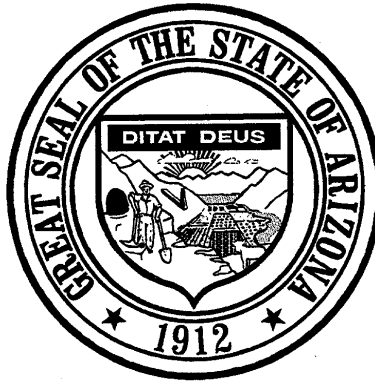


# STATE OF ARIZONA



## 2021 Tax Handbook

**JLBC**

Prepared by the Staff  
of the Joint Legislative Budget Committee

# CONTENTS

|   | <u>Page No.</u> |
|---|-----------------|
| Foreword .....  | i               |
| Overview of Arizona Taxes .....                           | ii              |
| <b>GENERAL FUND</b>                                       |                 |
| SALES AND USE TAXES                                       |                 |
| A. Transaction Privilege Tax.....                         | 1               |
| B. Use Tax .....  | 36              |
| C. Severance Tax on Metalliferous Minerals .....          | 39              |
| D. Jet Fuel Excise and Use Tax .....                      | 41              |
| INCOME TAXES  |                 |
| A. Individual Income Tax.....                             | 45              |
| B. Corporate Income Tax .....                             | 88              |
| APPENDIX A – Renewable Energy Tax Incentives .....        | 107             |
| APPENDIX B – Public and Private School Tax Credits.....   | 113             |
| APPENDIX C – Statutory Ending Dates of Tax Credits .....  | 115             |
| PROPERTY TAXES .....                                      | 117             |
| PAYMENTS IN LIEU OF PROPERTY TAXES                        |                 |
| A. In Lieu Tax on Private Railroad Car Companies .....    | 133             |
| B. Voluntary Contributions by Districts .....             | 135             |
| LUXURY TAXES AND LICENSES                                 |                 |
| A. Luxury Tax on Cigarettes and Tobacco .....             | 137             |
| B. Luxury Tax on Liquor .....                             | 144             |
| C. Alcoholic Beverage License Fees .....                  | 147             |
| INSURANCE PREMIUM TAX .....                               | 155             |
| OTHER GENERAL FUND REVENUE SOURCES                        |                 |
| A. Bingo License and Lieu Tax .....                       | 163             |
| B. Boulder Canyon Projects - In Lieu Payments .....       | 165             |
| C. Commercial Nuclear Generating Station Assessment ..... | 166             |
| D. Gaming Fees.....                                       | 169             |
| E. Unclaimed Property Collections .....                   | 173             |

## Contents

---

### OTHER FUNDS

#### PAYMENTS IN LIEU OF PROPERTY TAXES

|   |     |
|---|-----|
| A. Aircraft License Tax.....                                    | 179 |
| B. Flight Property Tax .....                                    | 182 |
| C. Voluntary Contributions by the Game and Fish Commission..... | 185 |
| D. Watercraft Registration Fee .....                            | 187 |
| E. Government Property Lease Excise Tax .....                   | 190 |

#### HIGHWAY USER TAXES/FEEES

|   |     |
|---|-----|
| A. Highway User Revenue Fund Overview ..... | 197 |
| B. Motor Vehicle Fuel Tax.....              | 204 |
| C. Use Fuel Tax.....                        | 207 |
| D. Vehicle License Tax.....                 | 209 |
| E. Motor Carrier Fee .....                  | 216 |
| F. Highway Safety Fee .....                 | 219 |

#### OTHER FUND REVENUE SOURCES

|  |     |
|--|-----|
| A. Aviation Fuel Tax .....                           | 221 |
| B. Hospital Assessment.....                          | 223 |
| C. Insurance Guarantee Fund Assessments.....         | 227 |
| D. Marijuana Excise Tax.....                         | 231 |
| E. Pari-Mutuel Tax .....                             | 233 |
| F. Telecommunications Services Excise Tax .....      | 239 |
| G. Tribal Gaming Contributions.....                  | 241 |
| H. Underground Storage Tank Tax.....                 | 245 |
| I. Unemployment Insurance Tax.....                   | 250 |
| J. Utility Corporation Assessments .....             | 259 |
| K. Water Use Tax .....                               | 262 |
| L. Workers' Compensation Insurance Premium Tax ..... | 264 |

|   |     |
|---|-----|
| APPENDIX D - Fiscal Impact of Statutory Tax Changes ..... | 267 |
|---|-----|

## FOREWORD

The 2021 Tax Handbook provides a description of each state tax and certain other revenue categories. The Handbook also includes a 20-year history of the collections and distributions for each revenue category, as well as summaries of all statutory revisions between the 2015 and 2021 legislative sessions. A listing of statutory changes prior to the 2015 legislative session is available on the Joint Legislative Budget Committee (JLBC) website located at <https://www.azilbc.gov/21taxbook/21taxbk.pdf>. Appendix D provides the estimated dollar value of individual tax law changes enacted by the Legislature since FY 1989.

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

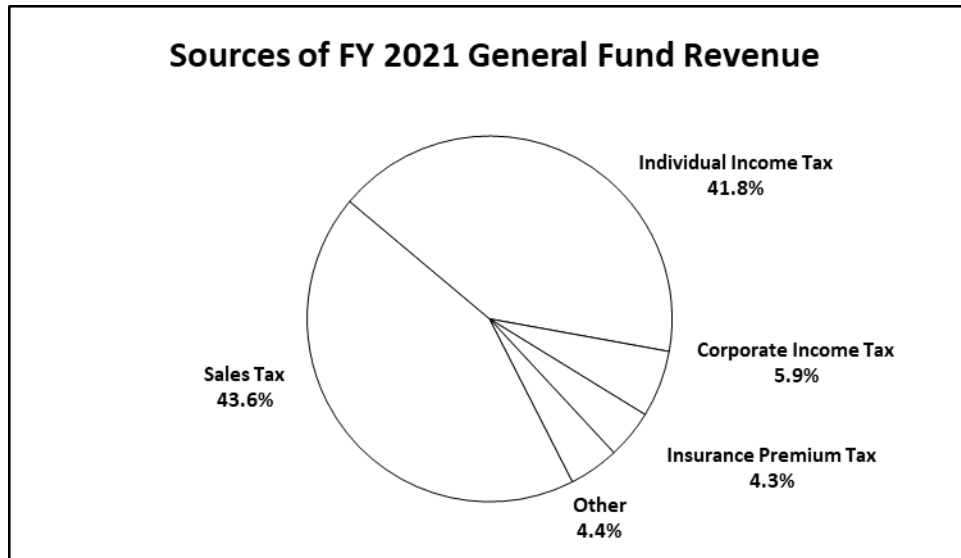
Each entry in the Tax Handbook includes the following sections (where applicable):

- Description – a comprehensive narrative description of the tax or revenue source.
- Distribution – a 20-year history of collections and a description of how the tax is distributed by fund or shared with other jurisdictions such as cities and towns.
- Who Pays – a description of who is legally responsible for the payment of the tax or fee.
- Revenue Base and Rate – a definition of the tax base, a discussion of exemptions, if any, and a description of the tax rate(s).
- Tax Refunds and/or Credits – a description of circumstances under which tax refunds are made, and/or credits are allowed.
- Payment Schedule – due dates, delinquency dates, and payment schedules, as well as an explanation of how the tax or fee is remitted to the state.
- Impact of Statutory Changes – includes statutory changes from 2015 through 2021. As noted above, statutory changes prior to 2015 are available on the JLBC website.

## OVERVIEW OF ARIZONA TAXES

The revenues from Arizona's different taxes are deposited in a number of funds. The largest fund is the General Fund. In FY 2021, ongoing General Fund revenue was \$14.9 billion. This amount excludes urban revenue sharing and one-time financing sources.

While revenues from numerous taxes are deposited in the General Fund, 4 taxes constitute the bulk of General Fund collections: sales tax, individual income tax, corporate income tax, and insurance premium tax. In FY 2021, these 4 taxes represented 95.6% of ongoing General Fund revenue. As shown in the chart below, the largest category in FY 2021 was the sales tax, which represented 43.6% of General Fund revenue collections. After adjusting for the impact of the deferral of the tax-filing due date from April 15, 2020 to July 15, 2020, individual income tax, corporate income tax, and insurance premium tax represented 41.8%, 5.9%, and 4.3% respectively, of General Fund revenue.



The state levies many other taxes, fees, and assessments. Some of the other taxes generate sizable amounts of revenue, but their collections are not deposited in the General Fund. For example, the motor vehicle fuel tax generated \$508 million in FY 2021 and the unemployment insurance tax generated \$496 million. However, these collections were deposited in the Highway User Revenue Fund and the Unemployment Compensation Fund, respectively.

This handbook provides a listing and description of the taxes levied by the State of Arizona. Additionally, it shows the amount of revenue collections and tax distributions by fund.

## **SALES AND USE TAXES**

# TRANSACTION PRIVILEGE TAX

## DESCRIPTION

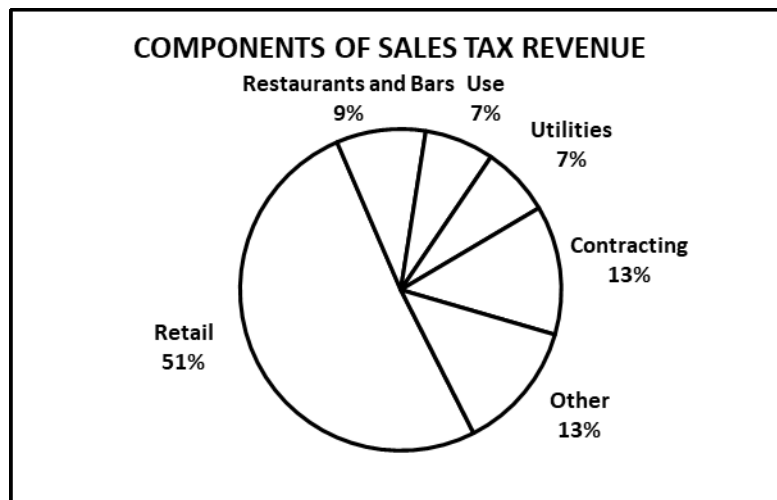
The transaction privilege tax (TPT) is a gross receipts tax levied by the State of Arizona on certain persons for the privilege of conducting business in the state. Although TPT is commonly referred to as Arizona's sales tax, it differs from the "true" sales tax imposed by many other states as it is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

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

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

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

*Chart 1* illustrates the relative importance of the major TPT categories. Retail is the largest TPT category and comprised 51% of total state sales tax collections in FY 2021. Other large categories are restaurants and bars, prime contracting, and utilities.



TPT is the state's single largest revenue source, representing 44% of total General Fund revenues in FY 2020, after adjusting for the impact of the 2020 income tax deferral. A significant portion of state sales tax revenues is shared with the counties and cities. This revenue sharing occurs through the distribution base, described in further detail in the *Distribution* section below.

## Transaction Privilege Tax

---

In November 2000, voters approved Proposition 301, which authorized the state to levy an additional 0.6% sales tax exclusively dedicated to education through June 30, 2021. The 0.6% education tax is not subject to the regular TPT distribution. As a result of Proposition 301, the general state TPT rate was increased from 5.0% to 5.6%, beginning in June 2001. The 0.6% education tax generated \$935.9 million in FY 2021. Since the 0.6% cent Proposition 301 expired at the end of FY 2021, Laws 2018, Chapter 74 extended the tax to June 30, 2041 through a state statute rather than by the ballot. Chapter 74 slightly revised the distribution formula for the funds.

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

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

There are 3 statutes that authorize county governments to levy a transportation excise tax. All such statutes provide the allowed amount as a percentage of the state TPT rate (which is 5%) and require county voters to approve any taxes.

A.R.S. § 42-6105 permits a transportation excise tax of up to 0.5% to be levied within Maricopa County. A.R.S. § 42-6106 permits the Regional Transportation Authority (RTA) of any county other than Maricopa to levy a transportation excise tax of up to 0.5%.

A.R.S. § 42-6107 permits counties to levy an additional 0.5% in transportation excise taxes. These collections, however, must be deposited pursuant to A.R.S. § 28-6397, which is restricted to counties with populations of 400,000 or less. Maricopa and Pima counties, therefore, are not able to levy the additional 0.5% under this provision.

Laws 2019, Chapter 50 amends A.R.S. § 42-6106 to permit the RTA of any county other than Maricopa to levy a tax rate of up to 20% of the state TPT rate, or 1.0%. As noted above, the 1.0% rate cap includes levies under both A.R.S. § 42-6106 and A.R.S. § 42-6107. Because all counties other than Maricopa and Pima already can levy a rate of up to 1.0% (0.5% under A.R.S. § 42-6106 plus 0.5% under A.R.S. § 42-6107) and A.R.S. § 42-6106 excludes Maricopa County, Chapter 50 only affects Pima County.

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

### DISTRIBUTION

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

*Distribution.* The Department of Revenue (DOR) transmits all sales tax revenues to the State Treasurer, separately accounting for payments of estimated taxes, the transient lodging tax, transaction privilege and severance taxes on mining and timber collected from businesses located on Indian reservations, and education sales taxes. The aforementioned tax collections have dedicated uses. All other sales tax revenues are credited to a clearing account. A portion of transaction privilege and severance taxes referred to as the distribution base is designated for distribution to



## Transaction Privilege Tax

---

counties, cities, and other purposes pursuant to A.R.S. § 42-5029(D)(4). (The allocation of distribution base monies to special purposes is described on the following pages.) After the required distributions to counties, cities, and other special purposes, remaining distribution base monies are credited to the General Fund (see *Table 1 and Table 4*). The portion of sales tax revenues (non-shared) not designated to the distribution base is directly credited to the General Fund.

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

Revenues collected from the 0.6% tax go directly toward education programs. For a more extensive discussion of the specific uses of education tax revenues, please refer to the Department of Education – Basic State Aid Formula Summary section of the *FY 2022 Appropriations Report*.

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

- 25% is paid to the cities in proportion to their population based on the last U.S. decennial census [A.R.S. § 42-5029(I)], special census [A.R.S. § 42-5033], or the most recent annual population estimates by the U.S. Census Bureau [A.R.S. § 42-5033.01].
- 40.51% is paid to the counties according to the formula described below.
- The remaining 34.49% is retained by the state and used to make various allocations and appropriations specified by statute. (General Fund retains the distribution base monies that remain after the required allocations and appropriations.)

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

1. 38.08% of the total TPT distribution base is calculated.
2. 2.43% of the total TPT distribution base is calculated.
3. Each county's share of the 38.08% portion of the TPT distribution base is calculated using an average of percent of total point-of-sale and percent of total net assessed valuation for secondary property taxes.
4. Each county's share of the 38.08% portion of the TPT distribution base is calculated using an average of percent of total point-of-sale and percent of total population based on the last U.S. decennial census [A.R.S. § 42-5029(I)], special census [A.R.S. § 42-5033], or an approved mid-decade population estimate [A.R.S. § 42-5033.01]. (For more details, see Laws 2016, Chapter 258.)
5. The shares that each county would receive under the 2 previous steps are compared, with the larger of the 2 amounts selected for each county. The "new" amounts are added for all 15 counties to determine the difference between this total and the sum of the 38.08% proportions. This difference is subtracted from the sum of the 2.43% proportions calculated in Step 2.
6. Any monies remaining from the 2.43% portion are distributed among all 15 counties based on Step 4's combined percentage. Add the amount for each county from this step to the total for each county from Step 5 to get the total amount to be distributed to each county for the month.

The remaining 34.49% of distribution base revenue is allocated to various purposes as provided by A.R.S. § 42-5029(D)(4), including expansion of the Phoenix Convention Center, school capital finance, multipurpose facilities, construction of a bridge and improvement of a highway at Phoenix International Raceway, the Tourism and Sports Authority (TSA) and certain public infrastructure improvements. The TSA's share of distribution base monies is equal to

## Transaction Privilege Tax

the amount of sales taxes collected at the State Farm Stadium. In addition, some monies are transferred to the Water Quality Assurance Revolving Fund, as required by A.R.S. § 49-282. After these distributions have been made, the remainder is credited to the General Fund. From this amount, the following distributions are subject to appropriation:

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

**Table 1**

### **COLLECTIONS AND DISTRIBUTION \***

| <u>Fiscal Year</u> | <u>General Fund</u> | <u>Cities</u> | <u>Counties</u> | <u>Proposition 301</u> | <u>Proposition 100</u> | <u>Total</u>    |
|--------------------|---------------------|---------------|-----------------|------------------------|------------------------|-----------------|
| 2021               | \$6,243,506,106     | \$687,052,658 | \$1,113,300,127 | \$935,934,330          | \$142,456              | \$8,979,935,677 |
| 2020               | \$5,391,912,921     | \$589,351,732 | \$954,985,547   | \$808,452,299          | \$376,358              | \$7,745,078,857 |
| 2019               | \$5,096,751,256     | \$561,049,351 | \$909,124,368   | \$760,874,328          | \$128,605              | \$7,327,927,908 |
| 2018               | \$4,787,462,504     | \$528,094,832 | \$855,724,866   | \$712,903,811          | \$184,694              | \$6,884,370,707 |
| 2017               | \$4,506,407,358     | \$496,532,025 | \$804,580,493   | \$670,788,089          | \$(246,291)            | \$6,478,061,674 |
| 2016               | \$4,313,942,592     | \$476,773,305 | \$772,563,464   | \$645,012,218          | \$198,681              | \$6,208,490,260 |
| 2015               | \$4,189,263,497     | \$459,176,964 | \$744,050,353   | \$626,400,822          | \$1,760,338            | \$6,020,651,974 |
| 2014               | \$3,985,881,580     | \$437,628,967 | \$709,133,978   | \$601,853,602          | \$8,422,920            | \$5,742,921,047 |
| 2013               | \$3,778,863,746     | \$411,117,897 | \$666,175,440   | \$567,824,410          | \$962,171,977          | \$6,386,153,470 |
| 2012               | \$3,652,165,656     | \$392,475,912 | \$635,967,967   | \$542,394,529          | \$915,835,541          | \$6,138,839,605 |
| 2011               | \$3,448,016,988     | \$373,259,250 | \$604,829,288   | \$514,345,951          | \$864,501,708          | \$5,804,953,185 |
| 2010               | \$3,422,528,509     | \$356,997,763 | \$578,479,176   | \$513,589,704          |                        | \$4,871,595,152 |
| 2009               | \$3,756,407,238     | \$387,050,618 | \$627,176,822   | \$558,899,709          |                        | \$5,329,534,387 |
| 2008               | \$4,353,564,848     | \$447,060,657 | \$724,417,089   | \$645,827,821          |                        | \$6,170,870,415 |
| 2007               | \$4,457,494,716     | \$462,037,141 | \$748,684,984   | \$666,184,022          |                        | \$6,334,800,863 |
| 2006               | \$4,273,358,451     | \$439,120,139 | \$711,550,274   | \$628,471,192          |                        | \$6,052,500,056 |
| 2005               | \$3,661,168,623     | \$376,212,970 | \$609,615,497   | \$538,346,435          |                        | \$5,185,343,525 |
| 2004               | \$3,294,788,319     | \$340,535,844 | \$551,804,282   | \$487,214,807          |                        | \$4,674,343,252 |
| 2003               | \$3,033,877,715     | \$316,406,294 | \$512,704,759   | \$447,841,034          |                        | \$4,310,829,802 |
| 2002               | \$3,000,431,898     | \$311,693,101 | \$505,067,501   | \$439,004,543          |                        | \$4,256,197,043 |

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

### Multipurpose Facility Districts

Laws 1997, Chapter 297 expanded existing legislation that authorized county stadium districts to include multipurpose facilities, defined as facilities located in the district to accommodate sporting, entertainment, cultural, civic, and convention events and meetings. The legislation also expanded the ability to form a district to 2 or more municipalities located within a county and authorized these districts to generate TPT revenue. If a district were to construct a facility, the state would divert one-half of the state TPT revenues generated at the facility from the General Fund to the district.

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

## Transaction Privilege Tax

---

components, public parks, plazas, and some commercial facilities. Chapter 162 was effective retroactively from July 1, 1998.

### *Rio Nuevo*

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

### Background

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

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

### Creation of the Rio Nuevo Multipurpose Facility District

Tucson voters approved Proposition 400 in November 1999, establishing the Rio Nuevo Multipurpose Facilities District from 1999 to 2009. The ballot information for Proposition 400 described Rio Nuevo as a development project of cultural and recreational amenities and improvements, historical recreations, and mixed-use developments. The District's limits begin west in downtown where the primary component multipurpose facility, the Tucson Convention Center, is located. From downtown, Rio Nuevo then stretches east along the Broadway Corridor encompassing the District's secondary component businesses. Management responsibilities were given to a District Board made up of 4 Directors appointed by the Tucson City Council. Through FY 2021, Rio Nuevo has received a total of \$205.9 million in TPT distributions from the state (See *Table 2*). Laws 2006, Chapter 376 extended the period Rio Nuevo could receive these payments from 10 years to 25 years (to July 1, 2025).

### Reconstituted Rio Nuevo District

Laws 2009, Chapter 3 reconstituted the District board by replacing the 4-Director body appointed by the city council with one made up of 9 Directors appointed by the Governor and the Legislature. In addition, Chapter 3 provided that Rio Nuevo would receive state TPT diversions only through July 1, 2025 or the time of last debt service payment, whichever would come first. Laws 2018, Chapter 138 extends the due date for the district to operate and receive state TPT distributions to July 1, 2035, or upon the completion of authorized debt service payments, whichever occurs later.

Prior to Chapter 138, the district was authorized to use state TPT distributions to service debt on bonds issued by the district before January 1, 2009. The same authority applied to contractual obligations incurred by the district before January 1, 2009. Chapter 138 extended such authority to bonds issued before January 1, 2025 and contractual obligations incurred before January 1, 2025. However, Chapter 138 was further amended by Laws 2018, Chapter 189, which reinstituted the prior provisions that authorize state TPT distributions only to service debt on bonds or contractual obligations issued before January 1, 2009. State TPT payments to the Rio Nuevo District are shown in the *Table 2* below:

## Transaction Privilege Tax

---

Table 2

| <u>Fiscal Year</u> | <u>Distributions</u> |
|--------------------|----------------------|
| 2021               | \$9,525,698          |
| 2020               | \$14,478,796         |
| 2019               | \$15,958,879         |
| 2018               | \$13,562,705         |
| 2017               | \$13,988,471         |
| 2016               | \$13,008,813         |
| 2015               | \$6,958,022          |
| 2014               | \$9,486,100          |
| 2013               | \$9,755,752          |
| 2012               | \$11,957,943         |
| 2011               | \$14,099,949         |
| 2010               | \$8,727,318          |
| 2009               | \$10,399,336         |
| 2008               | \$15,456,187         |
| 2007               | \$14,974,923         |
| 2006               | \$10,968,178         |
| 2005               | \$7,469,632          |
| 2004               | <u>\$5,081,197</u>   |
| <b>Total</b>       | <b>\$205,857,899</b> |

Source: DOR, Annual Reports

### *Phoenix Convention Center Expansion*

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

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

The state's obligation for the Phoenix Convention Center project is to pay the debt service and related costs on \$300 million of construction bonds. Pursuant to Laws 2003, Chapter 266, the state's obligation was to begin in the first fiscal year after the Certificate of Completion for the project was filed with the State Treasurer, which occurred on March 25, 2009. Under A.R.S. § 9-602D, as added by Chapter 266, the State Treasurer was required to transfer \$5 million in debt payments from the ACCDF to the City of Phoenix in the first year (FY 2010), \$10 million in the second year (FY 2011), \$15 million in the third year (FY 2012), and \$20 million in the fourth year (FY 2013). Beginning in the fifth year (FY 2014), the debt payments would increase by \$500,000 annually up to a maximum of \$30 million per year until debt service and related costs would be retired.

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

### *Public Infrastructure Improvements*

Beginning on October 1, 2013, Laws 2012, Chapter 328 authorizes the State Treasurer to pay state prime contracting tax revenues generated from qualifying projects to a municipality or county in order to fund up to 80% of the costs of public infrastructure improvements (roads, water and wastewater facilities) needed to support the activities of a manufacturing facility [A.R.S. § 42-5032.02]. The total amount of state tax dollars paid to cities and counties statewide under Chapter 328 is capped at \$50 million over 10 years. Laws 2021, Chapter 80 extends the public infrastructure improvements program from September 30, 2023 to September 30, 2033.

## Transaction Privilege Tax

---

In order for a city or county to receive state prime contracting tax monies, the manufacturing plant must make certain minimum capital investments depending on its location (\$500 million in Maricopa and Pima and \$50 million in all other counties). The State Treasurer was not allowed to make any payments to a city or county before July 1, 2014. The total amount of statewide distributions to cities and counties was limited to \$5 million in FY 2015. The first distributions under the program started in July 2019. Distributions for public infrastructure improvements totaled \$9,723,983 in FY 2020 and \$3,396,721 in FY 2021.

Monies for public infrastructure improvements are distributed from the state and local share of prime contracting taxes generated from qualifying projects. Chapter 328 requires DOR to account separately for prime contracting tax revenues generated from qualifying public infrastructure improvements. While DOR is authorized to disclose information to cities and counties regarding the distribution of monies associated with public infrastructure improvements, Chapter 328 prohibits DOR and the relevant local government entities from disclosing such information to the public.

Laws 2017, Chapter 340 makes several changes to the program, beginning January 1, 2018, including the following: (1) provides that prime contracting tax revenues used for purposes of public infrastructure improvement not be distributed until 10% of the qualifying capital investment has been made by the manufacturing facility, (2) requires the manufacturing facility to file a sworn certification with the Arizona Commerce Authority (ACA) within 180 days after commencement of buildings and associated improvements, and (3) requires the manufacturing facility and the county or municipality to enter into a written agreement before submitting the certification to ACA.

### WHO PAYS

#### Individuals and Businesses

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

*"Post-Wayfair" Internet Taxation.* On June 21, 2018, the Supreme Court of the United States (SCOTUS) overruled in *South Dakota v. Wayfair Inc.* a previous decision made by the same court on May 26, 1992 in *Quill Corp. v. North Dakota*, which had required a business with a physical presence inside a state to collect sales tax on transactions conducted over the Internet. While SCOTUS overruled the physical presence ("nexus") requirement under *Quill*, it retained the nexus test under its 1977 ruling on *Complete Auto Transit v. Brady*. Under the *Complete Auto* ruling, SCOTUS outlined the conditions to determine whether a state violates the U.S. Commerce Clause. This is effectively a 4-part test that requires the following elements:

1. Substantial nexus (there must be sufficient connection between a taxpayer and the state).
2. Fair apportionment (the state must not tax more than its fair share of the income of the taxpayer).
3. No discrimination (the state must not treat out-of-state taxpayers differently than in-state taxpayers).
4. Services (the tax must be fairly related to the services provided to the taxpayer by the state).

In its June 21, 2018 *Wayfair* ruling, SCOTUS noted that that South Dakota's Senate Bill (SB) 106 satisfied the substantial nexus requirement under *Complete Auto*. (South Dakota's SB 106 expanded the state's sales tax nexus beyond the physical presence requirements set forth in *Quill* and it was the legal challenge of this bill that was brought before SCOTUS in *South Dakota v. Wayfair Inc.*) Although the *Wayfair* ruling did not directly address all the Commerce Clause tests under *Complete Auto* (as it relates to SB 106), the Court noted that "South Dakota's tax system includes several features that appear designed to prevent discrimination against or undue burden upon interstate commerce." Specifically, the Court referenced: (1) SB 106's "safe harbor" provision under which annual sales in South Dakota must exceed \$100,000 or include 200 or more transactions for substantial nexus to exist, (2) no retroactive tax clause included in the legislation, and (3) that South Dakota has adopted the Streamlined Sales and Use Tax Agreement (SSUTA). Under SSUTA, states agree to a set of "ground rules" to standardize the imposition and administration of sales and use taxes, including a single, state-level administration of taxes, a simplified tax rate structure, and uniform definitions and rules.

At the end of the 2019 Regular Session, Arizona enacted its own "Wayfair" provisions under Laws 2019, Chapter 273. Beginning October 1, 2019, Chapter 273 establishes the economic nexus thresholds under which an out-of-state

## Transaction Privilege Tax

---

business is required to collect and remit tax on retail sales in Arizona, which are as follows:

- If the out-of-state business does not conduct sales through a marketplace facilitator, economic nexus applies if sales in Arizona exceed \$200,000 in calendar year (CY) 2019, \$150,000 in CY 2020, and \$100,000 in CY 2021 and thereafter.
- If the out-of-state business is a marketplace facilitator, economic nexus applies if sales in Arizona from the marketplace facilitator's own business or on behalf of at least one marketplace seller exceed \$100,000 in the calendar year.

Besides establishing the state's economic nexus threshold requirements, Chapter 273 also added new language in state statutes with respect to the municipal tax treatment of retail sales, as outlined below.

- Requires municipal ordinances and other local laws related to the taxation of retail sales to be superseded by the state's transaction privilege tax statutes for the retail classification.
- Provides cities and towns the option to levy a transaction privilege tax on the sale of:
  1. Food for home consumption
  2. Textbooks required by a state university or community college sold at bookstores
  3. Livestock and poultry feed, salt, vitamins and other additives used in the business of farming and ranching
  4. Nonmetalliferous mined materials sold at retail
  5. Works of fine art
  6. Motor vehicles sold to nonresidents or enrolled members of an Indian Tribe.
- Allows a city or a town to continue to levy an existing transaction privilege tax, which was levied on or before May 1, 2019, on the sale of:
  1. Propagative materials, including fertilizers
  2. Implants used as growth promotants and injectable medicine for livestock or poultry
  3. Animals such as horses, sheep, and goats used as breeding or production stock.Depending on the size of its population, a municipality can continue levying a tax on these products either through December 31, 2019 (if population is more than 50,000) or through June 30, 2021 (if population is 50,000 or less).
- Provides cities and towns the option to exempt from tax the sale of paintings, sculptures, or similar works of fine art by the original artists.
- Provides that the Legislature will not move any sales tax classifications other than retail from the Model City Tax Code to state statute for a period of 5 years from the effective date of the act.

*"Pre-Wayfair" Internet Taxation.* The following section discusses the extent to which transactions conducted on the Internet were subject to sales tax under the state practices (*"pre-Wayfair"*) in place prior the enactment of Laws 2019, Chapter 273. This includes the *"pre-Wayfair"* Arizona policy with respect to 3 different Internet sales scenarios, as outlined below.

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

## Transaction Privilege Tax

---

3. A consumer buys something on the Internet from an out-of-state company that has no presence whatsoever in Arizona. Since the vendor has no nexus in Arizona, the purchaser is required to pay the use tax.

### Tribal Members and Businesses

Pursuant to Laws 2021, Chapter 443, Indian tribal members or companies engaged in business activities on the reservation are not subject to the sales tax. This exclusion applies to affiliated Indian members who have been adopted into the tribe and who have attained full and unrestricted membership privileges in that tribe.

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

A.R.S. § 42-5122 lists the following exemptions regarding sales to Indian tribes, tribally owned businesses, or tribal entities:

1. Business activities performed by an Indian tribe, a tribally owned business, a tribal entity, or an affiliated Indian if the business activity takes place on an Indian reservation.
2. Business activities performed by a nonaffiliated Indian or non-Indian vendor on an Indian reservation for an Indian tribe, a tribal entity or an affiliated Indian.
3. Contracting activities performed on an Indian reservation by an Indian tribe, a tribally owned business, a tribal entity or an affiliated Indian.
4. Contracting activities performed for an Indian tribe, a tribally owned business, a tribal entity, or an affiliated Indian on an Indian reservation by a nonaffiliated Indian or non-Indian contractor.
5. Retail sales of tangible personal property to an Indian tribe, a tribally owned business, a tribal entity or an affiliated Indian if the sale of tangible personal property takes place on an Indian reservation. A sale is deemed to take place on an Indian reservation if the tangible personal property is ordered from and delivered on an Indian reservation.
6. The sale of a motor vehicle to an enrolled member of an Indian tribe who resides on the Indian reservation established for that Indian tribe.

These exemptions had already been in practice since DOR issued Arizona Transaction Privilege Tax Ruling 95-11 (TPR 95-11) in April 1995. Laws 2021, Chapter 443 essentially codified these exemptions in statute.

### **REVENUE BASE AND RATE**

In general, the tax base is the gross proceeds of sales or gross income derived by a person from a taxable business. However, there are variations between the tax bases of the different classifications of the TPT, as specified in A.R.S. § 42-5061 - A.R.S. § 42-5076. Notably, the contracting tax has a unique tax base. The tax base for contractors is 65% of the value of a contract, based on the assumption that labor costs represent 35% of the value of a contract [A.R.S. § 42-5075]. Note, however, Laws 2014, Chapter 263 provides that prime contractors are not subject to tax from the gross sale proceeds or gross income resulting from contracts for the maintenance, repair, replacement or alteration (MRRA) of real property, if such contracts do not include modification activity.

*Exemptions.* There are numerous TPT and use tax exemptions provided in statute, such as exemptions for food and medicine. The effect of these exemptions is to reduce the size of the tax base. Beginning in calendar year 2015, DOR began using a specific deduction code for each TPT and use tax exemption. According to DOR, the total number of TPT deductions increased from 1 in 1952 to 345 in 2017, the most recent year for which such information was provided. See *Table 4* for specific tax exemption statutes for each TPT classification.

The primary type of business exempt from TPT in Arizona are those that provide services. If those services are not included in 1 of the 16 TPT classifications shown in *Table 4*, they are not subject to TPT, and therefore DOR does not assign them a deduction code.

Attached at the end of this section is the Transaction Privilege and Use Tax Expenditures section of DOR's publication, *The Revenue Impact of Arizona's Tax Expenditures, FY 2020*. This document provides a complete list of all statutory tax

## Transaction Privilege Tax

---

exemptions and their deduction code, as well as a list of services that are excluded from TPT. *Table 3* below lists exemptions and exclusions with an estimated revenue impact of at least \$400 million in FY 2020. The complete list of tax expenditures is shown in *Attachment A* at the end of *Transaction Privilege Tax* section.

| <b>Table 3</b>  |                                 |
|---|---------------------------------|
| <b>THE FY 2020 DOLLAR VALUE OF MAJOR SALES TAX EXEMPTIONS</b>         |                                 |
| <b>Exemptions</b>   | <b>Collections at a 5% Rate</b> |
| Wholesale Trade   | \$5,878,128,381                 |
| Health Care Services  | 2,549,698,218                   |
| Professional, Scientific and Technical Services                       | 1,241,520,944                   |
| Financial Services  | 543,907,784                     |
| Administrative and Business Support Services                          | 1,201,158,033                   |
| Prescription Drugs and Medical Oxygen                                 | 1,200,846,620                   |
| Food for Home Consumption   | 686,467,994                     |
| Commercial Lease  | 507,023,323                     |
| Other   | <u>4,538,585,764</u>            |
| <b>Total</b>  | <b>\$18,347,337,061</b>         |
| Source: DOR, The Revenue Impact of Arizona's Tax Expenditures FY 2020 |                                 |

**Tax Rates.** Once the net tax base is computed, it is multiplied by the applicable tax rate to derive the total tax due. The tax rates vary according to the business classification of the taxable activity. Most categories, however, are taxed at the rate of 5.6%. *Table 4* lists the tax rate for each classification.

### TAX REFUNDS AND/OR TAX CREDITS

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

**Accounting Credit.** Taxpayers are allowed to claim a tax credit against their sales taxes for the expenses incurred for accounting and reporting those taxes. Pursuant to Laws 2017, Chapter 60, the amount of the accounting credit depends on whether the taxpayer files a paper return or uses electronic filing. For taxpayers that file paper returns, the credit is 1.0% of the tax due, not to exceed \$10,000 in any calendar year. For taxpayers that file electronically, the credit is 1.2% of the tax due, not to exceed \$12,000 in any calendar year [A.R.S. § 42-5017].

### PAYMENT SCHEDULE

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

**Delinquency Dates.** For taxpayers that are required or elect to file and pay electronically, tax payments are delinquent if not received by DOR on or before the last business day of the month. (A business day is any day except Saturday, Sunday, or a legal Arizona state holiday.) For taxpayers that file by mail or in person, tax payments are delinquent if not received by DOR on or before the business day preceding the last business day of the month [A.R.S. § 42-5014].

**Penalties.** Any return that is not filed timely is subject to a late filing penalty. The late filing penalty is the greater of 4.5% of the tax reported on the return, or \$25. The penalty is added to the tax for each month or fraction of a month elapsing between the due date of the return and the date on which the return is filed. The total penalty cannot exceed the greater of 25% of the tax due, or \$100 [A.R.S. § 42-1125].

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



## Transaction Privilege Tax

- Taxpayers with an estimated annual tax liability of \$2,000 or less may pay on an annual basis.
- Taxpayers with an estimated annual tax liability of between \$2,000 and \$8,000 may pay on a quarterly basis.
- Taxpayers whose business is of a “transient character” may be required to pay on a daily, weekly, or transaction-by-transaction basis.

**Electronic Tax Filing and Payment Requirements.** Any business that has 2 or more locations or operates under 2 or more business names is required to file and pay their taxes electronically. All other businesses have the option to enroll to file and pay electronically. Laws 2017, Chapter 60 requires that businesses with an annual tax liability of at least \$10,000 in Calendar Year (CY) 2019 file and pay their taxes electronically. Chapter 60 lowers the tax liability threshold for electronic filing and payments from \$20,000 to \$10,000 in CY 2019, \$5,000 in CY 2020, and \$500 in CY 2021 and subsequent years [A.R.S. § 42-5014].

**Estimated Tax Payments.** Taxpayers who pay income taxes and whose business had a combined tax liability for transaction privilege, telecommunication services excise, and county excise taxes in the preceding calendar year (or can reasonably anticipate a liability of such taxes) of \$1.6 million or more must make a single estimated advance payment in June of each year. Normally, the full June tax bill would be due on July 20. This estimated payment is in addition to the regular June sales tax liability (which represents May sales). Laws 2010, 7<sup>th</sup> Special Session, Chapter 12 lowered the threshold for estimated TPT payments from \$1.0 million in annual sales tax liability to \$100,000 for FY 2010 through FY 2012. Prior to FY 2007, the threshold for estimated payments was \$100,000. Laws 2006, Chapter 351 increased the threshold to \$1.0 million. Laws 2019, Chapter 290 increases the liability threshold for the June estimated payment from \$1.0 million to \$1.6 million in 2020, \$2.3 million in 2021, \$3.1 million in 2022, and \$4.1 million in 2023 and each year thereafter. In FY 2020, the increase of the liability threshold from \$1.0 million to \$1.6 million was estimated to result in a one-time General Fund revenue loss of \$(10.3) million. The one-time revenue losses in FY 2021 through FY 2023 are estimated to be approximately \$(10.0) million annually [A.R.S. § 42-5014].

Table 4

### TRANSACTION PRIVILEGE TAX CLASSIFICATIONS

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

<sup>1/</sup> Represents the portion of revenues that is designated for the distribution base.

<sup>2/</sup> Represents the portion of revenues that is designated for the non-shared base.

<sup>3/</sup> Represents the portion of revenues that is designated for education.

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

## Transaction Privilege Tax

---

When the Estimated Payments program was first enacted in 1989 (pursuant to Laws 1989, 2<sup>nd</sup> Special Session, Chapter 1), the estimated payments provided a one-time increase of state revenues by advancing a portion of the next fiscal year's revenues into the current fiscal year. If the program were ever eliminated, as is periodically proposed, it would result in a one-time loss of state revenues. This is because every July, taxpayers make a "claim" for the preceding month's estimated payment and every June, taxpayers make a counterbalancing estimated payment. Eliminating the June payment leaves the July claim without a counterbalance – and the state with a one-time revenue loss.

*Collections.* DOR was originally required (pursuant to Laws 2013, Chapter 255) to become the single point for licensing, filing tax return, and paying state, county, and municipal TPT, beginning January 1, 2015. However, due to the complexity of incorporating the cities' requirements into DOR's information technology system, the full implementation of this requirement did not begin until January 1, 2017.

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

#### 2021 LAWS

**Laws 2021, Chapter 67** makes changes to how Classroom Site Fund (CSF) monies generated from the 0.6% education sales tax are allocated by school districts and charter schools. (Effective September 29, 2021)

**Laws 2021, Chapter 80** extends the public infrastructure improvements program under A.R.S. § 42-5032.02 by 10 years, from September 30, 2033 to September 30, 2043.

**Laws 2021, Chapter 220** establishes the guidelines for insurance requirements, safety, and taxation of peer-to-peer (P2P) car sharing transactions using an online platform that connects vehicle owners with individuals who want to drive their vehicle under a car sharing agreement.

Under Chapter 220, the use of a shared vehicle by an individual other than the shared vehicle's owner through a peer-to-peer car sharing program is subject to state and municipal TPT as well as county excise taxes. Chapter 220 exempts such shared vehicle transactions from both the Maricopa County rental car surcharge (used to fund the Arizona Sports and Tourism Authority and the Maricopa County Stadium District) and the Pima County rental car surcharge (used to fund the Pima County Stadium District). Moreover, if the owner of the vehicle certifies to DOR that their vehicle is an "individual-owned shared vehicle," Chapter 220 exempts the shared vehicle transaction from the statewide rental car surcharge.

Chapter 220 adds peer-to-peer car sharing to the personal property rental classification under A.R.S. § 42-5071. Additionally, the act provides that TPT is collected and remitted by the peer-to-peer car sharing company and not the shared vehicle owner. (Effective September 29, 2021).

**Laws 2021, Chapter 266** modifies some of the statutes related to the Arizona Commerce Authority's Computer Data Center (CDC) program (A.R.S. § 41-1519) and International Operations Center (IOC) program (A.R.S. § 41-1520). Under current law, equipment purchased and installed at a certified computer data center is exempt from retail TPT and Use Tax. Chapter 266 modifies statutes by providing that the installation, assembly, repair, or maintenance of computer data center equipment is exempt from the prime contracting TPT if it has "independent functional utility." (Independent functional utility means that the equipment "can independently perform its function without attachment to real property" such as land or buildings.) (Effective retroactively from September 13, 2013)

**Laws 2021, Chapter 411** repeals the fee charged to cities, towns, counties, councils of governments and regional transportation authorities used to recover a portion of administrative expenses for tax collection services incurred by the Department of Revenue. (Effective retroactively from July 1, 2021)

**Laws 2021, Chapter 412** clarifies retroactively from January 1, 2016 that the TPT and Use Tax exemption for machinery and equipment includes containment structures.

## Transaction Privilege Tax

---

**Laws 2021, Chapter 417** exempts utility scale energy storage machinery and equipment from retail TPT and the Use Tax. (Effective September 29, 2021).

**Laws 2021, Chapter 443** exempts specified sales and contracting activities to and by Indian Tribes, tribally owned businesses, tribal entities, and affiliated Indians from state and municipal Transaction Privilege Tax. Chapter 443 requires non-affiliated Indians and non-Indian vendors to maintain sufficient documentation of their taxable and non-taxable gross proceeds to enable DOR to determine which transactions are subject to TPT.

DOR issued Arizona Transaction Privilege Tax Ruling 95-11 (TPR 95-11) in April 1995 relating to the imposition of TPT activities performed on Indian reservations in Arizona. TPR 95-11 states that an affiliated Indian or an affiliated Indian vendor engaged in business activities on the reservation are not subject to TPT. Additionally, non-Indian or non-affiliated Indian retailers engaged in business activities located on a reservation are not subject to tax if the activity is performed for an affiliated Indian. Chapter 443 codifies this ruling.

### 2020 LAWS

**Laws 2020, Chapter 43** requires estimated payments, for taxpayers with an annual tax liability above the statutory threshold, to be made by the last business day in June if the taxpayer is required to make the payment by electronic means.

Additionally, Chapter 43 specifies that estimated tax payments made in June of each year, for taxpayers with an annual tax liability above a statutory threshold, must be made in the same manner as a taxpayer's regular payments.

**Laws 2020, Chapter 49** directs, beginning in FY 2022, \$64,100,000 each fiscal year collected from the 0.6 percent transaction privilege and use tax for education to the Superintendent of Public Instruction for basic state aid, rather than to the Classroom Site Fund.

### 2019 LAWS

**Laws 2019, Chapter 50** increases the maximum county transportation excise tax rate pursuant to A.R.S. § 42-6106, by itself, or together with the county transportation excise tax rate pursuant to A.R.S. § 42-6107, from 10% to 20% of the state Transaction Privilege Tax (TPT) rate that was in effect on January 1, 1990, which. This has the effect of increasing the maximum county transportation excise tax rate from 0.5% to 1.0%.

By way of background information, there are currently 3 statutes that authorize county governments to levy a transportation excise tax. All such statutes provide the allowed amount as a percentage of the state Transaction Privilege Tax (TPT), which is currently 5%, and require county voters to approve any taxes.

A.R.S. § 42-6105 permits a transportation excise tax of up to 0.5% to be levied within Maricopa County. A.R.S. § 42-6106 permits the Regional Transportation Authority (RTA) of any county other than Maricopa to levy a transportation excise tax of up to 0.5%.

A.R.S. § 42-6107 permits counties to levy an additional 0.5% in transportation excise taxes. These collections, however, must be deposited pursuant to A.R.S. § 28-6397, which is restricted to counties with populations of 400,000 or less. Maricopa and Pima counties, therefore, are not able to levy the additional 0.5% under this provision.

Chapter 50 amends A.R.S. § 42-6106 to permit the RTA of any county other than Maricopa to levy a tax rate of up to 20% of the state TPT rate, or 1.0%. As noted above, the 1.0% rate cap includes levies under both A.R.S. § 42-6106 and A.R.S. § 42-6107. Because all counties other than Maricopa and Pima already can levy a rate of up to 1.0% (0.5% under A.R.S. § 42-6106 plus 0.5% under A.R.S. § 42-6107) and A.R.S. § 42-6106 excludes Maricopa County, Chapter 50 only affects Pima County. Chapter 50 has no direct General Fund revenue impact. (Effective August 27, 2019)

## Transaction Privilege Tax

---

**Laws 2019, Chapter 53** requires cities and towns to notify each residential transaction privilege tax licensee who is licensed with Department of Revenue and each individual residential rental property of a new or increased tax rate at least 60 days before the effective date. (Effective August 27, 2019)

**Laws 2019, Chapter 124** allows the Department of Revenue to administer, collect, enforce and distribute taxes levied by a city, town or other taxing jurisdiction on an online lodging marketplace. (Effective August 27, 2019)

**Laws 2019, Chapter 163** adds a video service provider (VSP) to the definition of a cable operator and grants the powers, duties and responsibilities of a cable operator to a VSP.

**Laws 2019, Chapter 189** excludes over-the-top (OTT) audio or video programming services from the telecommunications classification and exempts them from municipal taxation. Additionally, Chapter 189 specifies the sourcing of any taxation in the absence of a delivery address.

**Laws 2019, Chapter 203** was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. (Effective August 27, 2019)

**Laws 2019, Chapter 236** removes the specific deadline of the fifth day of each month for the Department of Revenue to deliver the monthly tax collections report to the State Treasurer and the Director of the Department of Administration. In addition, Chapter 236 specifies that tax collection records will show amounts collected from businesses engaged within the state, rather than by county. (Effective August 27, 2019)

**Laws 2019, Chapter 240** makes various changes to statute relating to vacation and short-term rental regulations, such as prohibiting an online lodging operator from offering for rent or renting a lodging accommodation without a current transaction privilege tax license. (Effective August 27, 2019)

**Laws 2019, Chapter 241** requires the State Treasurer to distribute to the Workforce Development Account (WDA) 3% of the monies collected from the 0.6% sales tax that begins on July 1, 2021, remaining after the monthly distribution to the Classroom Site Fund (CSF), rather than after the distributions to both the CSF and the Technology and Research Initiative Fund (TRIF). Chapter 241 has no impact on the General Fund. (Effective August 27, 2019)

**Laws 2019, Chapter 273** contains numerous provisions relating to individual income tax, corporate income tax, and transaction privilege tax (TPT). The TPT changes under Chapter 273 relate to the state's enactment of "Wayfair," as described below. Please see the *Individual and Corporate Income Tax sections* for details relating to the provisions in Chapter 273 specifically affecting these taxes. The ongoing revenue impact of Chapter 273 is discussed in detail in the *Individual Income Tax section* of the Tax Handbook.

