIVIDUAL INCOME TAX

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$1,494,282,274
	1996-97	\$1,668,414,355
	1997-98 Est.	\$1,863,113,695

<u>DISTRIBUTION OF INDIVIDUAL AND CORPORATE INCOME</u>				
<u>Fiscal Year</u>	<u>Total Net Collections</u>	<u>State General Fund</u>	<u>Urban Revenue Sharing</u>	<u>Voluntary Contribution Funds</u>
1995-96	\$1,942,321,758	\$1,723,080,577	\$218,543,272	\$697,909
1996-97	\$2,269,304,787	\$2,010,937,159	\$257,800,548	\$567,080
1997-98 Est.	\$2,391,174,768	\$2,099,332,295	\$291,243,578	\$598,896

### 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 by local entities 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.

### 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 must pay the tax. Fiduciaries of estates and trusts, and individuals comprising a partnership or S-corporations also are subject to the tax.

*Residents.* Any individual whose permanent home is in the state. 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.

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

### 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.

(Continued)

## **Individual Income Tax**

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### **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

### 1998 TAX RATE SCHEDULE

<u>Single <sup>1/</sup></u>			<u>Married <sup>3/</sup></u>		
<u>Arizona Taxable Income</u>		<u>Rate</u> <sup>2/</sup>	<u>Arizona Taxable Income</u>		<u>Rate</u>
\$ 0 -	\$10,000	2.88%	\$ 0 -	\$20,000	2.88%
\$ 10,001 -	25,000	\$ 288 plus 3.24%	\$ 20,001 -	50,000	\$ 576 plus 3.24%
\$ 25,001 -	50,000	\$ 774 plus 3.82%	\$ 50,001 -	100,000	\$ 1,548 plus 3.82%
\$ 50,001 -	150,000	\$1,729 plus 4.74%	\$100,001 -	300,000	\$ 3,458 plus 4.74%
\$150,001 and over		\$6,469 plus 5.10%	\$300,001 and over		\$12,938 plus 5.10%

1/ Or married filing separately.

2/ The marginal rates apply to income within the taxable income bracket.

3/ Or unmarried head of household.

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

A.R.S. § 43-1012. *Optional Tax Table.* The Department of Revenue developed an optional tax table prescribing tax liability amounts, based on filing status, in \$50 increments of Arizona taxable income. The table can be used if (1) an individual has been a resident for the entire taxable year, and (2) the Arizona taxable income for the year is less than \$20,000 in the case of individual filers and less than \$40,000 for married filing jointly.

### RECENT HISTORICAL PERSONAL INCOME TAX RATES<sup>1/</sup>

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

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

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

**NOTE:** There were no changes in FY 1996.

(Continued)

## Individual Income Tax

### NEW ZERO LIABILITY INCOME THRESHOLDS

<u>Filing Status</u>	<u>Previous Law Income Threshold with No Tax Liability</u>	<u>Laws 1998, 4th Special Session, Chapter 3 Income Threshold with No Tax Liability</u>
Single or Married Filing Separate with no Dependents	\$ 6,700	\$ 7,100
Single or Married Filing Separate with at least 1 Dependent	\$10,000	\$10,000
Married Filing Joint with 1 Dependent	\$18,900	\$20,000
Head of Household with 2 Dependents	\$19,100	\$20,100
Married Filing Joint with 2 Dependents	\$20,000	\$23,600
Married Filing Joint with 3 Dependents	\$20,400	\$27,300
Head of Household with 5 or more Dependents	\$20,000	\$26,575
Married Filing Joint with 4 or more Dependents	\$22,700	\$31,000

### 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:

- 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 the 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 \$40 nonrefundable tax credit for each personal or dependent exemption claimed, but subject to the limitations shown in the table above.

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 for changes in the amount of credit allowed.) This credit expires July 1, 2001.

(Continued)



## Individual Income Tax

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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 that are primarily engaged in manufacturing, assembling or fabricating aviation or aerospace products, and are located in a military reuse zone can claim a tax credit for net employment increases within the military reuse zone. This credit is in lieu of any other tax credit obtained by a qualified defense contractor for the same employees.

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. The maximum credit is \$500,000.

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 be 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 1997 through 2001, a taxpayer may claim a tax credit and deduction for purchasing or converting to a bi-fuel vehicle for use in Arizona. The amount is equal to \$1,000 for 1994-1996 and for 1997 through 2001. Dedicated alternative fuel vehicle operation, conversion, and acquisition costs can receive a \$2,000 credit.

(Continued)

## Individual Income Tax

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A.R.S. § 43-1088. *Charitable Organizations and Contributions*. A taxpayer may take a tax credit up to \$200 for donations to qualifying charitable organizations that exceed the level of contributions in 1996 or the first year that the taxpayer deducted charitable contributions pursuant to Section 170 of the Internal Revenue Code. This became effective January 1, 1998.

A.R.S. § 43-1089. *School Tuition Organizations*. A taxpayer may take a credit up to \$500 per year for donations to a non-governmental primary or secondary school tuition organization which allocates at least 90% of its annual revenue to educational scholarships or tuition grants. This became effective January 1, 1998.

A.R.S. § 43-1089.01. *Extracurricular Activities Credits*. A taxpayer may have a credit up to \$200 per year for contributions for the support of extracurricular activities at public schools. This credit is in lieu of any federal or state deduction for such contributions. This became effective January 1, 1998.

A.R.S. § 43-1090. *Solar Hot Water Heater Stub-Outs and Electric Vehicle Recharge Outlets*. A taxpayer may take a credit up to \$75 for installing solar hot water plumbing stub-outs or electric vehicle recharge outlets in home dwellings built by the taxpayer. This law became effective January 1, 1998.

A.R.S. § 43-1090.01. *Wheels to Work Vehicle Donation*. A credit for the fair market value, up to \$1,500 per vehicle, may be taken for donations of vehicles to qualified wheels to work programs.

### TAX COMPUTATION

#### Individuals:

Arizona Gross Income  
Plus

Equivalent to taxpayer's federal adjusted gross income.

Additions to Income  
Minus

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

Subtractions from Income  
Minus

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

Exemptions  
Equals

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

Arizona Adjusted Gross Income  
Minus

Standard or Itemized Deductions  
Minus

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.

Personal Exemptions  
Equals

See A.R.S. § 43-1043: (1) single or married filing separately - \$2,100 (2) married filing jointly - \$4,200 (3) unmarried head of household - \$4,200 (4) a married couple filing a joint return and claiming at least one dependent - \$6,300.

Taxable Income  
Multiply By

Tax Rates  
Equals

(Continued)

## Individual Income Tax

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Tax Liability

*Minus*

Tax Credits

*Minus*

Tax Payments

*Equals*

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

Tax Due

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

### Partnerships:

Arizona Gross Income

*Add*

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

Addition to Income

*Minus*

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

Subtractions from Income

*Equals*

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

Arizona Taxable Income

*Calculate*

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

Apportionment Ratio

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

### Fiduciaries:

Arizona Gross Income

*Add*

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.

Additions to Income

*Minus*

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

Subtractions from Income

*Equals*

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

Arizona Taxable Income

*Multiply By*

Individual Tax Rates

*Equals*

Tax Liability

*Minus*

(Continued)

## Individual Income Tax

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Individual Tax Credits

Minus

Tax Payments

Equals

Tax Due

### 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: **0%**, 10%, **17%**, 20%, 22%, 28%, or 32%.\*
- If the employee's annual wage is \$15,000 or more, the percentages are: **0%**, **17%**, 20%, 22%, 28%, or 32%.\*

\*Bold numbers indicate new options implemented in tax year 1998. The 0% option is available only for those who had no state tax liability in the prior taxable year and expect to have no state tax liability for the current taxable year.

*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 DOR 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, if estimated withholding for the tax year does not equal 90% of the tax liability for the current year or 100% of the liability for the preceding year.

*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 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 DOR along with the tax payment.

(Continued)

## **Individual Income Tax**

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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 DOR shall deposit into the Tax Refund Fund amounts sufficient to meet the requirements for tax refunds.

A.R.S. § 43-206. *Urban Revenue Sharing Fund.* An amount equivalent to 15.0% 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 was increased to 15.0% and in FY 2000 and thereafter it will be 15.8% 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.

### **1996, 1997, AND 1998 TAX LAWS**

**Laws 1996, Chapter 37** required the Department of Economic Security to inform all new claimants of unemployment compensation benefits that unemployment compensation is subject to federal, state, and local income tax, and tax payments may be deducted and withheld from benefits. (Effective January 1, 1997)

**Laws 1996, Chapter 49** adopted the Internal Revenue Code definitions for *dependent* and *head of household*. By adopting these definitions, a noncustodial parent is allowed to take a dependency exemption and the custodial parent can still claim head of household status.

Dependent is broadly defined to include an individual, not related by blood to the taxpayer and not the taxpayer's spouse, who resides in the taxpayer's home and is a member of that household for the tax year.

The head of household definition is narrowed so that a taxpayer is precluded from filing as head of household if a dependent in that household other than a child, stepchild, or direct descendant earns over \$2,500 gross income per year. A taxpayer is also prevented from claiming head of household if the taxpayer is unmarried and the taxpayer's dependent is a married child who files a joint tax return with his or her spouse. (Effective January 1, 1996)

**Laws 1996, Chapter 93** expanded military reuse zone income tax incentives by providing an income tax credit for net increases in employment of full-time employees who are primarily engaged in providing aviation or aerospace services. (Effective April 5, 1996)

(Continued)

## Individual Income Tax

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**Laws 1996, Chapter 309** established Project Intervention to promote neighborhood rehabilitation. One aspect of this project involved funding summer employment programs for at risk youth, in which students attend school for half days and work for private employers the other half of the day. The act allowed an income tax credit for employers in an amount equal to half the wages paid to the student employee up to a maximum of \$3 per hour, with a maximum of 20 hours of work per week. A limit of \$300,000 was placed on the total amount of wages paid by all employers that qualify for the tax credit. The act repealed the summer employment tax credit on December 1, 1996. (Effective January 1, 1996)

**Laws 1996, Chapter 317** allowed the Department of Revenue to allow annual payments of withholding taxes for employers that have established sufficient payment history to indicate that they are current and in good standing. Also, the department is permitted to round fractional dollars to the nearest whole dollar, and it may require the taxpayer to do so, too. The bill clarified the income tax status of members of the U.S. military serving in a combat zone or an area given the same treatment as a combat zone. Pay received while serving in these zones may be subtracted from the individual's gross income. In addition, the act excuses any individual who dies as a result of an injury or disease associated with service in a combat zone or area given the same treatment as a combat zone from income taxation for the year of death and for any prior taxable year ending on or after the day service in that zone began. (The provision regarding the payment of withholding taxes is effective January 1, 1998. The provision concerning the income tax status of members of the armed forces is effective November 21, 1995.)