Enactment of Wayfair Legislation – In June 2018, the United States Supreme Court overruled in *South Dakota v. Wayfair Inc.* a 1992 ruling made by the same court in *Quill Corp v. North Dakota*, which had held that only out-of-state ("remote") businesses with a physical presence ("nexus") inside a state could be required to collect and remit sales tax in that state. As a result of the Wayfair ruling, the physical presence requirement was effectively replaced by an economic nexus requirement.

Beginning October 1, 2019, Chapter 273 establishes the economic nexus thresholds under which an out-of-state business is required to collect and remit tax on retail sales in Arizona, which are as follows:

- If the out-of-state business does not conduct sales through a marketplace facilitator, economic nexus applies if sales in Arizona exceed \$200,000 in calendar year (CY) 2019, \$150,000 in CY 2020, and \$100,000 in CY 2021 and thereafter.
- If the out-of-state business is a marketplace facilitator, economic nexus applies if sales in Arizona from the marketplace facilitator's own business or on behalf of at least one marketplace seller exceed \$100,000 in the calendar year.

Besides establishing the state's economic nexus threshold requirements, Chapter 273 also added new language in state statutes with respect to the municipal tax treatment of retail sales, as outlined below.

## Transaction Privilege Tax

---

- Requires municipal ordinances and other local laws related to the taxation of retail sales to be superseded by the state's transaction privilege tax statutes for the retail classification.
- Provides cities and towns the option to levy a transaction privilege tax on the sale of:
  1. Food for home consumption
  2. Textbooks required by a state university or community college sold at bookstores
  3. Livestock and poultry feed, salt, vitamins and other additives used in the business of farming and ranching
  4. Nonmetalliferous mined materials sold at retail
  5. Works of fine art
  6. Motor vehicles sold to nonresidents or enrolled members of an Indian Tribe.
- Allows a city or a town to continue to levy an existing transaction privilege tax, which was levied on or before May 1, 2019, on the sale of:
  1. Propagative materials, including fertilizers
  2. Implants used as growth promotants and injectable medicine for livestock or poultry
  3. Animals such as horses, sheep, and goats used as breeding or production stock.Depending on the size of its population, a municipality can continue levying a tax on these products either through December 31, 2019 (if population is more than 50,000) or through June 30, 2021 (if population is 50,000 or less).
- Provides cities and towns the option to exempt from tax the sale of paintings, sculptures, or similar works of fine art by the original artists.
- Provides that the Legislature will not move any sales tax classifications other than retail from the Model City Tax Code to state statute for a period of 5 years from the effective date of the act.

As noted above, beginning October 1, 2019, Laws 2019, Chapter 273 ("Wayfair") establishes the economic nexus thresholds under which an out-of-state business is required to collect and remit tax on retail sales in Arizona. The ongoing full-year revenue impact is estimated to be \$85.0 million. However, due to the October 1, 2019 effective date, the revenue gain is reduced on a one-time basis by \$(28.0) million in FY 2020.

**Laws 2019, Chapter 288** expands the exemption on "propagative materials." Under current law, propagative materials, which include seeds, roots, bulbs, cuttings and similar materials, are exempt from state TPT and use tax. Beginning on December 1, 2019, Chapter 288 expands this exemption to include fertilizers, insecticides and similar materials. Chapter 288 is estimated to reduce General Fund revenues by \$(7.3) million in FY 2020, followed by an additional reduction of \$(7.4) million, beginning in FY 2021.

**Laws 2019, Chapter 290** increases the liability threshold for the June estimated payment from \$1.0 million to \$1.6 million in 2020, \$2.3 million in 2021, \$3.1 million in 2022, and \$4.1 million in 2023 and each year thereafter. Chapter 290 is estimated to result in a one-time General Fund revenue loss of \$(10.3) million in FY 2020. The one-time revenue losses in both FY 2021 and FY 2022 are estimated to be \$(10.0) million.

### 2018 LAWS

**Laws 2018, Chapter 17** requires municipalities that impose TPT or use tax on the sale of food for home or premises consumption to apply the tax uniformly and without an additional tax or fee differential for any specific food item. In addition, Chapter 17 prohibits a municipality from imposing TPT or use tax on: (1) manufacturing, wholesale or distribution of food for home or premises consumption, and (2) any container or packaging used exclusively for transporting, protecting or consuming food at home or on premises. (Effective August 3, 2018)

**Laws 2018, Chapter 74** extends the additional 0.6% tax exclusively dedicated to education (originally approved by voters in November 2000 as Proposition 301) from July 1, 2021 through June 30, 2041. Absent Chapter 74, the additional 0.6% tax rate would have expired June 30, 2021. Moreover, Chapter 74 extends the low-income individual income tax credit (authorized by Proposition 301) from TY 2021 through TY 2041. (Effective March 26, 2018)

## Transaction Privilege Tax

---

**Laws 2018, Chapter 104** was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. (Effective from August 3, 2018)

**Laws 2018, Chapter 138** extends the due date for the Rio Nuevo Multipurpose Facilities District to operate and receive state TPT distributions to July 1, 2035, or upon the completion of authorized debt service payments, whichever occurs later. Prior to Chapter 138, the district was permitted to operate and receive state TPT distributions to no longer than July 1, 2025. (Effective August 3, 2018)

**Laws 2018, Chapter 189** requires all online lodging marketplaces to register with Department of Revenue (DOR) for a TPT license for the purpose of remitting sales tax on online lodging transactions facilitated by them. (An online lodging marketplace is any digital platform that provides, at a cost, an unaffiliated third-party with a platform to rent lodging accommodations.) Prior to Chapter 189, which goes into effect January 1, 2019, an online lodging marketplace is allowed to (as opposed to being required to) remit sales tax on its online lodging transactions.

**Laws 2018, Chapter 190** makes the use of any automated sales suppression (or "zapper") software for tax evasion purposes illegal and subject to a fine of no more than \$500,000 for corporations and \$100,000 for all others. While fines will be deposited in a new fund established by the act (Tax Fraud Interdiction Fund), taxes, penalties, and interest owed as a result of businesses using sales suppression software will be distributed in the same manner as for TPT. Combined, Chapters 189 and 190 are estimated to increase General Fund revenue by \$10.0 million in FY 2019, followed by an additional \$5.0 million annually, beginning in FY 2020.

**Laws 2018, Chapter 249** specifies that the TPT and use tax exemptions for non-profit organizations associated with a major league baseball team or a professional golfing association do not apply to organizations that are owned, managed, or controlled by a major league baseball team, major league baseball association, or professional golfing association, unless the organization operated exhibition events before January 1, 2018 that were exempt from TPT under the amusement classification. (Effective retroactively from January 1, 2018)

**Laws 2018, Chapter 263** exempts the sale of coal from state and municipal TPT and imposes a 0.5% county excise tax on the sale of coal that has been mined or extracted within the county boundaries. Chapter 263 is conditional upon the approval of the transfer of ownership of the Navajo Generating Station (NGS) by the Navajo Nation Council on or before December 31, 2022. (The NGS is currently scheduled to close December 31, 2019.)

**Laws 2018, Chapter 286** adds mobile food units to the restaurant classification of TPT and repeals the TPT exemption for food sold by a retailer who uses a mobile facility, motor vehicle or similar conveyance. (Effective August 3, 2018)

**Laws 2018, Chapter 341** specifies that the prime contracting classification does not include any work performed by a person who is not required to be licensed by the Registrar of Contractors. In addition, Chapter 341 removes the following exceptions from the definition of "alteration": (1) projects in which the scope applies to more than 40% of the square footage of the existing property, and (2) projects in which the scope involves expanding the square footage of the existing property by more than 10%. (Effective January 1, 2019)

### 2017 LAWS

**Laws 2017, Chapter 60** includes several provisions for electronic filing and payment of taxes to the Department of Revenue (DOR). The act's main transaction privilege tax provisions are listed below.

- Requires electronic filing of TPT returns if the taxpayer's annual liability is at least: \$20,000 in Calendar Year (CY) 2018, \$10,000 in CY 2019, \$5,000 in CY 2020, and \$500 in CY 2021 and subsequent years.
- Increases the TPT accounting credit from 1.0% to 1.2% of tax liability, or from a maximum annual credit of \$10,000 to \$12,000, for taxpayers that file their TPT returns electronically. (Effective August 9, 2017)
- Changes the penalty for late filing of TPT returns from 4.5% of the taxpayer's liability to the greater of 4.5% of the taxpayer's liability or \$25. (Effective August 9, 2017)
- Changes the penalty for failure of filing TPT returns from 25% of the taxpayer's liability to the greater of 25% of the taxpayer's liability or \$100. (Effective August 9, 2017)

## Transaction Privilege Tax

---

**Laws 2017, Chapter 340** makes several changes to the existing Public Infrastructure Improvements program, including the following: (1) provides that prime contracting state TPT revenues used for purposes of public infrastructure improvement not be distributed until 10% of the qualifying capital investment has been made by a qualifying manufacturing facility, (2) requires the manufacturing facility to file a sworn certification with the Arizona Commerce Authority (ACA) within 180 days after commencement of buildings and associated improvements, and (3) requires the manufacturing facility and the county or municipality to enter into a written agreement before submitting the certification to ACA. There is no fiscal impact associated with these changes. (Effective January 1, 2018)

Besides the changes to the existing Public Infrastructure Improvements program, Chapter 340 also exempts aircraft sales from TPT if the aircraft is registered with a fractional ownership program that meets the requirements of the Federal Aviation Administration. (Fractional ownership of aircraft refers to an arrangement under which multiple owners share the costs of purchasing, leasing and operating an aircraft.) The fiscal impact of this provision is currently unknown. (Effective January 1, 2018)

### 2016 LAWS

**Laws 2016, Chapter 35** authorizes the State Treasurer to withhold state-shared revenues from an offending local jurisdiction. Chapter 35 directs the Attorney General to certify to the State Treasurer that the violation is resolved, at which time distribution of state-shared revenue resumes. (Effective August 6, 2016)

**Laws 2016, Chapter 148** increases the initial and renewal terms for Indian tribe compacts to receive state TPT for community colleges owned, operated or chartered by a qualifying Indian tribe from 10 years to 20 years. (Effective August 6, 2016)

**Laws 2016, Chapter 171** expands the TPT exemption for transportation network companies provided by Laws 2015, Chapter 235 to include vehicle for hire companies (taxis, livery vehicles, and limousines). The exemption applies to both state and municipal TPT. The impact on state TPT is expected to be small. (Effective September 1, 2016)

**Laws 2016, Chapter 181** exempts aircraft built for agricultural use for the aerial application of pesticides or fertilizer or for aerial seeding from state TPT and use tax. Chapter 181 is estimated to reduce General Fund revenue by \$(18,600) annually, beginning in FY 2017. (Effective August 6, 2016)

**Laws 2016, Chapter 208** establishes the Online Lodging Marketplace classification under state TPT. The tax base for the Online Lodging Marketplace classification is the gross proceeds of sales from the business measured by the total amount charged for an online transient lodging transaction by the online lodging operator. The tax rate under the Online Lodging Marketplace classification is 5.5%. (Effective January 1, 2017)

**Laws 2016, Chapter 223** exempts the leasing or renting of billboards from the personal property rental classification of state TPT. Chapter 223 is estimated to reduce General Fund revenue by \$(10,000) annually, beginning in FY 2017. (Effective August 6, 2016)

**Laws 2016, Chapter 258** is an emergency measure that amends current statutes with respect to the method by which state-shared revenues are apportioned among counties and municipalities, as described below.

### Counties

Under current law, state-shared revenue is distributed to a county based on its population count as of the last federal decennial census [A.R.S. § 42-5029(I)]. During the fifth year following the decennial census, a county may contract with the U.S. Census Bureau to conduct a special census of the population of that county. Beginning on July 1 in the sixth year following the decennial census, the result of the special census must be used as the basis for apportioning state-shared revenue to that county until the next federal decennial census [A.R.S. § 42-5033].

If a special census is not conducted, Laws 2016, Chapter 258 provides a county the following 3 options, all of which must be exercised before May 1 of the sixth year following a federal decennial census:

## Transaction Privilege Tax

---

1. County submits its own population estimate as of the fifth year following the last decennial census, as approved by the Office of Employment and Population Statistics.
2. County contracts with the U.S. Census Bureau to conduct a sample survey in order to produce a mid-decade county population estimate.
3. County requests to continue to use the population count from the most recent U.S. decennial census.

If a county elects to use one of the options above, that population figure must be used (for purposes of apportioning state-state shared revenue) in the sixth year following the decennial census through June 30 of the year following the next decennial census.

### Municipalities

Under current law, state-shared revenue is distributed to an incorporated city or town based on its population count as of the last federal decennial census [A.R.S. § 42-5029(l)]. During the fifth year following the decennial census, a city/town may contract with the U.S. Census Bureau to conduct a special census of the population of that municipality. Beginning July 1 in the sixth year following the decennial census, the special census must be used as the basis for apportioning state-shared revenue to that municipality until the next federal decennial census [A.R.S. § 42-5033].

For purposes of apportioning state-shared revenue, Laws 2016, Chapter 258 provides a city/town the option to use either the population count from the special census or the most recent population estimate from the U.S. Census Bureau. However, Chapter 258 provides that the population count from the special census be used for only 1 year. Beginning on July 1 in the second year following the special census, a city/town must use the most recent population estimate from the U.S. Census Bureau. If a special census is not conducted, Chapter 258 requires a city/town to use the most recent population estimate from the U.S. Census Bureau beginning on July 1 in the second year following the decennial census through June 30 of the year following the next decennial census.

**Laws 2016, Chapter 357** exempts natural gas transportation services sold to businesses that are principally engaged in manufacturing or smelting operations from state TPT and use tax. Chapter 357 is estimated to reduce General Fund revenue by \$(870,000) annually, beginning in FY 2017. (Effective August 6, 2016)

**Laws 2016, Chapter 359** exempts liquefied petroleum gas (more commonly referred to as propane) sold to businesses that are principally engaged in manufacturing or smelting operations from state TPT and use tax. Chapter 359 is estimated to reduce General Fund revenue by \$(91,000) annually, beginning in FY 2017. (Effective September 1, 2016)

**Laws 2016, Chapter 361** exempts the sale of animal feed to a person who boards livestock non-commercially from state TPT and use tax. Chapter 361 is estimated to reduce General Fund revenue by \$(1.0) million annually, beginning in FY 2017. (Effective August 6, 2016)

**Laws 2016, Chapter 367** exempts the sale of aircraft and aircraft equipment to charter airlines under certain conditions from state TPT and use tax. The exemption is estimated to reduce General Fund revenue by \$(2.3) million annually, beginning in FY 2018. (Effective July 1, 2017)

**Laws 2016, Chapter 368** exempts the sale of fine art at an auction or gallery to a nonresident, for use outside the state, from state TPT. The exemption is estimated to reduce General Fund revenue by \$(1.3) million annually, beginning in FY 2017. (Effective September 1, 2016)

**Laws 2016, Chapter 369** provides numerous changes to the data center equipment exemption authorized by Laws 2013, 1<sup>st</sup> Special Session, Chapter 9. Notably, Chapter 369 adds improvements to the expenses that qualify towards the required minimum investment. In addition, Chapter 369 allows new data centers to obtain certification as a sustainable redevelopment project. (Effective retroactively from September 13, 2013)

**Laws 2016, Chapter 373** exempts the gross proceeds from entry fees paid to participate in noncompetitive races sponsored by nonprofit organizations from state and municipal TPT. Chapter 373 is not expected to have any fiscal impact. (Effective August 6, 2016)



## Transaction Privilege Tax

---

**Laws 2016, Chapter 374** modifies the requirements to qualify for the existing state TPT and use tax exemption for electricity and natural gas purchased by manufacturers and smelters. To qualify for the exemption under current law (Laws 2014, Chapter 7), a business must use at least 51% of the electricity or natural gas purchased in manufacturing or smelting operations. In addition, at least 51% of the business must be devoted to (“principally engaged in”) a manufacturing or smelting operation. Laws 2016, Chapter 374 changes the current eligibility requirements to one of the following: (1) at least 51% of the manufactured or smelted products are exported out of state, (2) at least 51% of gross income is derived from sale of manufactured or smelted products, (3) at least 51% of a business’ square footage in Arizona is used for manufacturing or smelting, (4) at least 51% of a business’ workforce in Arizona is employed in manufacturing or smelting operations, or (5) at least 51% of the value of a business’ assets in Arizona is used for manufacturing or smelting. Chapter 374 is estimated to reduce General Fund revenue by \$(7.0) million in FY 2017, followed by an additional reduction of \$(7.0) million, beginning in FY 2018. (Effective January 1, 2017)

### 2015 LAWS

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

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

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

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

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

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

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlb.gov/21taxbook/21taxbk.pdf>.

## Transaction Privilege Tax

---

### Attachment A

The following preliminary information on sales tax exemptions and credits for FY 2020 is provided by courtesy of DOR.

---

### SUMMARY OF TRANSACTION PRIVILEGE AND USE TAX EXPENDITURES - FISCAL YEAR 2020

#### PREFERENTIAL TAX RATES:

|   |                      |
|---|----------------------|
| Nonmetalliferous Mining; Oil and Gas Production | \$3,513,905          |
| Commercial lease                                | 507,023,418          |
| <b>TOTAL VALUE OF PREFERENTIAL TAX RATES</b>    | <b>\$510,537,323</b> |

#### CREDITS:

|                   |              |
|-------------------|--------------|
| Accounting credit | \$30,414,225 |
|-------------------|--------------|

#### TRANSACTION PRIVILEGE AND USE TAX EXEMPTIONS – SAMPLE OF SERVICES:

##### **PROFESSIONAL, SCIENTIFIC, AND TECHNICAL SERVICES:**

|   |                        |
|---|------------------------|
| Legal   | \$181,067,894          |
| Accounting, Tax Preparation, Bookkeeping and Payroll Services         | 114,649,547            |
| Architectural, engineering, and related services                      | 247,606,229            |
| Specialized Design Services   | 18,857,712             |
| Computer System Design and Related Services                           | 329,785,809            |
| Management, scientific, and technical consulting services             | 167,843,297            |
| Scientific research and development services                          | 47,405,798             |
| Advertising, Public Relations and Technical Services                  | 44,112,273             |
| Other Professional, Scientific and Technical Services                 | 90,192,385             |
| <b>TOTAL VALUE OF PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES</b> | <b>\$1,241,520,944</b> |

##### **HEALTH CARE SERVICES:**

|               |               |
|---------------|---------------|
| Physicians    | \$498,050,331 |
| Dentists      | 138,627,534   |
| Chiropractors | 15,406,518    |

**Transaction Privilege Tax**

---

|  |                        |
|--|------------------------|
| Optometrists   | 15,406,518             |
| Mental Health Practitioners  | 8,660,578              |
| Physical, Occupational and Speech Therapists   | 32,796,667             |
| All Other Health Practitioners   | 24,977,909             |
| Outpatient Care Centers  | 193,112,078            |
| Medical and Diagnostic Labs  | 76,101,788             |
| Home Health Services   | 69,492,912             |
| Other Ambulatory Health Services   | 87,726,624             |
| General Medical and Surgical Hospitals   | 1,015,303,728          |
| Nursing Care Facilities  | 67,837,316             |
| Residential Intellectual and Developmental Disability, Mental Health, and Substance Abuse Facilities | 49,951,898             |
| Continuing Care Retirement Facilities and Assisted Living Facilities                                 | 73,977,499             |
| Other Residential Care Facilities  | 5,921,709              |
| Individual and Family Services   | 103,569,271            |
| Community Food and Housing, and Emergency and Other Relief Services                                  | 43,475,347             |
| Child Day Care Services  | 27,979,796             |
| <b>TOTAL VALUE OF HEALTH CARE SERVICES</b>   | <b>\$2,549,698,218</b> |

**ADMINISTRATIVE AND BUSINESS SUPPORT SERVICES:**

|                                    |              |
|------------------------------------|--------------|
| Office Administrative              | \$54,263,345 |
| Facilities Support                 | 40,963,034   |
| Employment Services                | 316,246,668  |
| Business Support                   | 89,403,164   |
| Travel Arrangement and Reservation | 343,806,387  |
| Investigation and Security         | 49,923,108   |

**Transaction Privilege Tax**

---

|  |                        |
|--|------------------------|
| Services to Building and Dwellings                                 | 170,828,018            |
| Other Support Services   | 44,877,439             |
| Waste Collection   | 58,000,733             |
| Waste Treatment and Disposal                                       | 16,116,768             |
| Remediation and other waste management services                    | 16,729,369             |
| <b>TOTAL VALUE OF ADMINISTRATIVE AND BUSINESS SUPPORT SERVICES</b> | <b>\$1,201,158,033</b> |

**PERSONAL CARE SERVICES:**

|   |                      |
|---|----------------------|
| Barber                                  | \$1,181,067          |
| Beauty Salons                           | 22,444,792           |
| Nail Salons                             | 6,130,715            |
| Diet and Weight Reducing Centers        | 1,760,385            |
| Other Personal Care                     | 9,365,592            |
| Death Care Services                     | 10,451,020           |
| Personal and Laundry Services           | 24,183,285           |
| Pet Care (not Veterinary)               | 5,345,220            |
| Photofinishing                          | 1,148,901            |
| Parking lot/Garages                     | 6,298,594            |
| Other Personal Services                 | 62,457,290           |
| <b>TOTAL VALUE OF PERSONAL SERVICES</b> | <b>\$150,766,861</b> |

**EDUCATIONAL SERVICES:**

|  |                     |
|--|---------------------|
| Business School/Computer/Management Training | \$11,546,517        |
| Technical and Trade Schools                  | 34,521,643          |
| Other Schools and Instruction                | 19,033,964          |
| Education Support Services                   | 17,026,866          |
| <b>TOTAL VALUE OF EDUCATIONAL SERVICES</b>   | <b>\$82,128,990</b> |

## Transaction Privilege Tax

---

### **FINANCIAL SERVICES:**

|   |                      |
|---|----------------------|
| Credit Unions                                     | \$53,457,303         |
| Sales Financing                                   | 136,935,203          |
| Mortgage and Nonmortgage Loan Brokers             | 24,665,289           |
| Financial Transaction Processing and Clearing     | 73,857,727           |
| Other Activities Related to Credit Intermediation | 26,097,912           |
| Securities Brokerage                              | 125,240,251          |
| Portfolio Management                              | 65,283,900           |
| Investment Advice                                 | 36,387,403           |
| Other Financial Investment Activities             | 1,982,796            |
| <b>TOTAL VALUE OF FINANCIAL SERVICES</b>          | <b>\$543,907,784</b> |

### **OTHER SERVICES:**

|   |                      |
|---|----------------------|
| Automotive Repair and Maintenance                                     | \$126,372,881        |
| Electronic and Precision Repair and Maintenance                       | 9,802,474            |
| Commercial, Industrial Machinery Repair and Maintenance               | 33,149,970           |
| Personal and Household Goods Repair and Maintenance                   | 9,844,700            |
| Religious, Grantmaking, Civic, Professional and similar Organizations | 139,514,478          |
| <b>TOTAL VALUE OF OTHER SERVICES</b>                                  | <b>\$322,815,736</b> |

### **TRANSACTION PRIVILEGE AND USE TAX EXEMPTIONS – ALL OTHER:**

|  |                 |
|--|-----------------|
| Wholesale trade (503)  | \$5,878,128,381 |
| Cash discounts (708) <sup>1</sup>  | 30,790,487      |
| Trade-ins (711)  | 127,351,097     |
| Services provided by a retailer (549)  | 491,509,819     |
| Business activity on a Reservation for a Enrolled Native American or Tribal entity (570) | 16,074,829      |

---

<sup>1</sup> It is likely that this deduction is under reported.

## Transaction Privilege Tax

|   |                  |
|---|------------------|
| Sale of postage stamps at face value (716)  | 232,594          |
| Sales to Foreign diplomats (777)  | 93,581           |
| Sales made through another's Marketplace  | 6,032,655        |
| Sale of warranty or service contracts (542)   | 54,626,239       |
| Sale of tangible personal property by a nonprofit organization (725)  | 961,235          |
| Sale of an aircraft sold to a carrier, government or nonresident (507)  | \$5,299,613      |
| Sale of stocks and bonds (no deduction code)  | NIA <sup>2</sup> |
| Prescription drugs and medical oxygen (536)   | 1,200,846,620    |
| Prosthetic appliances (559)   | 21,830,002       |
| Insulin, insulin syringe and glucose test strips (533)  | DNR <sup>3</sup> |
| Prescription eyeglasses and contact lenses (590)  | 2,606,817        |
| Hearing aids (594)  | 1,622,987        |
| Durable medical equipment (526)   | 25,587,707       |
| Sales to nonresidents for use outside Arizona if the property is shipped or delivered outside the state (541) | 74,570,242       |
| Food for home consumption (506 and 513)   | 686,467,994      |
| Textbooks that are required by any state university or community college (505)                                | 1,859,870        |
| Meals provided to Employee of restaurants (568)   | DNR              |
| Food used in school lunches (569)   | 2,882,732        |
| Sale of Arizona lottery tickets (521)   | 15,340,180       |
| Precious metal bullion and monetized bullion (567 and 601)  | 5,663,725        |
| Sales of vehicle fuel and aviation fuel (515)   | 491,990,151      |
| Tangible personal property sold to Personal property leasing business to lease (571)                          | 6,983,416        |

<sup>2</sup> No Information Available.

<sup>3</sup> Data Not Releasable.

## Transaction Privilege Tax

|   |                  |
|---|------------------|
| Tangible personal property sold in interstate or foreign commerce (504)   | 458,849,658      |
| Tangible personal property sold to a qualifying hospital or a qualifying health care organization or sold to or purchased by qualifying community health centers and health care organizations (545, 546, 572, 574) | 77,398,329       |
| Tangible personal property sold to a nonprofit organization which regularly serves meals to the needy and indigent (544)  | 1,942,007        |
| Tangible personal property sold to a nonprofit organization which provides housing for low-income persons over 62 years of age (573)  | NIA              |
| Tangible personal property sold to Qualifying Health Sciences Educational Institution (699)   | 77,685           |
| Magazines or other periodicals or publications to encourage tourist travel (602)  | DNR              |
| Sale of articles to a contractor for incorporation or fabrication under a contract or for environmental response or remediation (552 and 589)   | 16,401,497       |
| Tangible personal property sold to a Subcontractor for incorporation into a Prime Contracting project (584)   | 612,621          |
| Exempt motor vehicle sales for certain nonresidents (580)   | 310,588          |
| Exempt motor vehicle sales for Native Americans (530)   | 10,937,099       |
| Tangible personal property purchased by a nonprofit charitable organization that uses such property for training, etc., for mentally or physically handicapped persons (575)  | 222,053          |
| Tangible personal property sold by a nonprofit organization associated with a major league baseball team or a national touring professional golf association (762)  | NIA              |
| Tangible personal property sold by a nonprofit organization associated with a rodeo featuring primarily farm and ranch animals (763)  | NIA              |
| Sales of commodities under futures contracts consigned to a warehouse for resale (583)  | DNR <sup>4</sup> |
| Seeds, seedlings, etc., to commercially produce agricultural, horticultural, viticultural or floricultural crops in Arizona (537)   | \$5,288,255      |

<sup>4</sup> Data Not Releasable.

## Transaction Privilege Tax

|   |                  |
|---|------------------|
| Machinery, equipment, and certain supplies used to assist the physically or developmentally disabled or those persons with head injuries (525)                                | 3,285,445        |
| Sales of natural gas or liquefied petroleum gas used to propel a vehicle (509)  | 6,405,075        |
| Paper machine clothing used or consumed in paper manufacturing (586)  | NIA <sup>5</sup> |
| Machinery, equipment, utility product, materials and other tangible personal property used to construct a qualified environmental technology facility (607)                   | DNR              |
| Sales of coal, petroleum, coke, natural gas, virgin fuel oil and electricity to an environmental technology facility (511)  | 478,101          |
| Sales of liquid, solid or gaseous chemicals used in manufacturing, processing, fabricating, mining, refining, metallurgical operations or research or development (510)       | 7,595,358        |
| Sales of food or drink consumed on the premises of a jail or prison (514)   | 2,613,032        |
| Motor vehicles and any tangible personal property or repair that becomes a part of the motor vehicles sold to a licensed motor operator that lease or rent the property (528) | 7,917,300        |
| Livestock, poultry feed, salts, vitamins for livestock or poultry consumption (520)   | 16,945,831       |
| Sale or purchase of implants used as growth promotants and injectable medicine (516)  | 74,692           |
| Sales of motor vehicles at auction to nonresidents of Arizona for use outside Arizona (529)   | 1,586,363        |
| Personal hygiene products which are furnished to and to be consumed by hotel occupants (534 and 566)  | DNR              |
| Sales or purchases of alternative fuel to a used oil fuel burner (587)  | DNR              |
| Printed, photographic, electronic or digital media materials for use in publicly funded libraries (519)   | 416,535          |
| Tangible personal property consisting of food, beverages and condiments sold to or purchase by a commercial airline (512)   | DNR              |
| Sale of new alternative fuel vehicles and conversion equipment (592)  | NIA              |
| Sale of spirituous, vinous or malt liquor by a liquor wholesaler (588)  | DNR              |

<sup>5</sup> No Information Available.



## Transaction Privilege Tax

|  |                  |
|--|------------------|
| Tangible personal property by a nonprofit that produces, organizes or promotes cultural or civic related festivals (764)                 | 1,512,353        |
| Application services designed to assess or test student learning (596)   | 459,781          |
| Sale of motor vehicle fuel and use fuel to a Healthy Forest business (598)   | NIA              |
| Sale of repair parts in equipment used by a Healthy Forest business (603)  | NIA              |
| Sales or transfer of renewable energy credits (604)  | 1,360,363        |
| Sales of computer data equipment for use in a certified computer data center (565)   | 1,404,001        |
| Sales of orthodontic devices dispensed by a dental professional (582)  | DNR              |
| Property sold to a Contractor for a MRRRA project on an Indian Reservation (712)   | 303,298          |
| Works of fine art sold to nonresidents and used outside of the state (773)   | 383,904          |
| Machinery or equipment used directly in manufacturing, processing, fabricating, job printing, refining or metallurgical operations (522) | \$130,525,308    |
| Sale of machinery or equipment used in mining and in drilling for or extracting oil or gas from the earth (523 and 579)                  | 25,475,568       |
| Certain equipment used in the telecommunications industry (539)  | 266,789          |
| Machinery, equipment or transmission lines used directly in producing or transmitting electrical power (524)                             | 12,077,066       |
| Neat animals, horses, asses, sheep, swine or goats used or to be used as breeding or production stock (605)                              | 240,626          |
| Pipes or valves 4" in diameter used to transport oil, natural gas, artificial gas, water or coal slurry (535)                            | 348,753          |
| Certain aircraft, navigational and communication instruments (508)   | 20,428,019       |
| Machinery, tools, equipment used in repairing, remodeling or maintaining aircraft, aircraft engines or aircraft component parts (532)    | 375,260          |
| Railroad rolling stock, rails, ties, and signal control equipment used to transport persons or property for hire (576)                   | DNR <sup>6</sup> |

<sup>6</sup> Data Not Releasable.

## Transaction Privilege Tax

|  |              |
|--|--------------|
| Buses or other urban mass transit vehicles used to transport persons for hire or pursuant to a governmentally adopted and controlled urban mass transportation program (606) | 1,455,171    |
| Certain groundwater measuring devices and their installation (581)   | DNR          |
| New machinery and equipment used for commercial production of agricultural, horticultural, viticultural and floricultural crops (585)  | 8,400,674    |
| Machinery or equipment used in research and development (553)  | 3,987,577    |
| Tangible personal property used by an direct broadcast satellite television or data transmission service or facility (591)   | DNR          |
| Clean rooms used for manufacturing, processing, fabrication or research and development (595)  | 3,362,046    |
| Machinery or equipment for poultry and egg production (577)  | DNR          |
| Machinery and equipment used by agriculture to prevent, monitor, control or reduce pollution (597)   | DNR          |
| Machinery and equipment to prevent pollution for farming and ranching (599)  | DNR          |
| Digital television machinery and equipment purchases for compliance with the Telecommunications Act of 1996 (578)  | DNR          |
| Machinery and equipment sold or rented to a healthy forest certified business (554)  | DNR          |
| Federal luxury excise tax on heaving trucks and trailers (609)   | DNR          |
| Sales made to the U S Government by a manufacturer, modifier, assembler or repairer (547)  | 34,362,119   |
| Sales of component parts made to a manufacturer, modifier, assembler or repairer for sale to the U S Government (543)  | 13,011,619   |
| Sales of overhead materials used in a contract between the U S Government and a manufacturer, modifier, assembler or repairer (611)  | 115,950      |
| 50% of retail sales made to U S Government; 100% of Use Tax (548)  | 9,256,988    |
| Gross income from motor vehicle manufacturer's cash rebates if assigned to the retailer (501)  | \$26,665,233 |
| Gross income derived from the waste tire disposal fee (613)  | 376,989      |

## Transaction Privilege Tax

|  |                  |
|--|------------------|
| Sales of solar energy devices <sup>7</sup> (538)   | 11,651,118       |
| Sales of wireless telecommunication equipment as an inducement to enter into or continue a contract for telecommunication services or sales commissions received (614)   | 414,297          |
| Sales of motor vehicle to a nonresident from a state with a lower tax rate (531)   | 8,172,826        |
| Transportation by vehicles subject to fees paid to MVD (715)   | 2,382,626        |
| Transportation network company's income or fees or driver's income (772)   | NIA <sup>8</sup> |
| Vehicle for hire company's income or driver's income (778)   | DNR <sup>9</sup> |
| Transportation of persons by air if taxation is prohibited by Federal Law (615)  | DNR              |
| Ambulances or ambulance services (no deduction code)   | NIA              |
| Public transportation services for dial-a-ride programs and special needs transportation services (no deduction code)  | NIA              |
| Gross proceeds for transporting freight or property by an exclusively Arizona railroad for portions of single shipments involving other railroads (616)                  | DNR              |
| Gross proceeds for arranging transportation as a convenience or service to a customer if the business is not engaged in the transportation business (no deduction code)  | NIA              |
| Gross proceeds of sales or gross income derived from transporting for hire persons, freight or property by a railroad pursuant to a contract with another railroad (620) | NIA              |
| Sales taxed under another business code (640)  | 576,165          |
| Sales of transportation or amusement activities arranged by another business that is exempt (612)  | 1,722,089        |
| Sales of transportation or amusement activities arranged and taxed by another (702)  | DNR              |
| Gross proceeds of sales or gross income derived from transporting fertilizer by a railroad from a point in Arizona to another point in Arizona (625)                     | NIA              |

<sup>7</sup> This deduction is no longer available under the Prime Contracting classification.

<sup>8</sup> No Information Available.

<sup>9</sup> Data Not Releasable

## Transaction Privilege Tax

|   |                      |
|---|----------------------|
| Sales of electric services to a retail electric customer who is located outside Arizona for Delivery and use outside Arizona (617)  | NIA                  |
| Rental of space on utility poles (759) Data Not Releasable  | DNR                  |
| Sales from transfer of electricity by a retail electric customer to an electric distribution system (618)   | NIA                  |
| Development fees charged by a municipally owned utility (621)   | DNR                  |
| Revenue received by any person owning a utility system in the form of reimbursement or compensation for property and equipment installed to provide utility access to, on or across land of any actual utility consumer (626) | DNR                  |
| Interstate sales of electricity, natural gas and water  | NIA                  |
| Interstate telecommunications services (643)  | 435,970              |
| Sales of intrastate telecommunications services by a cable television system or by a microwave television transmission system (no deduction code)   | NIA                  |
| Sales of internet access services (517)   | \$2,153,456          |
| Sales of Over-the-Top services (789)  | NIA <sup>10</sup>    |
| Sales of intrastate telecommunications services to a direct broadcast satellite television or data transmission service (619)   | DNR <sup>11</sup>    |
| End-user common line charges and carrier access charges established by federal communications regulations (641 and 627)   | DNR                  |
| Sales of direct broadcast satellite television services (633)   | DNR                  |
| Telecommunications services purchased with a prepaid calling card (649)   | 86,655               |
| Manufacturing or publishing books (no deduction code)   | NIA                  |
| Gross income of publications derived from advertising (628)   | Included in services |
| Sales to a person distributing printing, engraving, embossing or copying without consideration in connection with the publication of a newspaper or magazine (630)  | DNR                  |

<sup>10</sup> No Information Available.

<sup>11</sup> Data Not Releasable

## Transaction Privilege Tax

|  |           |
|--|-----------|
| Sales of job printing, engraving, embossing and copying for use outside Arizona if the materials are shipped or delivered out of the state (637)   | 9,689,326 |
| Sales of postage and freight (561)   | 1,311,929 |
| Leasing a mobile home for more than 29 days (629)  | 2,035,272 |
| Online Lodging Operator Income from registered Online Lodging Marketplace (775)  | 1,335,285 |
| Leasing or renting 4 or fewer rooms of an owner-occupied residence bed and breakfast with less than 50% average annual occupancy (636)             | DNR       |
| Transient lodging sales or activities that are exempt (704)  | 1,889,361 |
| Transient lodging sales or activities that are exempt under the Amusement or Transporting classifications (701)                                    | DNR       |
| Commissions paid in the Transient Lodging classification (648)   | 172,858   |
| Transient lodging sales for lodging for more than thirty days (718)  | 2,512,335 |
| Leasing films, tapes or slides used by theaters or movies or used by television stations or radio stations (784)                                   | NIA       |
| Amusement activities sponsored by the Arizona exposition and state fair board (785)  | NIA       |
| Lease of tangible personal property by a parent to a subsidiary or by a subsidiary to another subsidiary (631)                                     | 1,034,650 |
| Operating coin-operated washing, drying and dry-cleaning machines or car washing machines (786)  | 119,350   |
| Leasing or renting aircraft or training equipment by a nonprofit school offering aviation and aerospace degrees (787)                              | DNR       |
| Leasing or renting photographs, transparencies, etc. used by Arizona on the internet, in magazines or other publications encouraging tourism (651) | NIA       |
| Leasing for billboards that are visible from any street (774)  | NIA       |
| Leasing or renting certified ignition interlock devices (no deduction code)  | NIA       |
| Vehicle registration fee reimbursements (656)  | 194,920   |
| Leasing or renting a motor vehicle if the motor carrier fee has been paid (660)  | 9,022,565 |

## Transaction Privilege Tax

|  |                   |
|--|-------------------|
| Amounts received by a motor vehicle dealer for the 1 <sup>st</sup> month of a lease payment if the lease is transferred to a third party (556)   | \$360,686         |
| Car rental surcharge charges (680)   | DNR <sup>12</sup> |
| Freight charges relating to nonmetalliferous mineral products (652)  | DNR               |
| Process cost on nonmetalliferous mineral products shipped out of state (658)   | 1,519,980         |
| Private or group instructional activities (657)  | 1,323,029         |
| Monthly membership fees (527)  | 9,819,286         |
| Musical, dramatic or dance groups or a botanical garden, museum or zoo that qualifies as a nonprofit charitable organization (no deduction code)   | NIA <sup>13</sup> |
| Sales of admissions to intercollegiate football contests (no deduction code)   | NIA               |
| Fees and assessments received by a homeowner's organization (no deduction code)  | NIA               |
| Arranging an amusement activity as a service to a person's customers (no deduction code)   | NIA               |
| Pari-mutuel and purse monies (661)   | DNR               |
| Transient Lodging recreational establishment membership fees (666)   | NIA               |
| Sale to transient lodging business for resale (670)  | 328,859           |
| Entry fees for 501c3 organizations' run, walk, swim, ride, or similar events (735)   | 149,967           |
| Gratuities distributed to servers or service employees (724)   | 5,740,548         |
| Sales by Congressionally-chartered veterans organization of food or drink (744)  | 90,571            |
| Sales by churches, fraternal benefit societies and other nonprofit organizations which don't regularly engage or continue in the restaurant business for the purpose of fund raising (no deduction code) | NIA               |
| Restaurant sales to a school district (662)  | DNR               |
| Prime Contracting income from out of state projects (681)  | 16,622,364        |
| Sale of used manufactured buildings (562)  | DNR               |

<sup>12</sup> Data Not Releasable.

<sup>13</sup> No Information Available.

## Transaction Privilege Tax

|   |                   |
|---|-------------------|
| Sale for resale to another manufactured building dealer (668)   | DNR               |
| 35% Deduction from Prime Contracting Base (502)   | 426,158,250       |
| Purchase by a Prime Contractor of machinery, equipment or other tangible personal property by a that is exempt under another classification (608, 622, 623, 624, 632, 635, 639, 644, 645, 646, 653, 654, 665, 672, 674, 675, 676, 677, 678, 679, 685, 691, 697, 706, 799) | 40,293,008        |
| Land Deduction (518)  | 46,082,512        |
| Furniture and Appliances not incorporated into a Manufactured building (663)  | DNR               |
| Contracting in a military reuse zone for a manufacturer, assembler or fabricator of aviation or aerospace products (667)  | DNR               |
| Gross proceeds of sales from a contract to install, assemble, repair or maintain machinery that does not become permanently attached (600)  | DNR               |
| Income from contracts for construction of facilities for raising egg producing poultry or the production and packaging of eggs (683)  | 110,364           |
| Income from contracts for construction of a launch site (698)   | NIA               |
| Income from contracts for construction of a domestic violence shelter (673)   | NIA               |
| Gross proceeds from contracts to perform post-construction treatment of real property for termite and general pest control (686)  | 651,597           |
| Gross proceeds from contracts to certain state university research infrastructure projects (696)  | NIA <sup>14</sup> |
| Gross proceeds from construction contracts for healthy forest business (555)  | DNR <sup>15</sup> |
| Gross proceeds from development or impact fees (560)  | \$8,447,979       |
| Gross proceeds from construction of a mixed waste processing facility located on a municipal solid waste landfill (719)   | NIA               |
| Subcontracting income (550)   | 654,288,911       |
| Lawn maintenance services (689)   | 3,037,319         |
| Cost of architectural or engineering service (557)  | 8,548,651         |

<sup>14</sup> No Information Available.

<sup>15</sup> Data Not Releasable.

## Transaction Privilege Tax

|  |             |
|--|-------------|
| Manufactured building delivered out of state (694)   | 176,288     |
| Construction Design phase or professional services (690)   | 3,249,548   |
| Maintenance, repair, replace or alteration contract with a property owner (500)  | 255,171,076 |
| Online Lodging Marketplace revenue from commissions (793)  | NIA         |
| Online Lodging Marketplace revenue from Class 1 property (794)   | 10,645,803  |
| Credit for tax paid to an equivalent jurisdiction (684)  | 187,127     |
| Component parts for a manufactured product for resale (687)  | 2,353,749   |
| Tangible personal property not exceeding \$200 purchased by an individual at retail outside the continental U.S. – USE TAX ONLY (693)                                    | NIA         |
| Advertising Supplements (688)  | NIA         |
| Tangible personal property purchased by a nonprofit charitable organization from the parent or affiliate organization located out of state – USE TAX ONLY (695)          | DNR         |
| Motor vehicles removed from inventory and provided to charitable or educational institutions or state universities or their affiliated organization – USE TAX ONLY (703) | NIA         |
| Tangible personal property which directly enters into or becomes an ingredient or part of cards used as prescription plan identification cards – USE TAX ONLY (705)      | NIA         |
| Liquefied natural gas used to fuel compressor equipment – USE TAX ONLY (563)   | NIA         |
| Tangible personal property exempt under the Utility classification (707)   | DNR         |
| Purchase price of electricity bought by a retail electric customer from a utility when tax is paid under utility classification (709)                                    | NIA         |
| Purchase price of electricity or natural gas by a manufacturer or smelting operations (710)  | 9,108,912   |
| Purchase price of electricity or natural gas by a business that operates an international operations center that is certified by the Arizona Commerce Authority (783)    | NIA         |
| Sales to Direct Pay permit holder (692)  | DNR         |
| 3% of tax collected for 911 tax on prepaid wireless products (564)   | 194,599     |
| Leasing between affiliated companies (634)   | 6,967,227   |



## Transaction Privilege Tax

---

|  |                                      |
|--|--------------------------------------|
| Rentals of personal property shipped & used exclusively out-of-state (593)   | 4,599,893                            |
| Total "Data Not Releasable" (533, 534, 554, 555, 562 566, 568, 576, 577, 578, 581, 582, 583, 587, 588, 591, 597, 599, 600, 602, 607, 609, 615, 616, 619, 621, 626, 627, 630, 633, 636, 641, 652, 661, 662, 663, 667, 668, 680, 692, 695, 701, 702, 707, 759, 778, 787) | \$76,376,843                         |
| <b>TOTAL VALUE OF ALL OTHER TRANSACTION PRIVILEGE AND USE TAX EXEMPTIONS</b>   | <b>\$11,714,388,947<sup>16</sup></b> |

**TOTAL QUANTIFIABLE TRANSACTION PRIVILEGE AND USE TAX EXPENDITURES<sup>17</sup> \$18,347,337,061**

**Value of exemptions from the Proposition 301 – Education Tax \$2,201,680,447**

---

<sup>16</sup> Includes the value of exemptions that were not releasable.

<sup>17</sup> This amount represents foregone revenue to the state general fund, counties and incorporated cities and towns.

# USE TAX

## DESCRIPTION

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

In June 2010, the use tax rose from 5.6% to 6.6%, with the additional 1.0% dedicated exclusively to public primary and secondary education, health and human services, and public safety. The tax increase, which lasted through May 2013, was not subject to the regular use tax distribution. This rate increase was approved by voters on May 18, 2010 and is commonly known as Proposition 100 [please see the *Transaction Privilege Tax (TPT)* section of this book for additional information].

In June 2001, the use tax rate had previously risen from 5.0% to 5.6%, with the extra 0.6% being dedicated to education. This tax increase, which is in effect through June 30, 2021, was approved by voters in November 2000 under Proposition 301. Laws 2018, Chapter 74 extends the additional 0.6% education sales tax through June 30, 2041. (For more details on Laws 2018, Chapter 74, see the *Transaction Privilege Tax* section.)

## DISTRIBUTION

Almost all use tax revenues are deposited in the General Fund. Twenty percent of the revenue collected from the use tax on electricity purchased from electricity suppliers is designated as distribution base. The remaining 80% is deposited in General Fund [A.R.S. § 42-5164]. The use tax collected from utilities makes up less than 1% of total use tax collections.

Table 1

### COLLECTIONS

| <u>Fiscal Year</u> | <u>State General Fund</u> | <u>Fiscal Year</u> | <u>State General Fund</u> |
|--------------------|---------------------------|--------------------|---------------------------|
| 2021               | \$449,765,543             | 2011               | \$229,250,912             |
| 2020               | \$384,263,505             | 2010               | \$271,763,845             |
| 2019               | \$362,026,745             | 2009               | \$292,698,574             |
| 2018               | \$327,200,971             | 2008               | \$340,535,252             |
| 2017               | \$300,875,454             | 2007               | \$303,010,863             |
| 2016               | \$283,352,073             | 2006               | \$303,198,808             |
| 2015               | \$281,143,731             | 2005               | \$259,615,656             |
| 2014               | \$235,984,933             | 2004               | \$232,216,222             |
| 2013               | \$257,899,313             | 2003               | \$189,684,520             |
| 2012               | \$263,724,399             | 2002               | \$162,022,998             |

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

## WHO PAYS

### Individuals and Businesses

The tax is paid by persons who make retail purchases of tangible personal property outside this state and store, use, or consume the item in Arizona. If a sales tax has already been paid on the item in another state, the Arizona use tax does not apply. The use tax is due, for example, when an Arizona resident purchases goods over the Internet from an out-of-state vendor that does not meet the economic nexus requirements under Laws 2019, Chapter 273 (for more information, please refer to the description of Laws 2019, Chapter 273 in the *Transaction Privilege Tax* section of the Tax Handbook). In practice, the use tax is primarily paid by businesses. Individuals are

## Use Tax

---

also liable for the use tax but rarely pay it, because individuals are often unaware of the tax or are unwilling to “voluntarily” report a taxable transaction [A.R.S. § 42-5155].