**Laws 1996, Chapter 318** expanded the eligibility for an accidental disability pension for members of the Public Safety Personnel Retirement System (PSPRS). Members with more than 20 years of credited service and whose employment is terminated by reason of accidental disability may retire with an accidental disability pension. Previously, such PSPRS employees had to retire with a normal pension. Under the accidental disability pension, up to 50% of the member's average compensation is not subject to income taxation. (Effective July 1, 1995)

**Laws 1996, 6th Special Session, Chapter 1** expanded the individual and corporate income tax credit for new construction materials incorporated into a qualifying manufacturing, fabricating, or mining facility to include materials incorporated into a direct broadcast satellite or transmission services facility, provided that the facility is completed by December 31, 1996. (Effective January 1, 1996)

**Laws 1997, Chapter 48** established two individual income tax credits. The first credit is for up to \$500 for contributions made to charitable organizations that award scholarship or tuition grants. The credit is available beginning in tax year 1998, and it may be carried-forward for up to five consecutive years. To qualify for the tax credit, contributions must be made to school tuition organizations that allocate at least 90% of their annual revenue for educational scholarships or tuition grants to children attending a private primary or secondary school of their parents' choice. The taxpayer is ineligible to receive the credit if his or her child directly benefited from the donation. Finally, the school tuition organization is required to provide its scholarships or grants to more than one school.

The second credit is for any fees paid, up to \$200, by a taxpayer to a public school to support extracurricular activities. The credit is available beginning in tax year 1998, and it may be carried-forward for up to five consecutive years. Extracurricular activities are defined as school sponsored activities that require enrolled students to pay a fee in order to participate.

The Department of Revenue is required to submit a report by July 1, 1999 to the Governor, the President of the Senate, and the Speaker of the House of Representatives regarding the fiscal impact of the two credits. (Effective January 1, 1998)

**Laws 1997, Chapter 121** provided exemptions from the income tax withholding requirements for nonresident employees, provided certain criteria are met. Employees must be nonresidents of Arizona and engaged in employment services in the state for less than 60 days during the calendar year to qualify for the withholding exemption. The exemption does not apply to nonresident employees who are in Arizona solely for athletic or entertainment purposes. (Effective July 21, 1997)

**Laws 1997, Chapter 171** established the Family College Savings program as a state-run savings program for higher education that enables participants to take advantage of state and federal tax incentives. It creates a public-private partnership that allows individuals to open savings accounts with qualified financial institutions for future use by the

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## Individual Income Tax

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beneficiary for qualifying postsecondary education expenses. Withdrawals from the program are exempt from the state income tax. (Effective April 24, 1997)

**Laws 1997, Chapter 177** replaced the existing medical savings account with the Federal Medical Savings Account program. The act specified that, when computing Arizona adjusted gross income, an individual and the individual's employer may subtract contributions to a medical savings account if the amount is included in the individual's federal adjusted gross income and has not already been subtracted for federal purposes. (Effective January 1, 1997)

**Laws 1997, Chapter 194** allowed companies to pool resources and self-insure for the purpose of providing worker's compensation coverage for employees. It authorized two or more employers, each of which has been in a similar business for a minimum of five consecutive years, to contract and form a worker's compensation pool. Pools must be approved by the Industrial Commission, which shall adopt rules to safeguard the solvency of the pools and ensure benefits for injured workers. The act provided an income tax exemption for such worker's compensation pools. (Effective July 21, 1997)

**Laws 1997, Chapter 218** established income tax incentives for taxpayers that install energy conservation equipment in family residences, townhouses, or condominiums. Specifically, it authorized individual and corporate income tax credits not to exceed \$75 for the installation of solar hot water plumbing stub-outs or electric vehicle recharge outlets in home dwellings built by the taxpayer. The credit may be carried-forward for up to five consecutive tax years if the credit exceeds the amount of taxes due in the current year. The taxpayer is permitted to transfer the credit to a purchaser of the home. (Effective January 1, 1998)

**Laws 1997, Chapter 219** allowed the Department of Economic Security to retain the portion of a joint income tax refund owed to a spouse who is overdue on child support payments when a claim for such action is made by the nonobligated spouse. (Effective July 21, 1997)

**Laws 1997, Chapter 232** extended the date by which the Department of Commerce is authorized to certify qualified defense contractors for purposes of available tax incentives from June 30, 1998 to June 30, 2001. The department is to determine the effective date of certification, which begins on the first day of a taxable year. (Effective July 21, 1997)

**Laws 1997, Chapter 238** reduced the individual income tax liability associated with taxable non-Arizona state and municipal interest income by allowing taxpayers to subtract fees and other related expenses from the amount of reportable interest income received. The act also authorized individual and corporate income tax subtractions to include wages and salaries that are equal to the amount of the federal work opportunity, empowerment zone employment, employer-paid Social Security taxes on employer cash tips, and Indian employment credits received by the taxpayer. Finally, it allowed a special individual income tax subtraction for tax years 1990 through 1995 for net operating losses incurred before January 1, 1990, and clarified the determination of corporate net operating loss amounts for Arizona purposes. (Effective January 1, 1997)

**Laws 1997, Chapter 269** extended the individual and corporate income tax credits for the purchase or conversion of alternative fuel vehicles or the purchase of an alternative fuel delivery system for an additional three years, to January 1, 2002. It also expanded the provision to include alternative fuel vehicle leases of at least three years. The amount of the credit for taxable years 1997 through 2001 is increased to \$1,000 per purchase, conversion, or lease. (Effective January 1, 1997)

**Laws 1997, Chapter 300** established individual and corporate income tax credits for net increases in full-time employment of recipients of Temporary Assistance for Needy Families. The amount of the credit is equal to one-fourth of the employee's taxable wages in the first year, up to \$500; one-third of the employee's wages in the second year, up to \$1,000; and one-half of the employee's wages in the third year, up to \$1,500. Wages that are subsidized through the Department of Economic Security's subsidized employment program are excluded.

The act also created an individual income tax credit for contributions made to a qualifying charitable organization that spends at least 50% of its budget on services for recipients of Temporary Assistance for Needy Families or on services for state residents whose income is less than 150% of the federal poverty level. The maximum amount of the credit is \$200, and the

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## Individual Income Tax

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credit applies only to contributions that are in excess of the total amount that the taxpayer deducted for charitable contributions in tax year 1996. If no charitable contribution deduction was taken in 1996, the base year becomes the first subsequent tax year that a deduction is taken. (Effective January 1, 1998)

**Laws 1997, 1st Special Session, Chapter 8** lowered individual income taxes through rate reduction and expanded the personal exemption for married couples with at least one dependent. Rates were reduced in each tax bracket, going to a range of 2.90% in the bottom bracket to 5.17% in the top bracket as compared to the previous range of 3.0% to 5.6%. The personal exemption for married couples with at least one dependent increased from \$4,200 to \$6,200. In addition, for FY 2000 and thereafter, the percentage of state income tax collections for the fiscal year that occurred two years prior to the current fiscal year that is distributed to incorporated cities and towns is increased from 15% to 15.8%. (Effective January 1, 1997)

**Laws 1998, Chapter 68** expands the application of the Arizona income tax credit for foreign taxes paid to conform to the federal regulations. This has the effect of including gross income taxes paid to foreign countries in the scope of eligibility for the Arizona credit. (Effective January 1, 1999)

**Laws 1998, Chapter 102** expanded the eligibility of school tuition organizations to include one-gender schools. One of the criteria for a qualified school in the enabling legislation in 1997 was the school could not discriminate on the basis of race, color, sex, handicap, familial status, or national origin. This act eliminates gender from the list of discriminatory factors. Therefore, contributions made by taxpayers to tuition organizations that provide tuition assistance to one-gender schools will now qualify for the tax credit. (Effective January 1, 1998)

**Laws 1998, Chapter 130** provides that employers are statutorily required to deduct and retain for state income tax purposes a percentage of the total amount of the federal income tax deducted from employee wages. The employee is allowed to elect what percentage of their federal withholding that is withheld for state income tax purposes. Chapter 130 expands the employee's withholding options as outlined below:

- If the employee's annual wage is less than \$15,000, the percentages are: **0%**, **17%**, 20%, 22%, 28% or 32%.\*
- If the employee's annual wage is \$15,000 or more, the percentages are: **0%**, **17%**, 20%, 22%, 28%, or 32%.\*

\*Bold numbers indicate new options implemented in tax year 1998.

The act allows the employee to elect to have no state withholding (0%) if the employee had no state tax liability in the prior taxable year and expects to have no state liability for the current tax year. This is the same option that is given to taxpayers for their federal withholding. (Effective August 21, 1998)

**Laws 1998, Chapter 221** provided personal and corporate income tax deductions and credits for construction or operation of alternative fuel vehicle fueling stations, conversion of vehicles to alternative fuels, and purchase or lease of alternative fuel vehicles. (Effective January 1, 1998)

**Laws 1998, Chapter 268** required DOR to create short and simplified personal income tax return forms. The forms are available to taxpayers that meet the following criteria:

- Are eligible to use the optional tax tables developed by the department; do not have income from sources other than wages, salaries, tips, dividends, interest and tax refunds; have dividend and interest income not in excess of \$400 from either of those sources; elect not to file for credits against income tax liability other than the tax credit allowed for property taxes, residents 65 years and older, and the family income tax credit; and do not have interest income over \$500 from non-Arizona municipal bonds.
- Are eligible to use the optional tax tables developed by the department; do not have income from sources other than wages, salaries, tips, dividends, interest and tax refunds; are residents for the full taxable year and file as single individuals or married couples filing joint returns; are not 65 years of age or older or blind on January 1 of the taxable year and claim no dependents; elect to claim the optional standard deduction; are not required to add any income to the

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## Individual Income Tax

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- taxpayer's Arizona gross income and do not elect to take any deduction or file for any credits; and do not elect to contribute or donate any portion of their tax refund to the programs designated on the current form.  
(Effective August 21, 1998)

**Laws 1998, Chapter 283** updated the Arizona tax code to conform changes in the Internal Revenue Code, particularly those passed by Congress in the Taxpayer Relief Act of 1997. It also partially conformed tax penalties to the tax penalties charged by the Internal Revenue Service. (Effective January 1, 1998)

**Laws 1998, Chapter 286** provided a personal and corporate income tax credit for the taxpayer's expenses to purchase real or personal property that is used to prevent or control pollution associated with the commercial production of livestock, agriculture, horticulture, viticulture, and floriculture industry. (Effective January 1, 1999)

**Laws 1998, 4th Special Session, Chapter 3** contained a two-year phase-in of a \$50 million cut to the personal income tax. The first phase of the cut, effective January 1, 1998, increased the family tax credit from \$30 to \$40 for each member in the family and allowed six family members to qualify for the credit (current law allows four). This change has the effect of raising the income thresholds where taxpayers have no tax liability.

Raising the thresholds had an estimated impact in FY 1999 of \$3.3 million. In addition to raising the thresholds, Chapter 3 provided an estimated \$26 million rate reduction across the income tax brackets. For those income tax brackets not affected by raising the thresholds, the FY 1998-1999 rate reduction equates to approximately 1.5%.

Phase two of the personal income tax cut, effective beginning January 1, 1999, contains two main provisions. The first provision was an increase to the dependent exemption from \$2,300 to \$10,000 for families providing care of elderly family members that require assistance with activities of daily living. The estimated impact for this provision is \$3 million in FY 2000. The second provision is another \$17 million rate reduction across the income tax brackets. The FY 1999 rate reduction coupled with the FY 2000 rate reduction provided approximately a 2.5% rate reduction to the personal income tax.