### Tribal Members and Businesses

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

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

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

### **REVENUE BASE AND RATE**

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

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

The current use tax rate is 5.6%, the same as the TPT rate for retail sales. However, if the item has already been taxed in another state at a rate less than 5.6%, the use tax rate is reduced by the amount of the tax already imposed by the other state [A.R.S. § 42-5155 and § 42-5159].

### **PAYMENT SCHEDULE**

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

Tax payments are delinquent if not received by DOR on or before the business day preceding the last business day of the month [A.R.S. § 42-5162]. (A business day is any day except Saturday, Sunday, or a legal Arizona state holiday.)

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

Electronic filing and payment requirements are the same as for the Transaction Privilege Tax (TPT) [A.R.S. § 42-5014].

## Use Tax

---

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this tax in the period from 2015 through 2021.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

# SEVERANCE TAX ON METALLIFEROUS MINERALS

## DESCRIPTION

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

## DISTRIBUTION

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

Table 1

### COLLECTIONS AND DISTRIBUTION

| <u>Fiscal Year</u> | <u>General Fund</u> | <u>Cities</u> | <u>Counties</u> | <u>Total</u> |
|--------------------|---------------------|---------------|-----------------|--------------|
| 2021               | \$16,947,569        | \$7,122,024   | \$11,540,528    | \$35,610,121 |
| 2020               | \$6,046,291         | \$2,540,886   | \$4,117,251     | \$12,704,428 |
| 2019               | \$8,210,336         | \$3,450,301   | \$5,590,868     | \$17,251,505 |
| 2018               | \$11,689,484        | \$4,912,373   | \$7,960,010     | \$24,561,867 |
| 2017               | \$8,746,056         | \$3,675,431   | \$5,955,669     | \$18,377,156 |
| 2016               | \$7,232,083         | \$3,039,201   | \$4,924,722     | \$15,196,006 |
| 2015               | \$11,832,303        | \$4,972,391   | \$8,057,263     | \$24,861,957 |
| 2014               | \$12,464,109        | \$5,237,901   | \$8,487,495     | \$26,189,505 |
| 2013               | \$14,196,409        | \$5,965,880   | \$9,667,113     | \$29,829,402 |
| 2012               | \$19,311,779        | \$8,115,557   | \$13,150,448    | \$40,577,783 |
| 2011               | \$19,149,246        | \$8,047,254   | \$13,039,770    | \$40,236,270 |
| 2010               | \$13,848,584        | \$5,819,711   | \$9,430,259     | \$29,098,554 |
| 2009               | \$8,666,537         | \$3,642,014   | \$5,901,520     | \$18,210,071 |
| 2008               | \$20,822,267        | \$8,750,323   | \$14,179,023    | \$43,751,613 |
| 2007               | \$20,725,843        | \$8,709,801   | \$14,113,362    | \$43,549,006 |
| 2006               | \$14,486,992        | \$6,087,995   | \$9,864,986     | \$30,439,973 |
| 2005               | \$7,804,650         | \$3,279,819   | \$5,314,617     | \$16,399,086 |
| 2004               | \$3,112,796         | \$1,308,118   | \$2,119,674     | \$6,540,588  |
| 2003               | \$539,399           | \$224,889     | \$361,945       | \$1,126,233  |
| 2002               | \$(49,954)          | \$(21,400)    | \$(35,237)      | \$(106,591)  |

SOURCE: Department of Revenue, Annual Reports.

## WHO PAYS

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

## **Severance Tax on Metalliferous Minerals**

---

### **REVENUE BASE AND RATE**

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

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

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

### **PAYMENT SCHEDULE**

Payments for this tax are due on the same schedule as for the Transaction Privilege Tax (TPT) [A.R.S. § 42-5205]. Electronic filing and payment requirements are the same as for TPT [A.R.S. § 42-5014].

### **IMPACT OF STATUTORY CHANGES**

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this tax from 2015 through 2021.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

# JET FUEL EXCISE AND USE TAX

## DESCRIPTION

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

## DISTRIBUTION

Through FY 2017, 40% of the excise tax revenue collected was designated as distribution base and was distributed as described in the Transaction Privilege Tax (TPT) section of this book. Sixty percent of the excise tax revenue, and 100% of the use tax revenue, was credited directly to the state General Fund [A.R.S. § 42-5353]. *Tables 1 and 2* below provide a history of jet fuel excise tax and use tax distributions over the last 20 years.

Effective August 9, 2017, Laws 2017, Chapter 312 provides that 100% of jet fuel excise and jet fuel use tax collections be deposited in the State Aviation Fund. To hold the General Fund, cities and counties harmless, Chapter 312 provides that monies received from the aircraft license tax (pursuant to A.R.S. § 28-8345) be distributed as follows:

- 50% to the state General Fund
- 9.5% to counties based on proportion of total state population
- 5.5% to incorporated cities and towns based on proportion of total state population

Chapter 312 provides that the remaining 35% to the aircraft license tax be deposited in the State Aviation Fund. (For more details, see the *Aircraft License Tax* section.)

Table 1

### DISTRIBUTION OF JET FUEL EXCISE TAX

| <u>Fiscal Year</u> | <u>General Fund</u> | <u>Cities</u> | <u>Counties</u> | <u>Total</u> |
|--------------------|---------------------|---------------|-----------------|--------------|
| 2021               | \$(13,161)          | \$(1,783)     | \$(2,889)       | \$(17,834)   |
| 2020               | \$40                | \$5           | \$9             | \$54         |
| 2019 <sup>1/</sup> | \$(11,326)          | \$(1,535)     | \$(2,486)       | \$(15,348)   |
| 2018               | \$304,997           | \$41,330      | \$66,971        | \$413,298    |
| 2017               | \$2,682,036         | \$363,439     | \$588,917       | \$3,634,392  |
| 2016               | \$3,166,950         | \$429,149     | \$695,394       | \$4,291,492  |
| 2015               | \$2,913,538         | \$394,810     | \$639,750       | \$3,948,098  |
| 2014               | \$2,181,056         | \$301,707     | \$534,309       | \$3,017,072  |
| 2013               | \$2,637,640         | \$362,379     | \$623,767       | \$3,623,786  |
| 2012               | \$2,811,537         | \$380,987     | \$617,353       | \$3,809,877  |
| 2011               | \$3,819,798         | \$517,616     | \$838,745       | \$5,176,159  |
| 2010               | \$3,291,706         | \$446,054     | \$722,789       | \$4,460,549  |
| 2009               | \$2,982,561         | \$404,163     | \$654,906       | \$4,041,630  |
| 2008               | \$3,421,347         | \$462,874     | \$752,020       | \$4,636,291  |
| 2007               | \$3,584,305         | \$485,704     | \$787,036       | \$4,857,045  |
| 2006               | \$4,471,848         | \$605,974     | \$981,921       | \$6,059,743  |
| 2005               | \$3,941,095         | \$534,053     | \$865,378       | \$5,340,526  |
| 2004               | \$3,833,833         | \$519,518     | \$841,826       | \$5,195,177  |
| 2003               | \$4,308,588         | \$583,851     | \$946,073       | \$5,838,512  |
| 2002               | \$4,167,728         | \$564,764     | \$915,143       | \$5,647,635  |

<sup>1/</sup> The negative amounts in FY 2019 were due to the issuance of refunds by DOR.

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

## Jet Fuel Excise and Use Tax

Table 2

### DISTRIBUTION OF JET FUEL USE TAX

| <u>Fiscal Year</u> | <u>General Fund</u> | <u>Fiscal Year</u> | <u>General Fund</u> |
|--------------------|---------------------|--------------------|---------------------|
| 2021               | \$11,682            | 2011               | \$320,137           |
| 2020               | \$4                 | 2010               | \$828,265           |
| 2019 <sup>1/</sup> | \$(24,511)          | 2009               | \$679,816           |
| 2018               | \$154,726           | 2008               | \$1,045,498         |
| 2017               | \$636,438           | 2007               | \$906,377           |
| 2016               | \$805,035           | 2006               | \$724,106           |
| 2015               | \$671,606           | 2005               | \$890,252           |
| 2014               | \$555,401           | 2004               | \$724,543           |
| 2013               | \$701,492           | 2003               | \$501,537           |
| 2012               | \$731,896           | 2002               | \$728,989           |

<sup>1/</sup> The negative amount in FY 2019 was due to the issuance of refunds by DOR.  
SOURCE: DOR, Annual Reports.

### WHO PAYS

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

### REVENUE BASE AND RATE

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

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

### PAYMENT SCHEDULE

Taxes are collected and due in the same manner as for the Transaction Privilege Tax (TPT) [A.R.S. § 42-5353]. Electronic filing and payment requirements are the same as for TPT [A.R.S. § 42-5014].

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this tax in 2015 and 2016, and in the period from 2018 to 2021.

### 2017 LAWS

**Laws 2017, Chapter 312** provides that 100% of jet fuel excise and jet fuel use taxes be deposited in the State Aviation Fund. To hold the General Fund, cities, and counties harmless, Chapter 312 provides that monies received from the aircraft license tax be distributed as follows:

- 50% to the state General Fund
- 9.5% to counties based on proportion of total state population
- 5.5% to incorporated cities and towns based on proportion of total state population



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

---

Chapter 312 provides that the remaining 35% of the aircraft license tax be deposited in the State Aviation Fund.

The changes under Chapter 312 stemmed from a December 2014 federal policy change that requires aviation fuel taxes to be used only for airport-related purposes. To be in compliance with this federal policy change, Chapter 312 distributes all jet fuel excise and use tax revenues to the State Aviation Fund, as noted above. To make this change revenue neutral, Chapter 312 modifies the aircraft license tax distribution to backfill the losses to the state General Fund, cities and counties. (Effective August 9, 2017)

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

# **INCOME TAXES**

# INDIVIDUAL INCOME TAX

## DESCRIPTION

The individual income tax is levied on the personal income of full-time residents and pro-rated for part-time residents of Arizona. Taxation of income by local entities is preempted by the state so long as the Urban Revenue Sharing Fund is maintained. The starting point for Arizona individual income tax is the federal adjusted gross income. Arizona currently uses a graduated rate structure. The Tax Year (TY) 2021 tax rates, which depend on the taxpayer's taxable income level, are 2.59%, 3.34%, 4.17%, or 4.50% of Arizona taxable income. Pursuant to Laws 2021, Chapter 412, the TY 2022 rates are reduced to 2.55% for taxable income up to \$27,272 for single filers and up to \$54,544 for married couples filing jointly, and to 2.98% for taxable income above these thresholds. Further rate reductions are contingent upon the state receiving more General Fund revenue than forecast, as determined in September of each year. Excluding the beginning balance, the "trigger" target is set at \$12,782,800,000 in FY 2022 and \$12,976,300,000 in FY 2023 and each year thereafter. If the state receives more than the FY 2022 trigger level, the rates will be reduced from 2.55%/2.98% to 2.53%/2.75%, beginning in TY 2023. If the state receives more than \$12,976,300,000 in FY 2023 or any subsequent year, the rate will be reduced to a single rate of 2.5% in the following Tax Year.

In November 2020, a voter-initiated ballot measure was passed that, beginning January 1, 2021, established a 3.5% income tax surcharge on single filers with taxable income in excess of \$250,000 and on married couples filing jointly with taxable income greater than \$500,000. This surcharge is in addition to the individual income tax and is to be collected regardless of whether the income tax rate brackets are changed, replaced, or eliminated. The revenue from this surcharge is deposited into the Student Support and Safety Fund (SSSF) to be distributed to schools and teacher training programs [A.R.S. § 43-1013].

The individual income tax is an important revenue source for the state, representing 41.8% of total General Fund revenue collections in FY 2021, after adjusting for the impact of the deferral of the tax-filing due date from April 15, 2020 to July 15, 2020. A portion of individual income tax collections (along with corporate income tax collections) is shared with incorporated cities and towns within the state.

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

## DISTRIBUTION

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

## Individual Income Tax

Table 1

| COLLECTIONS          |                     |                    |                     |
|----------------------|---------------------|--------------------|---------------------|
| <u>Fiscal Year</u>   | <u>General Fund</u> | <u>Fiscal Year</u> | <u>General Fund</u> |
| 2021 <sup>1/2/</sup> | \$6,532,753,230     | 2011               | \$2,863,657,980     |
| 2020 <sup>1/</sup>   | \$4,529,858,984     | 2010               | \$2,416,296,308     |
| 2019                 | \$5,009,021,634     | 2009               | \$2,567,963,783     |
| 2018                 | \$4,543,998,164     | 2008               | \$3,406,453,313     |
| 2017                 | \$4,130,898,724     | 2007               | \$3,747,386,937     |
| 2016                 | \$3,967,919,501     | 2006               | \$3,689,373,375     |
| 2015                 | \$3,761,343,995     | 2005               | \$2,973,716,271     |
| 2014                 | \$3,462,381,996     | 2004               | \$2,306,175,168     |
| 2013                 | \$3,397,545,131     | 2003               | \$2,097,754,867     |
| 2012                 | \$3,086,137,363     | 2002               | \$2,086,648,727     |

<sup>1/</sup> By Executive Order, the Tax Year 2019 filing due date was moved from April 15, 2020 to July 15, 2020.

<sup>2/</sup> Pursuant to Laws 2021, Chapter 177, the Tax Year 2020 filing due date was moved from April 15, 2021 to May 17, 2021.

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

### Urban Revenue Sharing

The Urban Revenue Sharing Fund (URS), which was established based on a ballot initiative approved by voters in 1972, provides that a percentage of income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and towns within the state. *Table 2* below shows estimates of the FY 2022 URS distributions by city. Currently, 15% of net income tax revenue from 2 years prior is distributed to cities and towns. Pursuant to Laws 2021, Chapter 412, beginning in FY 2024, the URS distribution percentage is increased from 15% to 18%. This distribution is based on the most recent population estimates of each city and town made annually by the U.S. Census Bureau [A.R.S. § 42-5033.01]. Cities and towns have the option of using special census population counts for purposes of calculating distributions, but only during the 6<sup>th</sup> year following a decennial census. In the 2<sup>nd</sup> year following the special census, a city/town must use the most recent estimate from the U.S. Census Bureau [A.R.S. § 42-5033]. Prior to Laws 2016, Chapter 258, distributions were based on population counts from the last U.S. decennial census or special census. The figures in *Table 2* are provided by the Department of Revenue. *Table 3* below shows the URS distribution percentages in effect since the establishment of this revenue sharing program.

## Individual Income Tax

Table 2

### FY 2022 URBAN REVENUE SHARING DISTRIBUTION BY CITY

| <u>Cities by County</u> | <u>Amount</u> | <u>Percent of Total</u> | <u>Cities by County</u> | <u>Amount</u> | <u>Percent of Total</u> |
|-------------------------|---------------|-------------------------|-------------------------|---------------|-------------------------|
| <b>APACHE</b>           |               |                         | Queen Creek             | \$7,647,963   | 1.01%                   |
| Eagar                   | \$590,470     | 0.08%                   | Scottsdale              | \$32,138,234  | 4.25%                   |
| Springerville           | \$231,717     | 0.03%                   | Surprise                | \$18,813,001  | 2.49%                   |
| St. Johns               | \$451,910     | 0.06%                   | Tempe                   | \$24,105,004  | 3.19%                   |
|                         |               |                         | Tolleson                | \$953,371     | 0.13%                   |
| <b>COCHISE</b>          |               |                         | Wickenburg              | \$997,383     | 0.13%                   |
| Benson                  | \$694,650     | 0.09%                   | Youngtown               | \$924,630     | 0.12%                   |
| Bisbee                  | \$654,675     | 0.09%                   |                         |               |                         |
| Douglas                 | \$2,169,267   | 0.29%                   | <b>MOHAVE</b>           |               |                         |
| Huachuca City           | \$216,453     | 0.03%                   | Bullhead City           | \$5,433,327   | 0.72%                   |
| Sierra Vista            | \$5,915,536   | 0.78%                   | Colorado City           | \$377,503     | 0.05%                   |
| Tombstone               | \$197,473     | 0.03%                   | Kingman                 | \$4,267,023   | 0.56%                   |
| Willcox                 | \$429,947     | 0.06%                   | Lake Havasu City        | \$7,495,130   | 0.99%                   |
|                         |               |                         |                         |               |                         |
| <b>COCONINO</b>         |               |                         | <b>NAVAJO</b>           |               |                         |
| Flagstaff               | \$10,075,723  | 1.33%                   | Holbrook                | \$644,465     | 0.09%                   |
| Fredonia                | \$197,473     | 0.03%                   | Pinetop-Lakeside        | \$540,091     | 0.07%                   |
| Page                    | \$981,403     | 0.13%                   | Show Low                | \$1,538,198   | 0.20%                   |
| Tusayan                 | \$197,473     | 0.03%                   | Snowflake               | \$801,214     | 0.11%                   |
| Williams                | \$422,540     | 0.06%                   | Taylor                  | \$533,026     | 0.07%                   |
|                         |               |                         | Winslow                 | \$1,192,739   | 0.16%                   |
| <b>GILA</b>             |               |                         |                         |               |                         |
| Globe                   | \$956,454     | 0.13%                   | <b>PIMA</b>             |               |                         |
| Hayden                  | \$197,473     | 0.03%                   | Marana                  | \$6,771,044   | 0.90%                   |
| Miami                   | \$208,068     | 0.03%                   | Oro Valley              | \$6,174,401   | 0.82%                   |
| Payson                  | \$2,140,891   | 0.28%                   | Sahuarita               | \$4,434,705   | 0.59%                   |
| Star Valley             | \$323,188     | 0.04%                   | South Tucson            | \$631,260     | 0.08%                   |
| Winkelman               | \$197,473     | 0.03%                   | Tucson                  | \$71,554,878  | 9.46%                   |
|                         |               |                         |                         |               |                         |
| <b>GRAHAM</b>           |               |                         | <b>PINAL</b>            |               |                         |
| Pima                    | \$368,520     | 0.05%                   | Apache Junction         | \$5,156,899   | 0.68%                   |
| Safford                 | \$1,330,296   | 0.18%                   | Casa Grande             | \$7,172,180   | 0.95%                   |
| Thatcher                | \$687,981     | 0.09%                   | Coolidge                | \$1,738,221   | 0.23%                   |
|                         |               |                         | Eloy                    | \$2,145,097   | 0.28%                   |
| <b>GREENLEE</b>         |               |                         | Florence                | \$3,540,067   | 0.47%                   |
| Clifton                 | \$512,882     | 0.07%                   | Kearny                  | \$238,486     | 0.03%                   |
| Duncan                  | \$197,473     | 0.03%                   | Mammoth                 | \$201,540     | 0.03%                   |
|                         |               |                         | Maricopa                | \$7,521,658   | 0.99%                   |
| <b>LA PAZ</b>           |               |                         | Superior                | \$333,645     | 0.04%                   |
| Parker                  | \$445,278     | 0.06%                   |                         |               |                         |
| Quartzsite              | \$347,026     | 0.05%                   | <b>SANTA CRUZ</b>       |               |                         |
|                         |               |                         | Nogales                 | \$2,609,940   | 0.35%                   |
| <b>MARICOPA</b>         |               |                         | Patagonia               | \$197,473     | 0.03%                   |
| Avondale                | \$11,730,210  | 1.55%                   |                         |               |                         |
| Buckeye                 | \$11,787,749  | 1.56%                   | <b>YAVAPAI</b>          |               |                         |
| Carefree                | \$490,938     | 0.06%                   | Camp Verde              | \$1,578,263   | 0.21%                   |
| Cave Creek              | \$664,598     | 0.09%                   | Chino Valley            | \$1,700,042   | 0.22%                   |
| Chandler                | \$36,011,056  | 4.76%                   | Clarkdale               | \$581,697     | 0.08%                   |
| El Mirage               | \$4,712,557   | 0.62%                   | Cottonwood              | \$1,588,475   | 0.21%                   |
| Fountain Hills          | \$3,165,886   | 0.42%                   | Dewey-Humboldt          | \$565,403     | 0.07%                   |
| Gila Bend               | \$253,603     | 0.03%                   | Jerome                  | \$197,473     | 0.03%                   |
| Gilbert                 | \$34,970,919  | 4.62%                   | Prescott                | \$5,999,845   | 0.79%                   |
| Glendale                | \$32,779,906  | 4.33%                   | Prescott Valley         | \$6,153,321   | 0.81%                   |
| Goodyear                | \$12,361,506  | 1.63%                   | Sedona                  | \$1,289,131   | 0.17%                   |
| Guadalupe               | \$729,101     | 0.10%                   |                         |               |                         |
| Litchfield Park         | \$892,462     | 0.12%                   | <b>YUMA</b>             |               |                         |
| Mesa                    | \$66,684,088  | 8.82%                   | San Luis                | \$4,631,128   | 0.61%                   |
| Paradise Valley         | \$1,709,447   | 0.23%                   | Somerton                | \$1,920,274   | 0.25%                   |
| Peoria                  | \$24,816,247  | 3.28%                   | Wellton                 | \$327,214     | 0.04%                   |
| Phoenix                 | \$213,293,936 | 28.20%                  | Yuma                    | \$12,638,305  | 1.67%                   |
|                         |               |                         |                         |               |                         |
|                         |               |                         | <b>TOTAL</b>            |               | <b>100.00%</b>          |

## Individual Income Tax

Table 3

### URBAN REVENUE SHARING PERCENTAGE

| Distribution Year  | Collection Year    |                   |
|--------------------|--------------------|-------------------|
| <u>Fiscal Year</u> | <u>Fiscal Year</u> | <u>Percentage</u> |
| 1974 – 1992        | 1972 – 1990        | 15.0%             |
| 1993               | 1991               | 12.8%             |
| 1994               | 1992               | 12.8%             |
| 1995               | 1993               | 12.8%             |
| 1996               | 1994               | 12.8%             |
| 1997               | 1995               | 13.6%             |
| 1998               | 1996               | 15.0%             |
| 1999               | 1997               | 15.0%             |
| 2000               | 1998               | 15.8%             |
| 2001               | 1999               | 15.0%             |
| 2002               | 2000               | 15.0%             |
| 2003               | 2001               | 14.8%             |
| 2004               | 2002               | 14.8%             |
| 2005-2023          | 2003-2021          | 15.0%             |
| 2024-              | 2022-              | 18.0%             |

SOURCE: Department of Revenue.

Table 4 below provides historical urban revenue sharing distributions.

Table 4

### DISTRIBUTION OF INDIVIDUAL AND CORPORATE INCOME TAX

| <u>Fiscal Year</u> | <u>Total Collections</u> <sup>1/</sup> | <u>State General Fund</u> | <u>Urban Revenue Sharing</u> | <u>Voluntary Contribution Funds</u> <sup>2/</sup> |
|--------------------|--|---------------------------|------------------------------|---|
| 2021               | \$7,379,669,357                        | \$6,551,176,499           | \$828,492,858                | \$1,897,955                                       |
| 2020               | \$5,041,740,835                        | \$4,304,179,653           | \$737,561,182                | \$1,135,451                                       |
| 2019               | \$5,523,285,723                        | \$4,848,481,285           | \$674,804,438                | \$1,312,040                                       |
| 2018               | \$4,917,074,548                        | \$4,235,060,332           | \$680,770,080                | \$1,244,411                                       |
| 2017               | \$4,499,035,169                        | \$3,834,421,857           | \$663,582,168                | \$1,031,144                                       |
| 2016               | \$4,538,467,198                        | \$3,931,904,086           | \$605,634,326                | \$928,786   |
| 2015               | \$4,424,347,015                        | \$3,814,991,475           | \$608,935,700                | \$419,840   |
| 2014               | \$4,037,562,217                        | \$3,475,671,441           | \$561,001,195                | \$889,581   |
| 2013               | \$4,059,571,528                        | \$3,544,630,836           | \$513,584,045                | \$1,356,647                                       |
| 2012               | \$3,729,909,208                        | \$3,298,428,797           | \$424,423,442                | \$7,056,969                                       |
| 2011               | \$3,423,893,632                        | \$2,942,907,218           | \$474,006,520                | \$6,979,894                                       |
| 2010               | \$2,830,062,980                        | \$2,194,412,321           | \$628,644,630                | \$7,006,029                                       |
| 2009               | \$3,160,121,036                        | \$2,424,782,055           | \$727,677,400 <sup>3/</sup>  | \$7,661,581                                       |
| 2008               | \$4,190,964,093                        | \$3,498,398,258           | \$684,538,927                | \$8,026,908                                       |
| 2007 <sup>4/</sup> | \$4,648,252,998                        | \$4,089,906,556           | \$551,230,661                | \$7,115,781                                       |
| 2006 <sup>4/</sup> | \$4,520,688,826                        | \$4,089,641,855           | \$425,228,927                | \$5,818,044                                       |
| 2005 <sup>4/</sup> | \$3,549,619,113                        | \$3,170,987,163           | \$373,072,578                | \$5,559,372                                       |
| 2004               | \$2,800,220,037                        | \$2,430,324,049           | \$365,065,158                | \$4,830,830                                       |
| 2003               | \$2,487,161,213                        | \$2,051,984,423           | \$430,559,053                | \$4,617,737                                       |
| 2002               | \$2,432,929,123                        | \$2,007,055,392           | \$421,876,573                | \$3,997,158                                       |

<sup>1/</sup> Includes corporate income tax.

<sup>2/</sup> Represents taxpayer contributions of their refunds to various entities through the tax “check-off” boxes.

<sup>3/</sup> Laws 2006, Ch. 351 appropriated a total of \$727.6 million for FY 2009 (see 2009 Tax Handbook, page 33 for more details).

<sup>4/</sup> Includes Ladewig refunds and attorney payments of \$131.5 million in FY 2005, \$48.7 million in FY 2006, and \$80.7 million in FY 2007.

### Voluntary Contribution Funds

Laws 1984, Chapter 76 provided for taxpayers to designate an amount of their income tax refund as a voluntary contribution to the Arizona Game, Non-Game, Fish and Endangered Species Fund. Laws 1985, Chapter 59

## Individual Income Tax

---

established a permanent check-off provision on the individual income tax return, which was also expanded to include contributions to the Child Abuse Prevention Fund.

Arizona statutes were amended in subsequent years to also include contributions to the Arizona Assistance for Education Fund, Domestic Violence Services Fund, Neighbors Helping Neighbors Fund, Special Olympics Fund, and National Guard Relief Fund. The list of voluntary contribution funds was further expanded to include the Veterans' Donation Fund (Laws 2006, Chapter 102), the I Didn't Pay Enough Fund (Laws 2010, Chapter 115), the Sustainable State Parks and Road Fund (Laws 2014, Chapter 120), and the Spaying and Neutering of Animals Fund (Laws 2017, Chapter 172). Laws 2015, Chapter 208 repealed the National Guard Relief Fund. In addition to voluntary contribution funds, taxpayers were also given the option to give all or part of their refund to a political party. *Table 4* above shows the total amount of refunds designated annually to voluntary contribution funds and political parties since the program started in 1984 [A.R.S. § 43-611 to 622].

### WHO PAYS

#### Individuals

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

#### Businesses

Businesses other than regular corporations must also pay the individual income tax [A.R.S. § 43-102A]. A business that is subject to the individual income tax is often referred to as a "pass-through entity" since its income passes or flows through the business to the individual owners or members of that business. In other words, the business itself is not a tax-paying entity. Instead, the individual owners or members of that business include their pro rata share of the business net income (or loss) on their personal tax return. Note, however, that Laws 2021, Chapter 425 creates an optional entity-level income tax for partnerships and S corporations, beginning in TY 2022. For more details on this entity-level tax, see the *Impact of Statutory Changes* section.

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

#### Estates and Trusts

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

Beginning in TY 2021, Laws 2021, Chapter 436 adopts the same tax rates and brackets to estates and trusts as those provided to individual filers under Laws 2021, Chapter 412. Moreover, the tax rates are subject to the same revenue triggers as under Chapter 412. For more details, see *Tables 7, 8, 9, and 10*.

#### Government

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

#### Tribal Members

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

## Individual Income Tax

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

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

Table 5

### COMPARISON OF BUSINESS STRUCTURES

|                              | <u>Sole Proprietorship</u>   | <u>Partnership</u>  | <u>Limited Liability Company (LLC)</u>   | <u>S Corporation</u>  |
|------------------------------|--|---|--|---|
| <u>Control</u>               | • Owner  | • General Partners  | • Members  | • Shareholders  |
| <u>Owner Restrictions</u>    | • Only one owner is permitted.   | • Partners own the partnership.   | • Members own LLC.<br>• Minimum of 1 member required.  | • Shareholders are owners.<br>• Ownership limited to a maximum of 75 U.S. residents.  |
| <u>Filing Requirements</u>   | • Fictitious Name Certificate<br>• Trade Name<br>• Business License              | • Consent of Statutory Agent  | • Articles of Organization<br>• Consent of Statutory Agent   | • Articles of Incorporation<br>• Certificate of Disclosure<br>• Consent of Statutory Agent<br>• Annual Report   |
| <u>Liability</u>             | • Owner is personally liable.  | • General Partners are liable.<br>• Limited partners are liable to the extent of their investments.   | • All members are protected.   | • All shareholders are protected.   |
| <u>Officers</u>              | • No   | • No  | • No, unless designated by management.   | • Yes   |
| <u>Controlling Documents</u> | • Business Plan  | • Partnership Agreement   | • Operating Agreement  | • Articles of Incorporation   |
| <u>Income Tax Treatment</u>  | • Owner subject to individual income tax.<br>• Tax items reported on Schedule C. | • Partners subject to individual income tax.<br>• Partners taxed for their share of profits.<br>• However, partnerships may choose to be taxed at entity level. | • Members subject to individual income tax.<br>• Members taxed for their share of profits.<br>• However, LLC may choose to be taxed at entity level. | • Shareholders subject to individual income tax.<br>• Shareholders taxed for their share of profits.<br>• However, S Corporations may choose to be taxed at entity level. |

SOURCE: Arizona Corporation Commission.



## Individual Income Tax

### REVENUE BASE

The tax is levied, paid, and collected each taxable year based on taxable income [A.R.S. § 43-1011]. The tax base starts with Arizona gross income, which is equivalent to the taxpayer's federal adjusted gross income and is then modified by a list of additions and subtractions to income as listed under A.R.S. § 43-1021 and A.R.S. § 43-1022, respectively. This is further reduced by exemptions and standard or itemized deductions to arrive at Arizona taxable income [A.R.S. § 43-1023, §43-1041, and §43-1042].

#### Capital Gains

Prior to TY 2013, capital gains from the sale of capital assets, such as stocks, bonds, and real estate, were not taxed separately under the state's income tax statutes. Thus, income from net capital gains was subject to the same marginal tax rates as other income included under the definition of Arizona taxable income.

Laws 2012, Chapter 343 reduced the individual income tax rate paid on long-term capital gains accrued from assets acquired after 2011. (Long-term capital gains are realized on assets held longer than 1 year.) The reduction in the regular rate under Chapter 343 is 10% in TY 2013, 20% in TY 2014, and 25% in TY 2015 and thereafter. Capital gains realized on assets purchased before 2012 are not affected by Chapter 343. Additionally, beginning in TY 2014, Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 eliminates individual income tax on capital gains derived from investment in small businesses with assets up to \$10.0 million. The historical amounts of net capital gains subject to income tax, as reported by Arizona taxpayers to the Internal Revenue Service (IRS), are shown in *Table 6* below.

**Table 6**

**NET CAPITAL GAINS REPORTED BY ARIZONA TAXPAYERS TO THE IRS  
(Millions of Dollars) <sup>1/</sup>**

| <u>Tax Year</u> | <u>Net Capital Gains <sup>1/</sup></u> | <u>Tax Year</u> | <u>Net Capital Gains <sup>1/</sup></u> |
|-----------------|--|-----------------|--|
| 2019            | NA <sup>2/</sup>                       | 2009            | \$3,242.3                              |
| 2018            | \$15,455.8                             | 2008            | \$6,606.2                              |
| 2017            | \$13,751.2                             | 2007            | \$14,853.7                             |
| 2016            | \$8,716.9                              | 2006            | \$15,214.8                             |
| 2015            | \$9,287.6                              | 2005            | \$14,784.3                             |
| 2014            | \$8,639.5                              | 2004            | \$8,732.1                              |
| 2013            | \$6,280.1                              | 2003            | \$4,580.4                              |
| 2012            | \$7,167.7                              | 2002            | \$3,603.7                              |
| 2011            | \$4,706.6                              | 2001            | \$4,420.8                              |
| 2010            | \$4,276.2                              | 2000            | \$8,412.9                              |

<sup>1/</sup> Note that amounts in this table refer to net capital gains subject to income tax as opposed to income tax collections attributable to net capital gains.

<sup>2/</sup> Data not available as of publication.

SOURCE: IRS, Statistics of Income (SOI).

### EXEMPTIONS

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

- (1) Any organization that is exempt from federal income tax.
- (2) Insurance companies that pay taxes on premiums derived from sources within Arizona.
- (3) Non-profit medical marijuana dispensaries.

## Individual Income Tax

### RATE

*Rates and Brackets.* Laws 2019, Chapter 273 modified the individual income tax rate structure by: (1) reducing the number of marginal individual income tax brackets from 5 to 4 and (2) reducing each marginal rate as shown in *Table 21*. The rate structure under Chapter 273 applies from TY 2019 through TY 2021. The TY 2021 tax rates are displayed below.

Table 7

#### TY 2021 TAX RATE SCHEDULE

| Single <sup>1/</sup>          |   |         |                           | Married <sup>3/</sup>         |   |           |                           |
|-------------------------------|---|---------|---------------------------|-------------------------------|---|-----------|---------------------------|
| <u>Arizona Taxable Income</u> |   |         | <u>Rate</u> <sup>2/</sup> | <u>Arizona Taxable Income</u> |   |           | <u>Rate</u> <sup>2/</sup> |
| \$0                           | - | 27,808  | 2.59%                     | \$0                           | - | \$55,615  | 2.59%                     |
| \$27,808                      | - | 55,615  | 3.34%                     | \$55,615                      | - | \$111,229 | 3.34%                     |
| \$55,615                      | - | 166,843 | 4.17%                     | \$111,229                     | - | \$333,684 | 4.17%                     |
| \$166,843 and over            |   |         | 4.50%                     | \$333,684 and over            |   |           | 4.50%                     |

<sup>1/</sup> Or married filing separately.

<sup>2/</sup> The marginal rates apply to income within the taxable income bracket. Taxable income attributable to qualifying long-term capital gains from assets acquired after December 31, 2011 is reduced by (25)%.

<sup>3/</sup> Or unmarried head of household.

Laws 2021, Chapter 412 modified the individual income tax rate structure for TY 2022 as shown in *Table 8* below.

Table 8

#### TY 2022 TAX RATE SCHEDULE <sup>1/</sup>

| Single <sup>2/</sup>          |   |        | Rate <sup>3/</sup> | Married <sup>4/</sup>         |   |          | Rate <sup>3/</sup> |
|-------------------------------|---|--------|--------------------|-------------------------------|---|----------|--------------------|
| <u>Arizona Taxable Income</u> |   |        |                    | <u>Arizona Taxable Income</u> |   |          |                    |
| \$0                           | - | 27,272 | 2.55%              | \$0                           | - | \$54,544 | 2.55%              |
| \$27,273 and over             |   |        | 2.98%              | \$54,545 and over             |   |          | 2.98%              |

<sup>1/</sup> Pursuant to A.R.S. § 43-1011, DOR will adjust the tax brackets above for inflation in TY 2022.

<sup>2/</sup> Or married filing separately.

<sup>3/</sup> The marginal rates apply to income within the taxable income bracket. Taxable income attributable to qualifying long-term capital gains from assets acquired after December 31, 2011 is reduced by (25)%.

<sup>4/</sup> Or unmarried head of household.

Pursuant to Laws 2021, Chapter 412, further reductions of the tax rates beyond TY 2022 are contingent upon certain General Fund revenue thresholds being met. Under Chapter 412, if FY 2022 General Fund revenue, excluding the beginning balance, is less than \$12,782,800,000, then the tax rates in *Table 8* continue to apply in TY 2023. However, if FY 2022 General Fund revenue is \$12,782,800,000 or more, then the TY 2023 tax rate schedule will be as shown in *Table 9* below.

If General Fund revenue, excluding the beginning balance, in FY 2023 or any subsequent fiscal year, exceeds \$12,782,800,000 but is under \$12,976,300,000, then the tax rate schedule shown in *Table 9* will continue to apply in the following tax year. If the General Fund revenue, excluding the beginning balance, is \$12,976,300,000 or more in FY 2023 or any subsequent fiscal year, the rate will be reduced to a single rate of 2.5% in the following tax year, as shown in *Table 10* below.

## Individual Income Tax

Table 9

### TAX RATE SCHEDULE IN TY 2023 OR LATER <sup>1/2/</sup>

| Single <sup>3/</sup>   |          | Rate          | Married <sup>5/</sup>  |            | Rate          |
|------------------------|----------|---------------|------------------------|------------|---------------|
| Arizona Taxable Income |          | <sup>4/</sup> | Arizona Taxable Income |            | <sup>4/</sup> |
| \$0                    | - 27,272 | 2.53%         | \$0                    | - \$54,544 | 2.53%         |
| \$27,273 and over      |          | 2.75%         | \$54,545 and over      |            | 2.75%         |

- <sup>1/</sup> These tax rates apply only if the FY 2022 General Fund revenue, excluding the beginning balance, is \$12,782,800,000 or more. If this amount is less than \$12,782,800,000, the tax rates in *Table 8* will continue to apply in TY 2023. In this case, the 2.53%/2.75% tax rates will go into effect beginning in the tax year following any fiscal year in which revenues are \$12,782,800,000 or more.
- <sup>2/</sup> Pursuant to A.R.S. § 43-1011, DOR will adjust tax brackets above for inflation in TY 2023, or later depending on when the \$12.8 billion revenue trigger level is reached.
- <sup>3/</sup> Or married filing separately.
- <sup>4/</sup> The marginal rates apply to income within the taxable income bracket. Taxable income attributable to qualifying long-term capital gains from assets acquired after December 31, 2011 is reduced by (25)%.
- <sup>5/</sup> Or unmarried head of household.

Table 10

### TAX RATE SCHEDULE IN TY 2024 OR LATER <sup>1/</sup>

| <u>Arizona Taxable Income</u> | <u>Rate</u> |
|-------------------------------|-------------|
| \$0 and over                  | 2.50%       |

- <sup>1/</sup> The 2.5% single tax rate applies only if General Fund revenue, excluding the beginning balance, is \$12,976,300,000 or more in FY 2023 or any subsequent fiscal year. If this amount is between \$12,782,800,000 and \$12,976,300,000, then the tax rates shown in *Table 9* will continue to apply in the following tax year. In this case, the 2.5% tax rate will go into effect beginning in the tax year following any fiscal year in which revenues are \$12,976,300,000 or more.

Laws 2021, Chapter 412 requires the Director of the Joint Legislative Budget Committee (JLBC) and the Director of the Governor's Office of Strategic Planning and Budgeting (OSPb) to jointly notify the Department of Revenue (DOR) by September 30, 2022 if FY 2022 General Fund revenue, excluding the beginning balance, was \$12,782,800,000 or more. By September 30, 2023, they must jointly report to DOR if FY 2023 General Fund revenue, excluding the beginning balance, was either (1) more than \$12,782,800,000 but less than \$12,976,300,000 or (2) \$12,976,300,000 or more. If they already issued a notice by September 30, 2022, then they are not required to issue another notice if FY 2023 General Fund revenue, excluding the beginning balance, was between \$12,782,800,000 and \$12,976,300,000. However, if FY 2023 General Fund revenue, excluding the beginning balance, was \$12,976,300,000 or more, they must issue a second notice to DOR. These reporting requirements remain in effect until the lower and upper revenue targets have been met, which could occur after FY 2023.

#### Proposition 208 – 3.5% Surcharge

In November 2020, a voter-initiated ballot measure was passed that, beginning January 1, 2021, established a 3.5% income tax surcharge on single taxpayers with taxable income in excess of \$250,000 and married taxpayers with taxable income greater than \$500,000. This surcharge is in addition to the individual income tax and is to be collected regardless of whether the income tax rate brackets are changed, replaced, or eliminated. The revenue from this surcharge is deposited into the Student Support and Safety Fund (SSSF) to be distributed to schools and teacher training programs [A.R.S. § 43-1013].

#### 4.5% Max Rate

Beginning in TY 2021, Laws 2021, Chapter 411 provides that the total individual income tax rate for taxable income above \$250,000 for single filers and \$500,000 for married couples filing jointly, including the Proposition 208 surcharge, cannot exceed 4.5%. Proposition 208 will receive the proceeds from the 3.5% surcharge. The remaining 1% will be deposited in the General Fund.

## Individual Income Tax

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

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

**Table 11**

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

| <b>Taxable Income <sup>2/3/</sup></b> | <b>TY 1990</b> | <b>TY 1994</b> | <b>TY 1995</b> | <b>TY 1997</b> | <b>TY 1998</b> | <b>TY 1999</b> | <b>TY 2006</b> | <b>TY 2007</b> | <b>TY 2019</b> |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| \$0 - \$ 10,000                       | 3.80%          | 3.25%          | 3.00%          | 2.90%          | 2.88%          | 2.87%          | 2.73%          | 2.59%          | 2.59%          |
| \$10,001 - 25,000                     | 4.40%          | 4.00%          | 3.50%          | 3.30%          | 3.24%          | 3.20%          | 3.04%          | 2.88%          | 2.59%          |
| \$25,001 - 50,000                     | 5.25%          | 5.05%          | 4.20%          | 3.90%          | 3.82%          | 3.74%          | 3.55%          | 3.36%          | 3.34%          |
| \$50,001 - 150,000                    | 6.50%          | 6.40%          | 5.20%          | 4.90%          | 4.74%          | 4.72%          | 4.48%          | 4.24%          | 4.17%          |
| \$150,001 & over                      | 7.00%          | 6.90%          | 5.60%          | 5.17%          | 5.10%          | 5.04%          | 4.79%          | 4.54%          | 4.50%          |

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

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

<sup>3/</sup> Brackets displayed in *Table 10* represent amounts that were effective from TY 1990 through TY 2014. Beginning in TY 2015, tax brackets are indexed to inflation (Laws 2014, Chapter 2010 and Laws 2015, Chapter 91). See *Table 7* for TY 2021 bracket amounts.

### **Alternative Income Rate**

Pursuant to Laws 2021, Chapter 436 (SB 1783), beginning in TY 2021, certain classes of income are subject to taxation at alternate rates from the individual income tax. To qualify for this alternative tax, a taxpayer's federal adjusted gross income must include one or more of the following income sources:

- Schedule B- Interest and Ordinary Dividends.
- Schedule C- Profit or Loss from Business. Income or loss from an individual who is operating a business or practicing a profession as a sole proprietor.
- Schedule E- Supplemental Income or Loss. Income or loss from rental real estate, royalties, partnerships, S corporations, estates, or trusts.
- Schedule F- Profit or Loss from Farming.
- Form 4797- Sale of Business Property.
- Form 4835- Farm Rental Income and Expenses.
- Schedule D- Capital Gains and Losses. Specifically, capital gains and losses with respect to either the taxable disposition of an ownership interest in any entity other than a publicly traded company, or the taxable disposition of capital assets used in connection with trade or business activity.

Under Chapter 436 (SB 1783), this income is referred to as "Arizona small business income" and is taxed at the following rates:

- 3.5% for TY 2021
- 3.0% for TY 2022
- 2.8% for TY 2023 and TY 2024
- 2.5% in TY 2025 and thereafter

Taxpayers that qualify under Chapter 436 must submit a separate tax form containing their "Arizona alternative income" for the year to be subject to these alternative rates. This alternative income is not subject to the 3.5%

## Individual Income Tax

income tax surcharge for public education [A.R.S. § 43-302, A.R.S. § 43-1701, A.R.S. § 43-1711, A.R.S. § 43-1721, A.R.S. § 43-1731, A.R.S. § 43-1742].

### TAX CREDITS

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

A tax credit is either refundable or non-refundable. Unlike refundable credits, non-refundable credits can never exceed a taxpayer's tax liability. However, many of the non-refundable tax credits allow the unused amounts to be carried forward to future years. As shown in *Table 12* below, only the following credits are refundable under current statutes:

| Table 12   |                          |
|--|--------------------------|
| REFUNDABLE INCOME TAX CREDITS  |                          |
| Name of Credit   | Type of Credit           |
| Property Tax Credit  | Individual               |
| Low-Income Credit for Increased Excised Taxes Paid   | Individual               |
| Research and Development (R&D) Credit <sup>1/</sup>  | Individual and Corporate |
| Qualified Facility Credit <sup>2/</sup>  | Individual and Corporate |
| <b>Notes:</b>  |                          |
| <sup>1/</sup> Credit is only available to businesses that employ less than 150 full-time employees. Refundable portion of R&D credit is subject to an aggregate cap of \$5.0 million annually. |                          |
| <sup>2/</sup> Credit is subject to an aggregate cap of \$125.0 million annually.   |                          |

The value of tax credits used and carried forward through tax year 2019 is summarized by the DOR summary report attached at the end of this section.

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

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

**Affordable Housing.** A taxpayer can claim a nonrefundable credit equal to at least 50% of the amount of the federal Low-Income Housing Tax Credit for qualified projects placed in service in Arizona after June 30, 2022. The Arizona Department of Housing is authorized to allocate a total of \$4 million in tax credits per year from 2022 to 2025. Each of these 4 award cycles is available for 10 years [A.R.S. § 43-1075].

**Agricultural Pollution Control Equipment.** A taxpayer involved in the commercial production of livestock or agricultural crops may claim a tax credit for expenses incurred to purchase tangible personal property used in the business in order to control, prevent, monitor, or reduce air, water, or land pollution. The credit is 25% of the cost of the property up to a maximum of \$25,000. This non-refundable credit can be carried forward no more than 5 consecutive years [A.R.S. § 43-1081.01].

**Agricultural Water Conservation System.** A tax credit can be claimed for 75% of the qualifying expenses in purchasing and installing an agricultural water conservation system. This credit is in lieu of itemized deductions for

## Individual Income Tax

---

such expenses, in which case, the taxpayer must add the credit back to Arizona gross income when computing taxable income. This non-refundable tax credit can be carried forward for no more than 5 years [A.R.S. § 43-1084].

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

*Arizona Small Business (SB 1783) Excess Credit Amount.* Allows a credit against a taxpayer's regular individual income tax liability equal to the excess amount of credits claimed under the alternative income rate under Laws 2021, Chapter 436 (SB 1783). Any amount of credit not used to offset individual income tax liability may be carried forward [A.R.S. § 43-1075].

*Charitable Organizations and Contributions.* A credit can be claimed for cash contributions to qualified charitable organizations (QCO) that provide assistance to low-income residents and children that are chronically ill or physically disabled. A separate credit may be claimed for cash contributions to qualified foster care charitable organizations (QFCO) that provide foster care to children or services to under-21-year-old former foster youth in independent living programs. Qualifying organizations may not provide, pay for, promote, or financially support abortions or any entity that provides abortions.

QCO contributions earn a maximum credit of \$400 for taxpayers filing as single or head of household and \$800 for those filing as married couples. Contributions to QFCOs earn a separate maximum credit of \$500 for taxpayers filing as single or head of household and \$1,000 for those filing as married couples.

Prior to Laws 2016, Chapter 109, the QCO and QFCO credits shared a combined maximum amount of \$400 for taxpayers filing as single or head of household and \$800 for those filing as married couples. Laws 2016, Chapter 109 also permits a donation made between the close of the tax year and the individual income tax filing deadline to be applied to either the current or preceding tax year for the purpose of claiming the individual income tax credit. This non-refundable tax credit can be carried forward for no more than 5 consecutive years [A.R.S. § 43-1088].