Chapter 3 provides that DOR shall instruct taxpayers of the income levels for each filing status where there is no liability for income tax. (Effective January 1, 1998)

## CORPORATE INCOME TAX

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$448,039,484
	1996-97	\$600,890,432
	1997-98 Est.	\$528,061,073
DISTRIBUTION: See Individual 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.

### 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 that the corporation is not liable for 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 is then taxed on his 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.

### 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 federal taxable income plus the federal deduction the taxpayer took for state taxes paid. In other words, Arizona gross income is what federal taxable income would have been if state taxes were not deductible at the federal level. Arizona gross income 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.* Taxpayers may carry over 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.

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## **Corporate Income Tax**

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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. *Non-Business Income.* 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.* 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. § 43-1146. *Sales of Tangible Personal Property.* Allocated to Arizona if the property is received by the purchaser within this state.
- A.R.S. § 43-1147. *Sales Other Than of Tangible Property.* 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. The rate is 8.0% of taxable income or \$50, whichever is greater, for tax years beginning January 1, 1998.

### **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.* A business located in an enterprise zone can claim a credit for net increases in employment if the new positions created meet certain wage and benefit criteria and if enough of the employees live in the enterprise zone. Expires December 31, 2001.

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.

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.

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.

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## Corporate Income Tax

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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. Expires December 31, 2003.

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

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. § 43-1170.01. *Agricultural Pollution Control Equipment.* A taxpayer may claim a credit equal to 25% of the cost of agricultural pollution control equipment, up to a maximum credit of \$25,000 annually. The taxpayer claiming the credit must be engaged in commercial production of livestock, agriculture, horticulture, viticulture, or floriculture.

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 and 43-1174.01. *Alternative Fuel Vehicles and Equipment.* A taxpayer may claim a credit in lieu of a subtraction for purchasing or leasing an alternative-fuel vehicle (AFV), or for converting a conventional vehicle to an AFV for use in Arizona. The amount is \$2,000 or a fraction (depending on the emission classification of the vehicle) of the price differential between the AFV and a similar conventional vehicle. There is also a credit for constructing and operating alternative fuel stations of 50% of costs incurred (up to \$400,000) if the station is accessible to the general public, or 25% of costs (up to \$200,000) if the station is not accessible.

A.R.S. § 43-1175. *Employment of Former TANF Recipients.* A tax credit of up to \$500 for the first year, \$1,000 for the second year, and \$1,500 for the third year can be claimed for each net position filled by a recipient of Temporary Assistance for Needy Families (TANF). The positions must be full-time and include health benefits.

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## **Corporate Income Tax**

A.R.S. § 43-1176. *SolarPower and Electric Vehicle Equipment.* A taxpayer can claim a credit of up to \$75 per house for the cost of solar water heater plumbing stub-outs and electric vehicle recharge outlets installed in houses or other dwelling units constructed by the taxpayer.

A.R.S. § 43-1177. *Coal taxes.* A taxpayer can claim a credit equal to 30% of the sales tax or use tax levied on coal consumed in electrical power generation in Arizona.

### **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 their 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 15 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.

*Penalty.* The penalties are the same as for individual taxpayers. See "Penalty" under Individual Income Tax.

### **DISTRIBUTION**

*See Individual Income Tax.* The individual and corporate income taxes are pooled for distribution. The distribution is explained in the Individual Income Tax section.

### **1996, 1997, AND 1998 TAX LAWS**

**Laws 1996, Chapter 93** expanded military reuse zone income tax incentives by providing an income tax credit for net increases in employment of full-time employees who are primarily engaged in providing aviation or aerospace services. (Effective April 5, 1996)

**Laws 1996, Chapter 309** established Project Intervention to promote neighborhood rehabilitation. One aspect of this project involved funding summer employment programs for at-risk youth in which students attended school for half days and worked for private employers the other half of the day. The act allowed an income tax credit for employers in an amount equal to half the wages paid to the student employee up to a maximum of \$3 per hour, with a maximum of 20 hours of work per week. A limit of \$300,000 was placed on the total amount of wages paid by all employers that qualify for the tax credit. The act repealed the job tax credit on December 1, 1996. (Effective January 1, 1996)

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## **Corporate Income Tax**

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**Laws 1996, Chapter 317** stipulated that corporate income tax returns may be signed by any principal officer of the corporation, not only by the president or the treasurer. Verification of the return's validity may be in written or alternative form, as directed by the Department of Revenue. (Effective July 20, 1996)

**Laws 1996, Chapter 344** allowed an income tax credit for businesses located in an enterprise zone that do not sell tangible personal property at retail. The credit amount for qualifying businesses is calculated based on the net increase in all full-time employment positions. The employment positions must be full time and include health insurance coverage for which the employer pays at least 50% of the premium or membership cost.

In addition, the act clarified that the Arizona corporate income tax credit for qualified research and development expenses incurred through December 31, 1998 in this state is not affected by the termination of the federal tax credit for research and development expenses. (Effective January 1, 1996)

**Laws 1996, 6th Special Session, Chapter 1** expanded the individual and corporate income tax credit for new construction materials incorporated into a qualifying manufacturing, fabricating, or mining facility to include materials incorporated into a direct broadcast satellite or transmission services facility, provided that the facility is completed by December 31, 1996. The act permitted the partners in a partnership and the members in a limited liability company to allocate the credit among themselves according to the provisions in their partnership or operating agreement instead of requiring proration based on ownership interest. (Effective January 1, 1996)

**Laws 1997, Chapter 218** established income tax incentives for taxpayers that install energy conservation equipment in family residences, townhouses, or condominiums. Specifically, it authorized individual and corporate income tax credits not to exceed \$75 for the installation of solar hot water plumbing stub-outs or electric vehicle recharge outlets in home dwellings built by the taxpayer. The credit may be carried-forward for up to five consecutive tax years if the credit exceeds the amount of taxes due in the current year. The taxpayer is permitted to transfer the credit to a purchaser of the home. (Effective January 1, 1998)

**Laws 1997, Chapter 238** authorized individual and corporate income tax subtractions to include wages and salaries that are equal to the amount of the federal work opportunity, empowerment zone employment, employer-paid Social Security taxes on employer cash tips, and Indian employment credits received by the taxpayer. It also clarified the determination of corporate net operating loss amounts for Arizona purposes. (Effective January 1, 1997)

**Laws 1997, Chapter 269** extended the individual and corporate income tax credits for the purchase or conversion of alternative fuel vehicles or the purchase of an alternative fuel delivery system for an additional three years, to January 1, 2002. It also expanded the provision to include alternative fuel vehicle leases of at least three years. The amount of the credit for taxable years 1997 through 2001 is increased to \$1,000 per purchase, conversion, or lease. (Effective January 1, 1997)

**Laws 1997, Chapter 282** conformed Arizona law to federal practice in allowing sole proprietorships to be taxed in accordance with limited liability company status. (Effective January 1, 1997)

**Laws 1997, Chapter 287** assured \$18 million annually in funding for the Water Quality Assurance Revolving Fund (WQARF) beginning July 1, 1999. This funding level is achieved by combining a transfer of \$15 million from the corporate income tax with monies collected from various fees and appropriations. At the end of the fiscal year, if the corporate income tax transfer together with the total of the fees and appropriations has not been sufficient to reach the \$18 million level, the State Treasurer shall adjust the \$15 million transfer of corporate income tax revenues upward in the necessary amount. If corporate income tax revenues are insufficient to supplement collected fees and appropriations, transaction privilege tax revenues are to be used. (Effective April 29, 1997)

**Laws 1997, Chapter 300** established individual and corporate income tax credits for net increases in full-time employment of recipients of Temporary Assistance for Needy Families. The amount of the credit is equal to one-fourth of the employee's taxable wages in the first year, up to \$500; one-third of the employee's wages in the second year, up to \$1,000; and one-half

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## Corporate Income Tax

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of the employee's wages in the third year, up to \$1,500. Wages that are subsidized through the Department of Economic Security's subsidized employment program are excluded. (Effective January 1, 1998)

**Laws 1998, Chapter 11** changed the due dates of final payments for S corporations and tax-exempt organizations (on unrelated business income). S corporations' taxes are now due on the 15th day of the third month after the close of the taxable year; exempt organizations' taxes are due on the 15th day of the fifth month after the end of the year. Previously all final payments were due on the 15th day of the fourth month after the end of the year. (Effective January 1, 1998)

**Laws 1998, Chapter 89** allowed corporations that assume certain liabilities to file consolidated returns, even if former subsidiaries that were not members of the corporation group at the end of 1994 have not provided written consent. (Effective August 21, 1998)

**Laws 1998, Chapter 121** extended the deadline for business to qualify for the existing enterprise zone tax incentives from July 1, 1998 to July 1, 2001. (Effective January 1, 1998)

**Laws 1998, Chapter 122** extended the tax credit for research and development expenses, which was scheduled to expire on December 31, 1998, to December 31, 2003. (Effective August 21, 1998)

**Laws 1998, Chapter 137** provided a tax credit equal to 30% of the sales tax or use tax levied on coal consumed in electrical power generation in Arizona. (Effective January 1, 1998)

**Laws 1998, Chapter 221** expanded the existing deductions and credits for construction or operation of alternative fuel stations and for purchases of, or conversions to, alternative fuel vehicles. It also provided credits for leasing such vehicles, and established new credits for the purchase or lease of original-equipment-manufactured vehicles based on the vehicle's emissions level. (Effective January 1, 1998)

**Laws 1998, Chapter 286** provided a tax credit equal to 25% of the cost of agricultural pollution control equipment, up to a maximum credit of \$25,000 annually. The taxpayer claiming the credit must be engaged in commercial production of livestock, agriculture, horticulture, viticulture, or floriculture. (Effective January 1, 1999)

**Laws 1998, 4th Special Session, Chapter 3** made several changes to the corporate income tax:

1. The tax rate was reduced from 9% to 8%.
2. Corporations were forbidden from taking as a deduction on their *state* tax return the amount of state income taxes they take for a deduction on their *federal* tax return.
3. The "throwback rule" used in the apportionment formula for the tax was modified. The term refers to sales in nontaxable jurisdictions being "thrown back" to Arizona. Sales to the federal government and to customers in states and countries with no corporate income tax will no longer be attributed to Arizona. (Effective January 1, 1998)

(Continued)

## ESTATE AND GENERATION-SKIPPING TRANSFER TAX

TAX YIELD:	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$54,207,976
	1996-97	\$65,432,336
	1997-98 Est.	\$62,902,674
DISTRIBUTION: State General Fund		

There were no changes enacted to this tax in 1996, 1997, or 1998.



## **CHAPTER IV**

### **GENERAL PROPERTY TAXES**



## GENERAL PROPERTY TAX

TAX YIELD:					
	<u>Fiscal Year</u>	<u>Total Collections</u>	<u>Real &amp; Secured Property Tax Collections</u>	<u>Unsecured Property Tax Collections</u>	<u>Other Property Tax Collections</u>
	1995-96	\$188,296,312	\$180,823,914	\$7,470,287	\$2,111
	1996-97	\$ 51,211,398	\$ 44,733,981	\$6,468,840	\$8,577
	1997-98 Est.	\$ 38,136,021	\$ 37,407,309	\$ 722,807	\$5,905
DISTRIBUTION: State General Fund					

### DESCRIPTION

Arizona has two distinct types of property taxes—primary and secondary. Primary property taxes can be levied by the state or any county, municipality, community college or school district and are dedicated for the maintenance and operation of the respective jurisdiction. Secondary property taxes may be levied to pay for bond indebtedness, voter-approved budget overrides, and special district levies such as a sanitary or fire district. However, the state does not impose a secondary property tax. Both types of taxes, except for certain special assessments levied as secondary property taxes, are ad valorem, in which a fixed rate is applied to a property value so that changes in tax liability depend on fluctuations in value. Real and secured property refers to land and personal property attached to the land. Unsecured property refers to equipment or other personal property not attached to the land. Other property tax collections include proceeds from the sale of property for delinquent taxes, refunds, judgements, etc.

## REAL AND SECURED PERSONAL PROPERTY

### WHO PAYS THE TAX

A.R.S. § 42-221. *Taxpayer.* The owner of record or the person who is the purchaser under a deed of trust or an agreement of sale.

### TAX BASE

A.R.S. § 42-201. *Definition.* Since the 1980 tax year, property taxes in Arizona have operated under separate valuation bases:

- *Full Cash Value.* The value determined by statute (see A.R.S. § 42-221). If no statutory method is prescribed, it is synonymous with market value as determined by standard appraisal methods. There are no restrictions or limitations on the valuation growth for secondary property tax purposes. These values are generally determined for all properties; the application of full cash or limited property value will then depend on the type of property and the purpose (primary or secondary) for the tax (see A.R.S. § 42-202.02(I)).
- *Limited Property Value.* This value cannot, by statute, exceed the full cash value. For properties in existence in the prior year that have not since been physically modified (i.e., construction or remodeled), the limited property value is the greater of (1) the previous year's limited property value increased by 10%, or (2) 25% of the difference between the previous year's limited value and the current year's full cash value. For properties that were physically modified, erroneously omitted, or split, subdivided, or consolidated since the prior year's property tax rolls, or new, the limited property value will be at a level or percentage of the full cash value comparable to the ratio of other similar properties (usually equal to the full cash value). These values are generally used to levy primary property taxes. Classes 1 and 2 properties and producing oil, gas, and geothermal resource interests are not subject to the limited property value.

(Continued)

## General Property Tax

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Most properties are valued as described above, except for some exceptions. The following is a breakdown by property type and how each is valued:

*Real Property.* The value used for such property, except centrally-valued properties but including mobile homes, depends on the type of property tax (see A.R.S. § 42.201.02):

- Primary Property Tax - apply the limited property value.
- Secondary Property Tax - apply the full cash value.

*Personal Property.* Full cash value is used for both primary and secondary property taxes. This is true for secured and unsecured personal property (see A.R.S. § 42-201.02(G)).

**NOTE:** A.R.S. Title 42, Chapter 3, Article 5 dealing with possessory interest taxes was repealed by Laws 1995, Chapter 294, effective retroactive to January 1, 1995.

*Mobile Homes.* For mobile homes with a model year of 1980 or earlier, the limited property value determined for tax year 1980 serves as the base value in computing the limited property value for all subsequent tax years. The method as described under limited property value is then applied to this base value to determine the limited value for the current tax year. For such mobile homes with a model year after 1980, the limited property value is established at a percentage of full cash value comparable to that of other mobile homes (see A.R.S. § 42-201.02(F) and A.R.S. § 42-640).

*Centrally Valued Properties.* Generally, these are geographically dispersed and complex properties often located in more than one county and/or state. These properties are typically valued at full cash value for both primary and secondary property taxes. The following is a list of such properties in which a special valuation method is described:

- Mines and oil, gas, and geothermal energy producing properties - A.R.S. § 42-143.
- Gas, water, and electric utilities and pipelines - A.R.S. § 42-144 to A.R.S. § 42-144.02.
- Airline flight property - A.R.S. § 42-704.
- Railroad property - A.R.S. § 42-762.
- Private car companies - A.R.S. § 42-471.
- Telecommunications property - A.R.S. § 42-793.
- Private Car Companies - A.R.S. § 42-745.

A.R.S. § 42-150. *Equalization.* In 1987, the Legislature authorized the Department of Revenue to examine property valuations for inequities between or within counties or classifications and to issue biennial equalization orders to ensure that all property in the state is valued for tax purposes at its full cash value. The department shall notify the Governor, President of the Senate, and the Speaker of the House of Representatives of any equalization orders. County Assessors or any taxpayer affected by this order may appeal to the State Board of Tax Appeals (see A.R.S. § 42-173).

*Exemptions.* The following statutes list where the various exemptions are found:

- A.R.S. § 42-271 - most exemptions are detailed here.
- A.R.S. § 42-274.01 - certain raw or unfinished materials or inventory held for resale.
- A.R.S. § 42-631 - personal property in transit through the state or in transitory storage in Arizona.
- A.R.S. § 42-642(E) - licensed out-of-state mobile home owned by a bona fide tourist.
- A.R.S. § 42-642(F) - trailers of not more than 8 feet in width and 32 feet in length and not used for a place of residence or commercial purposes.
- Arizona Constitution, Article 9, Section 2 - household goods owned by the user solely for non-commercial purposes and property owned by certain widows, widowers, veterans, and disabled.
- Arizona Constitution, Article 20, Section 5 - property owned by Indians, when located within an Indian reservation or has been acquired under an act of Congress.

(Continued)

## **General Property Tax**

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### **TAX RATE**

The tax rates for primary and secondary property taxes are determined by each individual taxing jurisdiction. The state collects a primary property tax of \$2.20 per \$100 net assessed value (NAV) on property not located within any school district, and also collects the "Minimum QTR" tax of up to \$2.20 per \$100 NAV on property in certain school districts which receive no state aid. There is also a state-mandated "county equalization" tax (\$0.53 per \$100 NAV on all property) that is collected by the counties and used to fund the school funding formula. The school funding formula assumes that districts levy \$4.40 per \$100 NAV (\$2.20 for elementary and \$2.20 for high school); although the districts are allowed to set their rates within limits set by the state, in most districts the combined rate (unified or elementary + high school) is at least \$4.40.

**NOTE:** Airline flight properties and private car companies are levied at the statewide average combined tax rate—see these taxes elsewhere in the Tax Handbook.

### **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).

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 the twelfth, producing oil, gas, and geothermal energy properties, is 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 defines the percentage of full cash value or limited property value that is subject to taxation.

(Continued)

## General Property Tax

### 1998 PROPERTY TAX CLASSES AND ASSESSMENT RATIOS

<u>Class</u>	<u>Assessment Ratio</u>	<u>Property Usage</u>
Class One <sup>1/</sup>	26%	Mines and mining claim property and standing timber trees.
Class Two <sup>1/</sup>	26%	Local telecommunications, gas, water, electric utility company property, pipeline company, and producing oil and gas property property.
Class Three (R)	25%	Real property and improvements of commercial or industrial property not included in other classes.
Class Three (P)	0% of first \$50,000 and 25% over	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)	0% of first \$50,000 and 16% over \$50,000	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	24% in tax year 1998 <sup>2/</sup>	Railroad, private car, and airline flight property.
Class Eight	5%	Special zones. <sup>3/</sup>
Class Nine	Same as Class 3 <sup>4/</sup>	Property that meets the criteria for Class 3 property and also meet the criteria for commercial historic property.
Class Ten	Same as Class 6 <sup>4/</sup>	Property that meets the criteria for Class 6 property and also meet the criteria for commercial historic property.

<sup>1/</sup> Phases down by 1% per year, from 30% in tax year 1994 to 25% in tax year 1999 and thereafter.

<sup>2/</sup> Set annually by the director of DOR and determined by formula (see A.R.S. § 42-227(A)(7)).

<sup>3/</sup> Includes noncommercial historic property, property located within a foreign trade zone or subzone, military reuse zone, or enterprise 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)).

<sup>4/</sup> Modifications to restore historic property are taxed at 1% for up to 10 years.

*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 table above.

(Continued)

## **General Property Tax**

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### **TAX ADMINISTRATION**

A.R.S. § 42-141. *State Assessment Duties.* The Department of Revenue values all centrally valued properties such as utilities, airlines, railroads, and mines. These values are established by June 15, except for private car companies, which are established by October 15 of each year.

A.R.S. § 42-221. *County Assessment Duties.* The fifteen county assessors are responsible for the valuation of all properties not valued by the state. The assessor establishes initial values for the *following* tax year for existing properties by March 1. The taxpayer then has 60 days to appeal to the assessor. The assessor must rule on these appeals by August 15. The property owner then has 25 days to appeal to the County Board of Supervisors (or the State Board of Equalization in the case of Maricopa and Pima counties). The county board or state board must rule on these appeals by October 15. If the taxpayer still is unsatisfied with the result, he or she has 60 days to appeal to the state tax court.

In the case of new construction, the assessor establishes initial values by September 30. The taxpayer has 25 days to appeal to the assessor. The assessor must rule by November 15. The taxpayer then has 60 days to appeal to the tax court.

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 (see 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 of the tax year, unless the total amount of tax due is \$50 or less in which case the full amount of the tax is due, and delinquent after November 1. The remaining one-half of the tax is due on March 1 of the year following the tax year, and delinquent after May 1. Both of these payments fall in the same fiscal year.

### **DISTRIBUTION**

Revenues from the unorganized-district tax and the Minimum QTR tax are deposited in the General Fund. Otherwise, every jurisdiction just collects what it levies.

(Continued)

## **General Property Tax**

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### **EXHIBIT**

#### **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:

(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 \$2.20, 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 that offers high school subjects:*

- The rate normally levied for primary property taxes is reduced by 35% or \$4.40, whichever is less.

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 that 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.

#### 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.

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 pro-rated 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.

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.

(Continued)

## **General Property Tax**

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**NOTE:** Since tax year 1989, mobile homes without an affidavit of affixture are charged an additional assessment rate of \$0.005 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 jurisdiction, the tax rate for unsecured property is the rate that was levied on real and secured property in that jurisdiction 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.

### 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.
- 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 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

Same as the Real Property Tax.