Laws 2019, Chapter 297 expands this credit to include all persons who have chronic illness or physical disability, including adults.

Laws 2021, Chapter 412 expands the definition of Qualifying Foster Care Charitable Organizations to allow tax credit donations to QFCOs that serve persons who have left the foster care system due to reaching 18 years of age, adoption, or legal guardianship after reaching 16 years of age or reunification at 14 or 15 years of age. Chapter 412 is only in effect for TY 2021.

*Dependent Tax Credit.* A credit can be claimed for each dependent claimed by a taxpayer. This credit is equal to \$100 for each dependent under the age of 17, and \$25 for each dependent age 17 or older. The credit is phased out for taxpayers with federal adjusted gross incomes above \$200,000, or \$400,000 in the case of married couples filing jointly. Claimed exemptions for taking care of individuals 65 and older and for stillborn deaths are in lieu of this credit (Laws 2020, Chapter 43). The credit is non-refundable and cannot be carried forward [A.R.S. § 43-1073.01].

*Excise Tax Credit.* For taxpayers filing as married couple or as head of household and whose federal adjusted gross income is \$25,000 or less, a credit of \$25 is granted per person or \$100 per household. For taxpayers filing as single or as married person filing separately, the income requirement is \$12,500 or less. This refundable credit is considered a mitigation of the 0.6% sales tax increase resulting from Proposition 301 passed in November 2000. This law was effective from January 1, 2001 through December 31, 2020 [A.R.S. § 43-1072.01]. Laws 2018, Chapter 74 extended the credit to December 31, 2041 [A.R.S. § 43-1072.02]. Laws 2021, Chapter 196 combined this credit with the Credit for Excise Taxes Paid and named it the Excise Tax Credit [A.R.S. § 43-1072.02].

*Facility Credit.* A business that expands or locates a qualified facility in the state may claim a credit for qualifying investment and employment [A.R.S. § 41-1512 and § 43-1083.03]. The credit is 10% of the lesser of: (1) the total

## Individual Income Tax

---

capital investment in the qualified facility by the taxpayer or third-party lessor of the property or (2) \$200,000 for each net new employee at the qualified facility if the total qualifying investment is less than \$2 billion, or (3) \$300,000 for each net new employee at the qualified facility if the total qualifying investment is \$2 billion or more.

To be eligible for the credit, a business is required to devote at least 80% of its property and payroll at the facility to manufacturing, research, or a national or regional headquarter. The credit is dependent upon the taxpayer paying at least 51% of new full-time employees a wage exceeding 125% of the state median wage in urban areas and 100% in rural areas and paying 65% or more of the premium for all full-time employees' health insurance [A.R.S. § 41-1512]. Capital investments made by a company in a qualified facility up to 36 months before applying for preapproval by the Arizona Commerce Authority (ACA) are included in the computation of the credit (Laws 2020, Chapter 7). Prior to Laws 2016, Chapter 372, investments by a third-party lessor could not qualify for the credit and taxpayers in urban and rural areas were required to pay at least 80% of employee health insurance premiums and at least 125% of the state median wage.

The credit is refundable, but no single taxpayer can claim more than \$30 million in credits per calendar year. The credit must be taken in equal installments over 5 taxable years. Laws 2020, Chapter 7 extends the credit to TY 2030. Laws 2021, Chapter 80 increases the aggregate annual credit cap from \$70 million to \$125 million.

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

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

*Healthy Forest Production.* Allows a taxpayer, beginning in TY 2021, to receive a tax credit for processing qualifying forest products if the taxpayer has a Healthy Forest Enterprise Incentive certification, processes qualifying forest products from a qualifying project between 2021 and 2030, and the facility processing the qualifying forest products is located in Arizona. The amount of credit is based on the number of tons of qualifying forest products that a taxpayer processes during a calendar year, \$10,000 for the first 20,000 tons and \$5,000 for every 10,000 after that. The maximum amount of credit for a calendar year that can be claimed is \$500,000 per taxpayer and \$2,000,000 in total. The credit is non-refundable and can be carried forward for no more than 5 years [A.R.S. § 43-1076.01].

*Military Family Relief Fund Tax Credit.* A credit may be claimed for cash contributions to the Military Family Relief Fund established by Laws 2007, Chapter 258. The maximum credit is \$200 for taxpayers filing as single or head of household and \$400 for those filing as married couples. The credit is not allowed to exceed the taxpayer's tax liability. The total dollar value of the credit, which is available for tax years 2008 through 2026, is capped at \$1 million per taxable year [A.R.S. § 41-608.04 and A.R.S. § 43-1086]. Laws 2012, Chapter 281 extended the expiration of the credit from 2012 to 2018. Laws 2018, Chapter 199 extended the credit further to December 31, 2026.

*New Employment Tax Credit.* A \$3,000 annual tax credit may be claimed for each net new qualifying job added by an employer in the state [A.R.S. § 43-1074]. To qualify for the credit, new employment positions must be full-time, meet wage requirements, and offer health insurance paid by the employer (at least 65% of the premium). Credits associated with 1 net new job can be claimed for 3 years. A company may claim first year credits for separate new jobs for up to 3 consecutive years. Since second- and third-year credits may be claimed against each of the new

## Individual Income Tax

positions, the taxpayer may claim credits for up to a total of 5 consecutive years. ACA is authorized to issue first year credits for up to 10,000 new employees (\$30.0 million) in each year.

Prior to Laws 2017, Chapter 340, a business could not claim the new credit unless it added at least 25 net new jobs in a year in an urban area (5 in a rural area), paid employees at least 100% of the county median wage, and made a capital investment of at least \$5.0 million (\$1.0 million in a rural area) [A.R.S. § 43-1074]. Beginning in TY 2018, Laws 2017, Chapter 340 permits businesses to qualify under alternative levels of capital investment and wages as displayed in *Table 13* and permits ACA to authorize credits through June 30, 2025. A business can now invest less than \$5.0 million if they pay wages that exceed 100% of the county median level. The required number of net new jobs remains unchanged. Given the maximum 5-year schedule outlined above, businesses may claim credits through TY 2029. [A.R.S. § 41-1525]

In TY 2013 and later years, Laws 2012, Chapter 343 eliminates the requirement (provided by Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1) that no employer can claim more than 400 new jobs in the first year of credit use, 800 jobs in the second year, and 1,200 jobs in the third year. The cap applied to credits claimed against insurance premium, individual income, and corporate income taxes. The credit cannot be claimed against employees that are also claimed under the Military Reuse Zone Tax Credit (A.R.S. § 41-1525; Laws 2017, Chapter 299 repeals credit after December 31, 2017). Laws 2014, Chapter 168 changes the requirement for the New Employment Tax Credit program by providing that second- and third-year credits can be claimed irrespective of whether the same employee remains employed so long as the employer replaces the vacant position with another qualified employee within 90 days.

**Table 13**

**New Employment Tax Credit  
Investment and Median Wage Requirements**

**Urban Location**

| <b><u>Minimum<br/>Capital Investment</u></b> | <b><u>Wages as Percent<br/>of County Median</u></b> |
|--|---|
| \$5,000,000                                  | 100%  |
| \$2,500,000                                  | 125%  |
| \$1,000,000                                  | 150%  |
| \$500,000                                    | 200%  |

**Rural Location**

| <b><u>Minimum<br/>Capital Investment</u></b> | <b><u>Wages as Percent<br/>of County Median</u></b> |
|--|---|
| \$1,000,000                                  | 100%  |
| \$500,000                                    | 125%  |
| \$100,000                                    | 150%  |

*Pollution Control Equipment.* The credit is allowed for purchases of real or personal property used to control or prevent pollution. The qualifying facilities must be built or purchased to comply with U.S. Environmental Protection Agency or Arizona Department of Environmental quality regulations. The credit amount is equal to the lesser of 10% of the purchase price or \$500,000 in a taxable year. This non-refundable tax credit can be carried forward for no more than 5 years [A.R.S. § 43-1081].

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

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

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

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



## Individual Income Tax

---

*Renewable Energy Production.* A credit is allowed on the production of electricity using renewable energy. To be eligible for the credit, a taxpayer must hold title to a qualified energy generator that first produces electricity between January 1, 2011 and December 31, 2020. The new credit allows a qualified producer of renewable energy to receive an individual or corporate income tax credit of up to \$2.0 million per year on the electricity they produce for 10 years. Given that a taxpayer may begin earning credits as late as TY 2020, the latest year a credit may be earned under a 10-year schedule is TY 2030. The renewable energy credit has an annual cap of \$20.0 million for total individual and corporate income tax credits. A 5-year carry forward of the credit is allowed [A.R.S. § 43-1083.02]. For additional information on renewable energy incentives, see *Appendix A*.

*Research and Development (R&D).* The credit is calculated based on the amount of qualified research expenses exceeding a certain "base amount" (defined in the Internal Revenue Code). Prior to TY 2010, the credit was calculated as 20% of up to \$2.5 million in qualified expenses and 11% of qualified expenses above \$2.5 million. Laws 2008, Chapter 290 expanded the credit in TY 2010 to TY 2017, to 24% of up to \$2.5 million in qualified expenses and 15% of qualified expenses above \$2.5 million. Laws 2017, Chapter 340 extends availability of the enhanced credit rates from tax year 2017 to tax year 2021. Laws 2020, Chapter 7 extends the current rates to TY 2030 and institutes rates that were going to take effect in TY 2022 to take effect in TY 2031 instead. Laws 2010, Chapter 312 changes the credit from being nonrefundable to refundable for those companies that employ less than 150 full-time employees. Specifically, the act provides that such taxpayers receive a refund equal to 75% of the amount by which the credit exceeds their liability. The refundable aspect of the credit has an annual cap of \$5.0 million cumulatively for the individual and corporate income tax and is effective retroactively from January 1, 2010. If in any year less than \$5.0 million of credits are filed collectively by all taxpayers, any unused amount rolls over to the next year. Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 expands the tax credit, beginning in FY 2013, by increasing the credit calculation by 10% for university-related research. The credit is subject to an aggregate cap of \$10.0 million per year between individual and corporate income taxpayers. A 15-year carry forward of the credit is allowed for credits claimed through TY 2021 [A.R.S. § 43-1074.01]. Credits claimed beginning in TY 2022 have a 10-year carry forward (Laws 2021, Chapter 196).

*School Site Donation Credit.* A credit is allowed in the amount of 30% of the value of real property and improvements donated by a taxpayer to a school district or a charter school. Laws 2021, Chapter 383 allows shareholders of an S Corporation to also claim their pro rata share of the credit based on ownership interest [A.R.S. 43-1089.02D]. This credit became available January 1, 2001. This non-refundable tax credit can be carried forward for no more than 5 consecutive years [A.R.S. § 43-1089.02].

*School Tuition S Corporation Credit.* Owners of an S corporation may claim a credit for cash contributions made to a school tuition organization (STO) that provides scholarships to "low income" or "displaced or disabled" students. Prior to Laws 2015, Chapter 301, only businesses classified as C corporations could receive income tax credits for such contributions, pursuant to A.R.S. § 43-1183 and A.R.S. § 43-1184. In order to be used for tax purposes, an S corporation's credits must be pro-rated, passed through to the business owners and applied to the owners' individual income tax liability [A.R.S. § 43-1089.04].

The full amount of the low-income tax credit approved by DOR for individual income, corporate income, and insurance premium tax credits is capped at \$10.0 million per year, with the cap increasing by 20% per year beginning in FY 2008 [A.R.S. § 43-1183]. The credit cap was \$74.3 million in FY 2018, \$89.2 million in FY 2019, and \$107.0 in FY 2020. Laws 2019, Chapter 281 limits the annual increase of the credit cap to 15% in FY 2021, 10% in FY 2022, and 5% in FY 2023. Beginning in FY 2024, the increase of the credit cap is limited to the greater of 2% or the annual change of the Metropolitan Phoenix consumer price index. In dollar terms, Chapter 281 limits the growth of the credit cap to \$123.1 million in FY 2021, \$135.4 million in FY 2022, and \$142.1 million in FY 2023. There is no cap on the amounts of contributions made by individual businesses. The full amount of the displaced or disabled tax credit approved by DOR is capped at \$5.0 million per year [A.R.S. § 43-1184]. Beginning in FY 2022, Laws 2021, Chapter 412 increases the credit cap from \$5.0 million to \$6.0 million. A taxpayer may carry forward the unused portion of either tax credit for 5 years. See *Appendix B* in the Tax Handbook for a comparison of private school tax credits.

*School Tuition Organizations (STO-1).* A credit may be claimed for donations to a non-governmental primary or secondary school tuition organization (STO) that allocates at least 90% of its annual revenue to educational

## Individual Income Tax

---

scholarships or tuition grants. Laws 2010, Chapter 293 provides that the maximum amount of the credit be adjusted for inflation each year and prohibits taxpayers from swapping donations with others for the benefit of their dependents. The maximum credit is \$611 for taxpayers filing as single or head of household and \$1,221 for married couples during TY 2021. Laws 2010, Chapter 188 allows a donation made between the close of the tax year and the individual income tax filing deadline to be applied to either the current or preceding tax year for the purpose of claiming the individual income tax credit. A 5-year carry forward of the credit is allowed [A.R.S. § 43-1089]. See *Appendix B* in the Tax Handbook for a comparison of private school tax credits.

*School Tuition Organizations (STO-2).* Laws 2012, Chapter 4 created a new tax credit for cash contributions to school tuition organizations (STO). The new credit, which is effective retroactively from January 1, 2012, is only available if the tax-filer has already claimed the maximum amount under the existing STO tax credit program for individuals (see *STO-1 above*). The Department of Revenue is required to adjust the maximum credit amount for inflation each year. The maximum credit is \$608 for taxpayers filing as single or head of household and \$1,214 for married couples during TY 2021. Scholarship monies generated by the new credit are available only to students who either: (1) attended public school full-time for at least 90 days in the prior year and transferred to private school, (2) are the dependent of a member of the armed forces, (3) are entering Kindergarten, or (4) received a STO scholarship in the prior year under 1 of the first 3 criteria [A.R.S. § 43-1089.03]. Beginning in TY 2021, Laws 2021, Chapter 412 expands the list of eligible students to include those who were homeschooled, moved from out of state, or held an Empowerment Scholarship Account (ESA). See *Appendix B* in the Tax Handbook for a comparison of private school tax credits.

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

Prior to Laws 2017, Chapter 319, the angel investment credit was limited to a total of \$20.0 million over the life of the program, from July 1, 2006 through June 30, 2021. ACA reports completing approval of the full \$20.0 million cap by June 2015. Laws 2017, Chapter 319 permitted ACA to authorize an additional \$10.0 million in credits from July 1, 2017 to June 30, 2021. Of the \$10.0 million in additional credits, ACA may approve up to \$2.5 million for each year. Any unused portion of the \$2.5 million annual cap may be authorized in the following years of the program. Laws 2021, Chapter 430 allows the Arizona Commerce Authority (ACA) to authorize \$2.5 million in credit per year through June 30, 2031. Any unused portion of the \$2.5 million annual cap may be authorized in the following years of the program. Taxpayers can claim authorized credits on their tax returns through TY 2034. For an individual investor, the credit is applied to investment amounts of up to \$500,000 per calendar year in one or more qualified small businesses. Investment amounts in excess of \$500,000 do not generate tax credits. To receive qualified angel investments, a business must employ at least 2 Arizona residents and must not have assets exceeding \$10.0 million or be engaged in activities involving human cloning or embryonic stem cell research. Once a qualified business has received a total of \$2.0 million in qualified investments, it is no longer allowed to receive credit-eligible angel investments [A.R.S. § 43-1074.02].

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

*Solar Energy Devices for Residential Purposes.* A taxpayer may claim 25% of the purchase price for a qualified solar energy device installed in the taxpayer’s residence located in Arizona. The maximum credit is \$1,000 per year and \$1,000 in aggregate for the same residence. This non-refundable tax credit can be carried forward for no more

## Individual Income Tax

---

than 5 consecutive years [A.R.S. § 43-1083]. For additional information on renewable energy incentives, see *Appendix A*.

*Taxes Paid to Other States.* Subject to certain conditions, residents are allowed a credit for income taxes paid to another state or country [A.R.S. § 43-1071]. Laws 2021, Chapter 436 includes a credit for net income taxes paid to another state or country on Arizona alternate income [A.R.S. § 43-1741].

### TAX COMPUTATION

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

#### Individuals:

|                                 |   |
|---------------------------------|---|
| Arizona Gross Income            | Equivalent to taxpayer's federal adjusted gross income. Includes a taxpayer's capital gain or loss.   |
| Plus                            |   |
| Additions to Income             | See A.R.S. § 43-1021 for amounts not taxed under federal income tax laws, but subject to Arizona income tax.  |
| Minus                           |   |
| Subtractions from Income        | See A.R.S. § 43-1022 for amounts taxed under federal income tax laws, but not subject to Arizona income tax.  |
| Minus                           |   |
| Exemptions                      | See A.R.S. § 43-1023 for exemptions: (1) \$1,500 for blind taxpayer and/or spouse (2) \$2,300 for taxpayer and/or spouse who is age 65 or over, (3) \$2,300 for stillborn child, and (4) \$10,000 for qualifying parents and ancestors of parents. Prior to TY 2019, an exemption of \$2,300 was allowed for each qualified dependent. Laws 2019, Chapter 273 repealed this exemption.  |
| Equals                          |   |
| Arizona Adjusted Gross Income   |   |
| Minus                           |   |
| Standard or Itemized Deductions | See A.R.S. § 43-1041 and 43-1042: Standard deduction is \$12,550 for single or married filing separately, \$18,800 for singles filing as head of household, and \$25,100 for married filing jointly and qualifying surviving spouses. Beginning in tax year 2005, the standard deduction is adjusted for inflation each year. Laws 2019, Chapter 273 increased these standard deduction amounts to be equal to the federal standard deduction. With several exceptions, itemized deductions are the same as on the federal income tax return. |
| Equals                          |   |
| Taxable Income                  |   |
| Multiply By                     |   |
| Tax Rates                       | See <i>Tax Rate</i> Section.  |
| Equals                          |   |
| Tax Liability                   |   |
| Minus                           |   |
| Tax Credits                     | See <i>Tax Credits</i> Section.   |
| Minus                           |   |
| Tax Payments                    | Withholding, estimated, and extension payments made to the Department of Revenue.   |
| Equals                          |   |

## Individual Income Tax

---

|         |   |
|---------|---|
| Tax Due | This can also be an overpayment; in which case, taxpayer will be entitled to a tax refund |
|---------|---|

### **Partnerships:**

|                                    |   |
|------------------------------------|---|
| Arizona Gross Income<br><i>Add</i> | 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<br><i>Minus</i> | See A.R.S. § 43-1021 for amounts not taxed under federal income tax laws, but subject to Arizona income tax. |
|------------------------------------|--|

|   |  |
|---|--|
| Subtractions from Income<br><i>Equals</i> | See A.R.S. § 43-1022 for amounts taxed under federal income tax laws, but not subject to Arizona income tax. |
|---|--|

|  |  |
|--|--|
| Arizona Taxable Income<br><i>Calculate</i> | This is mainly for filing and reporting purposes. The taxable income of a partnership is passed through to individuals in the partnership who are then taxed through the individual income tax on their distributed portion of the income. |
|--|--|

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

### **Fiduciaries:**

|                                    |  |
|------------------------------------|--|
| Arizona Gross Income<br><i>Add</i> | Equivalent to federal taxable income of estates or trusts. 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. § 43-1301. |
|------------------------------------|--|

|                                     |  |
|-------------------------------------|--|
| Additions to Income<br><i>Minus</i> | 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<br><i>Equals</i> | 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<br><i>Multiply By</i> |  |
|--|--|

|                                       |                              |
|---------------------------------------|------------------------------|
| Individual Tax Rates<br><i>Equals</i> | See <i>Tax Rate</i> Section. |
|---------------------------------------|------------------------------|

|                               |  |
|-------------------------------|--|
| Tax Liability<br><i>Minus</i> |  |
|-------------------------------|--|

|  |                                 |
|--|---------------------------------|
| Individual Tax Credits<br><i>Minus</i> | See <i>Tax Credits</i> Section. |
|--|---------------------------------|

|                               |  |
|-------------------------------|--|
| Tax Payments<br><i>Equals</i> |  |
|-------------------------------|--|

|         |  |
|---------|--|
| Tax Due |  |
|---------|--|

## Individual Income Tax

Table 14 below compares select differences in Arizona and Federal computations of individual income tax.

| <b>Table 14</b><br><b>State and Federal Individual Income Tax Systems</b><br><b>Tax Year 2021</b>  |   |   |
|--|---|---|
|  | <b><u>Arizona Individual Income Tax</u></b>   | <b><u>Federal Personal Income Tax</u></b>   |
| <b>Number of Tax Brackets <sup>1/</sup></b>  | 4 brackets  | 7 brackets  |
| <b>Marginal Tax Rates</b>  |   |   |
| <i>Ordinary Income</i>   | 2.59% to 4.50%  | 10.0% to 37.0%  |
| <i>Long-Term Capital Gains <sup>2/</sup></i>   | Ordinary rates reduced (25)%  | 0.0% to 20.0%   |
| <i>Arizona Alternate Income</i>  | 3.50%   |   |
| <b>Exemptions</b>  | (1) \$1,500 if blind<br>(2) \$2,300 if age 65 years or over<br>(3) \$2,300 for stillborn child<br>(4) \$10,000 for qualifying parents and ancestors of parents                  | None.   |
| <b>Standard Deduction <sup>3/</sup></b>  |   |   |
| <i>Single</i>  | \$12,550  | \$12,550  |
| <i>Married Filing Jointly</i>  | \$25,100  | \$25,100  |
| <i>Head of Household</i>   | \$18,800  | \$18,800  |
| <i>Added Deduction if Age 65 years +</i>   | See exemptions above  | \$1,400 - \$2,700 <sup>4/</sup>   |
| <i>Added Deduction if Blind</i>  | See exemptions above  | \$1,400 - \$2,700 <sup>4/</sup>   |
| <i>Additional Charitable Deduction <sup>5/</sup></i>   | Taxpayers who take the standard deduction may increase that deduction by 25% of their charitable contributions that would have been deductible had they itemized. <sup>5/</sup> | None.   |
| <b>Select Differences in Taxation</b>  |   |   |
| <i>Social Security Income</i>  | Social Security Income is not taxable. Taxpayers may take a state subtraction of any income that is taxed at the federal level.   | No amount is taxable if the sum of 50% of Social Security Income plus 100% of other income is less than specified income limits. Up to 85% of Social Security Income is taxable for taxpayers with income above the limits. |
| <i>Medical Expenses</i>  | Taxpayers that itemize deductions may take a deduction of all unreimbursed medical expenses.  | Taxpayers that itemize deductions may take a deduction of the amount of unreimbursed medical expenses that exceed 10% of federal adjusted gross income.   |
| <i>Child and Dependent Care Expenses</i>   | Taxpayers may claim a credit of \$100 for each dependent under the age of 17 and \$25 for each dependent age 17 and over.   | Working taxpayers may claim a credit of up to \$2,100 for costs incurred for child or dependent care. The credit is calculated as 20% to 35% of qualifying costs.   |
| <sup>1/</sup> Arizona and federal individual income tax brackets are adjusted annually for inflation.<br><sup>2/</sup> Long-term capital gains are realized on assets held longer than 1 year.<br><sup>3/</sup> Arizona and federal standard deduction amounts are adjusted annually for inflation.<br><sup>4/</sup> For married couples filing jointly, the added deduction is \$1,350 for each taxpayer that qualifies, up to \$2,700 per couple. For those filing single or as head of household, the added deduction is \$1,700.<br><sup>5/</sup> Pursuant to Laws 2021, Chapter 412, beginning in TY 2022, the optional standard deduction percentage of 25.0% will be increased according to the average annual change in the metropolitan Phoenix CPI published by the U.S. Department of Labor, Bureau of Labor Statistics. This increase will be raised to the nearest whole percent and cannot be revised below the amount from the previous tax year. The total deduction cannot exceed 100.0%. |   |   |

## Individual Income Tax

---

### PAYMENT SCHEDULE

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

Withholding of state income tax is determined based on withholding tables established by the Department of Revenue. Under this withholding table, an employee's state withholding is calculated as a percentage of their gross taxable wages. The withholding percentages effective since January 1, 2011 are as follows: 0.8%, 1.3%, 1.8%, 2.7%, 3.6%, 4.2%, or 5.1% of gross taxable wages. Additionally, employees can also choose to have their employer withhold an extra amount from each paycheck.

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

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

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

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

*Estimated Tax Payments.* A taxpayer whose Arizona gross income was greater than \$75,000 (or \$150,000 if the taxpayer filed a joint return) in the preceding taxable year or can reasonably expect to exceed \$75,000 (or \$150,000 if the taxpayer files a joint return) in the current year, must make estimated payments, if estimated withholding for the tax year does not equal 90% of the tax liability for the current year or 100% of the liability for the preceding year [A.R.S. § 43-581]. Per Laws 2021, Chapter 412, the statutorily required estimated individual income tax payments only apply to the individual income tax and not the 3.5% income tax surcharge for public education [A.R.S. § 43-581]. Laws 2021, Chapter 436 requires alternate income taxpayers to make estimated tax payments on Arizona alternate income in 4 installments during the tax year if the tax liability is at least \$1,000. The amount of required annual estimated tax payments is the lesser of 90.0% of the tax shown on the return for the tax year, 100.0% of the tax shown on the alternate income tax return for the preceding tax year, or zero for tax years prior to TY 2021 [A.R.S. § 43-583].

The estimated amount shall be paid in 4 installments on or before the due dates established for federal filing and reasonably reflect the taxpayer's Arizona income tax liability. The total of annual estimated tax payments and withholding tax must be at least 90% of the tax liability for the current year or 100% of tax liability for the preceding year. Estimated tax payments, for taxpayers with an annual tax liability above a statutory threshold, must be made by the last business day in June if the taxpayer is required to make the payment by electronic means. June payments must be done the same way as a taxpayer's regular payments (Laws 2020, Chapter 43).

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

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

*Payment of Balance.* The taxpayer is required to pay the balance of the tax due on April 15 after the close of the calendar year or, if return is based on a fiscal year, on the 15th day of the fourth month following the close of the

## Individual Income Tax

---

fiscal year. An income tax return is required to be filed with DOR along with the tax payment [A.R.S. § 43-501]. On March 20, 2020, the Governor issued an executive order that instructed the Department of Revenue to move the deadline for filing and paying state income taxes from April 15, 2020 to July 15, 2020. The July 15 filing due applied to 2019 state individual and corporate income tax returns. The executive order did not apply to quarterly estimated payments made by individual and corporate filers.

*Electronic Fund Transfer and Tax Filing Requirements.* Employers that had withholding tax liability of at least \$10,000 in the preceding taxable year are required to remit tax payments to DOR by electronic fund transfer (EFT). Laws 2017, Chapter 60 lowers the liability threshold for EFT payments from \$20,000 to \$10,000 for TY 2019, \$5,000 for TY 2020, and \$500 for TY 2021 and later years.

Beginning in TY 2018, Chapter 60 additionally requires tax professionals that prepare 11 or more state individual income tax returns a year to electronically file all prepared returns with DOR [A.R.S. § 42-1129 and A.R.S. § 43-323].

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

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

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

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

### TAX EXPENDITURES

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

Based on the most recent report available, the state collected about \$3.72 billion in resident individual income taxes in tax year 2015. However, according to DOR, the state allows subtractions, exemptions, deductions, and credits worth as much as \$2.13 billion during a tax year. *Table 15* lists individual income tax subtractions, exemptions, and deductions for tax year 2015, as shown in DOR's report *The Revenue Impact of Arizona's Tax Expenditures FY 2016/17*.

Laws 2015, Chapter 8 and Laws 2016, Chapter 125 requires DOR to report by September 30 each year on the amounts of individual income tax credits claimed in the preceding fiscal year. *Table 16* lists credits reported by DOR for FY 2021. The total annual tax expenditure estimate of \$2.13 billion, which was derived from DOR's Individual Income Tax Simulation Model and FY 2017 tax credit report, represents foregone revenues to the state General Fund and to the Urban Revenue Sharing Fund.

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

### ACCELERATED DEPRECIATION ALLOWANCES

The Internal Revenue Code (IRC) allows individual and corporate income tax filers to accelerate depreciation of qualified asset purchases under multiple programs for purposes of calculating federal taxable income. Though historically authorized on an annual basis, these accelerations have recently been made permanent or extended several years. For purposes of calculating state taxable income, the state's individual and corporate income tax statutes have varied with regard to conforming to the federal business expensing allowance and the federal bonus depreciation allowance. Based on the amount of federal allowance available in a given tax year, tax filers can use these provisions, potentially together, to reduce their federal and state taxable income in the tax year that the qualified investment is made. Allowances adjust the timing, not the total amount, of depreciation that can be taken over the life of an asset.

#### Business Expensing

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

Congress gradually increased the business expensing allowance on a temporary basis, from an amount of \$24,000 in TY 2002 to \$500,000 in TY 2010 through TY 2014. The \$500,000 allowance available from TY 2010 through TY 2014 is reduced dollar for dollar, for investment exceeding \$2.0 million.

Prior to TY 2013, Arizona capped the allowance at \$25,000 (Laws 2004, Chapter 196) for purposes of calculating Arizona income tax liability for individuals and corporations. Laws 2013, Chapter 256 first conformed the state's tax statutes to the IRC's \$500,000 business expensing federal deduction limit that was in place at the time of passage. Therefore, Chapter 256 effectively removed the \$25,000 cap. Laws 2015, Chapter 227 conformed Arizona tax statutes to the temporary federal allowance of \$500,000 in TY 2014, which reduced annual revenues by an estimated \$(30.8) million in FY 2015 and later years (*see 2015 Tax Handbook, page 49 for detail about past conformity estimates*).

The federal Consolidated Appropriations Act of 2016 made permanent the \$500,000 business expensing allowance, beginning retroactively to TY 2015. Laws 2016, Chapter 155 conformed the state's tax statutes to the IRC's permanent expensing limit. There is no added revenue loss from conforming to the permanent limit, as the previous estimated impact of \$(30.8) million a year assumed the continuation of the \$500,000 limit in future years.

The 2017 federal Tax Cuts and Jobs Act increased the maximum deduction from \$500,000 to \$1.0 million and increased the phase-out threshold from \$2.0 million to \$2.5 million and indexes those amounts to inflation. Laws 2019, Chapter 273 conforms Arizona to these changes.

#### Bonus Depreciation

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

Congress established a temporary 30% bonus depreciation allowance in TY 2002 and eventually increased the limit to 50% in TY 2013 and TY 2014. Prior to TY 2013, Arizona tax statutes did not conform to the federal allowance for purposes of calculating state income tax liability (Laws 2002, Chapter 344 and Laws 2004, Chapter 196). Beginning in TY 2014, Laws 2012, Chapter 343 permitted individual income taxpayers to reduce their state taxable income by an amount equal to 10% of the federal allowance, if any. Arizona taxpayers were first able to take the partial allowance in TY 2014 on property placed in service in TY 2013 (10% of the 50% federal allowance in TY 2013). Conforming to 10% of the temporary allowance of 50% in TY 2014 (Laws 2015, Chapter 227) was estimated to reduce annual revenues by \$(1.8) million in FY 2015 and later years.



## Individual Income Tax

The federal Consolidated Appropriations Act of 2016 extended federal bonus depreciation, providing allowances of 50% in TY 2015 through TY 2017, 40% in TY 2018, and 30% in TY 2019. Laws 2016, Chapter 118 conformed the state's deduction to 55% of the federal allowance in TY 2016 and 100% in TY 2017 and subsequent years. The 2-year phase-in of full state conformity of federal bonus depreciation is estimated to reduce individual income tax by \$(8.0) million in FY 2017, followed by an additional reduction of \$(8.0) million in FY 2018. Under the 2017 Internal Revenue Code (IRC) conformity bill (Laws 2017, Chapter 2), Chapter 118 is estimated to reduce individual income tax revenue by \$(8.0) million in FY 2018. This estimate was based on the 50% federal bonus depreciation allowance in effect for TY 2017 when the 2017 IRCS conformity bill was enacted.

Table 15

### DOLLAR VALUE OF TY 2015 INDIVIDUAL INCOME TAX SUBTRACTIONS, EXEMPTIONS AND DEDUCTIONS

| <b>FEDERAL SUBTRACTIONS FROM INCOME:</b>                                       | <b><u>Tax Year 2015</u></b> |
|--|-----------------------------|
| Certain business expenses of reservists, performing artists, etc.              | \$420,000                   |
| Health savings account deduction   | 3,580,000                   |
| Moving expenses  | 430,000                     |
| One-half of self-employment tax  | 16,180,000                  |
| Self-employed SEP and SIMPLE deduction   | 17,540,000                  |
| Self-employed health insurance deduction                                       | 18,970,000                  |
| Penalty on early withdrawal of savings   | 140,000                     |
| Alimony paid   | 11,160,000                  |
| Individual Retirement Account for Qualifying Individuals                       | 6,010,000                   |
| Student Loan Interest Deduction  | 7,220,000                   |
| Tuition and fees deduction   | 1,630,000                   |
| Domestic Production Activities   | 6,750,000                   |
| Educator Expenses  | <u>460,000</u>              |
| <b>Total Value of Federal Subtractions from Income <sup>1/</sup></b>           | <b>\$91,480,000</b>         |
| <b>EXEMPTIONS:</b>   |                             |
| Personal Exemptions  | \$252,620,000               |
| Preferential Personal Exemption for Unmarried Head of Household                | 17,320,000                  |
| Preferential Personal Exemption for Married Filers with One or More Dependents | 30,450,000                  |
| Age 65 or over Exemptions  | 36,370,000                  |
| Dependent Exemptions   | 104,410,000                 |
| Blind Exemptions   | 100,000                     |
| Qualifying Parent or Ancestor Exemption  | <u>1,890,000</u>            |
| <b>Total Value of Exemptions <sup>1/</sup></b>                                 | <b>\$409,590,000</b>        |
| <b>SUBTRACTIONS FROM INCOME:</b>   |                             |
| Interest on U.S. Obligations   | 3,030,000                   |
| Exclusion for Federal, State, and Local Pensions                               | 13,590,000                  |
| Exempt State Lottery Winnings  | 340,000                     |
| Social Security or Railroad Retirement Benefits Included on Federal Form 1040  | 206,770,000                 |
| Bonus Depreciation Adjustment  | 74,250,000                  |
| Certain Wages of Native Americans  | 26,120,000                  |
| Adjustment for IRC Section 179 Not Allowed                                     | 1,810,000                   |
| Active-Duty Military Pay   | 23,130,000                  |
| Net Operating Loss Adjustment  | 20,000                      |
| Contributions to 529 College Savings Plan                                      | 2,040,000                   |
| Net Capital Gains from a Qualified Small Business                              | 300,000                     |
| Net Long Term Capital Gains Acquired After 12/31/2011                          | 17,720,000                  |
| Certain wages of Native Americans  | 26,120,000                  |
| Other Subtractions   | <u>10,470,000</u>           |

## Individual Income Tax

|  |                        |
|--|------------------------|
| <b>Total Value of Subtractions<sup>1/</sup></b>  | <b>\$386,820,000</b>   |
| <b>DEDUCTIONS:</b>   |                        |
| Standard Deduction   | \$333,000,000          |
| Preferential Standard Deduction for Unmarried Head of Household  | 33,260,000             |
| <i>Itemized Deductions:</i>  |                        |
| Medical and Dental Expenses  | 161,020,000            |
| Additional Medical Allowed on Arizona Return   | 120,450,000            |
| <i>Taxes Paid:</i>   |                        |
| State and Local Income Taxes   | 151,950,000            |
| Real Estate Taxes  | 73,590,000             |
| Personal Property and Other Taxes  | <u>14,570,000</u>      |
| Total Value of Taxes Paid Deduction  | \$233,890,000          |
| <i>Interest Expense:</i>   |                        |
| Home Mortgage Interest and Points  | 194,870,000            |
| Mortgage Interest not on Form 1098   | 4,390,000              |
| Points not on Form 1098  | 1,010,000              |
| Qualified Mortgage Insurance Premiums  | 4,820,000              |
| Deductible Investment Interest   | <u>10,490,000</u>      |
| Total Value of Interest Expense  | \$213,720,000          |
| <i>Charitable Contributions:</i>   |                        |
| Cash Contributions   | 105,530,000            |
| Contributions Other Than Cash  | 35,960,000             |
| Carryover from Prior Year  | <u>5,180,000</u>       |
| Total Value of Charitable Contributions  | \$146,160,000          |
| Casualty or Theft Losses   | 1,280,000              |
| Job Expenses and most Other Miscellaneous Deductions   | 70,650,000             |
| Nonlimited Miscellaneous Deductions  | <u>24,240,000</u>      |
| <b>Total Value of Itemized Deductions<sup>1/</sup></b>   | <b>\$618,960,000</b>   |
| <b>Total Value of Standard and Itemized Deductions<sup>1/</sup></b>                                    | <b>\$1,241,330,000</b> |
| <b>Total Value of Subtractions, Exemptions and Deductions</b>  | <b>\$2,129,220,000</b> |
| <sup>1/</sup> Totals may not add up due to rounding  |                        |
| SOURCE: Department of Revenue Report – <i>The Revenue Impact of Arizona's Tax Expenditures FY 2017</i> |                        |

Table 16

### FY 2021 INDIVIDUAL INCOME TAX CREDITS

| <b>CREDITS:</b>   | <b>Effective Tax Years</b> | <b>Annual Cost <sup>1/2/</sup></b> |
|---|----------------------------|------------------------------------|
| Agricultural Pollution Control Equipment                    | 1999 -                     | \$16,905                           |
| Agricultural Water Conservation System                      | 1994 -                     | 1,962,422                          |
| Commercial and Industrial Solar                             | 2006 - 2018                | 79,009                             |
| Contributions to Qualifying Charitable Organizations        | 1998 -                     | 88,659,260                         |
| Contributions to Qualifying Foster Charitable Organizations | 2016 -                     | 27,314,818                         |
| Dependent Tax Credit  | 2019 -                     | 156,530,362                        |
| Donations to the Military Family Relief Fund                | 2009 - 2018                | 1,064,475                          |
| Employing National Guard                                    | 2006 -                     | N/R                                |

## Individual Income Tax

|   |             |                      |
|---|-------------|----------------------|
| Employment of TANF Recipients   | 1998-       | 0                    |
| Excise Tax Credit <sup>3/</sup>   | 2001-       | 27,036,370           |
| Facility Credit   | 2013 - 2022 | N/R                  |
| Family Tax  | 1996 -      | 887,343              |
| Healthy Forest Enterprise   | 2005 - 2024 | 0                    |
| Healthy Forest Restoration Workforce Training                               | 2012 - 2017 | 0                    |
| Investment in Qualified Small Businesses                                    | 2007 - 2024 | 1,649,990            |
| Military Reuse Zone   | 1993 - 2017 | 0                    |
| New Employment <sup>4/</sup>  | 2011 - 2029 | 1,853,935            |
| Pollution Control Device  | 1995 -      | N/R                  |
| Property Tax  | 1975 -      | 7,594,390            |
| Public School Extra Curricular Activity Fee                                 | 1998 -      | 38,610,528           |
| Renewable Energy Production <sup>5/</sup>                                   | 2011 - 2030 | 131,113              |
| Research and Development - Nonrefundable <sup>6/</sup>                      | 2001 -      | 22,613,878           |
| Research and Development - Refundable <sup>7/</sup>                         | 2010 -      | 477,096              |
| Research and Development – University Research <sup>8/</sup>                | 2012 -      | 0                    |
| School Site Donation  | 2001 -      | 60,879               |
| School Tuition Organizations (Original)                                     | 1998-       | 71,081,273           |
| School Tuition Organizations (Switcher)                                     | 2012-       | 43,217,735           |
| School Tuition Organization- S Corporation (low-income students)            | 2015-       | 29,258,009           |
| School Tuition Organization- S Corporation (disabled or displaced students) | 2015-       | 845,655              |
| Solar Energy Device   | 1995-       | 11,048,439           |
| Solar Hot Water Heater Plumbing Stub Outs and Electric                      | 1998-2017   | 225                  |
| Vehicle Recharge Outlets  |             |                      |
| Taxes Paid to Other State or Countries <sup>9/</sup>                        | 1935-       | 249,734,469          |
| <b>Total Value of Credits <sup>10/</sup></b>                                |             | <b>\$781,901,525</b> |

<sup>1/</sup> Amounts represent credits claimed in FY 2021.

<sup>2/</sup> "N/R" indicates that information is not releasable due to Arizona confidentiality laws.

<sup>3/</sup> Credit is subject to the 1998 Voter Protection Act (Proposition 105).

<sup>4/</sup> Statute does not permit the Arizona Commerce Authority to authorize new credits after June 30, 2025. Given a maximum 5-year schedule, the credit may not be claimed after TY 2029.

<sup>5/</sup> Credit is capped at \$20.0 million annually between corporate and individual income taxpayers.

<sup>6/</sup> Credit is capped at \$10.0 million annually between corporate and individual income taxpayers.

<sup>7/</sup> Credit is capped at \$5.0 million annually between corporate and individual income taxpayers.

<sup>8/</sup> Credit is capped at \$10.0 million annually between corporate and individual income taxpayers.

<sup>9/</sup> Credit prevents double-taxation of income.

<sup>10/</sup> Totals include amounts that were not releasable by credit. As a result, credit amounts may not add to total.

SOURCE: Department of Revenue report to the Legislature on the amount of individual income tax credits claimed in FY 2021.

The federal Tax Cuts and Jobs Act (TCJA) enacted in December 2017 increases the federal bonus depreciation allowance from 50% to 100% for qualified equipment placed in service between September 28, 2017 and December 31, 2022. The 2018 Internal Revenue Code (IRC) conformity bill (Laws 2018, Chapter 142) conformed state statutes to the TCJA provisions that were effective retroactively for TY 2017. Therefore, the state income deduction for TY 2018 was based on the pre-TCJA bonus depreciation allowance of 50%. Chapter 142 was estimated to result in a one-time individual income tax revenue loss of \$(5.0) million in FY 2019. Laws 2019, Chapter 273 conformed Arizona statute to the IRC for TY 2018, thus adopting 100% bonus depreciation for pass-through businesses.

## Individual Income Tax

---

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

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

#### 2021 LAWS

**Laws 2021, Chapter 80** makes several changes to the Credit for Qualified Facilities [A.R.S. § 41-1512, A.R.S. § 43-1083.03, and A.R.S. § 43-1164.04]. Under current law, a business that expands or locates a qualified facility in the state may receive a credit for qualifying investment and employment. The credit is the lesser of 10% of the total qualifying investment in the facility or \$20,000 for each net new job at the qualified facility. Chapter 80 makes the following changes to the Qualified Facility Credit:

- (1) Increases the credit from \$20,000 to \$30,000 per net new job if the total qualifying investment is \$2 billion or more. If the qualifying investment is less than \$2 billion, the credit remains at \$20,000 per net new job.
- (2) Increases the aggregate cap of the credit that can be preapproved by the Arizona Commerce Authority (ACA) in a calendar year from \$70 million to \$125 million.
- (3) Expands the statutory definition of "qualified manufacturing" to include products sold to other qualifying facilities regardless of whether such facilities have been pre-approved by ACA.

The changes under Chapter 80 are effective from September 29, 2021.

**Laws 2021, Chapter 174** decreases the length of time a tax credit may go unused from 4 years to 3 years before DOR terminates the credit [A.R.S. § 43-224].

**Laws 2021, Chapter 177** an emergency measure that changed the TY 2020 individual income tax filing due date from April 15, 2021 to May 17, 2021.

**Laws 2021, Chapter 190** requires a conservation plan to be filed with the U.S. Department of Agriculture (USDA), Natural Resources Conservation Service, or a National Resource Conservation District (NRCD) within Arizona to qualify for the Agricultural Water Conservation System Credit [A.R.S. § 43-1084]. Previously, a conservation plan had to be submitted to the USDA only.

**Laws 2021, Chapter 196** was a tax correction bill that made technical and clarifying to the Arizona Revised Statutes. Chapter 196 repeals the individual (but not the corporate) tax credit for Employment of Temporary Assistance of Needy Families (TANF) Recipients.

The individual income tax subtraction for World War II victims is repealed [A.R.S. § 43-1022].

A fiduciary is required to make a tax return for every individual required to file an individual income tax return [A.R.S. § 43-304].

The due date for a tax return that includes a period of less than 12 months is set as the 15<sup>th</sup> day of the 3<sup>rd</sup> month following the close of that period [A.R.S. § 43-931].

**Laws 2021, Chapter 232** conforms Arizona tax statutes to the Internal Revenue Code (IRC) in effect as of March 11, 2021. Chapter 232 adopts all the federal changes enacted under the Families First Coronavirus Response Act (FFCRA), Coronavirus Aid, Relief, and Economic Security (CARES) Act, Paycheck Protection Program (PPP) Flexibility Act, Consolidated Appropriations Act, 2021 (CAA), and American Rescue Plan (ARP) Act. Chapter 232 is estimated to result in a one-time General Fund revenue reduction of \$(624.8) million over the next several years.

## Individual Income Tax

**Laws 2021, Chapter 383** makes the following changes to the School Site Donation Credit:

- (1) restores the corporate School Site Donation Credit that was repealed by Laws 2020, Chapter 43, and
- (2) allows shareholders of an S corporation to claim their pro rata share of the individual School Site Donation Credit [A.R.S. § 43-1089.02D]. (Effective retroactively from January 1, 2020)

**Laws 2021, Chapter 395** allows contributions to college savings plans (authorized by section 529 of the Internal revenue Code, known as 529 plans) and to Achieving a Better Life Experience (ABLE) accounts to be subtracted from an individuals' Arizona adjusted gross income in the following amounts:

- \$2,000 per beneficiary for an individual or head of household
- \$4,000 per beneficiary for a married couple filing jointly

Previously, this subtraction applied to each tax filer and not each beneficiary [A.R.S. § 43-1022]. The JLBC Staff estimates this legislation will have minimal fiscal impact.

**Laws 2021, Chapter 411** provides that, beginning in TY 2021, the total individual income tax rate for taxable income above \$250,000 for single filers and \$500,000 for married couples filing jointly, including the Proposition 208 surcharge, cannot exceed 4.5%. Proposition 208 will receive the proceeds from the 3.5% surcharge. The remaining 1% will be deposited in the General Fund. This provision is estimated to result in a General Fund revenue loss of \$(836.0) million in FY 2022 and \$(487.8) million in FY 2023 and FY 2024.

**Laws 2021, Chapter 412** (Tax Omnibus) reduces the individual income tax rates to 2.55% for taxable income up to \$27,272 for single filers and up to \$54,544 for married couples filing jointly, and 2.98% for taxable income above \$27,272/\$54,544 in TY 2022. Further rate reductions are contingent upon the state receiving more General Fund revenue than forecast as determined in September of each year. Excluding the beginning balance, the "trigger" target is set at \$12,782,800,000 in FY 2022 and \$12,976,300,000 in FY 2023 and each year thereafter. If the state receives more than the FY 2022 trigger level, the rates will be reduced to 2.53%/2.75% starting in TY 2023. If the state receives more than \$12,976,300,000 in FY 2023 or any subsequent year, the rate will be reduced to a single rate of 2.5% in the following Tax Year. The reduction of the current rates to the TY 2022 rates of 2.55%/2.98% is estimated to reduce General Fund revenues by \$(1,016.6) million in FY 2023. For more details, see *Table 17*, *Table 18*, and *Table 19* below.

Table 17

### TY 2022 Individual Income Tax Rates

| Single or Married Filing Separately |   | Married Couple or Head of Household |   |
|-------------------------------------|---|-------------------------------------|---|
| <u>Taxable Income</u>               | <u>Tax Rate</u>                               | <u>Taxable Income</u>               | <u>Tax Rate</u>                                 |
| \$0-27,272                          | 2.55%   | \$0-\$54,544                        | 2.55%   |
| \$27,273 and over                   | \$695 plus 2.98% of the amount above \$27,272 | \$54,545 and over                   | \$1,391 plus 2.98% of the amount above \$54,544 |

Table 18

### TY 2023 Individual Income Tax Rates <sup>1/</sup>

| Single or Married Filing Separately |   | Married Couple or Head of Household |   |
|-------------------------------------|---|-------------------------------------|---|
| <u>Taxable Income</u>               | <u>Tax Rate</u>                               | <u>Taxable Income</u>               | <u>Tax Rate</u>                                 |
| \$0-27,272                          | 2.53%   | \$0-\$54,544                        | 2.53%   |
| \$27,273 and over                   | \$690 plus 2.75% of the amount above \$27,272 | \$54,545 and over                   | \$1,380 plus 2.75% of the amount above \$54,544 |

<sup>1/</sup> Implementation of tax rates is contingent upon what fiscal year the "trigger" revenue target of \$12.78 billion is met.

## Individual Income Tax

Table 19

### TY 2024 Individual Income Tax Rates <sup>1/</sup>

#### Taxable Income

\$0 and above

#### Tax Rate

2.50%

<sup>1/</sup> Implementation of tax rates is contingent upon what fiscal year the "trigger" revenue target of \$12.98 billion is met.

Besides the rate reduction described above, Chapter 412 makes several other changes related to income tax, premium insurance tax, property tax, and unemployment insurance. These other provisions in the Tax Omnibus are described below.

- Provides a full individual income tax exemption for benefits, annuities, and pensions received by military retirees, beginning in TY 2021. The current exemption is \$3,500. This provision is currently estimated to reduce General Fund revenues by \$(48.3) million in FY 2022 and \$(37.9) million in FY 2023 and FY 2024.
- Adjusts for inflation the percentage of charitable contributions that standard deduction filers can claim over and above the regular standard deduction, beginning in TY 2022. The adjusted percentage cannot exceed 100%. This provision is estimated to reduce General Fund revenues by \$(2.0) million in FY 2023 and \$(3.9) million in FY 2024.
- Increases the credit cap for contributions by corporations and insurers to School Tuition Organizations (STO) for displaced/disabled students from \$5 million to \$6 million, beginning in FY 2022. This provision is expected to have an annual revenue impact of \$(1.0) million, starting in FY 2022. Since this provision also affects the corporate income tax as well as the insurance premium tax, it is also included in those sections of the Tax Handbook.
- Creates a new nonrefundable individual and corporate income tax credit for the processing of qualified forest products, beginning in TY 2021. The credit, which has an annual cap of \$0.5 million per taxpayer and \$2 million in the aggregate, is estimated to reduce General Fund revenues by \$(395,800) annually, beginning in FY 2022.
- Expands the eligibility for students receiving "switcher" individual or low-income corporate STO scholarships to include those who were homeschooled, moved from out of state, or held an Empowerment Scholarship Account (ESA), beginning in TY 2021. The provision is expected to result in an annual revenue reduction of \$(0.4) million, beginning in FY 2022. This provision affects both the individual and corporate income tax.
- Allows public service corporations to deduct for income tax purposes any amount of monies or other property contributed to them to expand, improve, or replace their water system or sewage disposal facilities, beginning in TY 2021. This provision is estimated to reduce General Fund revenues by \$(0.4) million annually, beginning in FY 2022. This provision affects corporate (but not individual) income tax.
- Provides that for calendar year 2021, applications submitted to the Department of Revenue for the individual and corporate renewable energy production tax credit are allowed to be made prior to February 7, 2021. This provision is not expected to have any fiscal impact.
- Provides that the payments of estimated tax by individual income tax filers do not apply to liability accruing from the Proposition 208 Surcharge.
- Continues to include capital items, community school meal programs, student consumable health care supplies, and playground equipment as eligible expenses for purposes of the individual income tax credit for public school fees and extracurricular activities until June 30, 2024 (eligibility for these items expires June 30, 2022). This provision has no fiscal impact.
- Expands the definition of Qualifying Foster Care Charitable Organizations (QFCO) for TY 2021 to allow tax credit donations to QFCOs that serve persons who have left the foster care system due to reaching 18 years of age, adoption, or legal guardianship after reaching 16 years of age or reunification at 14 or 15 years of age. This provision is not expected to have any fiscal impact.
- Clarifies retroactively from January 1, 2016 that the transaction privilege tax and use tax exemption for machinery and equipment includes containment structures. For more information, see the *Transaction Privilege Tax* section of the Tax Handbook.
- Phases down the Class 1 (commercial) property assessment ratio from 18% to 16% over 4 years, beginning in TY 2022. This provision is estimated to increase K-12 school funding formula costs by \$4.4 452 million in

## Individual Income Tax

---

FY 2023 and \$9.0 million in FY 2024. Since the state does not levy a property tax, there is no General Fund revenue impact. This provision affects the property tax and is therefore also included in the *Property Tax* section of the Tax Handbook.

- Increases the distribution from the Urban Revenue Sharing (URS) Fund to incorporated cities and towns from 15% to 18% of the amount of individual and corporate income taxes collected 2 fiscal years prior, beginning in FY 2024.
- Increases the Homeowner's Rebate on primary school district property taxes levied on Class 3 (residential) property from 47.19% to 50.0%, beginning in TY 2022. This provision is estimated to increase K-12 school funding formula costs by \$30.0 million in FY 2023 and \$30.8 million in FY 2024. Since the state does not levy a property tax, there is no General Fund revenue impact. For more information, see the *Property Tax* section of the Tax Handbook.
- Increases the maximum property tax rate for Fire Assistance Districts from \$3.25 per \$100 Net Assessed Value (NAV) to \$3.375 in TY 2022 and \$3.50, beginning in TY 2023. As under current law, the fire district levy remains limited to the lesser of: (1) 8% more than the amount levied in the preceding year or (2) the maximum tax rate multiplied by the district's NAV. This provision has no General Fund impact. For more information, see the *Property Tax* section of the Tax Handbook.
- Increases the maximum weekly unemployment insurance benefit from \$240 per week to \$320 per week, effective July 1, 2022. For more information, see the *Unemployment Insurance Tax* section of the Tax Handbook.
- Increases the taxable payroll base for the unemployment insurance tax from \$7,000 to \$8,000, beginning January 1, 2023. For more information, see the *Unemployment Insurance Tax* section of the Tax Handbook.
- Decreases the maximum number of weeks of unemployment insurance benefits from 26 weeks to 24 weeks if the state unemployment rate is less than 5% in the prior calendar quarter, effective July 1, 2022. For more information, see the *Unemployment Insurance Tax* section of the Tax Handbook.
- Require the Department of Economic Security (DES) to obtain current and actual employment and earned income information from third-party sources when it determines eligibility for unemployment benefits. The identity verification process may include digital and/or physical identity authentication factors. Requires DES to report by December 31st annually on unemployment insurance fraud for the previous fiscal year. For more information, see the *Unemployment Insurance Tax* section of the Tax Handbook.

**Laws 2021, Chapter 425** creates an optional entity-level income tax for partnerships and S corporations, beginning in TY 2022. If the partners or shareholders of such pass-through-entities (PTE) elect to be taxed at the entity level, the PTEs are taxed at 4.5% of their Arizona taxable income. Such an election allows PTEs to claim a full deduction on their federal partnership return for state taxes paid at the entity level. Currently, the amount of itemized deductions that can be claimed for state and local taxes paid by each partner or shareholder of a PTE on their federal individual income tax return is limited to \$10,000. Chapter 425 has no impact on General Fund revenues. At the state level, partners, and shareholders of PTEs will pay the same amount of state individual income tax under Chapter 425 as under current law. At the federal level, however, there will be a reduction of individual income tax revenues since Chapter 425 will effectively allow partners and shareholders of PTEs to claim their full deduction for state taxes.

**Laws 2021, Chapter 430** creates a new individual and corporate nonrefundable affordable housing tax credit that is equal to at least 50% of the amount of the federal low-income housing credit for qualified projects placed in service after June 30, 2022. The Arizona Department of Housing is authorized to allocate a total of \$4 million in tax credits per year from TY 2022 to TY 2025. Each of these 4 award cycles is available for 10 years. The credit is estimated to have a revenue impact of \$(4.0) million in FY 2024.

Chapter 430 extends the Arizona Commerce Authority's (ACA) credit authorization of the individual income tax credit for Investment in Qualified Small Businesses ("Angel Investment Credit"), from June 30, 2021 to June 30, 2031. As under prior law, (ACA) can authorize up to \$2.5 million each fiscal year.

**Laws 2021, Chapter 436** (SB 1783) creates an alternative income tax for certain classes of income. These include interest and ordinary dividends, profit or loss from an individual who is operating a business as a sole proprietor,

## Individual Income Tax

supplemental income or loss, profit or loss from farming, sale of business property, farm rental income and expenses, and certain capital gains and losses. This income is referred to as "Arizona alternate income" and is subject to separate income tax rates from the regular individual income tax. The rates under Chapter 436 are 3.5% in TY 2021, 3.0% in TY 2022, 2.8% in TY 2023 and 2024, and 2.5% beginning in TY 2025. Individuals with the aforementioned classes of income can choose to be taxed either under the regular individual income tax or the alternative income tax established by SB 1783. An individual who elects to be taxed under SB 1783's alternative income tax is not subject to the 3.5% surcharge under Proposition 208. Instead, all taxes collected under SB 1783's alternative income tax will be deposited into the General Fund.

The shift of taxable income from the regular income tax to SB 1783's alternative income tax results in a General Fund savings relative to the 4.5% rate cap policy under Laws 2021, Chapter 411. This savings is estimated to be \$173.4 million in FY 2023. *Table 20* below displays the estimated impact of the 3 key individual income tax provisions included in the June 2021 enacted budget. The estimates reflect a scenario under which the revenue "trigger" targets discussed above are exceeded in FY 2022 and FY 2023 and therefore the tax rates reduced to 2.53%/2.75% in TY 2023 and 2.5% in TY 2024. Under this scenario, the net revenue impact would be \$(1.3) billion in FY 2023, \$(1.5) billion in FY 2024, and \$(1.8) billion in FY 2025.

**Table 20**

**General Fund Revenue Impact [\$ Millions]**

| <b>Provision</b>             | <b>FY 2023</b>     | <b>FY 2024</b>     | <b>FY 2025</b>     |
|------------------------------|--------------------|--------------------|--------------------|
| Rate Reduction <sup>1/</sup> | \$(1,016.6)        | \$(1,251.0)        | \$(1,533.4)        |
| 4.5% Max Rate                | (487.8)            | (418.0)            | (369.1)            |
| SB 1783 Impact               | <u>173.4</u>       | <u>150.2</u>       | <u>125.0</u>       |
| <b>Net Impact</b>            | <b>\$(1,331.0)</b> | <b>\$(1,518.8)</b> | <b>\$(1,777.5)</b> |

<sup>1/</sup> Estimates assume that revenue triggers are met in FY 2022 and FY 2023 and therefore the tax rates reduced to 2.53%/2.75% in TY 2023 and 2.5% in TY 2024.

## 2020 LAWS

**Laws 2020, Chapter 7** extends the Credit for Qualified Facilities to January 1, 2030. Computation of the tax credit only includes capital investments in a qualified facility that are made within 36 months before applying to the ACA for preapproval. An applicant can qualify for the Credit for Qualified Facilities if at least 51 percent of the net new full-time employment positions have job duties associated with the qualified facility, rather than at the qualified facility.

Chapter 7 maintains the current rates of the Research and Development Credit computation through December 31, 2030 and delays the modification to the rates of the computation for taxable years beginning January 1, 2031. It reduces, from 15 consecutive taxable years to 10 consecutive taxable years, beginning January 1, 2022, the number of years the amount of a credit claimed and not used to offset taxes may be carried forward, if the allowable credit exceeds the taxes due. Chapter 7 allows qualified research expenses that have been converted into a credit carryforward, for taxable years beginning January 1, 2022, to be carried forward to not more than 10 years from the year in which the expenses were incurred

**Laws 2020, Chapters 24 and 40** is the annual conforming of the Arizona tax code to the federal Internal Revenue Code (IRC). This took effect of January 1, 2020 to reflect changes adopted by the U.S. Congress during 2019.

**Laws 2020, Chapter 43** was a tax correction bill that made technical and clarifying to the Arizona Revised Statutes. Chapter 43 repeals the individual tax credit for Construction Costs of Qualified Environmental Technology Facility. In addition, this chapter also repeals the corporate tax credits for Employment by a Healthy Forest Enterprise, Agricultural Pollution Control Equipment, and the Donation of a School Site.



## Individual Income Tax

### 2019 LAWS

**Laws 2019, Chapter 164** expands the tax credit for public school fees and contributions to include taxpayer's contributions towards capital items, community school meal programs, and student consumable health care supplies. This provision is in effect from FY 2020 through FY 2022.

**Laws 2019, Chapter 203** was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. In addition, Chapter 203 repealed the individual income tax credit for investments in renewable energy facilities used by International Operations Centers (Effective from August 27, 2019).

**Laws 2019, Chapter 272** requires licensed escrow agents to file an information return for sales of real property located in Arizona with DOR. Licensed escrow agents would be required to submit this return to DOR by March 31 for sales closed during the prior calendar year. The bill is expected to increase compliance for capital gains taxes owed by non-residents that sell real estate in Arizona. DOR shall report to the JLBC and OSPB annually on the additional estimated revenue collected from the nonresident real estate transactions as a result of the new reporting requirement for licensed escrow agents (Effective from August 27, 2019).

**Laws 2019, Chapter 273** contains numerous provisions relating to individual income tax, corporate income tax, and transaction privilege tax (TPT). The income taxes changes are described below. Please see the *Transaction Privilege Tax Section* for details relating to TPT provisions. The ongoing net impact of the bill, beginning in FY 2021, is shown in *Table 21*. In FY 2019, the bill will result in a General Fund revenue increase of \$155.0 million. In FY 2020, the bill will result in an estimated revenue loss of \$(52.0) million. As noted in *Table 20*, in FY 2021 and beyond, the JLBC Staff estimates that the bill will result in an ongoing annual revenue loss of \$(24.0) million.

| Table 21                                |                  |
|---|------------------|
| Chapter 273 Ongoing Impact              |                  |
|   | <u>Impact</u>    |
| <u>Revenue Additions</u>                |                  |
| Conformity                              | \$217.0          |
| Wayfair                                 | 85.0             |
| Eliminate Personal/Dependent Exemptions | 353.9            |
| Eliminate Lottery Winning Subtraction   | <u>0.1</u>       |
| <b>Total, Additional Revenue</b>        | <b>\$656.0</b>   |
| <u>Revenue Subtractions</u>             |                  |
| Increase Standard Deduction             | \$(404.0)        |
| Dependent Tax Credit                    | (144.0)          |
| Bracket/Rate Reduction                  | (108.0)          |
| 25% Charitable Deduction                | <u>(24.0)</u>    |
| <b>Total, Reduced Revenue</b>           | <b>(\$680.0)</b> |
| <b>Net Ongoing Impact</b>               | <b>(\$24.0)</b>  |

**TY 2018 and TY 2019 Conformity** – Chapter 273 conforms Arizona to the federal definition of adjusted gross income as of January 1, 2018 for tax year 2018, and January 1, 2019 for tax year 2019.

**Changes to Arizona Individual Income Tax Statutes** – Beginning in TY 2019, Chapter 273 makes several changes to the state's individual income tax statutes, as described below.

- Reduces the number of marginal individual income tax brackets from 5 to 4 and reduces each marginal rate as shown in *Table 22*.

## Individual Income Tax

| Table 22<br>Marginal Income Tax Rate/Bracket Comparison |                            |                               |                            |
|---|----------------------------|-------------------------------|----------------------------|
| <b>Brackets –<br/>Current</b>                           | <b>Rates –<br/>TY 2018</b> | <b>Brackets –<br/>Enacted</b> | <b>Rates –<br/>TY 2019</b> |
| \$0 - \$10,600  | 2.59%                      | \$0 - \$26,500                | 2.59%                      |
| \$10,601 – 26,500                                       | 2.88%                      | Collapsed                     | 2.59%                      |
| \$26,501 - \$53,000                                     | 3.36%                      | \$26,501 - \$53,000           | 3.34%                      |
| \$53,001 - \$159,000                                    | 4.24%                      | \$53,001 - \$159,000          | 4.17%                      |
| \$159,001 and over                                      | 4.54%                      | \$159,001 and over            | 4.50%                      |

- Removes the Arizona subtraction from taxable income for lottery winnings.
- Increases the standard deduction as shown in *Table 23*. Indexes the standard deduction to the same inflation index used to calculate the federal standard deduction.

| Table 23<br>Standard Deduction Comparison |   |   |
|---|---|---|
| <b>Filing Status</b>                      | <b>Standard<br/>Deduction -<br/>Current Law</b> | <b>Standard<br/>Deduction -<br/>Enacted</b> |
| Single/Married Filing Separate            | \$5,312   | \$12,000                                    |
| Single Head of Household                  | \$10,613  | \$18,000                                    |
| Married Filing Jointly                    | \$10,613  | \$24,000                                    |

- Eliminates the state personal and dependent exemptions, shown in *Table 24*.

| Table 24<br>Eliminated Exemptions           |         |
|---|---------|
| Personal Exemption, No Dependents           | \$2,200 |
| Personal Exemption, Married with Dependents | \$6,600 |
| Dependent Exemption                         | \$2,300 |

- Allows taxpayers that take the standard deduction to increase their standard deduction by 25% of their charitable contributions that otherwise would have been deductible had they itemized their tax returns.
- Establishes a dependent tax credit of \$100 for each dependent under 17 years old and \$25 for each dependent age 17 and above. This credit is phased out for singles with over \$200,000 of adjusted gross income and \$400,000 for married couples filing jointly.

**Laws 2019, Chapter 281** limits the annual increase of the aggregate credit cap for contributions made by corporations (including S Corporations) and insurers to qualifying school tuition organizations (STO) that provide education scholarships and tuition grants to students of low-income families from 20% to 15% in FY 2021, 10% in FY 2022, and 5% in FY 2023. Beginning in FY 2024, the increase of the credit cap is limited to the greater of 2% or the annual change of the Metropolitan Phoenix consumer price index. In dollar terms, Chapter 281 limits the growth of the credit cap to \$123.1 million in FY 2021, \$135.4 million in FY 2022, and \$142.1 million in FY 2023.

**Laws 2019, Chapter 297** expands the eligibility criteria for the state charitable tax credit to include organizations that serve both children and adults with chronic illness or disability rather than solely children. Chapter 297 is effective retroactively from January 1, 2019. Chapter 297 is expected to have an ongoing impact of \$(1.2) million annually, beginning in FY 2020.

## Individual Income Tax

---

### 2018 LAWS

**Laws 2018, Chapter 74** extends the low-income credit for Proposition 301 taxes to December 31, 2041. This credit was previously set to expire along with the 0.6% sales tax enacted by Proposition 301 in TY 2021. Chapter 74 extends both the temporary 0.6% sales tax and the tax credit through TY 2041.

**Laws 2018, Chapter 104** was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. (Effective from August 3, 2018)

**Laws 2018, Chapter 142** was the annual conformity bill that updated the definition of the Internal Revenue Code (IRC) to include all IRC provisions that were in effect as of January 1, 2017. This included provisions of the federal Tax Cuts and Jobs Act (TCJA) that were made retroactively effective for tax year 2017. The TCJA increased the allowable rate of the bonus depreciation allowance from 50% to 100% of qualified business investment made after September 27, 2017. Chapter 142 conforms to the full bonus depreciation deduction for individual income taxpayers for the final 3 months of TY 2017. Most TCJA provisions were effective January 1, 2018. Chapter 142 does not address those provisions.

**Laws 2018, Chapter 199** extends the military family relief credit from December 31, 2018 to December 31, 2026.

**Laws 2018, Chapter 283** increased the income tax deduction for military pensions from \$2,500 to \$3,500 in TY 2019 and beyond.

### 2017 LAWS

**Laws 2017, Chapter 2** was the annual conformity bill that updated the definition of the Internal Revenue Code (IRC) to include all IRC provisions that were in effect as of January 1, 2017.

**Laws 2017, Chapter 60** includes several provisions for electronic filing and payment of taxes to the Department of Revenue (DOR). The act's individual income tax provisions are listed below.

- Reduces the tax liability threshold above which employers must pay withholding tax using electronic funds transfer. The threshold is reduced from \$20,000 for TY 2018, to \$10,000 for TY 2019, \$5,000 for TY 2020, and \$500 for TY 2021 and later years. (Effective from January 1, 2019)
- Requires tax professionals that prepare 11 or more state individual income tax returns a year to file all prepared returns electronically. (Effective from January 1, 2018)
- Requires individuals that receive taxable income as fiduciaries of estates or owners of a business partnership to electronically file their state returns. The requirement begins in tax year (TY) 2020, or in the tax year DOR begins accepting electronic returns from fiduciaries and partners, whichever is later. (Effective from January 1, 2020 or later)
- Prohibits DOR from distributing paper tax return forms, except upon request from the taxpayer. (Effective from August 9, 2017)

**Laws 2017, Chapter 127** designates a business' conversion from one type of legal structure to another as a nontaxable event for purposes of calculating state income taxes, if the conversion does not include changes to a business' ownership interests or assets. Prior to the bill, owners of a C or S corporation that converted to a partnership or limited liability company could realize capital gains income that was subject to the state's individual income tax. (Effective from August 9, 2017)

**Laws 2017, Chapter 172** allows a taxpayer to voluntarily designate an amount to donate from their refund to the Spaying and Neutering of Animals Fund. Money in the fund is allocated to qualifying organizations that aim to reduce pet overpopulation in the state through sterilization of dogs and cats. (Effective retroactively to January 1, 2017)

## Individual Income Tax

---

**Laws 2017, Chapter 178** was a tax correction bill that made technical and clarifying changes to the Arizona Revised Statutes. (Most provisions are effective from August 9, 2017 while others are effective from December 31, 2017).

**Laws 2017, Chapter 278** permits a business to subtract for income tax purposes the entire amount of business access expenditures incurred in a tax year to retrofit property in order to comply with the federal Americans with Disabilities Act of 1990. The bill has the effect of accelerating depreciation of such property to 1 year rather than depreciating it over several years. The income tax subtraction applies to property that was originally placed in service 10 years prior to retrofitting. Investments must be made in TY 2018 or later years to qualify for the subtraction. The full impact of this provision is included in the *Corporate Income Tax* section. (Effective from January 1, 2018)

**Laws 2017, Chapter 299** includes several tax provisions regarding individual income, corporate income, and insurance premium tax. The act's individual income tax provisions are summarized below.

### Increases to Personal Exemption

In TY 2017, Chapter 299 increases the personal exemption amount allowed by individual income taxpayers from \$2,100 to \$2,150 for single filers, from \$4,200 to \$4,300 for head of household filers and married couples filing jointly with no dependents, and from \$6,300 to \$6,450 for married couples filing jointly with at least 1 dependent.

In TY 2018, the act further increases personal exemption amounts to \$2,200 for single filers, \$4,400 for head of household filers and married couples filing jointly with no dependents, and \$6,600 for married couples filing jointly with at least 1 dependent.

Beginning in TY 2019, the personal exemption amounts will be adjusted for inflation in the prior calendar year, as measured by the Metropolitan Phoenix Consumer Price Index. The act's personal exemption provisions are estimated to reduce individual income tax collections by \$(6.8) million in FY 2018, followed by additional reductions of \$(6.7) million in FY 2019, and \$(2.9) million in FY 2020. (Effective retroactively to January 1, 2017)

### TY 2018 Repeal of Credits

The act repeals the credits listed below, beginning in TY 2018. See the individual credits in the *Tax Credits* section for information about each.

- Healthy Forest - Ecological Restoration Workforce Training
- Military Reuse Zone
- Renewable Energy Investment
- Solar Hot Water Heater Stub Outs and Electric Vehicle Recharge Outlets
- Solar Liquid Fuel

The credits above have either not been claimed or claimed in a negligible amount in recent years. As a result, their repeal is not expected to have a significant revenue impact. (Effective from January 1, 2018)

### Repeal of Unused Credits

Beginning in TY 2018, the act requires the Department of Revenue (DOR) to end servicing of tax credits that have not been claimed during the 4 most recent consecutive fiscal years. Credits that are authorized by the Arizona Commerce Authority (ACA) may not be repealed if the agency approved any credits during the prior 4 fiscal years, regardless of whether the credits were claimed against tax liability. DOR will include language to repeal unused credits in draft tax correction legislation proposed to the Legislature annually. If legislation to repeal the credit from statute is not enacted in the following Legislative session, DOR will restore servicing of the tax credits. Provisions for the repeal of unused credits are not expected to have a revenue impact. (Effective from January 1, 2018)

## Individual Income Tax

---

**Laws 2017, Chapter 316** provides individual and corporate income taxpayers a subtraction of net capital gains income earned on the exchange of U.S. coins or currency in TY 2018 and later years. (Effective from January 1, 2018)

**Laws 2017, Chapter 319** authorizes the ACA to issue an additional \$10.0 million in angel investment tax credits from July 1, 2017 to June 30, 2021. Of the \$10.0 million in additional credits, ACA may approve up to \$2.5 million for each year. Any unused portion of the \$2.5 million annual cap may be authorized in the following years of the program. Prior to Laws 2017, Chapter 319, the credit was limited to a total of \$20.0 million over the life of the program, from July 1, 2006 through June 30, 2021. ACA reported completing approval of the initial \$20.0 million cap by June 2015. The act is expected to reduce individual income tax collections by \$(833,300) in FY 2018, followed by further reductions of \$(833,300) in FY 2019, and \$(833,300) in FY 2020. (Effective from January 1, 2018)

**Laws 2017, Chapter 340** includes several tax provisions for individual income, corporate income, sales, insurance premium, and property taxes. The act's individual income tax provisions are summarized below.

### Extend and Expand the New Employment Tax Credit

Chapter 340 extends the date by which New Employment Tax Credits may be authorized and expands access to the credit. The bill extends the last date that ACA is permitted to authorize new credits from June 30, 2017 to June 30, 2025. Given a maximum 5-year schedule for claiming the credit (*see New Employment Tax Credit section for information*), businesses may claim credits through TY 2029. Prior to Laws 2017, Chapter 340, a business could not claim the new credit unless it added at least 25 net new jobs in a year in an urban area (5 in a rural area), paid employees at least 100% of the county median wage, and made a capital investment of at least \$5.0 million (\$1.0 million in a rural area). Beginning in TY 2018, Laws 2017, Chapter 340 permits businesses to qualify under alternative levels of capital investment and wages as displayed in *Table 13*. A business can now invest less than \$5.0 million if they pay wages that exceed 100% of the county median level. The required number of net new jobs remains unchanged. The impact of this provision is included within the *Corporate Income Tax* section.

### Extend Rate Increase for Research and Development Tax Credit

The act extends a rate increase for calculating Research and Development (R&D) credits through TY 2021. The state's R&D credit is calculated based on the amount of qualified research expenses exceeding a certain base amount (which is defined in the Internal Revenue Code). Prior to TY 2010, the credit was calculated as 20% of up to \$2.5 million in qualified expenses and 11% of qualified expenses above \$2.5 million. Laws 2008, Chapter 290 temporarily increased the credit in TY 2010 to TY 2017, to 24% of up to \$2.5 million in qualified expenses and 15% of qualified expenses above \$2.5 million. Chapter 340 extends the rate increase under Laws 2009, Chapter 290 through TY 2021. As the provision continues an existing credit at the same rate as that reflected in the revenue base, it is not expected to have a revenue impact.

### Clarification for Claiming Qualified Facility Tax Credits

Chapter 340 clarifies that Qualified Facility credits that are pre-approved prior to the expiration of the program on December 31, 2022 can be claimed in 5 annual installments notwithstanding any intervening repeal or termination of the credit. This clarification of prior law has no impact on revenue collections.

## 2016 LAWS

**Laws 2016, Chapter 35** requires the state to withhold distributions of Urban Revenue Sharing Fund (URS) monies from cities or towns that the Attorney General finds are violating the Arizona Constitution or state laws. Cities and towns receive annual distributions from the URS that total 15% of individual and corporate income tax collections from 2 years prior. Under Chapter 35, the URS share of any offending locality will be redistributed to the remaining recipients. The state would continue to withhold URS distributions until the Attorney General certifies that the city or town is no longer in violation of the Arizona Constitution and state laws. The shared revenue would not be withheld, though, if doing so would leave the city or town with insufficient funding to service their long-term debt obligations. (Effective from August 6, 2016)

## Individual Income Tax

---

**Laws 2016, Chapter 109** increases the maximum amount that an individual income taxpayer can claim for cash contributions to qualifying charitable organizations (QCO) and qualifying foster care charitable organizations (QFCO). Chapter 109 increases the maximum QCO credit from \$400 to \$800 for married couples filing joint returns and from \$200 to \$400 for all other filers. The maximum amount for the QFCO credit is increased from \$800 to \$1,000 for married couples filing joint returns and from \$400 to \$500 for all other filers. Additionally, Chapter 109 allows a taxpayer to receive separate credits for cash contributions to a QCO and a QFCO. Prior to Chapter 109, the maximum amount for both credits combined was \$800 for married couples filing joint returns and \$400 for all other filers. This provision is estimated to reduce General Fund revenue by \$(11.0) million annually, beginning in FY 2017. (Effective retroactively from January 1, 2016)

**Laws 2016, Chapter 118** conforms the state's individual income tax bonus depreciation deduction to 55% of the federal allowance in TY 2016 and 100% in TY 2017 and subsequent years. Laws 2012, Chapter 343 provided an individual income tax deduction equal to 10% of the bonus depreciation allowance claimed on federal returns for qualified property purchased and placed in service in 2013 and later. Current federal law provides a bonus depreciation allowance of 50% through TY 2017, 40% in TY 2018, and 30% in TY 2019. Therefore, under Chapter 118, the state individual income tax deduction is 27.5% (55% of 50% federal allowance) of the qualified investment amount in TY 2016, 50% (100% of 50% federal allowance) in TY 2017, 40% (100% of 40% federal allowance) in TY 2018, and 30% (100% of 30% federal allowance) in TY 2019. The 2-year phase-in of full state conformity to federal bonus depreciation is estimated to reduce individual income tax by \$(8.0) million in FY 2017, followed by an additional reduction of \$(8.0) million in FY 2018. (Effective retroactively from January 1, 2016)

**Laws 2016, Chapter 155** was the annual conformity bill that updated the definition of the Internal Revenue Code (IRC) to include all IRC provisions that were in effect as of January 1, 2016. The federal Consolidated Appropriations Act of 2016 authorized a permanent business expensing limit of \$500,000, retroactively to TY 2015. A primary implication of Chapter 155 was conformity of the state's tax statutes to the permanent business expensing limit of \$500,000. There is no added revenue loss from conforming to the permanent limit, as the previous estimated impact of \$(30.8) million a year assumed the continuation of the \$500,000 limit in future years. The *Accelerated Depreciation Allowances* section includes more details on the business expensing allowance. (Effective retroactive from January 1, 2016)

**Laws 2016, Chapter 156** was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. (Effective from August 6, 2016)

**Laws 2016, Chapter 214** requires the state to implement tax-exempt Achieving a Better Life Experience (ABLE) savings accounts that can be used to fund qualified expenses of disabled beneficiaries. Qualified expenses may include costs of the disabled individual's housing, transportation, employment training, and other needs. Under Section 529 of the federal IRC, earnings generated from contributions to the accounts are allowed to grow tax-free. The same tax advantage applies to state income tax since federal adjusted gross income is the starting point for determining Arizona income tax liability. Chapter 214 also permits taxpayers a subtraction of account earnings if the individual did not already exclude the income when calculating federal adjusted gross income. Individuals have the option of opening an account outside of their state of residence. (Effective retroactively from January 1, 2016)

**Laws 2016, Chapter 216** allows fees and contributions that fund cardiopulmonary resuscitation (CPR) training for public high school students to qualify for the existing public-school extracurricular activity fee income tax credit. The legislation also requires public schools to provide at least 1 training to each high school student from January 1, 2016 to July 1, 2019. The maximum credit remains \$200 for taxpayers filing as single or head of household and \$400 for those filing as married couples. (Effective retroactively from January 1, 2016)

**Laws 2016, Chapter 258** is an emergency measure that amends current statutes with respect to the method by which state-shared revenues are apportioned among counties and municipalities, as described below.

Under current law, state-shared revenue is distributed to an incorporated city or town based on its population count as of the last federal decennial census [A.R.S. § 42-5029(I)]. During the fifth year following the decennial census, a city/town may contract with the U.S. Census Bureau to conduct a special census of the population of that municipality. Beginning July 1 in the sixth year following the decennial census, the special census must be used as

## Individual Income Tax

---

the basis for apportioning state-shared revenue to that municipality until the next federal decennial census [A.R.S. § 42-5033].

For purposes of apportioning state-shared revenue, Laws 2016, Chapter 258 provides a city/town the option to use either the population count from the special census or the most recent population estimate from the U.S. Census Bureau. However, Chapter 258 provides that the population count from the special census be used for only 1 year. Beginning on July 1 in the second year following the special census, a city/town must use the most recent population estimate from the U.S. Census Bureau. If a special census is not conducted, Chapter 258 requires a city/town to use the most recent population estimate from the U.S. Census Bureau beginning on July 1 in the second year following the decennial census through June 30 of the year following the next decennial census. (Effective by emergency measure, from May 17, 2016)

**Laws 2016, Chapter 309** provides that cash contributions to charitable organizations made on or before April 15<sup>th</sup> for purposes of claiming the charitable tax credit can be applied to either the current or preceding taxable year. This provision is estimated to reduce General Fund revenue by \$(1.7) million annually, beginning in FY 2017. (Effective retroactively from January 1, 2016)

**Laws 2016, Chapter 372** expands the facility tax credit by reducing investment and employee compensation requirements that taxpayers must meet. The credit is 10% of the lesser of: (1) the taxpayer's total capital investment in a qualified facility or (2) \$200,000 for each net new employee at the qualified facility. Chapter 372 expands the definition of an investment to include development costs of build-to-suit facilities that are leased to the taxpayer. The legislation additionally reduces the portion of employee health insurance that employers must pay (from 80% to 65% of premiums) and lowers the minimum wage that rural businesses must pay a majority of their employees (from 125% to 100% of the median state wage). The bill extends the final year the credit may be approved from TY 2019 to TY 2022. (Effective from August 6, 2016)

### 2015 LAWS

**Laws 2015, Chapter 6** expands the renewable energy facility credit for manufacturers to investments in renewable energy facilities certified by the ACA as an "International Operations Center" (IOC) and increases the annual credit amount. Laws 2014, Chapter 8 provides an individual and corporate income tax credit for investments in new renewable energy facilities that produce energy that is used for self-consumption if the power is used primarily in manufacturing operations. Under Laws 2015, Chapter 6, the requirements to qualify for the credit are lower for an IOC than a manufacturer. Chapter 6 increases the credit amount from \$1.0 million to \$5.0 million per year (for 5 years) for each qualifying renewable energy facility. For additional information on the renewable energy facility credit, see *Appendix A* in the Tax Handbook. (Effective retroactively from January 1, 2015)

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

**Laws 2015, Chapter 47** expands the public-school extracurricular activity fee credit to contributions for standardized tests for college credit and readiness, testing preparation courses and career and technical assessments at public schools. Prior to this legislation, a credit could only be claimed for contributions to extracurricular activities and character education programs at public schools. The maximum credit is \$200 for taxpayers filing as single or head of household and \$400 for those filing as married couples. The legislation does not have an estimated fiscal impact. (Effective retroactively from January 1, 2015)

**Laws 2015, Chapter 91** makes inflation indexing of the tax brackets permanent, beginning in TY 2016. Tax year brackets will be adjusted for inflation in the prior calendar year, as measured by the Metropolitan Phoenix Consumer Price Index. Laws 2014, Chapter 10 had provided a one-time inflation adjustment for TY 2015, which was estimated to result in a one-time revenue loss of \$(6.1) million in FY 2016. The revenue reduction under Chapter 91 is estimated to be an additional \$(9.3) million in FY 2017, followed by another \$(9.3) million reduction in FY 2018. (Effective retroactively from January 1, 2015)

## Individual Income Tax

---

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

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

**Laws 2015, Chapter 227** conforms Arizona tax statutes to the Internal Revenue Code (IRC) as of January 1, 2015, including federal provisions that became effective in 2014, but excluding any change to the IRC after January 1, 2015. In December 2014, the federal Tax Increase Prevention Act of 2014 was signed into law, which retroactively extended several expiring federal tax provisions for one more year, through TY 2014. One provision under the act allows individual and corporate taxpayers to take a tax deduction of up to \$500,000 for qualifying business investments purchased and placed in service in 2014. Absent the federal tax extension, the business expensing limit would have reverted to \$25,000 for TY 2014. By conforming to the \$500,000 federal business expensing allowance, Chapter 227 is estimated to result in a \$(30.8) million reduction in General Fund revenue, beginning in FY 2015. For more information on conformity to federal business expensing and bonus depreciation allowances under Laws 2015, Chapter 227, see page 49 of the *2015 Tax Handbook*.

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

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

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.



**SUMMARY OF INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR**

| INDIVIDUAL  | 2019  | 2018  | 2017  | 2016   | 2015   | 2014   | 2013   | 2012   | 2011  |
|---|---|---|---|--|--|--|--|--|---|
| Agricultural<br>Pollution<br>Control<br>Equipment   | # of claims<br>credit available<br>credit used<br>carry forward | 4<br>\$16,905<br>\$16,905<br>\$0                        | 4<br>\$19,752<br>\$19,752<br>\$0                        | 4<br>\$16,225<br>\$16,225<br>\$0                       | 0<br>\$0<br>\$0<br>\$0                                 | 4<br>\$18,342<br>\$18,342<br>\$0                       | 5<br>\$22,916<br>\$22,916<br>\$0                       | 5<br>\$27,350<br>\$27,350<br>\$0                 | Data Not<br>Releasable                          |
| Agricultural<br>Water<br>Conservation<br>System   | # of claims<br>credit available<br>credit used<br>carry forward | 112<br>\$15,371,478<br>\$1,744,994<br>\$13,626,484      | 99<br>\$16,467,911<br>\$1,568,908<br>\$14,899,003       | 105<br>\$16,970,577<br>\$2,614,803<br>\$14,355,774     | 119<br>\$19,158,761<br>\$2,892,820<br>\$15,738,303     | 126<br>\$13,199,232<br>\$2,150,572<br>\$10,784,162     | 125<br>\$10,306,941<br>\$1,163,539<br>\$8,927,831      | 100<br>\$8,891,857<br>\$1,303,244<br>\$6,869,616 | 97<br>\$5,687,843<br>\$1,015,966<br>\$4,609,905 |
| Clean Elections   | # of claims<br>credit available<br>credit used                  |   |   |  |  |  |  | 28,320<br>\$593,442<br>\$537,541                 | 25,275<br>\$640,462<br>\$596,451                |
| Commerical and<br>Industrial Solar<br>Energy  | # of claims<br>credit available<br>credit used<br>carry forward | 59<br>\$561,750<br>\$100,185<br>\$454,565               | 94<br>\$920,512<br>\$274,308<br>\$576,924               | 97<br>\$802,636<br>\$331,657<br>\$389,430              | 124<br>\$979,663<br>\$373,231<br>\$423,884             | 123<br>\$1,100,042<br>\$465,781<br>\$574,549           | 108<br>\$737,819<br>\$324,529<br>\$399,031             | 117<br>\$729,977<br>\$408,692<br>\$346,285       | 119<br>\$963,770<br>\$506,006<br>\$457,764      |
| Contributions<br>To Qualifying<br>Charitable<br>Organizations   | # of claims<br>credit available<br>credit used<br>carry forward | 167,057<br>\$83,573,904<br>\$70,311,855<br>\$12,707,794 | 164,897<br>\$80,014,935<br>\$68,644,862<br>\$10,968,030 | 165,525<br>\$77,783,334<br>\$68,594,148<br>\$8,830,903 | 148,703<br>\$66,349,084<br>\$58,459,196<br>\$7,594,772 | 130,419<br>\$41,882,428<br>\$36,796,635<br>\$5,085,793 | 116,225<br>\$35,790,362<br>\$31,617,855<br>\$4,172,507 | 100,398<br>\$27,457,025<br>\$24,503,609          | 78,736<br>\$22,128,648<br>\$21,835,458          |
| Contributions<br>To Qualifying<br>Foster<br>Organizations   | # of claims<br>credit available<br>credit used<br>carry forward | 36,075<br>\$25,434,460<br>\$22,609,627<br>\$2,824,833   | 36,440<br>\$25,398,873<br>\$22,864,438<br>\$2,532,732   | 33,839<br>\$24,012,278<br>\$21,502,241<br>\$2,510,037  | 26,235<br>\$18,146,367<br>\$16,334,609<br>\$1,811,758  |  |  |  |   |
| Corporate Contributions<br>to School Tuition<br>Organizations   | # of claims<br>credit available<br>credit used<br>carry forward | 984<br>\$36,882,310<br>\$29,311,614<br>\$7,570,695      | 846<br>\$43,737,257<br>\$35,470,478<br>\$8,266,779      | 574<br>\$14,216,612<br>\$11,571,012<br>\$2,645,600     | 209<br>\$4,817,101<br>\$3,693,366<br>\$1,123,735       | 129<br>\$4,394,874<br>\$3,651,946<br>\$742,928         |  |  |   |
| Corporate Contributions to<br>School Tuition Organizations<br>Organizations for Disabled<br>or Displaced Students | # of claims<br>credit available<br>credit used<br>carry forward | 31<br>\$1,038,879<br>\$914,202<br>\$124,677             | 38<br>\$1,149,373<br>\$1,064,193<br>\$85,180            | 35<br>\$380,686<br>\$318,457<br>\$62,229               | 12<br>\$105,795<br>\$91,642<br>\$14,153                | 12<br>\$59,839<br>\$54,393<br>\$5,446                  |  |  |   |
| Defense<br>Contracting  | # of claims<br>credit available<br>credit used<br>carry forward |   |   |  |  |  |  |  | 0<br>\$0<br>\$0<br>\$0                          |
| Dependent<br>Tax Credit   | # of claims<br>credit available<br>credit used                  | 1,027,101<br>\$150,259,177<br>\$150,259,177             |   |  |  |  |  |  |   |
| Donations to<br>the Military Family<br>Relief Fund  | # of claims<br>credit available<br>credit used                  | 3,159<br>\$1,026,772<br>\$994,079                       | 3,208<br>\$1,053,281<br>\$1,022,673                     | 3,092<br>\$1,016,743<br>\$996,134                      | 3,102<br>\$1,011,959<br>\$989,958                      | 3,118<br>\$1,006,248<br>\$980,331                      | 2,994<br>\$971,838<br>\$955,251                        | 2,936<br>\$989,606<br>\$989,606                  | 3,007<br>\$996,695<br>\$996,695                 |

SUMMARY OF INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR

| INDIVIDUAL  | 2019   | 2018   | 2017   | 2016   | 2015   | 2014   | 2013   | 2012   | 2011   |
|---|--|--|--|--|--|--|--|--|--|
| Employing National Guard Members                                    | # of claims credit available credit used carry forward | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                         | Data Not Releasable                              | Data Not Releasable                              | \$0<br>\$0<br>\$0<br>\$0                         | Data Not Releasable                              | Data Not Releasable                            |
| Employment of TANF Recipients                                       | # of claims credit available credit used carry forward | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                         | Data Not Releasable                              | Data Not Releasable                              | Data Not Releasable                              | Data Not Releasable                              | Data Not Releasable                            |
| Enterprise Zone   | # of claims credit available credit used carry forward |  | Data Not Releasable                              | 7<br>\$170,794<br>\$5,514<br>\$154,702         | 12<br>\$223,008<br>\$32,030<br>\$168,120         | 28<br>\$283,579<br>\$43,604<br>\$219,030         | 62<br>\$406,443<br>\$92,579<br>\$316,431         | 115<br>\$904,001<br>\$294,431<br>\$578,439       | 112<br>\$1,490,118<br>\$469,034<br>\$1,001,263 |
| Environmental Technology Facility                                   | # of claims credit available credit used carry forward | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                         | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                         |
| Family Income Tax Credit  | # of claims credit available credit used               | 530,175<br>\$37,761,985<br>\$1,208,198           | 534,595<br>\$39,759,760<br>\$3,214,670           | 558,737<br>\$42,556,920<br>\$3,778,067         | 581,877<br>\$44,929,720<br>\$4,298,041           | 594,928<br>\$46,682,890<br>\$4,417,745           | 538,319<br>\$43,639,520<br>\$5,017,004           | 520,448<br>\$43,457,960<br>\$5,399,635           | 533,345<br>\$45,490,320<br>\$5,905,317         |
| Healthy Forest Enterprise Employment                                | # of claims credit available credit used carry forward | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                         | Data Not Releasable                              | \$5,071<br>\$36<br>\$5,035                       | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                         |
| Healthy Forest Enterprise Ecological Restoration Workforce Training | # of claims credit available credit used carry forward | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                         | Data Not Releasable                              | \$224<br>\$158<br>\$66                           | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                           |  |
| Income Taxes Paid To Other States or Countries                      | # of claims credit available credit used carry forward | 83,752<br>\$220,594,074<br>\$220,594,074         | 82,544<br>\$212,305,970<br>\$212,305,970         | 76,370<br>\$178,356,886<br>\$178,356,886       | 72,540<br>\$151,650,517<br>\$151,650,517         | 63,220<br>\$149,668,202<br>\$149,668,202         | 43,359<br>\$96,608,047<br>\$96,608,047           | 32,281<br>\$93,394,010<br>\$93,394,010           | 39,174<br>\$82,151,564<br>\$82,151,564         |
| Increased Excise Taxes Paid   | # of claims credit available credit used               | 563,758<br>\$25,882,137<br>\$25,882,137          | 546,796<br>\$26,152,002<br>\$26,152,002          | 586,961<br>\$28,374,247<br>\$28,374,247        | 621,298<br>\$30,054,916<br>\$30,054,916          | 620,579<br>\$30,835,109<br>\$30,835,109          | 648,116<br>\$33,418,364<br>\$33,418,364          | 638,208<br>\$33,367,298<br>\$33,367,298          | 672,009<br>\$35,659,215<br>\$35,659,215        |
| Investment in Qualified Small Businesses                            | # of claims credit available credit used carry forward | 234<br>\$3,927,017<br>\$1,636,707<br>\$2,290,310 | 219<br>\$3,610,139<br>\$1,085,055<br>\$2,525,084 | 213<br>\$3,797,145<br>\$652,369<br>\$1,393,627 | 297<br>\$3,367,769<br>\$1,204,816<br>\$1,980,885 | 349<br>\$3,789,529<br>\$1,455,096<br>\$2,193,668 | 297<br>\$3,191,923<br>\$1,064,348<br>\$1,517,517 | 281<br>\$3,198,263<br>\$1,069,297<br>\$1,536,819 | 223<br>\$3,100,066<br>\$849,766<br>\$1,980,384 |
| Military Reuse Zone   | # of claims credit available credit used carry forward | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                         | Data Not Releasable                              | Data Not Releasable                              | 0<br>\$0<br>\$0<br>\$0                           | 0<br>\$0<br>\$0<br>\$0                           | Data Not Releasable                            |