(Continued)

## General Property Tax

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### 1996, 1997, AND 1998 TAX LAWS

**Laws 1996, Chapter 21** provided youth shelters that would have been eligible for a property tax exemption for tax year 1994, but which neglected to claim the exemption, with a refund of taxes paid for that year. Any property taxes due, but not paid by a youth shelter, will be forgiven and stricken from the tax roll. (Effective July 20, 1996)

**Laws 1996, Chapter 22** eliminated the requirement that a taxpayer file a claim for an exemption of constitutionally exempt inventory, materials, livestock, poultry, aquatic animals, or colonies of bees. (Effective July 20, 1996)

**Laws 1996, Chapter 93** expanded military reuse zone property tax incentives to cover firms which provide aviation and aerospace services, in addition to firms engaging in aviation or aerospace manufacturing. The act provided that real and personal property and improvements of qualifying companies are now assessed at a 5% rate (class eight) instead of the former 25% rate (class three). (Effective April 5, 1996)

**Laws 1996, Chapter 100** included interest and penalties in the total amount due on a property that may be compromised by the County Board of Supervisors. The County Board of Supervisors is allowed to compromise property taxes, along with interest and penalties, when the total amount due on a property exceeds the value of a property. (Effective July 20, 1996)

**Laws 1996, Chapter 119** altered the payment schedule and delinquent date for property taxes. Taxpayers are allowed the option of making their entire property tax payment by December 31, rather than paying in biannual installments, without becoming delinquent on the first half's payment. (Effective January 1, 1996)

**Laws 1996, Chapter 305** continued the property tax exemption for nonprofit charitable community service organizations. It clarified that community service organizations that serve the indigent and afflicted can claim an exemption from the property tax. The act also allowed veterans' organizations that qualify as charitable organizations and use their property predominately for purposes relating to veterans to claim a property tax exemption. The terms *indigent* and *afflicted* were defined. (Effective July 20, 1996)

**Laws 1996, Chapter 332** specified that for the purposes of determining constitutional debt limitation, taxable property is defined as the net assessed value of property. The value of a jurisdiction's taxable property is used to calculate its allowable debt limit. (Effective July 20, 1996)

**Laws 1996, Chapter 344** reduced the property tax levied on small manufacturing businesses certified by the Department of Revenue and located in enterprise zones from a 25% rate (class three) to a 5% rate (class eight). The act extended this property tax reclassification program to June 30, 2001. (Effective January 1, 1996)

**Laws 1996, Chapter 366** modified the procedure for valuing shopping centers by limiting the use of market comparison methods. The cost method (replacement cost less depreciation) is the preferred method for determining the valuation of a shopping center. However, a taxpayer may elect to use the income method to appeal a valuation computed under the cost method. In this event, the reviewing body is authorized to determine the value of the shopping center by using whichever of the following methods is closest to a fair market value:

1. Income data other than the "straight line building residual" method, if the taxpayer can provide credible data derived from properties that are comparable to his property.
2. The cost method.
3. Market comparisons, if there have been any comparable sales within the past two years. (Effective January 1, 1996)

**Laws 1996, 7th Special Session, Chapter 2** made numerous property tax reforms and reductions. The act eliminated the \$0.47 per \$100 net assessed valuation state rate and the statute authorizing it, and reduced the "qualifying tax rate" (QTR) used in the state school funding formula from \$4.72 per \$100 of net assessed valuation to \$4.40 for unified districts, and from \$2.36 to \$2.20 for elementary and high school districts.

(Continued)

## **General Property Tax**

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It also reduced the base for the minimum QTR tax on school districts that do not receive state aid from 85% of the QTR to 50% of the QTR, but extended the application of the tax from classes one and two to all classes of property. In addition, oil and gas producing property was moved from class C (100% assessment ratio) to class two (27% assessment ratio).

This law also introduced a new property tax deferral program for the elderly, with these characteristics:

1. To defer property tax on a residence, an individual must be at least 70 years old, have lived on the property for the last 6 years or in Arizona for the last 10, and have no interest in any other real property, and the total taxable income of everyone living in the residence must be \$10,000 or less.
2. The residence must: a) be the taxpayer's primary residence, b) not be income-producing, c) not be subject to a mortgage or other security interest, d) be current on all property taxes, and e) have a full cash value of \$150,000 or less.
3. The deferred taxes accumulate interest at an annual rate of two points higher than the earnings rate on the local government investment pool (LGIP), rounded up to the next full point (e.g., if the LGIP gets 5.23%, the interest rate on the deferred taxes is 8%). The total amount of deferred taxes plus interest on the property cannot exceed 90% of the property's full cash value. The certificates of deferral must be sold to the County Treasurer or State Treasurer.
4. The total amount of deferred taxes plus interest is due a) within one year if the taxpayer dies without a surviving spouse, or b) within 120 days if the taxpayer moves, if the property becomes income producing, or if the property is sold or transferred to someone else. (Effective October 17, 1996)

**Laws 1996, 7th Special Session, Chapter 4** changed the valuation schedule of centrally valued property (CVP), mostly mines, utilities, and railroads, to conform more to the schedule in effect for locally assessed property. Specifically, it required the Department of Revenue (DOR) to send notices of value to CVP owners by June 15. The owner has until July 15 to appeal, and DOR must rule by August 31. The owner has until December 15 to appeal DOR's ruling to the Superior Court, or until October 1 to appeal to the State Board of Equalization. In this case, the State Board of Equalization must rule by November 15.

Among other technical changes and clarifications, the bill allowed taxpayers, county assessors, and DOR to appeal decisions by the County Boards of Equalization in appeals of personal property in the same manner as real property, and established that relevant income data in the valuation of shopping centers (see Chapter 366 above) is for the three most recent fiscal years. (Effective October 17, 1996)

**Laws 1996, 7th Special Session, Chapter 5** was the companion bill to Proposition 101, which passed in November 1996 and amended the State Constitution to allow the Legislature to exempt the first \$50,000 of a taxpayer's class three (commercial) and class four (agricultural) personal property from taxation. The assessment ratio on class three and class four properties was reduced from a rate of 1% to 0% (exempt) contingent on the passage of Proposition 101. The Department of Revenue is required to annually adjust the size of the exemption (initially \$50,000) based on a price index. (Effective January 1, 1997)

**Laws 1997, Chapter 11** eliminated the requirement that annexations of adjacent land by fire districts or sanitary districts include a petition and impact statement. Now annexation requires only the written assent of the property owner and the approval of the district governing body. (Effective July 21, 1997)

**Laws 1997, Chapter 19** allowed an individual who purchases property listed as class three (commercial) or class four (agricultural), but then occupies it as a residence, to request to have the parcel reclassified as class five (residential) property from the date of conversion. Persons who purchased or converted property that was listed as class three and paid property taxes according to this classification for the 1995 or 1996 tax years, but actually used the property as a residence, are eligible for a refund of taxes paid on the difference in classification. A petition for refund must be filed by September 15, 1997. (Effective January 1, 1995)

(Continued)

## General Property Tax

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**Laws 1997, Chapter 61** provided a definition of *cleanrooms* and clarified that cleanrooms used for manufacturing, processing, fabrication, or research and development of semiconductor products are to be valued and assessed as tangible personal property. The bill codified the historical administrative practice of valuing and assessing cleanrooms. (Effective July 21, 1997)

**Laws 1997, Chapter 150** recodified Title 42 of the Arizona tax code, which regards property, transaction privilege, use, and luxury taxation. The bill made numerous technical changes, removed references to gender, and restructured and renumbered several statutes. It provided that the interpretation of the tax code is not to be changed solely due to changes made by the recodification. Immunities, exemptions, claims, proceedings, etc. that existed before the recodification are to remain in effect. (Effective January 1, 1999)

**Laws 1997, Chapter 274** required truth in taxation hearings be held if the proposed primary property tax levy of a school district, excluding the amount produced by levying the qualifying tax rate and for career ladder and optional performance incentive programs, is greater than the amount levied by the jurisdiction in the preceding tax year. Hearing notification requirements are prescribed to inform district property owners of the proposed tax increase. (Effective July 21, 1997)

**Laws 1998, Chapter 29** required fire districts to use any secondary property tax funds remaining after bond issues have been paid off to reduce their property tax levies (for operating purposes) in the following fiscal year. (Effective August 21, 1998)

**Laws 1998, Chapter 49** codified current practice by classifying the property of airport fuel delivery companies as class 2 (utilities). (Effective December 31, 1998)

**Laws 1998, Chapter 93** prohibited the removal, discharge, or abatement of tax liens on property acquired by political subdivisions without permission of the County Board of Supervisors, and required that tax liens on property acquired by political subdivisions be enforced in the same manner as all other tax liens. (Effective December 31, 1998)

**Laws 1998, Chapter 153** required "truth in taxation" hearings for the "qualifying tax rate" (QTR) and "county equalization" tax rate used in the school funding formula. If these two rates are projected to generate more revenue (actually an offset to state spending) than in the prior year, excluding increases for new construction, then the Joint Legislative Tax Committee must hold a hearing. It requires a two-thirds vote for the Legislature to adopt QTR and county equalization rates higher than the computed "truth in taxation" rates which would generate the same amount of revenue as in the prior year. (Effective December 31, 1998)

**Laws 1998, Chapter 160** increased the threshold for mandating a single payment of a taxpayer's property tax liability to \$50. Prior to the passage of this bill, any property tax liability of \$25 or less had to be paid in one single payment by October 1. (Effective December 31, 1998)

**Laws 1998, Chapter 172** changed the property tax classification of employer-owned, rent-free housing for agricultural workers from class four (agricultural) to class six (residential rental). (Effective December 31, 1998)

**Laws 1998, Chapter 174** shifted the burden of proof in issues of fact arising in taxpayer appeals to tax court to the Department of Revenue (DOR) so long as the taxpayer complies with reasonable DOR requests for witnesses, information, and documents within the taxpayer's control. (Effective December 31, 1998)

**Laws 1998, Chapter 261** made numerous technical changes to the appeals process and increased the exemption for class five (owner-occupied residential) property owned by widows, widowers, and disabled people to \$3,000 if the property's assessed value is \$10,000 or less (at a 10% assessment ratio). The income threshold to qualify for the exemption was raised from \$8,400 to \$13,200 ordinarily, or from \$12,000 to \$18,400 if the taxpayer lives with a dependent son or daughter who is under 18 or totally disabled. (Effective December 31, 1998)

**Laws 1998, Chapter 275** provided a property tax exemption for fraternal organizations recognized under section 501(c)(10) of the Internal Revenue Code if the property is (1) used predominantly for charitable, religious, or educational purposes and

(Continued)

## General Property Tax

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(2) not held for profit, and if (3) no alcohol is served on the premises. Section 501 (c)(10) covers domestic fraternal societies organized under the lodge system which use their net earnings exclusively for religious, charitable, scientific, literary, educational, or fraternal purposes and which do not provide life, health, or accident insurance.

(Effective December 31, 1998)

**Laws 1998, Chapter 286** reclassified real property used specifically to respond to the release or threatened release of environmentally hazardous substances as class eight (special zones). (Effective December 31, 1998)

**Laws 1998, Chapter 3, 4th Special Session** had two property tax provisions:

1. The exemption for the first \$50,000 of class three (commercial) or class four (agricultural) personal property was changed from the first \$50,000 owned by a taxpayer, regardless of how many locations at which the taxpayer may own personal property, to the first \$50,000 at each business location.
2. The accelerated depreciation schedule for class three and class four personal property was modified as follows. Figures shown are percentages of scheduled depreciated value:

<u>Year of assessment</u>	<u>Previous Law</u>	<u>New Law</u>
1	40%	35%
2	56%	51%
3	72%	67%
4	88%	83%

(Effective December 31, 1998)

## GOVERNMENT PROPERTY LEASE EXCISE TAX

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	Not Applicable
	1996-97	\$977,226
	1997-98 Est.	\$988,269
DISTRIBUTION: See Distribution section below.		