**SUMMARY OF INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR**

| INDIVIDUAL   | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|--|------|------|------|------|------|------|------|------|------|
| Motion Picture Production and Infrastructure           |      |      |      |      |      |      |      |      |      |
| # of claims credit available credit used carry forward |      |      |      |      |      |      |      |      |      |
|  |      |      |      |      |      |      |      |      |      |
| New Employment   |      |      |      |      |      |      |      |      |      |
| # of claims credit available credit used carry forward |      |      |      |      |      |      |      |      |      |
|  |      |      |      |      |      |      |      |      |      |
| Pollution Control Device                               |      |      |      |      |      |      |      |      |      |
| # of claims credit available credit used carry forward |      |      |      |      |      |      |      |      |      |
|  |      |      |      |      |      |      |      |      |      |
| Private School Tuition Organization (ORIGINAL)         |      |      |      |      |      |      |      |      |      |
| # of claims credit available credit used carry forward |      |      |      |      |      |      |      |      |      |
|  |      |      |      |      |      |      |      |      |      |
| Private School Tuition Organization (SWITCHER)         |      |      |      |      |      |      |      |      |      |
| # of claims credit available credit used carry forward |      |      |      |      |      |      |      |      |      |
|  |      |      |      |      |      |      |      |      |      |
| Property Tax   |      |      |      |      |      |      |      |      |      |
| # of claims credit available credit used carry forward |      |      |      |      |      |      |      |      |      |
|  |      |      |      |      |      |      |      |      |      |
| Public School Fees and Contributions                   |      |      |      |      |      |      |      |      |      |
| # of claims credit available credit used carry forward |      |      |      |      |      |      |      |      |      |
|  |      |      |      |      |      |      |      |      |      |
| Qualified Facilities                                   |      |      |      |      |      |      |      |      |      |
| # of claims credit available CREDIT REFUNDED           |      |      |      |      |      |      |      |      |      |
|  |      |      |      |      |      |      |      |      |      |
| REFUNDABLE   |      |      |      |      |      |      |      |      |      |
| Qualified Health Insurance Plans                       |      |      |      |      |      |      |      |      |      |
| # of claims credit available credit used carry forward |      |      |      |      |      |      |      |      |      |
|  |      |      |      |      |      |      |      |      |      |
| Recycling Equipment                                    |      |      |      |      |      |      |      |      |      |
| # of claims credit available credit used carry forward |      |      |      |      |      |      |      |      |      |
|  |      |      |      |      |      |      |      |      |      |
| Renewable Energy Industry-Investment and Employment    |      |      |      |      |      |      |      |      |      |
| # of claims credit available CREDIT REFUNDED           |      |      |      |      |      |      |      |      |      |
|  |      |      |      |      |      |      |      |      |      |



SUMMARY OF INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR

| INDIVIDUAL   | 2019   | 2018   | 2017  | 2016   | 2015   | 2014   | 2013   | 2012   | 2011   |
|--|--|--|---|--|--|--|--|--|--|
| Renewable Energy Investment and Production for Self-Consumption  |  | 0<br>\$0<br>\$0<br>\$0                               | 0<br>\$0<br>\$0<br>\$0                              | 0<br>\$0<br>\$0<br>\$0                             | 0<br>\$0<br>\$0<br>\$0                             | 0<br>\$0<br>\$0<br>\$0                             | 0<br>\$0<br>\$0<br>\$0                             |  |  |
| Renewable Energy Production                                      | 3<br>\$260,684<br>\$87,415<br>\$173,269              | 5<br>\$392,247<br>\$262,695<br>\$129,552             | 5<br>\$264,975<br>\$136,023<br>\$128,952            | 5<br>\$386,388<br>\$376,221<br>\$10,167            | 5<br>\$322,936<br>\$241,707<br>\$81,229            | 5<br>\$320,171<br>\$309,243<br>\$10,928            | 5<br>\$0<br>\$0<br>\$0                             | 0<br>\$0<br>\$0<br>\$0                             | 0<br>\$0<br>\$0<br>\$0                             |
| Research and Development   | 1,067<br>\$67,724,542<br>\$21,528,245                | 1,019<br>\$62,661,643<br>\$21,322,073                | 972<br>\$53,804,582<br>\$17,107,786                 | 882<br>\$44,615,124<br>\$14,463,496                | 736<br>\$42,101,417<br>\$11,419,988                | 795<br>\$39,425,245<br>\$10,496,157                | 638<br>\$32,293,485<br>\$8,521,967                 | 567<br>\$26,348,599<br>\$7,935,540                 | 535<br>\$21,055,403<br>\$7,063,204                 |
| CREDIT REFUNDED  |  |  |   |  |  |  |  |  |  |
| ltd carry forward  | \$506,205  | \$579,438  | \$387,419   | \$349,355  | \$121,369  | \$80,069   | \$152,013  | \$132,142  | \$423,709  |
| unltd carry forward  |  |  |   | \$55,476   | \$156,254  | \$156,419  | \$156,419  | \$231,251  | \$273,583  |
| Research and Development for University Research                 | \$45,521,354   | \$40,566,986   | \$36,186,866  | \$29,703,484                                       | \$30,324,363                                       | \$28,665,910                                       | \$23,469,265                                       | \$18,047,793                                       | \$13,100,730                                       |
|  | 0<br>\$0<br>\$0<br>\$0                               | 0<br>\$0<br>\$0<br>\$0                               | 0<br>\$0<br>\$0<br>\$0                              | 0<br>\$0<br>\$0<br>\$0                             | 0<br>\$0<br>\$0<br>\$0                             | 0<br>\$0<br>\$0<br>\$0                             | 0<br>\$0<br>\$0<br>\$0                             | 0<br>\$0<br>\$0<br>\$0                             | 0<br>\$0<br>\$0<br>\$0                             |
| School Site Donation   | 8<br>\$269,099<br>\$64,733<br>\$275,436              | 21<br>\$1,136,373<br>\$772,093<br>\$366,226          | 20<br>\$250,293<br>\$56,735<br>\$197,375            | 18<br>\$214,307<br>\$18,679<br>\$195,628           | 10<br>\$204,818<br>\$35,960<br>\$168,858           | 20<br>\$508,350<br>\$303,735<br>\$204,615          | 21<br>\$293,887<br>\$111,752<br>\$182,135          | 11<br>\$608,953<br>\$38,578<br>\$156,776           | 20<br>\$617,874<br>\$89,461<br>\$521,716           |
| Solar Energy Device  | 15,591<br>\$13,256,106<br>\$9,759,385<br>\$3,426,775 | 12,772<br>\$10,369,192<br>\$7,896,075<br>\$2,393,485 | 11,422<br>\$9,367,906<br>\$7,449,654<br>\$1,868,706 | 7,798<br>\$5,997,206<br>\$4,596,644<br>\$1,345,036 | 7,961<br>\$5,833,443<br>\$4,166,795<br>\$1,574,175 | 7,931<br>\$5,872,740<br>\$4,142,240<br>\$1,640,412 | 7,716<br>\$5,530,662<br>\$3,824,470<br>\$1,670,356 | 7,754<br>\$5,626,964<br>\$3,874,538<br>\$1,713,779 | 9,212<br>\$6,840,408<br>\$4,918,762<br>\$1,921,646 |
| Solar Hot Water Plumbing Stub Outs and Electric Vehicle Recharge | 18<br>\$1,125<br>\$750<br>\$450                      | 28<br>\$2,850<br>\$1,645<br>\$1,205                  | 247<br>\$19,350<br>\$18,150<br>\$2,325              | 174<br>\$15,550<br>\$13,350<br>\$2,200             | 124<br>\$15,536<br>\$10,036<br>\$5,500             | 93<br>\$13,761<br>\$9,384<br>\$4,375               | 12<br>\$975<br>\$975<br>\$0                        | 13<br>\$1,125<br>\$1,125<br>\$0                    | 24<br>\$2,025<br>\$1,876<br>\$149                  |
| Solar Liquid Fuel Research and Development                       |  |  | 0<br>\$0<br>\$0                                     | 0<br>\$0<br>\$0                                    | 0<br>\$0<br>\$0                                    | 0<br>\$0<br>\$0                                    | 0<br>\$0<br>\$0                                    | 0<br>\$0<br>\$0                                    | 0<br>\$0<br>\$0                                    |
| Solar Liquid Fuel Production                                     |  |  | 0<br>\$0<br>\$0                                     | 0<br>\$0<br>\$0                                    |  |  |  |  |  |
| Solar Liquid Fuel Delivery Systems                               |  |  | 0<br>\$0<br>\$0                                     | 0<br>\$0<br>\$0                                    |  |  |  |  |  |

**SUMMARY OF INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR**

| INDIVIDUAL                 | 2019          | 2018          | 2017          | 2016                | 2015          | 2014          | 2013          | 2012          | 2011          |
|----------------------------|---------------|---------------|---------------|---------------------|---------------|---------------|---------------|---------------|---------------|
| Water Conservation Systems |               |               |               | Data Not Releasable | 6             | 9             | 25            | 38            | 258           |
| # of claims                |               |               |               |                     | \$2,527       | \$3,345       | \$9,562       | \$24,587      | \$134,048     |
| credit available           |               |               |               |                     | \$226         | \$374         | \$3,739       | \$7,287       | \$104,946     |
| credit used                |               |               |               |                     | \$2,301       | \$2,971       | \$5,823       | \$14,161      | \$29,102      |
| carry forward              |               |               |               |                     |               |               |               |               |               |
| Total                      |               |               |               |                     |               |               |               |               |               |
| # of claims                | 2,747,553     | 1,718,888     | 1,776,623     | 1,796,052           | 1,744,131     | 1,725,619     | 1,719,726     | 1,671,590     | 1,690,340     |
| credit available           | \$870,433,490 | \$718,808,993 | \$643,265,602 | \$576,422,702       | \$512,199,240 | \$474,413,133 | \$389,450,811 | \$361,822,395 | \$328,105,342 |
| credit used                | \$713,384,212 | \$568,146,441 | \$505,671,840 | \$447,379,650       | \$393,775,706 | \$364,377,795 | \$311,807,200 | \$293,869,957 | \$263,160,106 |
| credit refunded            | \$506,205     | \$579,438     | \$413,419     | \$375,355           | \$121,369     | \$80,069      | \$152,013     | \$132,142     | \$423,709     |
| carry forward              | \$118,009,042 | \$111,414,103 | \$94,980,939  | \$85,386,080        | \$75,034,611  | \$67,098,077  | \$34,428,102  | \$27,251,010  | \$23,767,695  |
| ltd carry forward          |               |               |               | \$55,476            | \$156,254     | \$156,419     | \$156,419     | \$231,251     | \$273,583     |

**Notes:**

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

# CORPORATE INCOME TAX

## DESCRIPTION

The corporate income tax is levied on corporations that engage in business within Arizona. The tax rate is 4.9% of taxable income in TY 2021. A multi-state company must allocate a portion of its income to Arizona based on its Arizona property, payroll, and sales. Beginning in TY 2017, a multi-state corporation can also elect to allocate its income to Arizona based solely on its sales in the state.

The corporate income tax is an important revenue source for the state, representing 5.9% of total General Fund revenue collections in FY 2021. A portion of corporate income tax collections (along with individual income tax collections) is shared with incorporated cities and towns within the state.

## COLLECTIONS

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

| COLLECTIONS        |                           |                    |                           |
|--------------------|---------------------------|--------------------|---------------------------|
| <u>Fiscal Year</u> | <u>State General Fund</u> | <u>Fiscal Year</u> | <u>State General Fund</u> |
| 2021               | \$847,020,795             | 2011               | \$560,235,683             |
| 2020 <sup>1/</sup> | \$511,881,751             | 2010               | \$413,193,307             |
| 2019               | \$514,264,089             | 2009               | \$592,157,255             |
| 2018               | \$373,076,384             | 2008               | \$784,510,885             |
| 2017               | \$368,136,444             | 2007               | \$986,169,564             |
| 2016               | \$570,547,697             | 2006               | \$874,219,473             |
| 2015               | \$663,003,020             | 2005               | \$701,859,285             |
| 2014               | \$575,180,221             | 2004               | \$494,044,869             |
| 2013               | \$662,026,399             | 2003               | \$389,406,300             |
| 2012               | \$643,771,845             | 2002               | \$346,280,400             |

<sup>1/</sup> By Executive Order, the tax year 2019 filing due date was moved from April 15, 2020 to July 15, 2020.  
 SOURCE: Department of Revenue annual reports - amounts are net of refunds and charge-offs. A portion of corporate income tax collections is shared with incorporated cities and towns – see Table 2 in Individual Income Tax section.

## DISTRIBUTION

Based on an initiative measure approved by the voters in 1972, an Urban Revenue Sharing Fund was established. The initiative provided that a percentage of income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and towns within the state. Currently, 15% of net income tax revenue from 2 years prior is distributed to cities and towns. Pursuant to Laws 2021, Chapter 412, beginning in FY 2024, the URS distribution percentage is increased from 15% to 18%. This distribution is based on the most recent population estimates of each city and town made annually by the U.S. Census Bureau [A.R.S. § 42-5033.01]. Cities and towns have the option of using special census population counts for purposes of calculating distributions, but only during the 6<sup>th</sup> year following a decennial census. In the 2<sup>nd</sup> year following the special census, a city/town must use the most recent estimate from the U.S. Census Bureau [A.R.S. § 42-5033]. Prior to Laws 2016, Chapter 258, distributions were based on population estimates from the last U.S. decennial census or special census. Table 4

## Corporate Income Tax

---

(Distribution of Individual and Corporate Income Tax) in the Individual Income Tax section provides historical urban revenue sharing distributions [A.R.S. § 43-206].

### WHO PAYS

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

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

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

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

Small business corporations that make a "subchapter S" election for a taxable year under the Internal Revenue Code are not subject to the corporate income tax. The income of these corporations is generally passed through to each shareholder, who is then taxed under the state's individual income tax [A.R.S. § 43-1126]. Laws 2021, Chapter 425 creates an optional entity-level income tax for partnerships and S corporations, beginning in TY 2022. For more details on this entity-level tax, please see the *Individual Income Tax* section.

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

### EXEMPTIONS

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

- (1) Any organization that is exempt from federal income tax.
- (2) Insurance companies that pay taxes on premiums derived from sources within Arizona.
- (3) Non-profit medical marijuana dispensaries.

### REVENUE BASE AND RATE

The tax is levied, paid, and collected each taxable year based on Arizona taxable income [A.R.S. § 43-1111]. The tax base for the corporate income tax starts with Arizona gross income, which is equivalent to the taxpayer's federal taxable income and is then adjusted by a series of additions and subtractions as specified in Title 43, Article 3 of the Arizona Revised Statutes [A.R.S. § 43-1121 - A.R.S. § 43-1130.01]

The current tax rate for corporate income tax is 4.9% of a corporation's net Arizona taxable income or \$50, whichever is greater [A.R.S. § 43-1111]. Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 reduced the corporate tax rate from 6.968% to 4.9% over 4 years, beginning in TY 2014. Prior to Chapter 1, a 6.968% tax was in effect from January 1, 2001 through December 31, 2013. Prior to 1990, Arizona used graduated brackets for the corporate

## Corporate Income Tax

income tax. (Table 2 below displays historical corporate income tax rates since 1990). The \$50 minimum tax was effective beginning January 1, 1988.

| Table 2  |             |
|--|-------------|
| <b>Historical Corporate Income Tax Rates</b> <sup>1/</sup> <sup>2/</sup> |             |
| <b>Tax Year</b>  | <b>Rate</b> |
| 1990   | 9.300%      |
| 1994   | 9.000%      |
| 1998   | 8.000%      |
| 2000   | 7.968%      |
| 2001   | 6.968%      |
| 2014   | 6.500%      |
| 2015   | 6.000%      |
| 2016   | 5.500%      |
| 2017   | 4.900%      |

<sup>1/</sup> For tax rates prior to 1990, see page 144 of the 1995 Tax Handbook

<sup>2/</sup> Years represent a flat rate for all income levels.

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

### Allocation of Business Income

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

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

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

Beginning in TY 2017, a multistate corporation may choose (for purposes of allocating its business income to Arizona) either the 50% sales factor under the Standard Apportionment Formula or the 100% sales factor under the Enhanced Apportionment Formula. The corporation is likely to choose the formula that reduces its Arizona tax liability the most. For example, a business with 10% of its total sales and 20% of its total property and payroll in Arizona would benefit from the 100% sales factor. In calculating the proportion of the corporation’s business income allocated to Arizona, the 10% sales factor would receive a weight of 100% whereas the 20% property and payroll factors would each receive a weight of 0%. After applying the weights under the Enhanced Apportionment Formula, 10% of the total multistate business income would be allocated to Arizona. Under the Standard Apportionment Formula, the corporation would have to allocate 15% of its total business income to Arizona.



## Corporate Income Tax

---

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

- Sale of tangible personal property is allocated to Arizona if the property is delivered or shipped to a purchaser within the state [A.R.S. § 43-1146].
- Sale of other than tangible personal property is allocated to Arizona if either of the following applies [A.R.S. § 43-1147]: (1) the income producing activity is performed solely in the state, or (2) the income producing activity is performed both in and outside the state, but a greater proportion of the activity is performed in Arizona than in any other state. Beginning in TY 2014, Laws 2012, Chapter 2 provides multistate service providers the option to treat sales from services as being in this state based on a combination of income producing activity sales and market sales. For the 2014 taxable year, Chapter 2 provided an option for corporations that sold more than 85% of their services to consumers outside of Arizona to use the location of the buyer in calculating the sales factor. Chapter 2 increased this figure to 90% in TY 2015, 95% in TY 2016, and 100% in TY 2017 and subsequent years. Thus, beginning in TY 2017, the location of sales accounts for 100% of the sales factor for multistate service providers [A.R.S. § 43-1147]. Laws 2013, Chapter 236 expanded eligibility of this provision by broadening the definition of a multistate service provider to include regionally accredited institutions of higher education with at least one university campus in Arizona on which at least 2,000 students reside. Beginning in TY 2019, Laws 2019, Chapter 272 expands the definition of "multistate service provider" to include a taxpayer that has more than 2,000 employees in the state and that derives more than 85% of its sales from support services provided to a regionally accredited institution of higher education.

### Allocation of Nonbusiness Income

Nonbusiness income refers to all income other than business income and typically includes rents and royalties from real property or tangible personal property, capital gains, interest and dividends, and patent and copyright royalties. Nonbusiness income is generally allocated to Arizona to the extent that the property is utilized or located in the state, or if the taxpayer's commercial location is in the state [A.R.S. § 43-1134 - A.R.S. § 43-1138].

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

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

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

Tax credits are either refundable or non-refundable. Unlike refundable credits, non-refundable credits can never exceed a taxpayer's tax liability. However, many of the non-refundable tax credits allow the unused amounts to be carried forward to future years. As shown in *Table 3* below, only the following credits are refundable under current statutes:

The value of tax credits used and carried forward through tax year 2019 is summarized by the DOR summary report attached at the end of this section.

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

Table 3

### REFUNDABLE INCOME TAX CREDITS

| Name of Credit                                      | Type of Credit           |
|---|--------------------------|
| Research and Development (R&D) Credit <sup>1/</sup> | Individual and Corporate |
| Qualified Facility Credit <sup>2/</sup>             | Individual and Corporate |

Notes:

- <sup>1/</sup> Credit is only available to businesses that employ less than 150 full-time employees. Refundable portion of R&D credit is subject to an aggregate cap of \$5.0 million annually.
- <sup>2/</sup> Credit is subject to an aggregate cap of \$125.0 million annually.

Income tax credits available to corporate taxpayers are described below. Laws 2016, Chapter 125 requires DOR to report by September 30 each year on the amounts of corporate income tax credits claimed in the preceding fiscal year. *Table 4* lists the cost of these credits on a fiscal year basis.

Title 43, Chapter 11, Article 6 of the Arizona Revised Statutes lists all the corporate income tax credits currently available to Arizona taxpayers. A brief description of each tax credit currently in statutes is provided below. *Appendix C* in the Tax Handbook lists all individual income, corporate income, and insurance premium tax credits with statutory ending dates. *Appendix B* provides a complete list and detailed description of the various school tax credits currently available to individual and corporate taxpayers, as well as insurance companies. In addition to tax credit provisions, the state permits individual and corporate income tax filers to accelerate depreciation of certain qualified asset purchases, for purposes of calculating state income tax liability. The *Accelerated Depreciation* subsection to the *Individual Income Tax* section of the Tax Handbook includes more details.

**Affordable Housing.** A taxpayer can claim a nonrefundable credit equal to at least 50% of the amount of the federal Low-Income Housing Tax Credit for qualified projects placed in service in Arizona after June 30, 2022. The Arizona Department of Housing is authorized to allocate a total of \$4 million in tax credits per year from 2022 to 2025. Each of these 4 award cycles is available for 10 years. Unused credits may be carried forward up to 5 years.

**Arizona National Guard Employees.** A tax credit of \$1,000 per employee is allowed for businesses that employ Arizona National Guard members who are called to active duty. This non-refundable tax credit, which is effective from January 1, 2006, is allowed to be carried forward for no more than 5 years [A.R.S. § 43-1167.01].

**Environmental Technology Facility Construction Costs.** A non-refundable credit is allowed for expenses incurred in constructing a qualifying facility involved in recycled materials or renewable energy as described in A.R.S. § 41-1514.02. The credit is equal to 10% of the amount spent to construct the facility, including land acquisition, improvements, building improvements, machinery and equipment, but not to exceed 75% of the tax liability for the taxable year. Certain recapture provisions apply to this credit. The credits can be carried forward for 15 years [A.R.S. § 43-1169].

**Facility Credit.** A business that expands or locates a qualified facility in the state may claim a credit for qualifying investment and employment [A.R.S. § 41-1512 and § 43-1164.04]. The credit is 10% of the lesser of: (1) the total capital investment in the qualified facility by the taxpayer or third-party lessor of the property or (2) \$200,000 for each net new employee at the qualified facility if the total qualifying investment is less than \$2 billion, or (3) \$300,000 for each net new employee at the qualified facility if the total qualifying investment is \$2 billion or more.

To be eligible for the credit, a business is required to devote at least 80% of its property and payroll at the facility to manufacturing, research, or a national or regional headquarter. The credit is dependent upon the taxpayer paying at least 51% of new full-time employees a wage exceeding 125% of the state median wage in urban areas and 100% in rural areas and paying 65% or more of the premium for all full-time employees' health insurance [A.R.S. § 41-1512]. Prior to Laws 2016, Chapter 372, investments by a third-party lessor could not qualify for the credit and taxpayers in urban and rural areas were required to pay at least 80% of employee health insurance premiums and at least 125% of the state median wage.

| Table 4   |                  |                                    |
|---|------------------|------------------------------------|
| FY 2021 CORPORATE INCOME TAX CREDITS  |                  |                                    |
| <u>Credit</u>   | <u>Effective</u> | <u>Annual Cost</u> <sup>1/2/</sup> |
| Agricultural Pollution Control Equipment <sup>3/</sup>  | 1999 – 2020      | \$0                                |
| Commercial and Industrial Solar Energy Devices  | 2006 – 2018      | \$27,327                           |
| Employing National Guard Members  | 2006 -           | N/R                                |
| Employing TANF Recipients   | 1998 -           | N/R                                |
| Enterprise Zone <sup>4/</sup>   | 1990 - 2011      | N/R                                |
| Environmental Technology Facility   | 1993 -           | 0                                  |
| Facility Credit   | 2013 - 2030      | 4,663,310                          |
| Healthy Forest Enterprise Employment <sup>3/</sup>  | 2005 - 2020      | 0                                  |
| New Employment <sup>5/</sup>  | 2011 - 2029      | 15,654,814                         |
| Pollution Control Device  | 1995 -           | 1,353,931                          |
| Renewable Energy Investment for Production and Self-Consumption <sup>6/</sup>   | 2014 - 2025      | N/R                                |
| Renewable Energy Production <sup>7/</sup>   | 2011 - 2030      | 1,628,631                          |
| Research & Development - Nonrefundable  | 2001 -           | 76,784,165                         |
| Research & Development - Refundable <sup>8/</sup>   | 2010 -           | 2,641,479                          |
| Additional Research & Development - University Research <sup>9/</sup>   | 2012 -           | 0                                  |
| Private School Tuition Organizations - Low-Income Students  | 2006 -           | 20,058,461                         |
| Private School Tuition Organizations - Disabled/Displaced Students  | 2009 -           | 285,155                            |
| School Site Donation  | 2001 -           | 0                                  |
| Taxes paid for Coal Consumed in Electric Power Generation   | 1998 -           | 1,094,641                          |
| <b>TOTAL VALUE OF CORPORATE INCOME TAX CREDITS<sup>10/</sup></b>  |                  | <b>\$127,867,431</b>               |
| <sup>1/</sup> Amounts represent credits claimed in FY 2021.<br><sup>2/</sup> "N/R" indicates that the information is not releasable due to Arizona confidentiality laws.<br><sup>3/</sup> Credit is effective through TY 2020, but earned credits have a 5-year carry forward.<br><sup>4/</sup> Credit was effective through June 30, 2011, but earned credits have a 5-year carry forward.<br><sup>5/</sup> Statute does not permit the Arizona Commerce Authority to authorize new credits after June 30, 2025. Given a maximum 5-year schedule, the credit may not be claimed after TY 2029.<br><sup>6/</sup> Credit is capped at \$10.0 million annually.<br><sup>7/</sup> Credit is capped at \$20.0 million annually between corporate and individual income taxpayers.<br><sup>8/</sup> Credit is capped at \$5.0 million annually between corporate and individual income taxpayers.<br><sup>9/</sup> Credit is capped at \$10.0 million annually between corporate and individual income taxpayers.<br><sup>10/</sup> Totals include amounts that were not releasable by credit. As a result, credit amounts may not add to total. |                  |                                    |
| SOURCE: Department of Revenue report to the Legislature on the amount of corporate income tax credits claimed in FY 2021.   |                  |                                    |

The credit is refundable, but no single taxpayer can claim more than \$30 million in credits per calendar year. The credit must be taken in equal installments over 5 taxable years. The credit is available through TY 2030, but may be claimed through TY 2034 under the 5-year installment schedule. Laws 2021, Chapter 80 increases the aggregate annual credit cap from \$70 million to \$125 million. [A.R.S. § 43-1164.04].

*Healthy Forest Production.* Allows a taxpayer, beginning in TY 2021, to receive a tax credit for processing qualifying forest products if the taxpayer has a Healthy Forest Enterprise Incentive certification, processes qualifying forest products from a qualifying project between 2021 and 2030, and the facility processing the qualifying forest products is located in Arizona. The amount of credit is based on the number of tons of qualifying forest products that a taxpayer processes during a calendar year, \$10,000 for the first 20,000 tons and \$5,000 for every 10,000 after that. The maximum amount of credit for a calendar year that can be claimed is \$500,000 per taxpayer and \$2,000,000 in total. The credit is non-refundable and can be carried forward for no more than 5 years [A.R.S. § 43-1162].

### *New Employment Tax Credit.*

A \$3,000 annual tax credit may be claimed for each net new qualifying job added by an employer in the state [A.R.S. § 43-1161]. To qualify for the credit, new employment positions must be full-time, meet wage requirements, and offer health insurance paid by the employer (at least 65% of the premium). Credits associated with 1 net new job can be claimed for 3 years. A company may claim first year credits for separate new jobs for up to 3 consecutive years. Since second- and third year credits may be claimed against each of the new positions, the taxpayer may claim credits for up to a total of 5 consecutive years. ACA is authorized to issue first year credits for up to 10,000 new employees (\$30.0 million) in each year.

Prior to Laws 2017, Chapter 340, a business could not claim the new credit unless it added at least 25 net new jobs in a year in an urban area (5 in a rural area), paid employees at least 100% of the county median wage, and made a capital investment of at least \$5.0 million (\$1.0 million in a rural area) [A.R.S. § 43-1161]. Beginning in TY 2018, Laws 2017, Chapter 340 permits businesses to qualify under alternative levels of capital investment and wages as displayed in *Table 5* and permits ACA to authorize credits through June 30, 2025. A business can now invest less than \$5.0 million if they pay wages that exceed 100% of the county median level. The required number of net new jobs remains unchanged. Given the maximum 5-year schedule outlined above, businesses may claim credits through TY 2029. [A.R.S. § 41-1525]

In TY 2013 and later years, Laws 2012, Chapter 343 eliminates the requirement (provided by Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1) that no employer can claim more than 400 new jobs in the first year of credit use, 800 jobs in the second year, and 1,200 jobs in the third year. The cap applied to credits claimed against insurance premium, individual income, and corporate income taxes. The credit cannot be claimed against employees that are also claimed under the Military Reuse Zone Tax Credit (A.R.S. § 41-1525; Laws 2017, Chapter 299 repeals credit after December 31, 2017). Laws 2014, Chapter 168 changes the requirement for the New Employment Tax Credit program by providing that second-year and third-year credits can be claimed irrespective of whether the same employee remains employed as long as the employer replaces the vacant position with another qualified employee within 90 days.

**Pollution Control Equipment.** The credit is allowed for purchases of real or personal property used to control or prevent pollution. The qualifying facilities must be built or purchased to comply with U.S. Environmental Protection Agency or Arizona Department of Environmental quality regulations. The credit amount is equal to the lesser of 10% of the purchase price or \$500,000 in a taxable year. This non-refundable tax credit can be carried forward for no more than 5 years [A.R.S. § 43-1170].

**Renewable Energy Investment and Production for Self-Consumption.** This is a corporate income tax credit for investment in new renewable energy facilities that produce energy for self-consumption using renewable energy sources if the power is primarily used by an International Operations Center [A.R.S. § 41-1520 and A.R.S. § 43-1164.05].

The taxpayer must qualify for this credit as an International Operations Center (IOC), which requires the taxpayer to:

**Table 5**

**New Employment Tax Credit  
Investment and Median Wage Requirements**

**Urban Location**

| <b><u>Minimum<br/>Capital Investment</u></b> | <b><u>Wages as Percent<br/>of County Median</u></b> |
|--|---|
| \$5,000,000                                  | 100%  |
| \$2,500,000                                  | 125%  |
| \$1,000,000                                  | 150%  |
| \$500,000                                    | 200%  |

**Rural Location**

| <b><u>Minimum<br/>Capital Investment</u></b> | <b><u>Wages as Percent<br/>of County Median</u></b> |
|--|---|
| \$1,000,000                                  | 100%  |
| \$500,000                                    | 125%  |
| \$100,000                                    | 150%  |

## Corporate Income Tax

---

- Invest at least \$100 million in one or more renewable energy facilities in Arizona by December 31, 2018.
- Invest at least \$1.25 billion in new capital assets, including land, buildings, and IOC equipment, within 10 years after being certified as an IOC by the Arizona Commerce Authority (ACA).
- Use at least 51% of the energy produced for self-consumption by the 5<sup>th</sup> year the IOC is in operation.

Approval by the Department of Revenue (DOR) is required to take the credit. The amount of the credit is \$5 million per year for 5 years for each renewable facility. The credit per taxpayer cannot exceed \$5 million per year, and \$25 million in total over 5 years. The total amount of credits that DOR can approve for all taxpayers in a calendar year is \$10 million. No new credits can be claimed for any taxable year beginning after December 31, 2025.

To meet the definition of a "renewable energy facility" for purposes of claiming the credit, the taxpayer must have invested at least \$30 million in each facility. Furthermore, the facility must have a minimum generating capacity of 20 megawatts, or a minimum annual generation of 40,000 megawatt hours, be located in Arizona, and produce electricity using a renewable energy resource.

According to DOR's most recent "Arizona's Individual and Corporate Income Tax Report," one renewable energy facility has been approved for this credit. Since no other taxpayer met the minimum investment requirement by the statutory due date of December 31, 2018, no additional credits will be authorized under this program.

Laws 2019, Chapter 203 repealed the individual income tax credit for IOCs but retained the corporate income tax credit. This credit cannot be claimed against the same facilities that are used to claim the Renewable Energy Production Credit [A.R.S. § 43-1164.03]. For additional information on renewable energy incentives, see *Appendix A*.

*Renewable Energy Production.* A credit is allowed on the production of electricity using renewable energy. To be eligible for the credit, a taxpayer must hold title to a qualified energy generator that first produces electricity between January 1, 2011 and December 31, 2020. The credit allows a qualified producer of renewable energy to receive an individual or corporate income tax credit of up to \$2.0 million per year on the electricity that they produce for up to 10 years. Given that a taxpayer may begin earning credits as late as TY 2020, the latest year a credit may be earned under a 10-year schedule is TY 2030. The renewable energy credit has an annual cap of \$20.0 million for total individual and corporate income tax credits. A 5-year carry forward of the credit is allowed [A.R.S. § 43-1164.03]. This credit cannot be claimed against the same facilities that are also claimed under the Renewable Energy Investment and Production for Self-Consumption Credit [A.R.S. § 43-1164.05]. For additional information on renewable energy incentives, see *Appendix A*.

*Research and Development (R&D).* The credit is calculated based on the amount of qualified research expenses exceeding a certain "base amount" (defined in the Internal Revenue Code). Prior to TY 2010, the credit was calculated as 20% of up to \$2.5 million in qualified expenses and 11% of qualified expenses above \$2.5 million. Laws 2008, Chapter 290 expanded the credit in TY 2010 to TY 2017, to 24% of up to \$2.5 million in qualified expenses and 15% of qualified expenses above \$2.5 million. Laws 2017, Chapter 340 extended availability of the enhanced credit rates from TY 2017 to TY 2021. This was further amended by Laws 2020, Chapter 7, which extended the enhanced credit rates to TY 2030. Beginning in TY 2031, the credit percentages are lowered to 11% and 20%. These changes under Chapter 7 only apply to the corporate R&D credit. In addition to these changes, Chapter 7 provides that unused corporate R&D credits that are claimed in TY 2022 and subsequent taxable years can be carried forward for no more than 10 years. Corporate R&D credits claimed before TY 2022 can be carried forward for 15 years [A.R.S. § 43-1168].

Laws 2010, Chapter 312 changes the credit from being nonrefundable to refundable for those companies that employ less than 150 full-time employees. Specifically, the act provides that such taxpayers receive a refund equal to 75% of the amount by which the credit exceeds their liability. The refundable aspect of the credit has an annual cap of \$5.0 million cumulatively for the individual and corporate income tax and is effective retroactively from January 1, 2010. If in any year less than \$5.0 million of credits are filed collectively by all taxpayers, any unused amount rolls over to the next year. Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 expands the tax credit, beginning in

## Corporate Income Tax

---

FY 2013, by increasing the credit calculation by 10% for university-related research. The credit is subject to an aggregate cap of \$10.0 million per year between individual and corporate income taxpayers.

*School Site Donation.* A credit is allowed in the amount of 30% of the value of real property and improvements donated by a taxpayer to a school district or a charter school. This credit became available January 1, 2001. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [A.R.S. § 43-1181]. Laws 2020, Chapter 43 repealed the corporate (but not the individual) credit retroactively from TY 2020. Laws 2021, Chapter 383 reinstates the corporate credit retroactively from TY 2020.

*School Tuition Organization.* A corporation (and an insurer) may claim a tax credit, up to the full amount of the donation, for contributions made to a school tuition organization (STO) that provides education scholarships and tuition grants either to students of low-income families pursuant to A.R.S. § 43-1183 (and A.R.S. § 20-224.06) or to disabled students or students in foster care (“displaced students”) pursuant to A.R.S. § 43-1184 (and A.R.S. § 20-224.07). Laws 2015, Chapter 301 expands the “low-income” and “disabled/displaced” STO credits to include businesses organized as S corporations pursuant to Section 1361 of the Internal Revenue Code, beginning in TY 2015. Since tax credits earned by an S corporation are pro-rated and passed through to the owners, such credits are claimed against the individual income tax rather than the corporate income tax (*see the Individual Income Tax section for more details on Laws 2015, Chapter 301*).

Beginning in TY 2021, Laws 2021, Chapter 412 expands credit-eligible corporate donations to STOs to include students who are homeschooled before enrolling in a qualified school, students who moved to Arizona from out of state before enrolling in a qualified school, and to students who participated in an Arizona Empowerment Scholarship Account (ESA) and did not renew the account or accept the scholarship in order to accept a scholarship or tuition grant.

The total amount of the low-income tax credit approved by DOR pursuant to A.R.S. § 43-1183 for both corporate income tax credits and insurance premium tax credits is capped at \$10.0 million per year, with the cap increasing by 20% per year beginning in FY 2008. The credit cap was \$74.3 million in FY 2018, and increased to \$89.2 million in FY 2019, and \$107.0 million in FY 2020. Laws 2019, Chapter 281 limits the annual increase of the credit cap to 15% in FY 2021, 10% in FY 2022, and 5% in FY 2023. Beginning in FY 2024, the increase of the credit cap is limited to the greater of 2% or the annual change of the Metropolitan Phoenix consumer price index. In dollar terms, Chapter 281 limits the growth of the credit cap to \$123.1 million in FY 2021, \$135.4 million in FY 2022, and \$142.1 million in FY 2023. Due to the aggregate credit cap, all corporations and insurers must be pre-approved for the credit. There is no cap on the amount of contributions made by individual corporations and insurers.

The full amount of the disabled/displaced student tax credit approved by DOR pursuant to A.R.S. § 43-1184 is capped at \$5.0 million per year. Beginning in FY 2022, Laws 2021, Chapter 412 increases the credit cap to \$6.0 million per year. A taxpayer may carry forward the unused portion of either tax credit for 5 years. A taxpayer shall not claim a tax credit under both A.R.S. § 43-1183 and A.R.S. § 43-1184 for the same contribution [A.R.S. § 43-1183 and A.R.S. § 43-1184]. See *Appendix B* in the Tax Handbook for a comparison of private school tax credits.

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

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

*Temporary Assistance for Needy Families Employment.* A credit that is allowed for net increases in qualified employment of recipients of temporary assistance for needy families (TANF) residing in Arizona. The credit is in

## Corporate Income Tax

lieu of any wage expense deduction taken for tax purposes. The credit is 25% of the taxable wages paid in the first year of employment for each newly created position, 33% in the second year of continuous employment, and 50% in the third year, not to exceed \$500, \$1,000, and \$1,500 respectively [A.R.S. § 43-1175].

### PAYMENT SCHEDULE

#### Period Covered by the Taxable Year

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

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

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

The federal and state filing due date for C corporations and partnerships is the 15<sup>th</sup> day of the 4<sup>th</sup> month following the close of the tax year. For S corporations the state and federal due date is the 15<sup>th</sup> day of the 3<sup>rd</sup> month following the close of the tax year [A.R.S. § 43-501]. For example, a corporation whose tax year is the same as the calendar year has a federal and state filing due date of April 15. Prior to passage of the federal Surface Transportation and Veterans Health Care Choice Improvement Act of 2015, C and S corporations had a federal filing due date of the 15<sup>th</sup> day of the 3<sup>rd</sup> month following a tax year.

On March 20, 2020, the Governor issued an executive order that instructed the Department of Revenue to move the deadline for filing and paying state income taxes from April 15, 2020 to July 15, 2020. The July 15 filing due applied to 2019 state individual and corporate income tax returns. The executive order did not apply to quarterly estimated payments made by individual and corporate filers.

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

The *Table 6* below provides 3 examples of when a corporation's 2020 tax return is due. The due date depends on the corporation's elected tax year (calendar year or fiscal year) as well as whether the corporation files for a 6-month extension or not.

| <b>Table 6</b>   |                                   |                        |                           |                               |
|--|-----------------------------------|------------------------|---------------------------|-------------------------------|
| <b>FILING DUE DATE FOR CORPORATE INCOME TAX RETURN</b> |                                   |                        |                           |                               |
| <b>Accounting Period</b>                               | <b>Corporation's Taxable Year</b> | <b>Filing Due Date</b> | <b>Extension Due Date</b> | <b>Income Tax Return Year</b> |
| 1/1/2021 – 12/31/2021                                  | CY 2021                           | 4/15/2022              | 10/15/2022                | 2021                          |
| 7/1/2021 – 6/30/2022                                   | FY 2022                           | 10/15/2022             | 4/15/2023                 | 2021                          |
| 12/1/2021 – 11/30/2022                                 | FY 2022                           | 3/15/2023              | 9/15/2023                 | 2021                          |

## Corporate Income Tax

---

As indicated in the table above, a corporation's 2021 state tax return could be filed as early as April 15, 2022 and as late as September 15, 2023 depending on: (1) the corporation's elected tax year (calendar year or fiscal year) and (2) whether the corporation requests a 6-month extension or not. According to DOR, large corporations typically file for the 6-month extension.

### Estimated Tax Payments

Corporations that expect an Arizona income tax liability for the taxable year of \$1,000 or more must make Arizona estimated tax payments during the year [A.R.S. § 43-582]. Corporations whose Arizona income tax liability for the preceding taxable year was \$500 or more must make their estimated payments via electronic fund transfer ("EFT"). Any corporation that fails to make the required estimated tax payments is subject to a penalty on any payment that is late or underpaid [A.R.S. § 43-582]. The required annual payment of the estimated tax is the smaller of:

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

Large corporations (defined as having a federal tax liability of \$1.0 million or more for any 1 of the preceding 3 taxable years) are required to make total estimated payments of 90% of the current year's tax liability.

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

### Electronic Fund Transfer and Tax Filing Requirements

Businesses with corporate income tax liability of at least \$5,000 in the preceding taxable year are required to remit estimated tax payments to DOR by electronic fund transfer (EFT). Laws 2017, Chapter 60 lowered the tax liability threshold for EFT payments from \$20,000 to \$10,000 for TY 2019, \$5,000 for TY 2020, and \$500 for TY 2021 and later years [A.R.S. § 42-1129].

## IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

### **2021 LAWS**

**Laws 2021, Chapter 80** makes several changes to the Credit for Qualified Facilities [A.R.S. § 41-1512, A.R.S. § 43-1083.03, and A.R.S. § 43-1164.04]. Under current law, a business that expands or locates a qualified facility in the state may receive a credit for qualifying investment and employment. The credit is the lesser of 10% of the total qualifying investment in the facility or \$20,000 for each net new job at the qualified facility. Chapter 80 makes the following changes to the Qualified Facility Credit:

- (1) Increases the credit from \$20,000 to \$30,000 per net new job if the total qualifying investment is \$2 billion or more. If the qualifying investment is less than \$2 billion, the credit remains at \$20,000 per net new job.
- (2) Increases the aggregate cap of the credit that can be preapproved by the Arizona Commerce Authority (ACA) in a calendar year from \$70 million to \$125 million.
- (3) Expands the statutory definition of "qualified manufacturing" to include products sold to other qualifying facilities regardless of whether such facilities have been pre-approved by ACA.

The changes under Chapter 80 are effective from September 29, 2021.

**Laws 2021, Chapter 174** reduces the automatic repeal of unused tax credits from 4 years to 3 years. Tax credits with remaining carryforward amounts may still be claimed under the carryforward period provided for the repealed credit.



## Corporate Income Tax

---

**Laws 2021, Chapter 196** was a tax correction bill that made technical and clarifying to the Arizona Revised Statutes. Chapter 196 repeals the individual (but not the corporate) tax credit for Employment of Temporary Assistance of Needy Families (TANF) Recipients.

**Laws 2021, Chapter 232** conforms Arizona tax statutes to the Internal Revenue Code (IRC) in effect as of March 11, 2021. Chapter 232 adopts all the federal changes enacted under the Families First Coronavirus Response Act (FFCRA), Coronavirus Aid, Relief, and Economic Security (CARES) Act, Paycheck Protection Program (PPP) Flexibility Act, Consolidated Appropriations Act, 2021 (CAA), and American Rescue Plan (ARP) Act. Chapter 232 is estimated to result in a one-time General Fund revenue reduction of \$(624.8) million over the next several years.

**Laws 2021, Chapter 383** reinstates the School Site Donation credit that was repealed by Laws 2020, Chapter 43.

**Laws 2021, Chapter 412** is the 2021 Tax Omnibus, which included changes individual and corporate income tax, as well as insurance premium tax, property tax, Transaction Privilege Tax and Unemployment Insurance Tax (for a detailed description, see the *Individual Income Tax* section of the Tax Handbook). The corporate income tax provisions in the Tax Omnibus are described below.

- Increases the credit cap for contributions by corporations and insurers to School Tuition Organizations (STO) for displaced/disabled students from \$5 million to \$6 million, beginning in FY 2022.
- Creates a new nonrefundable individual and corporate income tax credit for the processing of qualified forest products, beginning in TY 2021. The credit has an annual cap of \$0.5 million per taxpayer and \$2 million in the aggregate
- Expands the eligibility for students receiving "switcher" individual or low-income corporate STO scholarships to include those who were homeschooled, moved from out of state, or held an Empowerment Scholarship Account (ESA), beginning in TY 2021.
- Allows public service corporations to deduct for income tax purposes any amount of monies or other property contributed to them to expand, improve or replace their water system or sewage disposal facilities, beginning in TY 2021.
- Increases the distribution from the Urban Revenue Sharing (URS) Fund to incorporated cities and towns from 15% to 18% of the amount of individual and corporate income taxes collected 2 fiscal years prior, beginning in FY 2024.

**Laws 2021, Chapter 425** creates an optional entity-level income tax for partnerships and S corporations, beginning in TY 2022. If the partners or shareholders of such pass-through-entities (PTE) elect to be taxed at the entity level, the PTEs are taxed at 4.5% of their Arizona taxable income. Such an election allows PTEs to claim a full deduction on their federal partnership return for state taxes paid at the entity level. Currently, the amount of itemized deductions that can be claimed for state and local taxes paid by each partner or shareholder of a PTE on their federal individual income tax return is limited to \$10,000. Chapter 425 has no impact on General Fund revenues. At the state level, partners and shareholders of PTEs will pay the same amount of state individual income tax under Chapter 425 as under current law. At the federal level, however, there will be a reduction of individual income tax revenues since Chapter 425 will effectively allow partners and shareholders of PTEs to claim their full deduction for state taxes.

**Laws 2021, Chapter 430** creates a new individual and corporate nonrefundable affordable housing tax credit that is equal to at least 50% of the amount of the federal low-income housing credit for qualified projects placed in service after June 30, 2022. The Arizona Department of Housing is authorized to allocate a total of \$4 million in tax credits per year from TY 2022 to TY 2025. Each of these 4 award cycles is available for 10 years. The credit is estimated to have a revenue impact of \$(4.0) million in FY 2024.

## Corporate Income Tax

---

### 2020 LAWS

**Laws 2020, Chapter 7** extended the availability of credits for Qualified Facilities (A.R.S. § 43-1083.03), Renewable Energy Investment and Production for Self-Consumption by International Operations Centers (A.R.S. § 43-1164.05) and Research and Development (A.R.S. § 43-1168). These credits are set to expire in 2030.

**Laws 2020, Chapters 24 and 40** conform the Arizona tax code to the federal Internal Revenue Code (IRC) as of January 1, 2020 to reflect changes adopted by the U.S. Congress during 2019.

**Laws 2020, Chapter 43** was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. This chapter also repeals the corporate tax credits for employment by a healthy forest enterprise, agricultural pollution control equipment, and the donation of a school site.

### 2019 LAWS

**Laws 2019, Chapter 203** was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. (Effective from August 27, 2019)

**Laws 2019, Chapter 272** expands the definition of "multistate service provider" to include a taxpayer that has more than 2,000 employees in the state and that derives more than 85% of its sales from support services provided to a regionally accredited institution of higher education (Effective retroactively from January 1, 2019)

**Laws 2019, Chapter 273** conforms Arizona to the federal definition of taxable income as of January 1, 2018 for tax year 2018, and January 1, 2019 for tax year 2019. In addition, Chapter 273 includes numerous changes related to individual income tax and transaction privilege tax. For more details on these changes, please see the *Individual Income Tax* and *Transaction Privilege Tax* sections of the Tax Handbook.

**Laws 2019, Chapter 281** limits the annual increase of the aggregate credit cap for contributions made by corporations and insurers to qualifying school tuition organizations (STO) that provide education scholarships and tuition grants to students of low-income families from 20% to 15% in FY 2021, 10% in FY 2022, and 5% in FY 2023. Beginning in FY 2024, the increase of the credit cap is limited to the greater of 2% or the annual change of the Metropolitan Phoenix consumer price index. In dollar terms, Chapter 281 limits the growth of the credit cap to \$123.1 million in FY 2021, \$135.4 million in FY 2022, and \$142.1 million in FY 2023.