### DESCRIPTION

The Government Property Lease Excise Tax (GPLET) is levied on entities that lease the property of a city, town, county, or county stadium district for commercial or industrial purposes for at least 30 days.

### WHO PAYS THE TAX

A.R.S. § 42-1902. Government lessors collect the tax annually on prime lessees who use or occupy the government property.

### EXEMPTIONS

A.R.S. § 42-1961. The following are exempt from the GPLET:

1. Property used for government purposes or public housing.
2. Easements and rights-of-way for railroads and utilities.
3. Public athletic and recreational facilities.
4. Aviation-related interests at public airports, airlines' use of runways and terminals at public airports, and toll roads.
5. Indian trust lands.
6. Government contractor property.
7. Interest in property used by a chamber of commerce.
8. Property used by tax-exempt organizations under section 501(c)(3) of the Internal Revenue Code.
9. Parking garages owned and operated by the government lessor, or operated on behalf of the government lessor by an entity other than the prime lessee.
10. Residential rentals occupied by the prime lessee.
11. Municipal property corporations.

Also, cities are required to abate the tax for eight years for property located in a redevelopment area, if the property's lease or development agreement was entered into on or after April 1, 1985 and if it resulted or will result in an increase in property value of at least 100%. These abatements are restricted to projects within a single central business district within the redevelopment area; other projects outside the single business district but still within the redevelopment area will pay 80% of the tax. The eight-year abatement includes periods of abatement under prior law. Also, the law repealed the 1995 prohibition on political subdivisions from converting taxable property to nontaxable status for redevelopment purposes.

### TAX BASE AND RATES

A.R.S. § 42-1903. The tax rates are as follows:

\$1.00 per square foot for one-story office buildings.  
\$1.25 per square foot for office buildings from 2 to 7 stories.

(Continued)

## **Government Property Lease Excise Tax**

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\$1.75 per square foot for office buildings with 8 or more stories.  
\$1.50 per square foot for retail or hotel/motel buildings.  
\$0.75 per square foot for warehouse or industrial buildings.  
\$0.50 per square foot for residential rental buildings.  
\$100 per parking space for parking garages.  
\$1.00 per square foot for any other building.

Lessees pay a percentage of the above rates dependent on when the original certificate of occupancy was issued, according to the following schedule:

10 to 20 year-old leases: 80% of the rate.  
20 to 30 year-old leases: 60% of the rate.  
30 to 40 year-old leases: 40% of the rate.  
40 to 50 year-old leases: 20% of the rate.  
50 or more year-old leases: no tax.

Leases entered into after June 30, 1996 located outside a designated redevelopment area: 150% of the rate.

Government property improvements subject to pre-April 1, 1985 leases or agreements, or government improvements at rural (county population under 400,000 prior to 1988) county or city airports: 20% of the rate.

### **PAYMENT SCHEDULE**

A.R.S. § 42-1904. The tax is due and payable annually on or before December 1.

### **DISTRIBUTION**

A.R.S. § 42-1905. The distribution of the tax is: 13% to the county general fund; 7% to the city, if applicable; 7% to the community college district, if applicable; and 73% to the school district not within a high school district (or 36.5% each to the high school and elementary district), if applicable. If inapplicable, proceeds are split proportionally among the other entities.

### **1996, 1997, AND 1998 TAX LAWS**

**Laws 1996, Chapter 349** established the government property lease excise tax (GPLET) to replace the old possessory interest property tax classification (covering private improvements on public property), which was repealed in 1995 after being ruled unconstitutional. It instituted the basic structure outlined in the overview section. (Effective December 1, 1996)

**Laws 1997, Chapter 274** expanded the exemptions from the GPLET to include concession stands directly related and incidental to government owned entertainment or convention facilities. (Effective July 20, 1996)



## **CHAPTER V**

### **PAYMENTS IN LIEU OF PROPERTY TAXES**



## VEHICLE LICENSE TAX

TAX YIELD:	<u>Fiscal Year</u>	<u>Gross Collections</u>
	1995-96	\$480,300,608
	1996-97	\$552,348,715
	1997-98 Est.	\$586,835,092

DISTRIBUTION OF VEHICLE LICENSE TAX			
<u>Fiscal Year</u>	<u>State General Fund</u>	<u>State Highway Fund</u>	<u>Local Governments</u>
1995-96	\$148,052,662	\$ 92,854,115	\$239,393,831
1996-97	\$164,261,493	\$112,782,815	\$275,304,407
1997-98 Est.	\$168,833,230	\$121,324,834	\$296,677,028

### 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.

### 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. § 28-5801. *Taxable Value.* The vehicle license tax is levied on the assessed value of each vehicle. Effectively, the tax is levied on 10 classes of vehicles:

- (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:

(Continued)

## **Vehicle License Tax**

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### **Classes 1 through 8**

During the first 12 months of the life of the vehicle (as determined by its initial registration) the assessed value of the vehicle is 60% of the manufacturer's base retail price. During each succeeding 12-month period, the assessed value of the vehicle is 16.25% less than the assessed value for the preceding 12-month period.

### **Class 9 and Class 10**

During the first 12 months of the life of the vehicle (as determined by its initial registration) the assessed value of the vehicle is 1% of the manufacturer's base retail price. During each succeeding 12-month period, the assessed value of the vehicle is 15% less than the assessed value for the preceding 12-month period. (See A.R.S. § 28-5804, 28-5805)

If a class 9 vehicle is temporarily used for purposes other than as a school bus, the taxable value is determined in the same manner as class 1-8 vehicles. The tax is then assessed and collected monthly in an amount equal to one-tenth of the calculated annual vehicle license tax for each full month the vehicle is operated for other purposes. (See A.R.S. § 28-5804)

A.R.S. § 28-5802. *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 exempt 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. § 28-5803. *Disabled.* A vehicle owned by a resident who receives disability payments under Title 16 of the Social Security Act is exempt from the vehicle license tax. 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. § 28-5801. *Rate.* For classes 1 through 8, the vehicle license tax rate is \$3.35 per \$100 of assessed value for the first 12 months of the vehicle's life, and \$3.45 per \$100 of value thereafter. Exception: for noncommercial trailers that are not travel trailers and have a gross vehicle weight of less than 6,000 pounds the vehicle license tax is a one-time tax of \$105 on initial registration and is a one-time tax of \$70 on renewal of registration.

A.R.S. § 28-5804, 28-5805. *Rate.* For classes 9 and 10, the vehicle license tax rate is \$4 per \$100 of assessed value.

A.R.S. § 28-5801. *Minimum Tax.* For classes 1 through 8, the minimum amount of the vehicle license tax is \$10 per year for each vehicle subject to the tax.

A.R.S. § 28-5804, 28-5805. *Minimum Tax.* For class 9 and class 10 vehicles, the minimum vehicle license tax is \$5 per year.

### **PAYMENT SCHEDULE**

A.R.S. § 28-5801. *Due Date.* Due and collected annually at the time of vehicle registration. Exception: depending on eligibility, owners of vehicles may participate in a two-year vehicle registration program and prepay the vehicle license tax for the following year.

*Collections.* The Arizona Department of Transportation collects tax payments and fees.

(Continued)

## **Vehicle License Tax**

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### **DISTRIBUTION**

A.R.S. § 28-5801. *Vehicle License Tax*. Monies received by the Director of the Department of Transportation from this tax are distributed as follows:

- 37.61% to the Highway User Revenue Fund.
- 5.73% to the State Highway Fund.
- 13.31% to the State General Fund in FY 1999, and 10.85% in FY 2000 and each fiscal year thereafter.
- 43.35% to local government funds in FY 1999, and 45.81% in FY 2000 and each fiscal year thereafter.<sup>1/</sup>

### **1996, 1997, AND 1998 TAX LAWS**

**Laws 1996, Chapter 264** required 100% disabled veterans to submit documentation certifying their eligibility for an exemption from the vehicle license tax only on the initial registration of a vehicle. (Effective July 20, 1996)

**Laws 1996, Chapter 365** changed the distribution of the Vehicle License Tax (VLT). Previously, of the 68.5% of VLT collections that did not go to the Highway User Revenue Fund (HURF), 20% was designated to the state General Fund for general purposes. Under this act, that percentage will decline to:

18% in FY 1996-97.	16.6% in FY 1997-98.
15% in FY 1998-99.	12% in FY 1999-2000 and thereafter.

Every year, starting with FY 1996-97, an additional 2% of VLT monies is to be deposited in the State Highway Fund. In FY 1996-97, a cap of \$6 million is established, with any remaining revenue going back to the General Fund.

Beginning in FY 1997-98, a portion of the non-HURF revenue will be deposited in a special fund to be shared among the counties in proportion to each county's share of the statewide population living in unincorporated areas (i.e., not within any city limits), as follows:

1.4% in FY 1997-98.	3.0% in FY 1998-99.
6.0% in FY 1999-2000 and thereafter.	

The counties are allowed to spend these funds in the same manner as they spend their HURF allocations. (Effective July 1, 1996)

**Laws 1998, Chapter 267** required that if the Department of Transportation's authorized share of federal surface transportation program monies in each year is more than \$42 million, the director shall transfer from the State Highway Fund's share of vehicle license tax collections to the Local Transportation Assistance Fund an amount equal to 1.64% of total vehicle license tax collections or the difference between \$42 million and the state's share of the federal surface transportation program monies, whichever is less. (Effective August 21, 1998)

**Laws 1998, 4th Special Session, Chapter 3** reduced the assessment rate from \$4 to \$3.35 per \$100 of value for the first 12 months of the life of a vehicle and to \$3.45 thereafter. Furthermore, the annual depreciation rate was accelerated from 15% to 16.25%. To offset the loss in vehicle license tax collections, and to hold other VLT recipients harmless, the General Fund's share of collections was reduced from 27.40% to 13.31% in FY 1999 and from 25.35% to 10.85% in FY 2000 and beyond. The distribution percentages for the Highway User Revenue Fund, the State Highway Fund, and the local government funds were modified to accommodate the hold harmless intent of the legislation and to simplify the distribution mechanism. (Effective August 1, 1998)

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<sup>1/</sup> Local government funds also receive 49.5% of collections deposited into the Highway User Revenue Fund.

## FLIGHT PROPERTY TAX

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$18,564,298
	1996-97	\$17,679,764
	1997-98 Est.	\$15,165,878

<u>DISTRIBUTION OF FLIGHT PROPERTY TAX</u>		
<u>Fiscal Year</u>	<u>State General Fund</u>	<u>Aviation Fund</u>
1995-96	\$0	\$18,564,298
1996-97	\$0	\$17,679,764
1997-98 Est.	\$7,582,939	\$ 7,582,939

### 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.

### WHO PAYS THE TAX

A.R.S. § 42-703 and A.R.S. § 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 per departure is used for valuation apportionment (see A.R.S. § 42-701). 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 and additional allowed obsolescence.

*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:

(Continued)

## Flight Property Tax

- 50% of the ratio of total in state ground time during the preceding calendar year to total systemwide 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.* 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 year 1998 is 24%. 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 in the table below.

<b><u>HISTORICAL AVERAGE PROPERTY TAX RATES</u></b> <b><u>PER \$100 OF ASSESSED VALUATION</u></b>			
<b><u>Fiscal</u></b> <b><u>Year</u></b>	<b><u>Sum of Average</u></b> <b><u>State Tax Rates</u></b>	<b><u>Primary</u></b> <sup>1/</sup>	<b><u>Secondary</u></b>
1998	\$13.26	\$9.44	\$3.82
1997	12.78	9.35	3.43
1996	12.51	9.00	3.51

<sup>1/</sup> SOURCE: Arizona Property Tax Rates and Assessed Valuations published by Arizona Tax Research Association.

### 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 \$50 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).

(Continued)

## **Flight Property Tax**

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*Collections.* The Department of Revenue.

### **DISTRIBUTION**

A.R.S. § 42-705(B). *State Aviation Fund and State General Fund.* Since FY 1998, half of all flight property tax revenue has been deposited in the state Aviation Fund and the other half in the state General Fund.

### **1996, 1997, AND 1998 TAX LAWS**

**Laws 1996, Chapter 275** modified the property tax valuation method for aircraft operating in Arizona. The act required the Department of Revenue to determine the value of flight property by applying a 15-year straight line depreciation schedule. Aircraft is depreciated from the original amount paid for the property or from the manufacturer's list price to salvage value (defined as 10% of original cost for aircraft out of production and 25% of original cost for aircraft still in production). The law also allows additional obsolescence when appropriate. (Effective January 1, 1996)

**Laws 1997, 1st Special Session, Chapter 3** changed the distribution of revenues from the flight property tax so that, starting in FY 1998, 50% of the revenues are deposited in the General Fund and the other 50% are deposited in the Aviation Fund. Previously all revenues from this tax were deposited in the Aviation Fund. (Effective June 26, 1997)



**VOLUNTARY CONTRIBUTIONS BY DISTRICTS**  
**(SALT RIVER PROJECT)**

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Net State Collections</u>
	1995-96	\$16,953,919
	1996-97	\$ 6,086,339
	1997-98 Est.	\$ 5,983,913
DISTRIBUTION: State General Fund		

1996, 1997, AND 1998 TAX LAWS

Laws 1996, 7th Special Session, Chapter 2 made numerous property tax reforms and reductions that lowered the tax burden on the districts. For a more complete discussion of the act, see the summary of the act in the "Property Tax" section. (Effective October 17, 1996)

**AIRCRAFT LICENSE TAX**

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$1,800,630
	1996-97	\$1,825,858
	1997-98 Est.	\$2,043,058
DISTRIBUTION: State Aviation Fund		

There were no changes enacted to this tax in 1996, 1997, or 1998.

## WATERCRAFT LICENSE TAX

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$1,596,016
	1996-97	\$1,634,369
	1997-98 Est.	\$1,683,698

<u>DISTRIBUTION OF WATERCRAFT LICENSE TAX</u>			
<u>Fiscal Year</u>	<u>Watercraft Licensing Fund</u>	<u>State Lake Improvement Fund</u>	<u>Law Enforcement and Boating Safety Fund</u>
1995-96	\$718,207	\$131,671	\$746,137
1996-97	\$735,466	\$134,835	\$764,067
1997-98 Est.	\$757,664	\$138,905	\$787,129

There were no changes enacted to this tax in 1996, 1997, or 1998.

## LIEU TAX ON PRIVATE CAR COMPANIES

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$1,641,634
	1996-97	\$1,525,854
	1997-98 Est.	\$1,494,821
<u>DISTRIBUTION: State General Fund</u>		

There were no changes enacted to this tax in 1996, 1997, or 1998.

## VOLUNTARY CONTRIBUTIONS BY MUNICIPALITIES

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$543,718
	1996-97	\$545,506
	1997-98 Est.	\$574,086

### DISTRIBUTION OF VOLUNTARY CONTRIBUTIONS BY MUNICIPALITIES

<u>Fiscal Year</u>	<u>La Paz County</u>	<u>Mohave County</u>	<u>Pinal County</u>
1995-96	\$156,256	\$46,233	\$341,229
1996-97	\$153,601	\$44,177	\$347,728
1997-98 Est.	\$186,860	\$43,436	\$343,791

There were no changes enacted to this tax in 1996, 1997, or 1998.

## BOULDER CANYON PROJECTS - IN LIEU PAYMENTS

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$200,000
	1996-97	\$0
	1997-98 Est.	\$400,000
DISTRIBUTION: State General Fund		

There were no changes enacted to this tax in 1996, 1997, or 1998.

**VOLUNTARY CONTRIBUTIONS BY THE**  
**GAME AND FISH COMMISSION**

<b>TAX YIELD:</b>	<b><u>Fiscal Year</u></b>	<b><u>Net Collections</u></b>
	1995-96	\$183,500
	1996-97	\$165,500
	1997-98 Est.	\$185,188
<b>DISTRIBUTION:</b> Taxing jurisdiction in which the property is located.		

There were no changes enacted to this tax in 1996, 1997, or 1998.

## **CHAPTER VI**

### **HIGHWAY USER TAXES**



## MOTOR VEHICLE FUEL TAX

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$369,058,121
	1996-97	\$373,986,908
	1997-98 Est.	\$374,672,782

<u>DISTRIBUTION OF MOTOR VEHICLE FUEL TAX COLLECTIONS</u>		
<u>Fiscal Year</u>	<u>Highway User Revenue Fund</u>	<u>Special Funds and Refunds</u>
1995-96	\$358,961,177	\$10,096,944
1996-97	\$363,953,161	\$10,033,747
1997-98 Est.	\$366,376,609	\$ 8,296,173

There were no changes enacted to this tax in 1996, 1997, or 1998.

## USE FUEL TAX

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Gross Collections</u>
	1995-96	\$114,779,960
	1996-97	\$124,748,225
	1997-98 Est.	\$142,166,607
<u>DISTRIBUTION: Highway User Revenue Fund</u>		

### 1996, 1997, AND 1998 TAX LAWS

**Laws 1997, Chapter 8** set the excise tax on use fuel for vehicles over 26,000 pounds at a rate of \$0.27 per gallon until July 1, 2000, when the rate is lowered to \$0.26 per gallon. This replaced the current excise tax of \$0.18 per gallon and the \$0.08 surcharge assessed on each gallon of use fuel. The act also increased the refund to a person who purchases use fuel in Arizona but consumes it in another state from \$0.01 to \$0.02. (Effective January 1, 1998)

## MOTOR CARRIER TAX

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$85,433,269
	1996-97	\$92,563,879
	1997-98 Est.	\$59,364,283

<u>DISTRIBUTION OF MOTOR CARRIER TAX</u>		
<u>Fiscal Year</u>	<u>Highway User Revenue Fund</u>	<u>Safety Enforcement and Transportation Infrastructure Fund</u>
1995-96	\$85,433,269	\$ 0
1996-97	\$90,185,552	\$2,378,327
1997-98 Est.	\$56,122,967	\$3,241,316

### 1996, 1997, AND 1998 TAX LAWS

**Laws 1996, Chapter 162** authorizes the Arizona Department of Transportation (ADOT) to abate all or part of a penalty assessed in conjunction with the motor carrier tax, provided that ADOT believes the person's failure to comply with the tax was reasonable and not from willful neglect. (Effective July 20, 1996)

**Laws 1996, Chapter 345** requires the Motor Vehicle Division to transmit all fees collected at the U.S.-Mexico border from the single-trip motor carrier tax to be deposited in the Safety Enforcement and Transportation Infrastructure Fund. Monies in the fund must be used in the following priorities:

1. Enforcement of commercial vehicle safety requirements within 25 miles of the U.S.-Mexico border.
2. Upgrades and maintenance of the transportation infrastructure within 25 miles of the border.
3. Construction and maintenance of transportation facilities comprising the state designated NAFTA corridor.  
(Effective July 20, 1996)

**Laws 1997, Chapter 8** replaced the motor carrier weight distance tax with an annual motor carrier fee payable at the time of registration for vehicles weighing between 26,001 and 80,000 pounds. The act also increased the highway use fee for commercial vehicles weighing less than 80,000 pounds and increased the single-trip permit fees for commercial vehicles from another state or country that are not eligible for annual registration. (Effective October 1, 1997)



## AVIATION FUEL TAX

TAX YIELD:	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$512,328
	1996-97	\$514,687
	1997-98 Est.	\$485,333
DISTRIBUTION: State Aviation Fund		

There were no changes enacted to this tax in 1996, 1997, or 1998.



## **CHAPTER VII**

### **LUXURY TAXES AND LICENSES**



## LUXURY TAX CIGARETTES AND TOBACCO

<u>TAX YIELD:</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$170,795,983
	1996-97	\$165,844,297
	1997-98 Est.	\$164,754,289

<u>DISTRIBUTION OF LUXURY TAX CIGARETTES AND TOBACCO</u>			
<u>Fiscal Year</u>	<u>State General Fund</u>	<u>Corrections Fund</u>	<u>Tobacco Tax &amp; Health Care Fund</u>
1995-96	\$45,461,621	\$6,206,673	\$119,127,689
1996-97	\$43,676,616	\$6,206,675	\$115,961,006
1997-98 Est.	\$44,443,108	\$6,206,674	\$114,104,507

### 1996, 1997, AND 1998 TAX LAWS

**Laws 1997, Chapter 26** allowed the Department of Revenue to enter into an interagency agreement with the Department of Transportation that authorizes Department of Transportation port-of-entry personnel to enforce the luxury tax on tobacco. (Effective July 21, 1997)

**Laws 1997, Chapter 150** recodified Title 42 of the Arizona tax code, which regards property, transaction privilege, use, and luxury taxation. The bill made numerous technical changes, removed references to gender, and restructured and renumbered several statutes. It provided that the interpretation of the tax code is not to be changed solely due to changes made by the recodification. Immunities, exemptions, claims, proceedings, etc. that existed before the recodification are to remain in effect. (Effective January 1, 1999)

## LUXURY TAX LIQUOR

TAX YIELD:	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$44,749,356
	1996-97	\$45,092,336
	1997-98 Est.	\$46,144,253

DISTRIBUTION OF LUXURY TAX LIQUOR					
<u>Fiscal Year</u>	<u>State General Fund</u>	<u>Corrections Fund</u>	<u>Wine Promotional Fund</u>	<u>Corrections Revolving Fund</u>	<u>Drug Treatment &amp; Education Fund</u>
1995-96	\$27,791,380	\$16,947,743	\$10,233	\$ 0	\$ 0
1996-97	\$23,663,919	\$17,051,956	\$ 9,542	\$1,242,158	\$3,124,761
1997-98	\$19,986,518	\$17,435,388	\$ 9,306	\$2,477,227	\$6,235,814

### DESCRIPTION

The Luxury Tax on Liquor is paid by wholesalers of spirituous, vinous, and malt liquors. 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 as provided for in A.R.S. § 43-206.

### WHO PAYS THE TAX

A.R.S. § 42-1205(B-D). *Taxpayers.* The Luxury Tax on Liquor is added to the sales price of liquor items 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 microbrewery 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 is the tax rate and base for each liquor type. A proportionate rate is applied to each liquor type for greater or lesser quantities:

- *Spirituous Liquor.* \$3 per gallon on each sealed container.
- *Vinous Liquor With High Alcohol Content.* \$0.25 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 \$0.25 per 8 ounces.
- *Vinous Liquors With Low Alcohol Content.* \$0.84 per gallon on each container of vinous liquor having an alcohol content of 24% or less, except cider.
- *Malt Liquor.* \$0.16 on each gallon of malt liquor or cider.