### 2018 LAWS

**Laws 2018, Chapter 104** was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. (Effective from August 3, 2018)

**Laws 2018, Chapter 106** expands the definition of a multistate-service-provider to include taxpayers that derive more than 85% of its sales from services or other intangibles provided to out-of-state purchasers. The prior definition had been limited to just sales of services. See Laws 2012, Chapter 2 (below) for more information.

**Laws 2018, Chapter 142** was the annual conformity bill that updated the definition of the Internal Revenue Code (IRC) to include all IRC provisions that were in effect as of January 1, 2017. This included provisions of the federal Tax Cuts and Jobs Act (TCJA) that were made retroactively effective for tax year 2017. The TCJA increased the allowable rate of the bonus depreciation allowance from 50% to 100% of qualified business investment made after September 27, 2017. However, Arizona does not conform to federal bonus depreciation amounts for the corporate income tax. Most TCJA provisions were effective January 1, 2018. Chapter 142 does not address those provisions.

### 2017 LAWS

**Laws 2017, Chapter 2** was the annual conformity bill that updated the definition of the Internal Revenue Code (IRC) to include all IRC provisions that were in effect as of January 1, 2017.

## Corporate Income Tax

---

**Laws 2017, Chapter 60** includes several provisions for electronic filing and payment of taxes to the Department of Revenue (DOR). The act's corporate income tax provisions are listed below.

- Requires C corporations to electronically file their state returns, beginning in TY 2020 or in the tax year when DOR begins accepting electronic returns from C corporations, whichever is later. (Effective from January 1, 2020 or later)
- Requires C corporations to make all tax payments to DOR electronically, if the taxpayer's annual liability is greater than \$10,000 in TY 2019, \$5,000 in TY 2020, and \$500 in TY 2021 and later years. Prior to Chapter 60, taxpayers with annual liability greater than \$20,000 were required to make payments electronically.
- Prohibits DOR from distributing paper tax return forms, except upon request from the taxpayer. (Effective from August 9, 2017)

**Laws 2017, Chapter 127** designates a business' conversion from one type of legal structure to another as a nontaxable event for purposes of calculating state income taxes, if the conversion does not include changes to a business' ownership interests or assets. Prior to the bill, owners of a C or S corporation that converted to a partnership or limited liability company could realize capital gains income that was subject to the state's individual income tax. (Effective from August 9, 2017)

**Laws 2017, Chapter 178** was a tax correction bill that made technical and clarifying changes to the Arizona Revised Statutes. (Most provisions are effective from August 9, 2017 while others are effective from December 31, 2017).

**Laws 2017, Chapter 278** permits a business to subtract for income tax purposes the entire amount of business access expenditures incurred in a tax year to retrofit property in order to comply with the federal Americans with Disabilities Act of 1990. The bill has the effect of accelerating depreciation of such property to 1 year rather than depreciating it over several years. The income tax subtraction applies to property that was originally placed in service 10 years prior to retrofitting. The act is estimated to reduce corporate income tax collections by \$(1.3) million annually, beginning in FY 2019. (Effective from January 1, 2018)

**Laws 2017, Chapter 299** includes several tax (individual income, corporate income, and insurance premium) provisions. The act's corporate income tax provisions are summarized below.

### TY 2018 Repeal of Credits

The act repeals the credits listed below, beginning in TY 2018. See the individual credits in the *Tax Credits* section for information about each.

- Healthy Forest - Ecological Restoration Workforce Training
- Military Reuse Zone
- Renewable Energy Investment
- Solar Hot Water Heater Stub Outs and Electric Vehicle Recharge Outlets
- Solar Liquid Fuel

The credits above have either not been claimed or claimed in a negligible amount in recent years. As a result, their repeal is not expected to have a significant revenue impact. (Effective from January 1, 2018)

### Repeal of Unused Credits

Beginning in TY 2018, the act requires the Department of Revenue (DOR) to end servicing of tax credits that have not been claimed during the 4 most recent consecutive fiscal years. Credits that are authorized by the Arizona Commerce Authority (ACA) may not be repealed if the agency approved any credits during the prior 4 fiscal years, regardless of whether the credits were claimed against tax liability. DOR will include language to repeal unused credits in draft tax correction legislation proposed to the Legislature annually. If legislation to repeal the credit from statute is not enacted in the following Legislative session, DOR will restore servicing of the tax credits. Provisions for the repeal of unused credits are not expected to have a revenue impact. (Effective from January 1, 2018)

## Corporate Income Tax

---

**Laws 2017, Chapter 316** provides individual and corporate income taxpayers a subtraction of net capital gains income earned on the exchange of U.S. coins or currency in TY 2018 and later years. (Effective from January 1, 2018)

**Laws 2017, Chapter 340** includes several tax (individual income, corporate income, sales, insurance premium, and property) provisions. The act's corporate income tax provisions are summarized below.

### Extend and Expand the New Employment Tax Credit

Chapter 340 extends the date by which New Employment Tax Credits may be authorized and expands access to the credit. The bill extends the last date that ACA is permitted to authorize new credits from June 30, 2017 to June 30, 2025. Given a maximum 5-year schedule for claiming the credit (*see New Employment Tax Credit section for information*), businesses may claim credits through TY 2029. Prior to Laws 2017, Chapter 340, a business could not claim the new credit unless it added at least 25 net new jobs in a year in an urban area (5 in a rural area), paid employees at least 100% of the county median wage, and made a capital investment of at least \$5.0 million (\$1.0 million in a rural area). Beginning in TY 2018, Laws 2017, Chapter 340 permits businesses to qualify under alternative levels of capital investment and wages as displayed in *Table 5*. A business can now invest less than \$5.0 million if they pay wages that exceed 100% of the county median level. The required number of net new jobs remains unchanged. The provision is estimated to reduce corporate income tax collections by \$(800,000) in FY 2019, followed by a further reduction of \$(900,000) in FY 2020.

### Extend Rate Increase for Research and Development Tax Credit

The act extends a rate increase for calculating Research and Development (R&D) credits through TY 2021. The state's R&D credit is calculated based on the amount of qualified research expenses exceeding a certain base amount (which is defined in the Internal Revenue Code). Prior to TY 2010, the credit was calculated as 20% of up to \$2.5 million in qualified expenses and 11% of qualified expenses above \$2.5 million. Laws 2008, Chapter 290 temporarily increased the credit in TY 2010 to TY 2017, to 24% of up to \$2.5 million in qualified expenses and 15% of qualified expenses above \$2.5 million. Chapter 340 extends the rate increase under Laws 2009, Chapter 290 through TY 2021. As the provision continues an existing credit at the same rate as that reflected in the revenue base, it is not expected to have a revenue impact.

### Clarification for Claiming Qualified Facility Tax Credits

Chapter 340 clarifies that Qualified Facility credits that are pre-approved prior to the expiration of the program on December 31, 2022 can be claimed in 5 annual installments notwithstanding any intervening repeal or termination of the credit. This clarification of prior law has no impact on revenue collections.

## 2016 LAWS

**Laws 2016, Chapter 35** requires the state to withhold distributions of Urban Revenue Sharing Fund (URS) monies from cities or towns that the Attorney General finds are violating the Arizona Constitution or state laws. Cities and towns receive annual distributions from the URS that total 15% of individual and corporate income tax collections from 2 years prior. Under Chapter 35, the URS share of any offending locality will be redistributed to the remaining cities and towns. The state would continue to withhold URS distributions until the Attorney General certifies that the city or town is no longer in violation of the Arizona Constitution and state laws. The shared revenue would not be withheld, though, if doing so would leave the city or town with insufficient funding to service their long-term debt obligations. (Effective from August 6, 2016)

**Laws 2016, Chapter 155** was the annual conformity bill that updated the definition of the Internal Revenue Code (IRC) to include all IRC provisions that were in effect as of January 1, 2016. The federal Consolidated Appropriations Act of 2016 authorized a permanent business expensing limit of \$500,000, retroactively to TY 2015. A primary implication of Chapter 155 was conformity of the state's tax statutes to the permanent business expensing limit of \$500,000. There is no added revenue loss from conforming to the permanent limit, as the previous estimated impact of \$(30.8) million a year assumed the continuation of the \$500,000 limit in future years. The *Accelerated Depreciation Allowances* subsection of the *Individual Income Tax* section includes more details on the business expensing allowance. (Effective retroactive from January 1, 2016)

## Corporate Income Tax

---

**Laws 2016, Chapter 156** was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. (Effective from August 6, 2016)

**Laws 2016, Chapter 258** is an emergency measure that amends current statutes with respect to the method by which state-shared revenues are apportioned among counties and municipalities, as described below.

Under current law, state-shared revenue is distributed to an incorporated city or town based on its population count as of the last federal decennial census [A.R.S. § 42-5029(I)]. During the fifth year following the decennial census, a city/town may contract with the U.S. Census Bureau to conduct a special census of the population of that municipality. Beginning July 1 in the sixth year following the decennial census, the special census must be used as the basis for apportioning state-shared revenue to that municipality until the next federal decennial census [A.R.S. § 42-5033].

For purposes of apportioning state-shared revenue, Laws 2016, Chapter 258 provides a city/town the option to use either the population count from the special census or the most recent population estimate from the U.S. Census Bureau. However, Chapter 258 provides that the population count from the special census be used for only 1 year. Beginning on July 1 in the second year following the special census, a city/town must use the most recent population estimate from the U.S. Census Bureau. If a special census is not conducted, Chapter 258 requires a city/town to use the most recent population estimate from the U.S. Census Bureau beginning on July 1 in the second year following the decennial census through June 30 of the year following the next decennial census. (Effective by emergency measure, from May 17, 2016)

**Laws 2016, Chapter 372** expands the facility tax credit by reducing investment and employee compensation requirements that taxpayers must meet. The credit is 10% of the lesser of: (1) the taxpayer's total capital investment in a qualified facility or (2) \$200,000 for each net new employee at the qualified facility. Chapter 372 expands the definition of an investment to include development costs of build-to-suit facilities that are leased to the taxpayer. The legislation additionally reduces the portion of employee health insurance that employers must pay (from 80% to 65% of premiums) and lowers the minimum wage that rural businesses must pay a majority of their employees (from 125% to 100% of the median state wage). The bill extends the final year the credit may be approved from TY 2019 to TY 2022. (Effective from August 6, 2016)

### 2015 LAWS

**Laws 2015, Chapter 6** expands the renewable energy manufacturing facility credit to investments in facilities certified by the ACA as an "International Operations Center" (IOC) and increases the annual credit amount. Laws 2014, Chapter 8 provides an individual and corporate income tax credit for investments in new renewable energy facilities that produce energy that is used for self-consumption if the power is used primarily in manufacturing operations. Under Laws 2015, Chapter 6, the requirements to qualify for the credit are lower for an IOC than a manufacturer. Chapter 6 increases the credit amount from \$1.0 million to \$5.0 million per year (for 5 years) for each qualifying renewable energy facility. For additional information on the renewable energy manufacturing facility credit, see *Appendix A* in the Tax Handbook. (Effective retroactively from January 1, 2015)

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

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

[illegible]

| CORPORATE                 |                            | 2019            | 2018            | 2017            | 2016            | 2015            | 2014            | 2013          | 2012          | 2011          |
|---------------------------|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|---------------|---------------|
| Healthy Forest            | # of claims                | 0               | 0               | 0               | 0               | 0               | 0               | 0             | 0             |               |
| Enterprise Ecological     | credit available           | \$0             | \$0             | \$0             | \$0             | \$0             | \$0             | \$0           | \$0           |               |
| Restoration Workforce     | credit used                | \$0             | \$0             | \$0             | \$0             | \$0             | \$0             | \$0           | \$0           |               |
| Training                  | carry forward              | \$0             | \$0             | \$0             | \$0             | \$0             | \$0             | \$0           | \$0           |               |
| Military                  | # of claims                | 0               | 0               | 0               | 0               | 0               | 0               |               | 3             |               |
| Reuse                     | credit available           | \$0             | \$0             | \$0             | \$0             | \$0             | \$0             | Data Not      | \$152,170     | Data Not      |
| Zone                      | credit used                | \$0             | \$0             | \$0             | \$0             | \$0             | \$0             | Releasable    | \$100         | Releasable    |
|                           | carry forward              | \$0             | \$0             | \$0             | \$0             | \$0             | \$0             |               | \$143,120     |               |
| Motion Picture            | # of claims                |                 |                 |                 |                 | 0               |                 | 3             | 6             | 6             |
| Production and            | credit available           |                 |                 |                 |                 | \$0             | Data Not        | \$835,946     | \$3,185,842   | \$4,458,661   |
| Infrastructure            | credit used                |                 |                 |                 |                 | \$0             | Releasable      | \$833,889     | \$2,544,570   | \$3,831,174   |
|                           | carry forward              |                 |                 |                 |                 | \$0             |                 | \$2,057       | \$641,272     | \$627,487     |
| New Employment            | # of claims                | 37              | 39              | 33              | 33              | 26              | 23              | 18            | 10            |               |
| Credit                    | credit available           | \$29,901,332    | \$33,350,375    | \$27,978,323    | \$18,193,937    | \$11,315,628    | \$8,162,272     | \$6,962,900   | \$4,074,000   | Data Not      |
|                           | credit used                | \$11,841,983    | \$16,344,168    | \$11,973,945    | \$8,119,188     | \$5,917,220     | \$5,260,897     | \$5,910,034   | \$3,714,100   | Releasable    |
|                           | carry forward              | \$17,915,449    | \$16,541,681    | \$16,004,378    | \$10,074,749    | \$5,397,958     | \$2,901,375     | \$1,052,866   | \$359,900     |               |
| Pollution                 | # of claims                | 7               | 7               | 10              | 16              | 14              | 15              | 20            | 20            | 17            |
| Control Device            | credit available           | \$3,825,759     | \$3,700,346     | \$5,212,548     | \$8,005,607     | \$7,910,962     | \$7,870,693     | \$7,381,262   | \$7,075,245   | \$6,585,467   |
|                           | credit used                | \$1,041,983     | \$1,105,049     | \$1,876,118     | \$2,390,645     | \$1,481,363     | \$1,481,996     | \$1,714,164   | \$1,872,337   | \$1,364,968   |
|                           | carry forward              | \$2,339,497     | \$2,287,800     | \$2,724,292     | \$4,693,192     | \$5,876,596     | \$6,137,146     | \$5,167,287   | \$5,018,998   | \$4,685,641   |
| Qualified Facilities      | # of claims                | 11              | 13              | 6               |                 |                 | 0               | 0             |               |               |
|                           | credit available           | \$4,668,000     | \$3,432,000     | \$2,812,000     | Data Not        | Data Not        | \$0             | \$0           |               |               |
|                           | <b>CREDIT REFUNDED</b>     | \$4,668,000     | \$3,432,000     | \$2,812,000     | Releasable      | Releasable      | \$0             | \$0           |               |               |
| Qualified Health          | # of claims                |                 |                 | 0               | 0               | 0               |                 |               |               |               |
| Insurance Plans           | credit available           |                 |                 | \$0             | \$0             | \$0             | Data Not        | Data Not      | Data Not      |               |
| Credit                    | credit used                |                 |                 | \$0             | \$0             | \$0             | Releasable      | Releasable    | Releasable    |               |
|                           | carry forward              |                 |                 | \$0             | \$0             | \$0             |                 |               |               |               |
| Renewable Energy          | # of claims                |                 |                 | 0               |                 |                 |                 |               | 0             | 0             |
| Industry-Investment       | credit available           |                 |                 | \$0             | Data Not        | Data Not        | Data Not        | Data Not      | \$0           | \$0           |
| and Employment            | <b>CREDIT REFUNDED</b>     |                 |                 | \$0             | Releasable      | Releasable      | Releasable      | Releasable    | \$0           | \$0           |
| Renewable Energy          | # of claims                |                 |                 |                 |                 | 0               | 0               |               |               |               |
| Investment and Production | credit available           | Data Not        | Data Not        | Data Not        | Data Not        | \$0             | \$0             |               |               |               |
| for Self-Consumption      | credit used                | Releasable      | Releasable      | Releasable      | Releasable      | \$0             | \$0             |               |               |               |
|                           | carry forward              |                 |                 |                 |                 | \$0             | \$0             |               |               |               |
| Renewable Energy          | # of claims                | 10              | 9               | 10              | 10              | 10              | 9               | 8             |               |               |
| Production                | credit available           | \$75,276,714    | \$71,097,121    | \$65,568,908    | \$54,685,334    | \$44,211,353    | \$34,182,183    | \$24,371,476  | Data Not      | Data Not      |
|                           | credit used                | \$1,628,631     | \$6,857,935     | \$9,232,420     | \$8,742,119     | \$9,220,860     | \$9,658,821     | \$8,869,123   | Releasable    | Releasable    |
|                           | carry forward              | \$64,643,220    | \$56,372,162    | \$51,409,817    | \$45,823,716    | \$34,990,493    | \$24,523,362    | \$15,502,353  |               |               |
| Research and              | # of claims                | 426             | 437             | 397             | 395             | 388             | 363             | 357           | 364           | 346           |
| Development               | credit available           | \$2,011,246,931 | \$1,774,769,124 | \$1,500,605,908 | \$1,303,753,023 | \$1,144,875,849 | \$1,013,267,130 | \$895,759,812 | \$804,194,882 | \$691,595,427 |
|                           | credit used                | \$69,529,545    | \$70,081,036    | \$35,563,523    | \$66,856,863    | \$90,526,641    | \$91,782,959    | \$92,806,215  | \$83,652,382  | \$84,418,019  |
|                           | <b>CREDIT REFUNDED</b>     | \$3,157,735     | \$3,710,434     | \$3,916,887     | \$4,094,460     | \$4,513,320     | \$4,081,323     | \$4,555,687   | \$4,184,353   | \$3,939,816   |
|                           | <b>ltd carry forward</b>   |                 |                 |                 | \$39,012,285    | \$92,634,072    | \$229,898,885   | \$312,963,882 | \$384,419,027 | \$420,382,688 |
|                           | <b>unltd carry forward</b> | \$1,900,455,707 | \$1,667,923,072 | \$1,458,533,455 | \$1,229,301,415 | \$1,047,138,524 | \$905,248,465   | \$793,735,036 | \$712,504,779 | \$600,063,391 |

| CORPORATE  |   | 2019   | 2018   | 2017  | 2016  | 2015  | 2014   | 2013   | 2012   | 2011   |
|--|---|--|--|---|---|---|--|--|--|--|
| Research and Development for University Research                 | # of claims<br>credit available<br>credit used<br>carry forward   | Data Not<br>Releasable   | Data Not<br>Releasable   | Data Not<br>Releasable  | Data Not<br>Releasable  | Data Not<br>Releasable  | Data Not<br>Releasable   | Data Not<br>Releasable   | Data Not<br>Releasable   |  |
| School Site Donation   | # of claims<br>credit available<br>credit used<br>carry forward   | 0<br>\$0<br>\$0<br>\$0   | 0<br>\$0<br>\$0<br>\$0   | 0<br>\$0<br>\$0<br>\$0  | 0<br>\$0<br>\$0<br>\$0  | 0<br>\$0<br>\$0<br>\$0  | 0<br>\$0<br>\$0<br>\$0   | 0<br>Data Not<br>Releasable  | 0<br>Data Not<br>Releasable  | 0<br>Data Not<br>Releasable  |
| Solar Hot Water Plumbing Stub Outs and Electric Vehicle Recharge | # of claims<br>credit available<br>credit used<br>carry forward   | 0<br>\$0<br>\$0<br>\$0   | 0<br>\$0<br>\$0<br>\$0   | 0<br>\$0<br>\$0<br>\$0  | 0<br>\$0<br>\$0<br>\$0  | 0<br>\$0<br>\$0<br>\$0  | 0<br>\$0<br>\$0<br>\$0   | 0<br>\$0<br>\$0<br>\$0   | 0<br>\$0<br>\$0<br>\$0   | 0<br>\$0<br>\$0<br>\$0   |
| Solar Liquid Fuel Research and Development                       | # of claims<br>credit available<br>credit used  |  |  | 0<br>\$0<br>\$0   | 0<br>\$0<br>\$0   | 0<br>\$0<br>\$0   | 0<br>\$0<br>\$0  | 0<br>\$0<br>\$0  | 0<br>\$0<br>\$0  | 0<br>\$0<br>\$0  |
| Solar Liquid Fuel Production                                     | # of claims<br>credit available<br>credit used  |  |  | 0<br>\$0<br>\$0   | 0<br>\$0<br>\$0   |   |  |  |  |  |
| Solar Liquid Fuel Delivery Systems                               | # of claims<br>credit available<br>credit used  |  |  | 0<br>\$0<br>\$0   | 0<br>\$0<br>\$0   |   |  |  |  |  |
| Taxes Paid for Coal Consumed In Generating Electrical Power      | # of claims<br>credit available<br>credit used<br>carry forward   | 4<br>\$8,259,118<br>\$1,094,641<br>\$6,104,334   | 4<br>\$8,202,055<br>\$1,028,355<br>\$6,036,441   | Data Not<br>Releasable  | 4<br>\$9,078,655<br>\$1,415,191<br>\$6,547,313  | 4<br>\$9,022,346<br>\$642,803<br>\$7,494,682  | Data Not<br>Releasable   | Data Not<br>Releasable   | Data Not<br>Releasable   | Data Not<br>Releasable   |
| Water Conservation Plumbing Stub-Out                             | # of claims<br>credit available<br>credit used<br>carry forward   |  |  |   | 0<br>\$0<br>\$0<br>\$0  | 0<br>\$0<br>\$0<br>\$0  | 0<br>\$0<br>\$0<br>\$0   | 0<br>\$0<br>\$0<br>\$0   | 0<br>\$0<br>\$0<br>\$0   | 0<br>\$0<br>\$0<br>\$0   |
| <b>Total</b>   | # of claims<br>credit available<br>credit used<br>credit refunded<br>carry forward<br>ltd carry forward | <b>609</b><br><b>\$2,175,094,904</b><br><b>\$105,531,333</b><br><b>\$7,825,735</b><br><b>\$2,012,872,398</b> | <b>628</b><br><b>\$1,933,209,350</b><br><b>\$121,519,279</b><br><b>\$7,142,434</b><br><b>\$1,761,676,213</b> | <b>601</b><br><b>\$1,659,565,421</b><br><b>\$85,271,888</b><br><b>\$6,728,887</b><br><b>\$1,554,635,041</b> | <b>590</b><br><b>\$1,449,074,558</b><br><b>\$124,039,158</b><br><b>\$7,457,127</b><br><b>\$1,311,520,375</b><br><b>\$39,012,285</b> | <b>572</b><br><b>\$1,263,052,449</b><br><b>\$133,035,848</b><br><b>\$8,347,987</b><br><b>\$1,116,806,421</b><br><b>\$92,634,072</b> | <b>563</b><br><b>\$1,116,767,717</b><br><b>\$136,577,710</b><br><b>\$4,081,323</b><br><b>\$961,629,107</b><br><b>\$229,898,885</b> | <b>613</b><br><b>\$991,085,015</b><br><b>\$140,988,319</b><br><b>\$4,555,687</b><br><b>\$836,667,974</b><br><b>\$312,963,882</b> | <b>869</b><br><b>\$883,416,078</b><br><b>\$128,246,992</b><br><b>\$4,184,353</b><br><b>\$744,387,526</b><br><b>\$384,419,027</b> | <b>827</b><br><b>\$750,092,831</b><br><b>\$118,327,456</b><br><b>\$3,939,816</b><br><b>\$620,437,947</b><br><b>\$420,382,688</b> |

## Notes:

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



## **APPENDIX A**

# Appendix A

## RENEWABLE ENERGY TAX INCENTIVES

### DESCRIPTION

The state has numerous Individual and Corporate Income tax credits for renewable energy investment, production, and installation. The state also allows for property tax incentives and sales or use tax exemptions for the purchase of certain renewable energy equipment or facilities.

### INDIVIDUAL AND CORPORATE TAX CREDITS

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

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

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

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

*Renewable Energy Investment and Production for Self-Consumption by an International Operations Center.* This is a corporate income tax credit for investment in new renewable energy facilities that produce energy for self-consumption using renewable energy sources if the power is primarily used by an International Operations Center [A.R.S. § 41-1520 and A.R.S. § 43-1164.05].

The taxpayer must qualify for this credit as an International Operations Center (IOC), which requires the taxpayer or third-party on behalf of the taxpayer to:

- Invest at least \$100 million in one or more renewable energy facilities in Arizona by December 31, 2018.
- Invest at least \$1.25 billion in new capital assets, including land, buildings, and IOC equipment, within 10 years after being certified as an IOC by the Arizona Commerce Authority (ACA).
- A portion of the energy produced at each renewable energy facility must be for self-consumption in Arizona
- Use at least 51% of the energy produced for self-consumption by the 5<sup>th</sup> year the IOC is in operation.

Approval by the Department of Revenue (DOR) is required to take the credit. The amount of the credit is \$5 million per year for 5 years for each renewable facility. The credit per taxpayer cannot exceed \$5 million per year, and \$25 million in total over 5 years. The total amount of credits that DOR can approve for all taxpayers in a calendar year is \$10 million. No new credits can be claimed for any taxable year beginning after December 31, 2025.

To meet the definition of a "renewable energy facility" for purposes of claiming the credit, the taxpayer or third-party on behalf of the taxpayer must have invested at least \$30 million in each facility. Furthermore, the facility must have a minimum generating capacity of 20 megawatts, or a minimum annual generation of 40,000 megawatt hours, be located in Arizona, and produce electricity using a renewable energy resource.

According to DOR's most recent "Arizona's Individual and Corporate Income Tax Report," one renewable energy facility has been approved for this credit. Since no other taxpayer met the minimum investment requirement by the statutory due date of December 31, 2018, no additional credits will be authorized under this program.

## Renewable Energy Tax Incentives

---

Laws 2021, Chapter 266 grants a taxpayer eligibility for the credit if a third-party entity invests in one or more renewable energy facilities in Arizona on behalf of or for the direct benefit of the taxpayer. The requirements for third-party investments to qualify for the credit are the same as those for the taxpayer with a few exceptions. The minimum investment threshold for new capital assets for third-party investors is \$1.50 billion instead of \$1.25 billion and the third-party entity cannot include the owner or operator of the IOC or affiliated entities [A.R.S. § 41-1520].

The definition of "renewable energy facility" is expanded to include battery storage that is independent from or coupled with other sources [A.R.S. § 41-1520].

Laws 2019, Chapter 203 repealed the individual income tax credit for IOCs but retained the corporate income tax credit. This credit cannot be claimed against the same facilities that are used to claim the Renewable Energy Production Credit [A.R.S. § 43-1164.03].

*Renewable Energy Production.* An individual and corporate credit is allowed on the production of electricity using renewable energy, including solar light, solar heat, wind or biomass. To be eligible for the credit, a taxpayer must hold title to a qualified energy generator that first produces electricity between January 1, 2011 and December 31, 2020. The new credit allows a qualified producer of renewable energy to receive a tax credit of up to \$2.0 million per year on the electricity they produce for up to 10 years. Given that a taxpayer may begin earning credits as late as tax year 2020, the latest year a credit may be earned under the 10-year schedule is tax year 2030. The credit is equal to 1¢ per kilowatt hour for the first 200,000 megawatt hours of biomass or wind energy produced and 1¢ - 4¢ for every kilowatt hour of solar energy [A.R.S. § 43-1164.03].

Approval from DOR is required to take the credit. DOR is authorized to approve up to \$20.0 million in total individual and corporate income tax credits each year. DOR approved \$1.3 million in credits in calendar year (CY) 2011, \$9.7 million in CY 2012, \$18.4 million in CY 2013, and \$20.0 million a year in CY 2014 through CY 2019. Approvals, however, do not automatically translate into a credit. The production credit was originally forecast to be \$10.0 million in FY 2012 and grow to \$20.0 million annually by FY 2013. DOR reports that the credit had an annual General Fund revenue impact of \$(7.1) million in FY 2020. A 5-year carry-forward of the credit is allowed.

### **Installation:**

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

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

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

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

*Electricity and Natural Gas Exemption for International Operations Centers.* Gross proceeds from sales of electricity and natural gas to an International Operations Center (IOC) are exempt from the Transaction Privilege Tax. To be certified by ACA as an IOC, an owner or operator must make minimum capital investments of at least \$100.0 million per year for 10 years, make a total capital investment of at least \$1.25 billion over 10 years, and use at least 51% of self-generated renewable energy for self-consumption by the fifth year of the operation (See the

## Renewable Energy Tax Incentives

---

*Renewable Energy Investment and Production for Self-Consumption* credit for more information) [A.R.S. § 41-1520; A.R.S. § 42-5063 and A.R.S. § 43-1164.05].

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

*Renewable Energy Investment.* Qualifying renewable energy companies that build headquarters or manufacturing facilities in the state will receive a class 6 property designation, which reduces the assessment ratio to 5% instead of the current class 1 assessment ratio of 18%. The class 6 property designation remains in effect for 10 or 15 years, depending upon the level of wages paid to employees of the facility in relation to the median wage of the state [Laws 2009, Chapter 96; A.R.S. § 42-12006]. No new properties may be classified pursuant to this paragraph from and after December 31, 2014

*Solar Energy Devices for Commercial and Industrial Purposes.* Solar energy systems that are utilized for the production of solar energy primarily for on-site consumption are prohibited from being added to a property's value for the purposes of property tax assessments or from being counted as part of the Transaction Privilege Tax or Use Tax base [Laws 2010, Chapter 294; Laws 2008, Chapter 60; Laws 2006, Chapter 333; A.R.S. § 41-1511; A.R.S. § 42-5061; A.R.S. § 42-5075; A.R.S. § 42-5159, and A.R.S. § 42-11054].

## Renewable Energy Tax Incentives

| Table 1  |   |                                    |                                |   |
|--|---|------------------------------------|--------------------------------|---|
| SUMMARY OF MAIN TAX CREDIT PROVISIONS  |   |                                    |                                |   |
| <u>Tax Credit</u>  | <u>Value of Credit</u>  | <u>Annual Aggregate Credit Cap</u> | <u>Annual Revenue Impact</u>   | <u>Qualifications</u>   |
| <i>Renewable Energy Investment and Production for Self-Consumption by an International Operations Center (IOC)</i>   | \$5.0 million per qualifying facility   | \$10.0 million                     | \$(5.0) million <sup>1/</sup>  | (1) Invest at least \$100 million in one or more renewable energy facilities in Arizona by December 31, 2018. (2) Invest at least \$1.25 billion in new capital assets, including land, buildings, and IOC equipment, within 10 years after being certified as an IOC. (3) Use at least 51% of the energy produced for self-consumption by the 5 <sup>th</sup> year in operation. |
| <i>Renewable Energy Production</i>   | 1¢ per kilowatt hour for the first 200,000 megawatt hours of biomass or wind energy and 1¢ - 4¢ for every kilowatt hour of solar energy | \$20.0 million                     | \$(1.8) million <sup>2/</sup>  | Energy must be produced from a qualified generator that did not first produce energy before January 1, 2011 or after December 31, 2020  |
| <i>Commercial and Industrial Solar Energy Devices</i>  | 10% of the installed cost of a solar device used in the business  | None                               | \$(27,300) <sup>2/</sup>       | Qualified solar device that is utilized for business purposes   |
| <i>Residential Solar Energy Devices</i>  | 25% of the purchase price for a solar energy device   | None                               | \$(11.0) million <sup>2/</sup> | Qualified solar device for residential use  |
| <sup>1/</sup> Estimate based on report by DOR that only 1 company was approved for the credit.<br><sup>2/</sup> Reflects the FY 2021 General Fund revenue impact as reported by DOR. |   |                                    |                                |   |

## Renewable Energy Tax Incentives

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

| ESTIMATED ANNUAL REVENUE IMPACT OF TAX CREDITS AND EXEMPTIONS   |                         |                              |
|---|-------------------------|------------------------------|
| <u>Description</u>  | <u>Year of Estimate</u> | <u>Revenue Impact</u>        |
| <u>Credits</u>  |                         |                              |
| Renewable Energy Investment and Production for Self-Consumption by an IOC   | FY 2021                 | \$ (5,000,000) <sup>1/</sup> |
| Renewable Energy Production   | FY 2021                 | (1,759,700) <sup>2/</sup>    |
| Solar Energy Devices of Commercial and Industrial Purposes  | FY 2021                 | (27,300) <sup>2/</sup>       |
| Solar Energy Devices of Residential Purposes  | FY 2021                 | (11,048,400) <sup>2/</sup>   |
| <b>Subtotal</b>   |                         | <b><u>\$(17,835,400)</u></b> |
| <u>Exemptions</u>   |                         |                              |
| Electricity and Natural Gas Sold to International Operations Centers  | CY 2015                 | \$ (1,300,000) <sup>3/</sup> |
| Mixed Waste Processing Facility   | CY 2014                 | (184,000) <sup>3/</sup>      |
| Solar Energy Devices for Commercial and Industrial Purposes (TPT Exemption)   | FY 2020                 | (11,651,100) <sup>4/</sup>   |
| <b>Subtotal</b>   |                         | <b><u>\$(13,135,100)</u></b> |
| <sup>1/</sup> The statutory due date to qualify for the credit was December 31, 2018. According to ACA, 1 company was approved for the credit. The credit is capped at \$5.0 million annually for 5 years. DOR has not been able to release credit use data due to confidentiality restrictions. The figure in the table is an estimate.<br><sup>2/</sup> Actual General Fund revenue impact as reported by DOR.<br><sup>3/</sup> Based solely on the budgeted estimate. No actual data is available.<br><sup>4/</sup> Estimated General Fund revenue impact based on DOR's FY 2020 Tax Expenditure Report. |                         |                              |

## **APPENDIX B**

## Appendix B

### COMPARISON OF PUBLIC AND PRIVATE SCHOOL TAX CREDITS

**Table A: Statutes, Caps & Data**

| Type  | Category                                  | Statute   |                                 | Cap  | # of STOs <sup>1/</sup><br>(that received donations) | Donations <sup>1/</sup> |         |           | Scholarships <sup>1/</sup> |         |
|---|---|---|---------------------------------|--|--|-------------------------|---------|-----------|----------------------------|---------|
|   |   | STO   | Tax Credit                      |  |  | \$ <sup>2/</sup>        | #       | Average   | #                          | Average |
| Individual  | Public School Extracurricular             | NA  | A.R.S. § 43-1089.01             | \$200 single/<br>\$400 married<br>filing jointly                 | --   | \$54.9 M                | 277,589 | \$198     | --                         | --      |
|   | Private School Original                   | A.R.S. § 43-1601<br>through 43-1605               | A.R.S. § 43-1089                | \$593 single/<br>\$1,186 married<br>filing jointly <sup>3/</sup> | 54   | \$65.4M                 | 82,764  | \$790     | 32,824                     | \$1,942 |
|   | Private School "Switcher" <sup>4/</sup>   | A.R.S. § 43-1601<br>through 43-1605               | A.R.S. § 43-1089.03             | \$590 single/<br>\$1,179 married<br>filing jointly <sup>3/</sup> | 54   | \$40.6M                 | 46,577  | \$872     | 25,385                     | \$1,473 |
| Corporate & Insurance Premium   | Private School Low-Income Student         | A.R.S. § 43-1501<br>through 1507<br>(except 1505) | A.R.S. § 43-1183 &<br>20-224.06 | \$135,346,407 <sup>5/</sup>                                      | 45   | \$107.0M                | 1,038   | \$103,067 | 29,829                     | \$2,928 |
|   | Private School Displaced/Disabled Student | A.R.S. § 43-1501<br>through 1507<br>(except 1504) | A.R.S. § 43-1184 &<br>20-224.07 | \$6.0 M <sup>6/</sup>  | 10   | \$5.0 M                 | 46      | \$108,696 | 964                        | \$5,049 |
| <p><sup>1/</sup> Public school tax credit data are for <i>calendar</i> year 2019 (latest reported data); private school data are for <i>fiscal</i> year 2020 (individual income tax and corporate income tax; latest reported data).</p> <p><sup>2/</sup> Total donations in the table are \$272.9 million for the mix of years represented (see footnote 1). Donations for a given year may not equal tax credits for that year depending on donors' tax liabilities and because corporations and insurers may carry forward tax credits for up to 5 years before using them. Similarly, donations for a given year may not equal total scholarship disbursements for that year because STOs may reserve a portion of current year donations for future year scholarships and may use up to 10% of donations for administration.</p> <p><sup>3/</sup> Adjusted annually for inflation. Figures shown are for Tax Year 2020 (latest published data).</p> <p><sup>4/</sup> Referred to as the "Switcher" credit in Department of Revenue publications, since it is limited mostly to students switching from public to private schools (A.R.S. § 43-1603E)</p> <p><sup>5/</sup> Cap is for FY 2022. Increases annually by the amounts stipulated in A.R.S. § 43-1183.C1, as amended by Laws 2019, Chapter 281.</p> <p><sup>6/</sup> Laws 2021 Chapter 412 increases the cap from \$5.0 million to \$6.0 million, beginning in FY 2022.</p> |   |   |                                 |  |  |                         |         |           |                            |         |

Note: "Empowerment Scholarship Accounts" (ESA's) authorized by A.R.S. § 15-2402 are not included in this analysis, as they are funded with appropriated state monies rather than contributions that qualify an individual or corporation for a state tax credit. Student must meet criteria specified in A.R.S. §15-2401 to qualify for an ESA. ESAs are funded under formulas prescribed in A.R.S. §15-2402C&D. In FY 2021, 9,696 students received \$138.3 million in total ESA funding.



**Table B: Program Restrictions**

| Type                            | Category                      | Donors                                  | Recipients   | Use of Funds <sup>1/</sup>  | Earmarking  | Other  |
|---------------------------------|-------------------------------|---|--|---|---|--|
| Individual                      | Public School Extracurricular | Individual income tax filers            | Public schools   | Extracurricular activities, character education, and college or industry testing fees | Can designate a specific student, school club, or use   | Funds can only be used for activities or programs of public schools specified in statute, such as standardized testing for college credit, standardized testing preparation, industry certification exams, CPR training, character education programs and extracurricular activities. Extracurricular activities include band uniforms, equipment or uniforms for varsity athletics, scientific laboratory equipment or materials, or in-state or out-of-state trips that are solely for competitive events. Extracurricular activities do not include any senior trips or events that are recreational, amusement or tourist activities.  |
|                                 | Original                      | Individual income tax filers            | Private school students  | Private school scholarships   | Taxpayer may recommend recipient; may not recommend funds for own dependent or another's dependent in a donation swap | The tax credit is not allowed if the taxpayer designates the taxpayer's contribution to the school tuition organization for the direct benefit of any dependent of the taxpayer or if the taxpayer designates a student beneficiary as a condition of the taxpayer's contribution to the school tuition organization. A taxpayer may not claim a tax credit if the taxpayer agrees to swap donations with another taxpayer to benefit either taxpayer's own dependent. A STO cannot award, restrict or reserve scholarships solely based on a donor's recommendation. If a STO scholarship exceeds a school's total cost of educating the recipient, the school must return the excess portion to the STO.   |
|                                 | "Switcher"                    | Individual income tax filers            | Private school students  | Private school scholarships   | Taxpayer may recommend recipient; may not recommend funds for own dependent or another's dependent in a donation swap | The tax credit is allowed only after the taxpayer has used the maximum tax credit available under the "Original" program. All restrictions for "Original" also apply to "Switcher." In addition, "Switcher" scholarships may only be awarded to public school transfers, kindergartners, preschool disabled students, military dependents, pupils who received a corporate STO or "Switcher" scholarship in the prior year, are homeschooled before enrolling in a private school, moved from out of state before enrolling in a private school, or previously participated in the ESA program. A STO shall give priority to students and siblings of students on a waiting list for scholarships if the STO maintains a waiting list. If a STO scholarship exceeds a school's total cost of educating the recipient, the school must return the excess to the STO.  |
| Corporate and Insurance Premium | Low-Income Student            | Corporations, Insurers & S Corporations | Private school students from "low income" households             | Private school scholarships   | Not allowed   | <ol style="list-style-type: none"> <li>Family income cannot exceed 185% of the income limit required to qualify a child for reduced price lunches under the national school lunch and child nutrition acts (maximum annual income of \$88,130 for a family of four for FY 2020).</li> <li>The student receiving the scholarship must meet one of the following: <ol style="list-style-type: none"> <li>Attended a public primary or secondary school as a full-time student or attended a public program for preschool disabled pupils for at least ninety days or one full semester of the prior fiscal year.</li> <li>Enroll in a private school kindergarten or preschool disabled program.</li> <li>Be a military dependent.</li> <li>Be homeschooled before enrolling in a private school.</li> <li>Moved from out of state before enrolling in a private school.</li> <li>Previously Participated in the ESA program</li> <li>Received an individual or corporate STO scholarship in the prior year and continues to attend a qualified private school.</li> </ol> </li> <li>The total scholarship amount per pupil from each STO increases each year by \$200. In FY 2022, a STO cannot issue a scholarship in an amount that exceeds: <ol style="list-style-type: none"> <li>\$5,800 for students in kindergarten through grade 8</li> <li>\$7,700 for students in grades 9 through 12.</li> </ol> </li> </ol> |
|                                 | Displaced/ Disabled Student   | Corporations, Insurers & S Corporations | Private school students with disabilities or foster care history | Private school scholarships   | Not allowed   | <ol style="list-style-type: none"> <li>The student must have been either placed in foster care at any time before graduating from high school or obtaining GED or have been identified at any time as having a disability under federal or state law.</li> <li>The amount of the scholarship shall not exceed the lesser of the cost of tuition or 90% of the amount of state aid that would have been computed for the student to attend public school.</li> </ol>  |

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

## **APPENDIX C**

## Appendix C

### LIST OF TAX CREDITS WITH STATUTORY ENDING DATES

#### INCOME TAX CREDITS WITH STATUTORY ENDING DATES

| Name of Credit  | Type of Credit                 | Ending Date                     |
|---|--------------------------------|---------------------------------|
| Affordable Housing  | Individual/Corporate           | December 31, 2025               |
| Agricultural Pollution Control Equipment                        | Corporate                      | December 31, 2019 <sup>1/</sup> |
| Facility Credit   | Individual/Corporate           | December 31, 2034 <sup>2/</sup> |
| Healthy Forest Enterprise                                       | Individual                     | December 31, 2024               |
| Healthy Forest Production                                       | Individual/Corporate           | December 31, 2034 <sup>3/</sup> |
| Military Family Relief Fund                                     | Individual                     | December 31, 2026 <sup>4/</sup> |
| New Employment  | Individual/Corporate/Insurance | June 30, 2025 <sup>5/</sup>     |
| Renewable Energy Investment and Production for Self-Consumption | Corporate                      | December 31, 2018 <sup>6/</sup> |
| Renewable Energy Production                                     | Individual/Corporate           | December 31, 2030 <sup>7/</sup> |
| Small Business ("Angel") Investment                             | Individual                     | December 31, 2024 <sup>8/</sup> |
| Solar Energy Devices for Commercial and Industrial Purposes     | Individual/Corporate           | December 31, 2018               |

<sup>1/</sup> Laws 2020, Chapter 43 repealed the corporate (but not the individual) credit for taxable years beginning from and after December 31, 2019.

<sup>2/</sup> Statute provides that credits can be claimed in 5 annual installments. Laws 2020, Chapter 7 extended the credit from December 31, 2022 to December 31, 2030. Given that a taxpayer may begin earning credits as late as TY 2030, the latest year a credit may be claimed under the 5-year schedule is TY 2034.

<sup>3/</sup> Statute provides that credits can be claimed for 5 consecutive years beginning with the calendar year in which the taxpayer processes qualifying forest products. Since December 31, 2030 is the deadline for processing qualifying forest products, the credit can be claimed through December 31, 2034.

<sup>4/</sup> Laws 2018, Chapter 199 extended the ending date of the credit from December 31, 2018 to December 31, 2026.

<sup>5/</sup> Statute prevents the Arizona Commerce Authority from authorizing new credits after June 30, 2025. Credits associated with 1 net new job can be claimed for 3 years. A company may claim first year credits for separate new jobs for up to 3 consecutive years. Since second and third year credits may be claimed against each of the new positions, the taxpayer may claim credits for up to a total of 5 consecutive years. Therefore, credits may be claimed through TY 2029.

<sup>6/</sup> Credit authorization for a certified International Operation Center (IOC) is allowed through December 31, 2018. Thus, an IOC may not generate new credits after this date.

<sup>7/</sup> Statute provides that credits can be claimed for 10 consecutive years beginning with the calendar year in which the taxpayer holds title to a qualified energy generator that first produces electricity between January 1, 2011 and December 31, 2020. Given that a taxpayer may begin earning credits as late as TY 2020, the latest year a credit may be earned under the 10-year schedule is TY 2030.

<sup>8/</sup> Credit authorization is only allowed through June 30, 2031. Thus, no new credits can be generated after this date.

## **PROPERTY TAXES**

# PROPERTY TAX

## DESCRIPTION

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

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

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

Property in Arizona is classified for assessment purposes into 9 legal classes, with sub-classifications in many of those classes. The classification is based on the current use of the property by its owner, such as commercial, agricultural, or residential. Each legal class has an assessment ratio, which is specified by statute. The assessment ratio, which currently ranges from 1% to 18%, is used to calculate the assessed value of a property. (For more details, see *Tax Rate* section.)

## DISTRIBUTION

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

| Table 1                                   |                     |                    |                     |
|---|---------------------|--------------------|---------------------|
| STATE GENERAL FUND COLLECTIONS            |                     |                    |                     |
| <u>Fiscal Year</u>                        | <u>General Fund</u> | <u>Fiscal Year</u> | <u>General Fund</u> |
| 2021                                      | \$22,380,047        | 2011               | \$20,333,501        |
| 2020                                      | \$24,142,944        | 2010               | \$20,269,632        |
| 2019                                      | \$29,683,305        | 2009               | \$18,244,500        |
| 2018                                      | \$38,719,634        | 2008               | \$20,041,338        |
| 2017                                      | \$32,538,497        | 2007               | \$24,486,025        |
| 2016                                      | \$38,483,335        | 2006               | \$24,998,760        |
| 2015                                      | \$36,515,876        | 2005               | \$25,245,622        |
| 2014                                      | \$25,611,186        | 2004               | \$33,266,987        |
| 2013                                      | \$13,202,508        | 2003               | \$19,433,856        |
| 2012                                      | \$15,887,896        | 2002               | \$29,153,274        |
| SOURCE: DOR and State Treasurer’s Office. |                     |                    |                     |

## Property Tax

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

Table 2

### PRIMARY AND SECONDARY COMBINED PROPERTY TAX LEVIES

| <u>Jurisdiction</u> | <u>FY 2021</u>         | <u>FY 2020</u>         | <u>FY 2019</u>         | <u>FY 2018</u>         | <u>FY 2017</u>         |
|---------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| State <sup>1/</sup> | \$338,490,715          | \$331,639,370          | \$330,337,012          | \$330,887,686          | \$323,278,892          |
| Counties            | \$1,650,068,770        | \$1,592,272,542        | \$1,503,789,530        | \$1,471,069,472        | \$1,396,414,883        |
| Cities & Towns      | \$764,435,024          | \$731,541,390          | \$689,943,413          | \$652,664,972          | \$632,382,470          |
| School Districts    | \$4,168,363,680        | \$4,015,912,086        | \$3,863,097,626        | \$3,711,122,953        | \$3,614,915,972        |
| Special Districts   | \$636,418,883          | \$613,797,032          | \$574,865,962          | \$531,248,566          | \$504,795,963          |
| Community Colleges  | \$951,525,958          | \$925,914,892          | \$901,776,096          | \$875,445,399          | \$856,480,862          |
| <b>TOTAL</b>        | <b>\$8,509,303,030</b> | <b>\$8,211,077,312</b> | <b>\$7,863,809,639</b> | <b>\$7,572,439,048</b> | <b>\$7,328,269,042</b> |

<sup>1/</sup> Although the state equalization assistance property tax is technically a school district tax (see A.R.S. § 15-994), ATRA lists it as a state tax for reporting purposes since the tax levy reduces Basic State Aid to schools by an equal amount. Pursuant to Laws 2006, Chapter 354, the state equalization tax was not levied in FY 2007, FY 2008, and FY 2009.