A.R.S. § 42-1201(B). *Exemptions.* Spirituous, vinous and malt liquors used for medicinal purposes and not suitable for beverage purposes are exempt from this tax.

(Continued)

## Luxury Tax on Liquor

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### 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). *Collections.* The Department of Revenue.

### DISTRIBUTION

A.R.S. § 42-1204(B-1). *State School Aid.* \$0.035 of the tax rate collected on each gallon of spirituous liquor and on each 8 ounces of vinous liquor with high alcohol content (greater than 24%) is used for state school aid.

A.R.S. § 42-1204.02(B). *Corrections Revolving Fund.* 3% of monies collected from spirituous liquor, and 7% of monies collected from all vinous liquor and malt liquor are deposited in a revolving fund of the Department of Corrections. This is effective through December 31, 1999.

A.R.S. § 42-1204.02(A,C). *Drug Treatment and Education Fund.* Through December 31, 1999, 7% of the monies collected from spirituous liquor, and 18% of the monies collected from all vinous liquor and malt liquor are deposited in the Drug Treatment and Education Fund. Beginning January 1, 2000, 10% of the monies collected from spirituous liquor, and 25% of the monies collected from all vinous liquor and malt liquor are deposited in this fund.

A.R.S. § 42-1204(B-2). *Corrections Fund.* 20% of the monies collected from spirituous liquor, and 50% of the monies collected from all vinous liquor and malt liquor are deposited in the Corrections Fund. This is effective through June 30, 2000.

A.R.S. § 42-1204(B-3). *Wine Promotional Fund.* 50% of monies collected from vinous liquor with low alcohol content attributable to domestic farm wineries or an in-state producer are deposited in the Arizona Wine Promotional Fund.

A.R.S. § 42-1204(B-4). *State General Fund.* All remaining tax monies after the above five distributions shall be deposited in the state General Fund.

### 1996, 1997, AND 1998 TAX LAWS

**Laws 1996, Chapter 78** reduced the luxury tax on cider from 84 cents per gallon to 16 cents per gallon. Cider is defined as vinous liquor made from normal alcoholic fermentation, and it includes the juice of apples, sparkling and carbonated cider, and cider made from condensed apple that contains not less than one-half of 1% and not more than 7% alcohol by volume. (Effective July 20, 1996)

**Laws 1997, Chapter 150** recodified Title 42 of the Arizona tax code, which regards property, transaction privilege, use, and luxury taxation. The bill made numerous technical changes, removed references to gender, and restructured and renumbered several statutes. It provided that the interpretation of the tax code is not to be changed solely due to changes made by the recodification. Immunities, exemptions, claims, proceedings, etc. that existed before the recodification are to remain in effect. (Effective January 1, 1999)

**Laws 1997, Chapter 246** changed the distribution of the luxury tax on liquor. The act allocated to the newly created Drug Treatment and Education Fund 7% of revenues collected from the luxury tax on spirituous liquors and 18% of revenues from the luxury taxes on vinous and malt liquors. On January 1, 2000, the fund is to receive 10% of revenues from the spirituous liquors tax and 25% of revenues from the vinous and malt liquor taxes. In addition, the act allocated to the Corrections Revolving Fund 3% of revenues collected from the spirituous liquors tax and 7% of revenues collected from the vinous and malt liquor taxes through December 31, 1999. (Effective January 1, 1997)

## ALCOHOLIC BEVERAGE LICENSES

TAX YIELD:	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$3,913,275
	1996-97	\$4,398,612
	1997-98 Est.	\$4,453,085

DISTRIBUTION OF ALCOHOLIC BEVERAGE LICENSE FEES						
<u>Fiscal Year</u>	<u>State General Fund</u>	<u>Department of Economic Security</u>	<u>Department of Health Services</u>	<u>Counties</u>	<u>Audit Surcharge</u>	<u>Enforcement Surcharge</u>
1995-96	\$3,222,863	\$58,675	\$38,425	\$311,742	\$82,920	\$198,650
1996-97	\$3,634,188	\$59,200	\$40,150	\$369,524	\$86,600	\$208,950
1997-98 Est.	\$3,698,356	\$53,050	\$38,500	\$358,599	\$88,880	\$215,700

### 1996, 1997, AND 1998 TAX LAWS

**Laws 1997, Chapter 150** recodified Title 42 of the Arizona tax code, which regards property, transaction privilege, use, and luxury taxation. The bill made numerous technical changes, removed references to gender, and restructured and renumbered several statutes. It provided that the interpretation of the tax code is not to be changed solely due to changes made by the recodification. Immunities, exemptions, claims, proceedings, etc. that existed before the recodification are to remain in effect. (Effective January 1, 1999)



## LUXURY TAX CANNABIS AND CONTROLLED SUBSTANCES

TAX YIELD:	<u>Fiscal Year</u>	<u>Net Collections</u>
	1995-96	\$105,741
	1996-97	\$ 49,110
	1997-98 Est.	\$ 40,263

DISTRIBUTION OF LUXURY TAX CONTROLLED SUBSTANCES		
<u>Fiscal Year</u>	<u>State General Fund</u>	<u>Anti-Racketeering Revolving Fund (RICO)</u>
1995-96	\$33,320	\$72,421
1996-97	\$20,817	\$28,293
1997-98 Est.	\$ 7,298	\$32,965

### 1996, 1997, AND 1998 TAX LAWS

**Laws 1997, Chapter 209** eliminated the luxury tax and revenue stamps assessed on cannabis and controlled substances. (Effective July 21, 1997)



## **CHAPTER VIII**

### **MISCELLANEOUS TAXES**



## UNEMPLOYMENT INSURANCE TAX

TAX YIELD:					
	<u>Fiscal Year</u>	<u>Total Collections</u>	<u>Unemployment Insurance Contributions</u>	<u>Reimbursement Payments In Lieu of Tax</u>	<u>Federal Reimbursements</u>
	1995-96	\$234,080,468	\$216,800,153	\$9,393,817	\$7,886,500
	1996-97	\$221,693,417	\$206,596,749	\$8,137,940	\$6,958,730
	1997-98 Est.	\$222,826,885	\$209,530,437	\$8,009,523	\$5,286,925
DISTRIBUTION: Unemployment Compensation Fund					

### 1996, 1997, AND 1998 TAX LAWS

**Laws 1998, Chapter 58** reduced employer contribution rates to the Unemployment Insurance Trust Fund and increased maximum weekly benefit amounts for eligible unemployed workers. Contributions for employers with positive reserve ratios are decreased by 10 percentage points, except for the "13% or more" reserve ratio rate, which is reduced by 5 percentage points. Contributions for employers with negative reserve ratios are reduced by 5 percentage points, except for the "13% or more" reserve ratio rate, which remains unchanged. The required income rate is reduced by 10 percentage points, and the minimum adjusted rate for employers is reduced from 0.1% to 0.05%.

The maximum weekly benefit amount for eligible unemployed workers is increased to \$195 for FY 1999 and \$205 for FY 2000 and thereafter. (Effective July 1, 1998)

## UNDERGROUND STORAGE TANK TAX

TAX YIELD:				
	<u>Fiscal Year</u>	<u>ADOT Collections</u>	<u>DEQ Collections</u>	<u>Net Collections</u>
	1995-96	\$24,624,400	\$1,017,200	\$25,641,600
	1996-97	\$23,056,300	\$ 974,800	\$24,031,100
	1997-98 Est.	\$25,349,481	\$ 874,153	\$26,223,634

### BREAKDOWN OF THE UNDERGROUND STORAGE TANK REVOLVING FUND

<u>Fiscal Year</u>	<u>Assurance Account</u>	<u>Regulatory Account</u>
1995-96	\$24,624,400	\$1,017,200
1996-97	\$23,056,300	\$ 974,800
1997-98 Est.	\$25,349,481	\$ 874,153

There were no changes enacted to this tax in 1996, 1997, or 1998.

## INTRASTATE UTILITY CORPORATION ASSESSMENT

### TAX YIELD:

<u>Fiscal Year</u>	<u>Utilities Division Net Collections</u>	<u>Residential Utility Consumer Office Net Collections</u>
1995-96	\$5,603,000	\$ 933,600
1996-97	\$6,021,300	\$1,021,500
1997-98 Est.	\$6,649,080	\$ 938,274

### DISTRIBUTION OF INTRASTATE UTILITY CORPORATION ASSESSMENT

<u>Fiscal Year</u>	<u>Utility Regulation Revolving Fund</u>	<u>Residential Utility Consumer Office Revolving Fund</u>
1995-96	\$5,603,000	\$ 933,600
1996-97	\$6,021,300	\$1,021,500
1997-98 Est.	\$6,649,080	\$ 938,274

There were no changes enacted to this tax in 1996, 1997, or 1998.

## WATER USE TAX

### TAX YIELD:

<u>Fiscal Year</u>	<u>Net Collections</u>
1995-96	\$1,842,707
1996-97	\$1,909,981
1997-98 Est.	\$1,891,072

DISTRIBUTION: Water Quality Assurance Revolving Fund (WQARF)

There were no changes enacted to this tax in 1996, 1997, or 1998.

## COMMERCIAL NUCLEAR GENERATING STATION ASSESSMENT

TAX YIELD:	<u>Fiscal Year</u>	<u>Total Collections</u>
	1995-96	\$850,091
	1996-97	\$878,374
	1997-98 Est.	\$880,824
DISTRIBUTION: State General Fund		

### 1996, 1997, AND 1998 TAX LAWS

**Laws 1996, Chapter 255** levied an assessment of \$850,091 in FY 1998, plus any applicable interest, against each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station. Each consortium is required to pay its assessment within one year.

The sum of \$850,091 was then appropriated from the state General Fund for FY 1998 to the Nuclear Emergency Management Fund in order to develop, maintain, and support the state response plan to an emergency at a commercial nuclear generating station. The money is to be used by the Division of Emergency Management of the Department of Emergency and Military Affairs, the Radiation Regulatory Agency, and to the departments and agencies of Maricopa County that have responsibilities under the off-site nuclear emergency response plan of the state. This act provides for a biennial cycle for the assessment levied against each consortium and for the appropriation to the Nuclear Emergency Management Fund. (Effective July 20, 1996)

**Laws 1997, Chapter 57** levied assessments of \$878,374 in FY 1998 and \$880,824 in FY 1999, plus any applicable interest, against each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station.

The sums of \$878,374 in FY 1998 and \$880,824 in FY 1999 were then appropriated from the state General Fund to the Nuclear Emergency Management Fund in order to develop, maintain, and support the state response plan to an emergency at a commercial nuclear generating station. The monies are to be used by the Division of Emergency Management of the Department of Emergency and Military Affairs, the Radiation Regulatory Agency, and to the departments and agencies of Maricopa County that have responsibilities under the off-site nuclear emergency response plan of the state. (Effective April 7, 1997)









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