SOURCE: Arizona Tax Research Association (ATRA).

## WHO PAYS

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

### Tribal Members

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

## REVENUE BASE

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

### Full Cash Value (FCV)

A property's full cash value is the value determined as prescribed by statute. If no statutory method is prescribed, full cash value is synonymous with market value, as determined by standard appraisal methods. There are no restrictions or limitations on full cash value growth [A.R.S. § 42-11001].

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

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

## Property Tax

---

### Limited Property Value (LPV)

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

- For a parcel in which there has been no physical change in either land or improvement since the prior year, no change in use, and the property was not totally omitted from the tax roll in the preceding valuation year, the parcel's limited value is established at its previous year's LPV increased by 5%. The property's LPV can never exceed its FCV [A.R.S. § 42-13301]. In DOR's *Assessment Procedures Manual*, this calculation is referred to as "Rule A."
- For a parcel for which the land or improvement was erroneously omitted from the preceding year's property tax roll, had a change in use, was modified by new construction, destruction or demolition, or was split or consolidated, the parcel's limited value is established at a level or percentage that is commensurate to the relationship of LPV to FCV of other properties of the same or similar use or legal classification [A.R.S. § 42-13302]. In DOR's *Assessment Procedures Manual*, this calculation is referred to as "Rule B."

Prior to the enactment of Laws 2019, Chapter 306, DOR's guidelines stipulated that Rule B applied when modification to a property resulting from construction, destruction or demolition equaled 10% or more of the prior valuation year's FCV for that property. If the value of such modification was less than 10%, Rule A applied. Chapter 306 provides that the Rule B calculation be applied when the value of the modification resulting from construction, destruction, or demolition is 15% or greater than the property's FCV in the preceding valuation year.

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

### Proposition 117

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

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

### Net Assessed Value (NAV)

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

A property's tax liability is determined by multiplying the applicable tax rate with the NAV of the property divided by 100. (Pursuant to A.R.S. § 42-17151, the tax rate is determined per \$100 NAV.) This means that the property tax liability depends on 3 factors: (1) the limited property value as determined by the county assessor or DOR, (2)

## Property Tax

the assessment ratio based on the use of the property, and (3) the tax rate as set by the taxing jurisdiction (see *Tax Rate* section).

Table 3

### PROPERTY TAX CLASSES AND TAX YEAR 2021 ASSESSMENT RATIOS

| <u>Class</u> | <u>Assessment Ratio</u> | <u>Property Usage</u>   |
|--------------|-------------------------|---|
| 1            | 18%                     | Properties of mining, utility, and telecommunication companies, standing timber, airport fuel delivery, producing oil and gas property, pipeline property, shopping centers, golf courses, manufacturers, and most other commercial property. [A.R.S. § 42-12001]. Note that Laws 2011, 2 <sup>nd</sup> Special Session Chapter 1 reduces the assessment ratio to 19.5% in TY 2013, 19.0% in TY 2014, 18.5% in TY 2015, and 18.0% in TY 2016, when fully implemented. In addition, Laws 2021, Chapter 412 reduces the assessment ratio to 17.5% in TY 2022, 17.0% in TY 2023, 16.5% in TY 2024, and 16.0% in TY 2025, when fully implemented. |
| 2            | 15%                     | Agricultural property, properties of nonprofit organizations, and vacant land. [A.R.S. § 42-12002]. Note that Laws 2011, 2 <sup>nd</sup> Special Session Chapter 1 reduces the assessment ratio to 15% in TY 2016.  |
| 3            | 10%                     | Primary residential property. [A.R.S. § 42-12003].  |
| 4            | 10%                     | Non-primary residential property as well as leased or rented residential property. [A.R.S. § 42-12004].   |
| 5            | 15%                     | Airlines, railroad, and private car company property. [A.R.S. § 42-12005]. This assessment ratio is annually determined by DOR.   |
| 6            | 5%                      | Noncommercial historic property, property located in a foreign trade, military reuse, or enterprise zone, property of a qualified environmental technology manufacturing facility. [A.R.S. § 42-12006].   |
| 7            | 18% or 1%               | Property that meets the criteria for Class 1 property and also the criteria for commercial historic property. [A.R.S. § 42-12007].  |
| 8            | 10% or 1%               | Property that meets the criteria for Class 4 property and also the criteria for commercial historic property. [A.R.S. § 42-12008].  |
| 9            | 1%                      | Improvements on federal, state, county, and municipal property. [A.R.S. § 42-12009].  |

Table 4

### STATEWIDE PRIMARY AND SECONDARY NET ASSESSED VALUATION (NAV)

| <u>Tax Year</u> | <u>Primary NAV</u> | <u>Secondary NAV</u> |
|-----------------|--------------------|----------------------|
| 2021            | \$74,200,233,397   | \$97,282,221,465     |
| 2020            | \$69,914,521,042   | \$90,007,317,461     |
| 2019            | \$66,154,632,834   | \$82,730,928,616     |
| 2018            | \$62,328,439,592   | \$76,437,036,352     |
| 2017            | \$59,406,279,473   | \$71,673,967,461     |

SOURCE: ATRA and DOR.

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

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



## Property Tax

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

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

### EXEMPTIONS

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

Table 5

#### PROPERTY TAX EXEMPTIONS AUTHORIZED BY THE ARIZONA CONSTITUTION

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

<sup>1/</sup> Pursuant to A.R.S. § 42-11127(B), the maximum amount of the exemption is increased each year to account for inflation. For TY 2021, the maximum amount of the exemption is \$195,878. Laws 2012, Chapter 343 changed the calculation of the maximum exemption amount, beginning in TY 2013. Under Chapter 343, the maximum exemption is calculated based on the percentage increase in the Employment Cost Index in the 2 most recent years rather than only the most recent year. Additionally, this amount is calculated as if Chapter 343 had been continuously in effect since 1997. As a result of Chapter 343, the maximum exemption increased from \$68,079 in TY 2012 to \$133,868 in TY 2013.

Table 6

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

| <u>Title</u> | <u>Section</u> | <u>Exemption</u>   |
|--------------|----------------|--|
| 42           | 11102          | Government property  |
|              | 11103          | Government bonded indebtedness   |
|              | 11104          | Education and library property   |
|              | 11105          | Health care property   |
|              | 11106          | Apartments for elderly or handicapped residents                          |
|              | 11107          | Institutions for relief of indigent or afflicted                         |
|              | 11108          | Grounds and buildings owned by agricultural societies                    |
|              | 11109          | Religious property   |
|              | 11110          | Cemeteries   |
|              | 11111          | Property of widows, widowers, and disabled persons                       |
|              | 11112          | Observatories  |
|              | 11113          | Land and buildings owned by animal control and humane societies          |
|              | 11114          | Property held for conveyance as parkland                                 |
|              | 11115          | Property held to preserve or protect scientific resources                |
|              | 11116          | Property of arts and science organizations                               |
|              | 11117          | Property of volunteer fire departments                                   |
|              | 11118          | Social welfare and quasi-governmental service property                   |
|              | 11119          | Property of volunteer roadway cleanup and beautification organizations   |
|              | 11120          | Property of veterans' organizations                                      |
|              | 11121          | Property of charitable community service organizations                   |
|              | 11122          | Trading commodities  |
|              | 11123          | Animal and poultry feed  |
|              | 11124          | Possessory interests for educational or charitable activities            |
|              | 11125          | Inventory, materials, and products                                       |
|              | 11126          | Production livestock and animals   |
|              | 11127          | Personal property  |
|              | 11128          | Personal property in transit   |
|              | 11129          | Property of fraternal societies  |
|              | 11130          | Property of public library organizations                                 |
|              | 11131          | Property providing low-income rental housing for Indians                 |
|              | 11132          | Property leased to an educational institution                            |
|              | 11132.01       | Property leased to a church, religious assembly or religious institution |
|              | 11133          | Low-income housing projects.   |

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

### RATE

The tax rates for primary and secondary property taxes are determined by each individual taxing jurisdiction in the state. The rates vary considerably among the state's taxing authorities, as reflected in the total average tax rate by county shown in *Table 7* below. (Note that a taxing authority is required by statute to determine the tax rate, rounded to 4 decimal places, on each \$100 of NAV [A.R.S. § 42-17151]).

Table 7

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

| <b>County</b>           | <b>TY 2020</b> | <b>TY 2019</b> | <b>TY 2018</b> | <b>TY 2017</b> | <b>TY 2016</b> | <b>TY 2015</b> | <b>TY 2014</b> | <b>TY 2013</b> |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Apache                  | \$7.17         | \$6.78         | \$6.61         | \$6.75         | \$6.17         | \$6.03         | \$5.87         | \$5.47         |
| Cochise                 | \$12.85        | \$13.12        | \$13.05        | \$13.27        | \$12.78        | \$13.11        | \$12.72        | \$11.37        |
| Coconino                | \$8.86         | \$9.08         | \$9.27         | \$9.30         | \$9.54         | \$9.51         | \$9.23         | \$9.14         |
| Gila                    | \$13.88        | \$13.76        | \$13.74        | \$13.59        | \$13.38        | \$13.10        | \$13.95        | \$13.50        |
| Graham                  | \$11.49        | \$12.52        | \$12.59        | \$12.08        | \$11.96        | \$11.46        | \$12.10        | \$12.04        |
| Greenlee                | \$3.52         | \$3.95         | \$3.89         | \$4.00         | \$4.10         | \$3.94         | \$3.94         | \$4.31         |
| Maricopa                | \$11.95        | \$12.17        | \$12.38        | \$12.43        | \$12.74        | \$12.48        | \$12.41        | \$12.46        |
| Mohave                  | \$10.60        | \$10.69        | \$11.02        | \$11.19        | \$10.74        | \$11.03        | \$11.26        | \$10.87        |
| Navajo                  | \$10.74        | \$11.03        | \$11.06        | \$10.96        | \$10.81        | \$10.31        | \$10.20        | \$9.96         |
| Pima                    | \$14.75        | \$15.14        | \$15.45        | \$16.01        | \$15.91        | \$15.91        | \$15.79        | \$14.91        |
| Pinal                   | \$14.81        | \$14.85        | \$15.22        | \$15.46        | \$15.53        | \$16.05        | \$15.69        | \$15.72        |
| Santa Cruz              | \$13.73        | \$13.08        | \$13.09        | \$13.06        | \$13.10        | \$12.99        | \$13.11        | \$12.85        |
| Yavapai                 | \$10.17        | \$10.57        | \$10.65        | \$10.85        | \$11.13        | \$11.21        | \$11.20        | \$11.09        |
| Yuma                    | \$13.08        | \$13.29        | \$13.27        | \$13.34        | \$14.01        | \$13.19        | \$12.33        | \$12.47        |
| La Paz                  | \$11.61        | \$11.38        | \$10.63        | \$11.07        | \$10.81        | \$11.03        | \$10.77        | \$9.96         |
| <b>State of Arizona</b> | <b>\$12.17</b> | <b>\$12.41</b> | <b>\$12.62</b> | <b>\$12.75</b> | <b>\$12.95</b> | <b>\$12.77</b> | <b>\$12.67</b> | <b>\$12.54</b> |

SOURCE: DOR

Unlike local government entities, the state does not levy property taxes due to the repeal of the state property tax in 1996 [Laws 1996, 7<sup>th</sup> Special Session, Chapter 2]. However, statute requires that the counties levy and collect certain primary property taxes, which are transmitted to the state to aid in school financial assistance. First, each county is required (pursuant to A.R.S. § 15-991.01) to levy a primary tax on property not located in a school district (“unorganized district”) at a rate equal to 50% of the qualifying tax rate (QTR) used to calculate state equalization assistance for unified school districts. Second, each county is also required (pursuant to A.R.S. § 15-992) to levy an additional primary tax in school districts that are ineligible for state equalization assistance (“zero-aid districts”). This additional tax rate, referred to as the minimum qualifying tax rate (MQTR), is determined based on the difference between the levy that would be produced by 50% of the zero-aid district’s applicable QTR and its “equalization base.” (Under the statutory K-12 funding formula, each school district is provided a certain amount of funding based on its student count and other factors. This funding amount is referred to as the district’s equalization base.) If the levy produced by 50% of the district’s applicable QTR is equal to or less than its equalization base, the MQTR will not be levied in such zero-aid district. Otherwise, the MQTR will be levied at a rate such that the additional tax generates an amount equal to the difference between 50% of the zero-aid district’s QTR and its equalization base. Although the additional taxes levied in unorganized districts and certain zero-aid school districts are collected by the counties, these monies are later transmitted to the state for deposit into the General Fund.

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

## Property Tax

Table 8

| K-12 TAX RATES PER \$100 NAV |                           |                              |                         |
|------------------------------|---------------------------|------------------------------|-------------------------|
| Fiscal Year                  | Qualifying Tax Rate (QTR) |                              | State Equalization Rate |
|                              | Unified School Districts  | Non-Unified School Districts | All School Districts    |
| 2022                         | \$3.5388                  | \$1.7694                     | \$0.4263                |
| 2021                         | \$3.6742                  | \$1.8371                     | \$0.4426                |
| 2020                         | \$3.7908                  | \$1.8954                     | \$0.4566                |
| 2019                         | \$3.9358                  | \$1.9679                     | \$0.4741                |
| 2018                         | \$4.0468                  | \$2.0234                     | \$0.4875                |
| 2017                         | \$4.1586                  | \$2.0793                     | \$0.5010                |
| 2016                         | \$4.1954                  | \$2.0977                     | \$0.5054                |
| 2015                         | \$4.2246                  | \$2.1123                     | \$0.5089                |
| 2014                         | \$4.2530                  | \$2.1265                     | \$0.5123                |
| 2013                         | \$3.9170                  | \$1.9585                     | \$0.4717                |

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

A.R.S. § 15-972. *Additional State Aid ("Homeowner's Property Tax Rebate")*. In return for reducing the FY 2017 school district primary tax levy for primary residential properties (Class 3) by 47.19%, the state appropriates an amount equal to the tax rebate to the same districts. This aid, which is in addition to basic state aid, is limited to \$600 per parcel.

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

Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 increased the Homeowner's Rebate percentage for FY 2014 through FY 2017 by an amount determined by DOR. The purpose of the rebate increase was to offset the property tax shift to homeowners that would otherwise occur as a result of the reduced assessment ratios for commercial (Class 1) and agricultural (Class 2) property under Chapter 1. As a result of this act, the Homeowner's Rebate percentage was increased to 47.19%, beginning in FY 2017.

Laws 2021, Chapter 412 then increased the Homeowner's Rebate percentage from 47.19% to 50.0%, beginning in TY 2022.

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

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

## Property Tax

---

### K-12 Budget Overrides

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

### K-12 Bonding

A.R.S. § 15-1021 authorizes school districts to issue voter-approved bonds for long-term capital needs, such as school construction and renovation. Article 9, Section 8.1 of the State Constitution caps a unified school district’s bonded indebtedness at 30% of its NAV for secondary tax purposes, but A.R.S. § 15-1021D further caps its “Class B” bonds (bonds issued after December 31, 1999) at 10% of its NAV. The corresponding constitutional (Article 9, Section 8) and statutory (A.R.S. § 15-1021B) caps for non-unified school districts are 15% and 5% of NAV, respectively. Laws 2013, 1<sup>st</sup> Special Session, Chapter 3 increases the Class B bonding capacity cap for unified school districts from 10% to 20% of NAV. The Class B bonding capacity cap for non-unified school districts is increased from 5% to 10% of NAV. The proceeds from K-12 bonds may only be used for expenditures listed in A.R.S. § 15-491A3&4. Bond debt service is funded with secondary property tax revenues.

### K-12 Miscellaneous Costs

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

## TAX LIMITATIONS

The following constitutional provisions limit property taxation in Arizona:

- Arizona Constitution, Article 9, Section 8. “*Local Debt Limits.*” The amount of General Obligation (GO) debt issued by a county, city, town, school district, or other municipal corporation is limited to 6% of the jurisdiction’s NAV. The voters of a county, elementary or high school district may authorize additional debt for up to 15% of NAV. (Pursuant Article 9, Section 8.1, unified school districts are allowed additional debt for up to 30% of NAV.) The voters of a city or town may approve additional debt for up to 20% of NAV for providing services such as water, artificial lights, sewers, and for the acquisition and development of land for open space preserves, parks, playgrounds, and recreational facilities. Proposition 104, which was approved by voters in November 2006, added the following list of items to be included within a city’s or town’s 20% debt limit: public safety, law enforcement, fire and emergency service facilities, and street and transportation facilities.
- Arizona Constitution, Article 9, Section 18. “*The 1% Cap.*” The total amount of taxes collected on *residential* property (Class 3) for primary tax purposes is not allowed to exceed 1% of the parcel’s limited property value. Through FY 2015, the combined primary property taxes on a parcel of residential property that exceeded this limit was reduced through a commensurate increase in additional state aid to schools [A.R.S. § 15-972]. Beginning in FY 2016, Laws 2015, Chapter 15 caps the state’s cost of the 1% Cap program to \$1.0 million per county. Additionally, Chapter 15 requires the Property Tax Oversight Commission to allocate the loss of state 1% Cap funding among local taxing jurisdictions based on its determination of their pro rata shares of the overall 1% Cap exceedance. The 2015 law was subsequently ruled unconstitutional by the Maricopa County Superior Court in May 2016.
- Arizona Constitution, Article 9, Section 18. “*Limited Property Valuation.*” This constitutional provision imposes a limitation on increases in the value of real property and mobile homes, as described in the *Revenue Base* section.
- Arizona Constitution, Article 9, Section 18. “*The Senior Property Valuation Freeze.*” An Arizona resident who meets the following requirements is eligible for a property valuation freeze on their home: (1) is 65 years of age or older, (2) the home is their primary residence, (3) has lived in their home for at least 2 years, and (4) their gross income does not exceed 400% of the supplemental security income benefit rate. If the homeowner meets these requirements, they can apply for a “property valuation protection option” from their

## Property Tax

---

county assessor. The county assessor then fixes the value of the home at the full cash value in effect during the year the application was filed. The value of the home will remain frozen for as long as the owner remains eligible for the protection option. To be eligible for the senior valuation protection option in 2021, the income cannot exceed \$38,112 for single owners and \$47,640 for 2 or more owners.

- Arizona Constitution, Article 9, Section 19. *“The 2% Levy Limit.”* A city, town, county or community college district is not allowed to levy primary property taxes on existing property in excess of a 2% increase from the maximum allowable amount in the preceding tax year unless approved in an override election, as prescribed by A.R.S. § 42-17201 through 42-17203. Proposition 101, which was approved by voters in November 2006, changed the base year used to calculate the levy limits of cities, towns, counties, and community colleges from 1980 to 2005. By resetting the base year to 2005, Proposition 101 eliminated any unused taxing capacity of such taxing jurisdictions as of TY 2005. Any unused taxing capacity accumulated after TY 2005 is carried forward to subsequent years. (Note that the 2% levy limit does not apply to school districts.)

The following statutory provisions limit property taxation in Arizona:

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

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

### Elderly Assistance Fund

The Board of Supervisors in a county with a population of more than 2 million is authorized by statute to establish a fund to reduce the property tax of qualified elderly taxpayers [A.R.S. § 42-17401]. In February 2007, the Maricopa County Board of Supervisors established the Elderly Assistance Fund (EAF), which has since been administered by the Maricopa County Treasurer’s Office. Qualified applicants of the tax relief program are those who have limited income, live within an organized school district, and have enrolled in the Seniors Valuation Protection Program.

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

## Property Tax

Laws 2016, Chapter 125 specifies that the Maricopa County Board of Supervisors must spend the remaining monies in EAF after December 31, 2015 solely on the Elderly Assistance Program. In addition, Chapter 125 requires that any subsequent appropriations made to EAF must be spent solely on the Program.

### TAX ADMINISTRATION

*Valuation Year versus Tax Year.* Under Arizona law, the valuation year for locally assessed real property and centrally valued property is the calendar year preceding the year in which the taxes are levied. In other words, the tax year lags the valuation year by 1 year. By contrast, for locally assessed personal property, the valuation year is the calendar year in which the taxes are levied [A.R.S. § 42-11001]. However, because of the payment schedule in Arizona (see *Payment Schedule* section below), real and personal property taxes are always collected in the fiscal year immediately following the tax year. For real property, this means that the valuation year precedes the tax year by 1 year and the fiscal year by 2 years. The relationship of the valuation year and tax year to FY 2022 is summarized in *Table 9* below.

Table 9

#### PROPERTY VALUATION AND TAXATION CALENDAR

| <u>Type of Property</u>                              | <u>Valuation Years 2020 &amp; 2021</u><br>(When Tax Base Is Determined) | <u>Tax Year 2021</u><br>(When Tax Rate Is Determined) | <u>Fiscal Year 2022</u><br>(When Tax Is Due and Payable) |
|--|---|---|--|
| Locally Assessed Real Property<br>(Old Construction) | January 1, 2020   | August 16, 2021                                       | October 1, 2021 and<br>March 1, 2022                     |
| Locally Assessed Real Property<br>(New Construction) | October 1, 2019 through<br>September 30, 2020                           | August 16, 2021                                       | October 1, 2021 and<br>March 1, 2022                     |
| Locally Assessed Personal<br>Property                | January 1, 2021   | August 16, 2021                                       | October 1, 2021 and<br>March 1, 2022                     |
| Centrally Valued Property                            | January 1, 2020   | August 16, 2021                                       | October 1, 2021 and<br>March 1, 2022                     |

As shown in the table above, the valuation date for existing property is always January 1 of the valuation year [A.R.S. § 42-11001]. This means that for real property, the period between when the parcel's initial value is determined (January 1) and its tax is due and payable (March 1) is more than 2 years. For new construction, the valuation date is between October 1 in the year preceding valuation year and September 30 of the valuation year [A.R.S. § 42-15105]. The property tax rates are always set on or before the third Monday in August of the tax year.

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

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

## Property Tax

---

For new construction, additions to, deletions from, or splits or consolidations of assessment parcels, or changes to the use of real property resulting in a change of legal classification, the county assessor is required to notify the property owners of the initial values through a "Notice of Change" form by September 30 of the valuation year. The Notice of Change applies to property changes that occurred after September 30 of the year preceding the valuation year and before October 1 of the valuation year. As with the Notice of Value, the valuation year for the Notice of Change is defined as the calendar year preceding the year in which taxes are levied [A.R.S. § 42-15105]. Within 25 days after the date of the assessor's Notice of Change, the owner may file an appeal to the County Board of Equalization or the State Board of Equalization, whichever is applicable. The Board of Equalization must issue a ruling on or before the third Friday in November. The taxpayer then has 60 days to appeal to the state tax court [A.R.S. § 42-16205].

On or before February 10, each county assessor is required to provide the staff of JLBC and the Governor's Office of Strategic Planning and Budgeting (OSPB) the property values used to compute the TNT Rates for Equalization Assistance to School Districts [A.R.S. § 42-17052C].

On or before February 10, the governing board of each fire district is required to transmit to the Property Tax Oversight Commission the total assessed value of all property annexed by the district in the preceding calendar year [A.R.S. § 42-17052D].

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

### PAYMENT SCHEDULE

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

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015. As noted previously, due to the repeal of the state property tax in 1996 (Laws 1996, 7<sup>th</sup> Special Session, Chapter 2), the state no longer levies a property tax. For this reason, property tax legislation primarily affects the state General Fund through its impact on Arizona Department of Education (ADE) expenditures. Under the K-12 funding formula, the state must offset any loss of local property tax revenue by a commensurate increase in ADE state aid to schools.

### 2021 LAWS

**Laws 2021, Chapter 26** requires DOR to adjust the base value used to determine the Full Cash Value (FCV) of pipelines in cases of: 1) a final court ruling that the FCV of a pipeline determined using the required statutory valuation formula is more than the market value determined using standard appraisal methods and techniques; 2) an agreement between a pipeline company and DOR resulting from a pending tax appeal, in which the parties enter into a binding stipulation approved by the court; or 3) an agreement between a pipeline and DOR to correct an error in the calculation of the FCV of the system plan in service. In the first case, the FCV of the system plant determined by the court for the most recent tax year involved in the tax appeal is the base value for the subsequent tax year and DOR must adjust all valuations for future tax years. In the second and third cases, DOR must adjust the base value as set forth in the binding stipulation or agreement. (Effective retroactively from January 1, 2016)

**Laws 2021, Chapter 109** requires a county board of supervisors to compile property tax rates, levies, and valuations for all taxing jurisdictions on a worksheet prescribed by DOR within seven days of adoption.



## Property Tax

---

**Laws 2021, Chapter 185** classifies real property and improvements to property of a guest ranch as Class 2(R) property and classifies personal property of a guest ranch as Class 2(P) property. (Effective from September 29, 2021)

**Laws 2021, Chapter 352** classifies low-income multifamily residential rental properties as Class 4 (residential rental) property and requires a county assessor to value these properties using an income-based method.

**Laws 2021, Chapter 412** reduces the assessment ratio for Class 1 (commercial) property from 18.0% to 17.5% in TY 2022, 17.0% in TY 2023, 16.5% in TY 2024, and 16.0% in TY 2025, when fully implemented. Chapter 412 also increases the Homeowner's Rebate percentage on Class 3 (residential) property from 47.19% to 50.0%, beginning in TY 2022. Finally, the act increases the maximum property tax rate for Fire Assistance Districts from \$3.25 per \$100 NAV to \$3.375 in TY 2022 and \$3.50, beginning in TY 2023. (Effective from September 29, 2021)

**Laws 2021, Chapter 417** sets the FCV of renewable energy storage equipment at 20% of the depreciated cost of the equipment. DOR is required to determine the FCV of taxable renewable energy storage equipment through December 31, 2040. (Effective from September 29, 2021)

### 2020 LAWS

**Laws 2020, Chapter 11** requires the county treasurer to mail the statement of taxes due to the owners of a mortgaged property by November 1. In addition, the statement must separately list the amount of primary and secondary taxes applicable to the property that is due to each taxing jurisdiction and, if applicable, the amount of additional state aid to school districts provided to class 3 property. (Effective from August 25, 2020)

### 2019 LAWS

**Laws 2019, Chapter 31** makes several changes to the procedures used for the sale of tax liens by county treasurers. Most notably, Chapter 31 allows a county treasurer to prohibit a purchaser who failed to pay the amount due on a closed tax lien sale from purchasing tax liens from any county in Arizona for up to 1 year. (Effective from August 27, 2019)

**Laws 2019, Chapter 49** allows inactive or partially inactive agricultural land due to partial reduction in water supply or irrigation district water allotment to be eligible for classification as property used for agricultural purposes (Class 2). (Effective from August 27, 2019)

**Laws 2019, Chapter 167** requires the county treasurer to mail a statement of taxes due to the owners of a mortgaged property and when requested send a statement to the lender. (Effective from August 27, 2019)

**Laws 2019, Chapter 208** exempts property owned by a nonprofit Residential Treatment Center from property taxation. Property that is leased to but not owned by a nonprofit Residential Treatment Center is assessed and taxed as Class 9 property. (Effective retroactively from January 1, 2019)

**Laws 2019, Chapter 225** provides that tax-exempt personal property is not required to be reported to the county assessor. (Effective from August 27, 2019)

**Laws 2019, Chapter 249** requires that possessory improvements qualify for a limited property value and are valued as real property. Chapter 249 defines possessory improvement as all residential, commercial and industrial buildings, together with appurtenant awnings, decks, docks, garages, carports, storage or other incidental buildings located on federal, state, county or municipal property or the property of another political subdivision of Arizona that is owned by a nongovernmental possessor. (Effective from August 27, 2019)

**Laws 2019, Chapter 291** establishes an appraisal method for solar energy devices such that the value is set at the device's taxable original cost minus a 10-year accelerated depreciation schedule. In addition, businesses that own solar energy devices are required to annually report the cost for property valuation purposes. The appraisal method provided by Chapter 291 applies to solar energy devices for all tax years preceding the act's effective date. In practice, this is for tax years 2015 through 2018. (Effective from August 27, 2019)

## Property Tax

---

**Laws 2019, Chapter 294** defines "agritourism" and sets criteria for it to be classified as Class 2 agricultural real property. Agritourism under Chapter 294 is defined as any activity that allows members of the public to view, enjoy and participate in rural activities for recreational or educational purposes. (Effective from August 27, 2019)

**Laws 2019, Chapter 303** includes outstanding fees in the sale of a tax lien property and specifies that the expiration date to foreclose on a tax lien property is determined by the original certificate of purchase. (Effective from August 27, 2019)

**Laws 2019, Chapter 306** makes changes to the "Rule B" calculation for purposes of determining a property's Limited Property Value (LPV) when such property has been modified by construction, destruction or demolition. Under "Rule B," a parcel's limited value is established at a level or percentage that is commensurate to the relationship of LPV to Full Cash Value (FCV) of other properties of the same or similar use or legal classification. Prior to Chapter 306, guidelines issued by the Department of Revenue stipulated that "Rule B" applied when modification to a property resulting from construction, destruction or demolition equaled 10% or more of the prior valuation year's FCV for that property. If the value of such modification was less than 10%, Rule A applied. Chapter 306 provides that the Rule B calculation be applied when the value of the modification resulting from construction, destruction, or demolition is 15% or greater than the property's FCV in the preceding valuation year. (Effective from August 27, 2019)

**Laws 2019, Chapter 308** modifies some of the conditions to qualify for tax exempt low-income housing. (Effective from August 27, 2019)

### 2018 LAWS

**Laws 2018, Chapter 73** prohibits the court from setting the full cash value of real property in a property tax appeal to be greater than the amount appealed by the taxpayer to the Board of Equalization. This was an emergency measure signed by the Governor on March 23, 2018. (Chapter 73 applies retroactively to property tax appeals filed after December 31, 2016)

**Laws 2018, Chapter 281** permits a community college district to resubmit a proposed primary tax levy amount to the voters between 20 and 35 years after the initial tax levy amount was approved. The proposed levy must be less than or equal to 2 times the otherwise authorized levy amount for the same year. Chapter 281 stipulates that if the proposal is approved by voters in an election, the difference between the prior and new levy amounts must be phased in over 3 tax years. Moreover, Chapter 281 prohibits a community college district whose proposal was rejected by voters in an election from resubmitting a proposed primary tax levy until at least 2 years after the election. (Effective from August 3, 2018)

**Laws 2018, Chapter 319** makes several changes to the redemption and removal of real property tax liens, including allowing a real property tax lien to be redeemed by any person who wants to pay on behalf of the owner by making a charitable gift. (Effective from August 3, 2018)

### 2017 LAWS

**Laws 2017, Chapter 178** was a tax correction bill that made technical and clarifying changes to the Arizona Revised Statutes. (Effective from August 9, 2017)

**Laws 2017, Chapter 198** requires truth and taxation notices of property tax increases to specify the increased tax amount and what the tax would otherwise be without the increase. Chapter 198 additionally adds secondary property tax review responsibilities and requirements for the Property Tax Oversight Commission. (Effective from August 9, 2017)

**Laws 2017, Chapter 220** expands accelerated depreciation provisions to include qualifying broadband infrastructure property, such as cables, telecommunications equipment, and other property used in electronic transmission of data. The act's accelerated depreciation provisions are expected to reduce statewide net assessed valuation, beginning in TY 2019. The valuation reduction is estimated to increase General Fund spending on state aid to school districts by \$2.7 million, beginning in FY 2020. (Effective from January 1, 2018)

## Property Tax

---

**Laws 2017, Chapter 340** expands accelerated depreciation provisions to include Class 6 personal property located within a foreign trade zone or military reuse zone. The reduction to statewide net assessed valuation under Chapter 340 is estimated to increase General Fund spending on state aid to school districts by \$600,000 a year, beginning in FY 2019. (Effective from January 1, 2018)

### 2016 LAWS

**Laws 2016, Chapter 125** requires the Maricopa County Board of Supervisors to spend the remaining monies in the Elderly Assistance Fund (EAF) after December 31, 2015 solely on the Elderly Assistance Program. In addition, Chapter 125 requires that any subsequent appropriations made to EAF must be spent solely on the Program. (Effective retroactively from January 1, 2016)

**Laws 2016, Chapter 168** establishes a third subclass under Class 2 referred to as Class 2(C). The new Class 2(C) consists of real property, and improvement to real property, that is currently under a conservation easement. In addition, Chapter 168 requires county assessors to establish and maintain a public digital registry of each parcel of property classified as Class 2(C). (Effective January 1, 2017)

**Laws 2016, Chapter 173** requires a proposed property tax levy by a community college district, county or municipality, which increased by 15% or more over the preceding year's levy, excluding increases attributable to new construction, to be approved by a unanimous roll call vote by the jurisdiction's governing board. (Effective August 6, 2016)

**Laws 2016, Chapter 208** provides that property that is occupied as the primary residency of the owner who also uses the property for lease or rent to lodgers be classified as Class 3. Property that is leased or rented to lodgers for residential purposes, and is not the primary residency of the owner or used for commercial purposes, is classified under Class 4. (Effective January 1, 2017)

### 2015 LAWS

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

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

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

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

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azilbc.gov/21taxbook/21taxbk.pdf>.

**PAYMENTS IN LIEU OF  
PROPERTY TAXES**

# IN LIEU TAX ON PRIVATE RAILROAD CAR COMPANIES

## DESCRIPTION

This tax is imposed in lieu of all other taxes on the property and business of private railroad car companies in the state, except for the annual license tax and registration fee [A.R.S. § 42-14308]. Private railroad car companies operate, furnish, or lease cars that transport people or freight over railroad lines located wholly or partially in the state, and that are not owned, leased, or operated by them [A.R.S. § 42-14301].

## DISTRIBUTION

Table 1 below provides historical private railroad car company tax collections for the past 20 years. The Department of Revenue remits tax payments from private railroad car companies to the State Treasurer for deposit in the state General Fund [A.R.S. § 42-14308].

| Table 1            |                     |                    |                     |
|--------------------|---------------------|--------------------|---------------------|
| COLLECTIONS        |                     |                    |                     |
| <u>Fiscal Year</u> | <u>General Fund</u> | <u>Fiscal Year</u> | <u>General Fund</u> |
| 2021               | \$2,380,655         | 2011               | \$1,283,026         |
| 2020               | \$2,220,383         | 2010               | \$1,335,091         |
| 2019               | \$2,027,884         | 2009               | \$1,435,069         |
| 2018               | \$2,038,908         | 2008               | \$1,615,246         |
| 2017               | \$1,726,458         | 2007               | \$1,709,362         |
| 2016 <sup>1/</sup> | \$(189,264)         | 2006               | \$1,426,435         |
| 2015 <sup>2/</sup> | \$3,484,442         | 2005               | \$1,312,163         |
| 2014 <sup>3/</sup> | \$(1,061,682)       | 2004               | \$1,335,056         |
| 2013 <sup>4/</sup> | \$3,698,193         | 2003               | \$1,485,996         |
| 2012               | \$1,065,773         | 2002               | \$1,506,625         |

<sup>1/</sup> Absent a refund of \$(1,819,028) to correct for an error from FY 2015, collections would have been \$1,629,764 in FY 2016.  
<sup>2/</sup> This figure includes \$1,819,028 that should have been deposited to Flight Property Tax.  
<sup>3/</sup> Absent a refund of \$(2,473,651) to correct for an error from FY 2013, collections would have been \$1,411,969 in FY 2014.  
<sup>4/</sup> This figure includes \$2,473,651 that should have been deposited to Flight Property Tax.

SOURCE: Department of Revenue, Annual Reports.

## WHO PAYS

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

## REVENUE BASE AND RATE

The tax base is the full cash value, as determined by the Department of Revenue, on or before June 15 each year [A.R.S. § 42-14305]. The assessed value of private railroad car property is derived by multiplying its full cash value by the Class 5 assessment ratio [A.R.S. § 42-12005]. The assessment ratio for Class 5 property is re-calculated each year based on a statutory formula [A.R.S. § 42-15005]. The TY 2021 assessment ratio for this type of property is 15%.

## **In Lieu Tax on Private Railroad Car Companies**

---

The tax rate for properties operated by private railroad car companies is equal to the sum of the average rates for primary and secondary property taxes in the taxing jurisdictions in this state for the current year [A.R.S. § 42-14308]. The statewide average tax rate for TY 2020 was \$12.17 per \$100 of assessed value.

### **PAYMENT SCHEDULE**

This tax is due and payable on October 1 and delinquent after November 1. (Delinquent taxes bear interest at the rate determined pursuant to A.R.S. § 42-1123 for each subsequent month in which the tax remains unpaid.) The tax is levied and collected by the Department of Revenue for deposit in the state General Fund [A.R.S. § 42-14308].

### **IMPACT OF STATUTORY CHANGES**

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this tax from 2015 through 2021.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

# VOLUNTARY CONTRIBUTIONS BY DISTRICTS

## DESCRIPTION

Certain districts in Arizona are authorized to make voluntary contributions to the state, county, city, town, school district, or other political subdivision instead of paying property taxes. The Legislature provided this incentive to encourage such districts to operate as multi-purpose reclamation projects to provide funds for water conservation and maintenance and development of their water distribution systems.

## DISTRIBUTION

The County Treasurer is required to remit to the county, school districts, cities, towns, or other political subdivisions, and the State of Arizona, all monies received as *net voluntary contributions* (see definition under *Revenue Base and Rate* below) from districts in the same manner as property taxes are distributed.

The monies deposited in the state General Fund are from voluntary contributions for properties not located within any school district, so-called unorganized districts [A.R.S. § 15-991.01], and for properties in certain school districts ineligible for state aid, sometimes referred to as minimum qualifying tax rate (MQTR) districts [A.R.S. § 15-992].

The amount of voluntary contributions by districts deposited in the General Fund is shown in *Table 1* below.

| Table 1   |                     |                    |                     |
|---|---------------------|--------------------|---------------------|
| COLLECTIONS   |                     |                    |                     |
| <u>Fiscal Year</u>  | <u>General Fund</u> | <u>Fiscal Year</u> | <u>General Fund</u> |
| 2021  | \$0                 | 2011               | \$422,596           |
| 2020  | \$0                 | 2010               | \$84,855            |
| 2019  | \$48                | 2009               | \$708,972           |
| 2018  | \$1,141,412         | 2008               | \$1,053,210         |
| 2017  | \$1,967,722         | 2007               | \$2,037,640         |
| 2016  | \$1,620,904         | 2006               | \$2,490,685         |
| 2015  | \$1,445,224         | 2005               | \$2,653,117         |
| 2014  | \$1,490,121         | 2004               | \$1,769,124         |
| 2013  | \$243,985           | 2003               | \$2,030,685         |
| 2012  | \$767,569           | 2002               | \$3,431,652         |
| SOURCE: Arizona Department of Administration's Finance Division, Revenue Codes, the State Treasurer's Office, and the Salt River Project. |                     |                    |                     |

## WHO PAYS

Any irrigation district, power district, electrical district, or agricultural improvement district organized under Arizona law that is directly engaged in the sale of electrical power or energy other than for irrigation purposes [A.R.S. § 48-241]. Effectively, this law applies mainly to properties included within the Salt River Project (SRP).

## REVENUE BASE AND RATE

The revenue base is the *statewide total gross voluntary contribution*. This is the base from which to determine the *statewide net voluntary contribution*, which is the total amount of voluntary contributions paid to all taxing jurisdictions by the Salt River Project.

## Voluntary Contributions by Districts

---

In determining the net voluntary contributions paid by the Salt River Project in lieu of property taxes, the following calculations are made [A.R.S. § 48-241 and § 48-242]:

- (1) Calculate for all taxing districts combined the total property tax for which the Salt River Project would be liable if assessed by the same property tax procedures as other similar properties for the current tax year.
  - (a) The method used would be the full cash value as determined by the Department of Revenue multiplied by the assessment ratio for Class 1 property.
  - (b) The primary and secondary property tax rates for each taxing jurisdiction are then applied against the product calculated in (a) above to obtain the *statewide total gross voluntary contribution*.
- (2) To obtain the *statewide net voluntary contribution*, subtract the following deductions from the total gross voluntary contribution determined above:
  - (a) The tax on properties devoted to production of electricity for pumping groundwater. This amount is estimated by multiplying the total net property tax liability to which Salt River Project is subject by the percent that represents the portion of electricity produced by Salt River Project during the preceding 5-year period used specifically for pumping groundwater. (The maximum percent of electricity that may be claimed for pumping groundwater is 10%, unless the percent of kilowatt hours devoted to pumping groundwater exceeds 70% within a district.)
  - (b) The annual average of total water costs incurred by Salt River Project in producing and distributing water for municipal use, as estimated by:
    - (i) Summing for the previous 3-year period, the operating expenses (less depreciation) attributable to:
      - (1) protection of watersheds, water production, development, storage, distribution and conservation, and
      - (2) any repayment of U.S. government debt obligations incurred by Salt River Project for water department construction and expenses related to the development of future water projects.
    - (ii) Dividing this sum by 3 to arrive at the annual average of total water costs.
    - (iii) Multiplying this total by the percent of total water produced by Salt River Project devoted to municipal use during the latest 3 calendar years. (The percentage of water devoted to municipal use is the ratio of total water for municipal uses for the past 3 calendar years to total water delivered for all uses during the same time period.)
  - (c) Any taxes or assessments paid to the State of Arizona or its political subdivisions during the preceding calendar year other than transaction privilege taxes, highway taxes, unemployment taxes, equipment weight fees, improvement district assessments, and any other taxes paid by the district prior to effective date of this law.

The district is required to report to the county assessors and the Department of Revenue by May 1 of each year the factor used to compute each county's proportion of the total deductions taken by the district. The district is also required to submit to the Board of Supervisors at the same time as the submission of the assessment roll, an estimate of the net contributions for the following fiscal year.

### PAYMENT SCHEDULE

One-half of the voluntary contribution is paid to the County Treasurer of the county in which the property is located on the first Monday in November of each year. The other half is due on the first Monday in May of the succeeding calendar year [A.R.S. § 48-242E]. Each County Treasurer is required to remit to the State Treasurer the state's portion of the net voluntary contribution.

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this revenue category from 2015 through 2021.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azilbc.gov/21taxbook/21taxbk.pdf>.



## **LUXURY TAXES AND LICENSES**

# LUXURY TAX ON CIGARETTES AND TOBACCO

## DESCRIPTION

The luxury tax on cigarettes and tobacco is imposed on cigarettes, cigars, cavendish, and chewing tobacco, but not on electronic cigarettes and vapor products. A luxury tax is a tax levied on items that are normally considered a luxury rather than a necessity. The tax rate varies by product, with the rate for the largest revenue producer, cigarettes, set at \$2.00 per pack of 20. The majority of revenues from this tax are dedicated to health care programs.

## DISTRIBUTION

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

### Tax on Cigarettes

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

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

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

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

## Luxury Tax on Cigarettes and Tobacco

---

- b. Medically Needy Account – 27% of revenues, to provide health care services for those who cannot afford these services [A.R.S. § 36-774].
- c. Emergency Health Services Account – 20% of revenues, to provide reimbursement of uncompensated care, primary care services, and trauma center readiness costs [A.R.S. § 36-776]. Created by Proposition 303 in 2002.
- d. Health Research Fund – 5% of revenues, for health research [A.R.S. § 36-275].
- e. Health Care Adjustment Account – 4% of revenues, to compensate the subaccounts of the Tobacco Tax and Health Care Fund for decreases in cigarette tax revenues resulting from the levy of this portion of the cigarette tax [A.R.S. § 36-777]. Created by Proposition 303 in 2002.
- f. Health Education Account – 2% of revenues, for the prevention and early detection of the 4 leading causes of death in Arizona [A.R.S. § 36-772]. Created by Proposition 303 in 2002.

Of the \$2.00 cigarette tax, Proposition 203 in 2006 dedicated 80¢ to childhood development and health, which is deposited into the following fund and its subaccounts:

- *Early Childhood Development and Health Fund.* Monies are distributed to the following accounts of the Early Childhood Development and Health Fund [A.R.S. § 42-3371, A.R.S. § 8-1181]:
  - a. Program Account – 90% of revenues, to improve the quality and availability of health and education programs for pre-kindergarten children and their families who otherwise have limited access to such services [A.R.S. § 8-1181, A.R.S. § 8-1171]. Created by Propositions 203 in 2006.
  - b. Administrative Costs Account – 10% of revenues, to cover the administrative costs of the Arizona Early Childhood Development and Health Board [A.R.S. § 8-1181]. Created by Proposition 203 in 2006.

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

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

### Tax on Tobacco, Cavendish, and Cigars

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

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

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

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

## Luxury Tax on Cigarettes and Tobacco

Table 1

### COLLECTIONS AND DISTRIBUTION

| <b>Fiscal<br/>Year</b> | <b>General<br/>Fund</b> | <b>Corrections<br/>Fund</b> | <b>TTHCF <sup>1/</sup></b> | <b>TPTE <sup>2/</sup></b> | <b>ECDHF <sup>3/</sup></b> | <b>SFAF <sup>4/</sup></b> | <b>Total</b>  |
|------------------------|-------------------------|-----------------------------|----------------------------|---------------------------|----------------------------|---------------------------|---------------|
| 2021                   | \$21,687,135            | \$5,187,491                 | \$61,306,692               | \$84,966,240              | \$118,163,262              | \$2,680,993               | \$293,991,813 |
| 2020                   | \$22,074,751            | \$5,039,778                 | \$63,188,971               | \$86,729,908              | \$121,115,685              | \$2,765,706               | \$300,914,799 |
| 2019                   | \$21,046,021            | \$4,909,797                 | \$61,105,427               | \$83,852,401              | \$115,853,834              | \$2,645,393               | \$289,412,873 |
| 2018                   | \$21,984,160            | \$5,074,109                 | \$61,665,004               | \$84,606,892              | \$121,554,785              | \$2,784,370               | \$297,669,320 |
| 2017                   | \$22,923,141            | \$5,150,372                 | \$64,973,753               | \$90,112,386              | \$124,515,638              | \$2,879,410               | \$310,554,700 |
| 2016                   | \$24,550,412            | \$5,143,144                 | \$66,415,766               | \$92,031,875              | \$126,206,733              | \$2,941,563               | \$317,289,493 |
| 2015                   | \$23,645,756            | \$5,230,839                 | \$67,071,278               | \$93,055,529              | \$122,239,828              | \$2,848,986               | \$314,092,216 |
| 2014                   | \$25,810,507            | \$5,100,324                 | \$61,694,151               | \$91,923,081              | \$124,371,662              | \$2,918,213               | \$311,817,939 |
| 2013                   | \$24,530,414            | \$5,041,634                 | \$65,750,954               | \$91,044,441              | \$125,771,470              | \$2,956,134               | \$315,095,047 |
| 2012                   | \$24,931,105            | \$5,142,535                 | \$65,665,913               | \$90,953,118              | \$129,391,158              | \$3,043,448               | \$319,127,277 |
| 2011                   | \$25,066,894            | \$5,230,772                 | \$68,781,910               | \$95,586,289              | \$130,083,235              | \$3,058,479               | \$327,807,579 |
| 2010                   | \$25,810,438            | \$5,307,048                 | \$69,089,344               | \$96,335,427              | \$133,118,902              | \$3,888,483               | \$333,549,642 |
| 2009                   | \$29,080,647            | \$5,129,852                 | \$76,972,057               | \$108,934,079             | \$151,363,815              | \$2,868,990               | \$374,349,440 |
| 2008                   | \$32,467,344            | \$6,206,674                 | \$83,868,465               | \$116,127,254             | \$164,805,113              | \$3,946,308               | \$407,421,158 |
| 2007                   | \$37,558,776            | \$6,206,673                 | \$100,500,062              | \$137,624,178             | \$74,445,246               | \$1,778,847               | \$358,121,881 |
| 2006                   | \$39,578,709            | \$6,206,674                 | \$106,821,045              | \$145,399,774             |                            |                           | \$298,006,202 |
| 2005                   | \$38,360,552            | \$6,206,608                 | \$102,310,127              | \$138,521,611             |                            |                           | \$285,398,898 |
| 2004                   | \$36,757,081            | \$6,206,674                 | \$98,163,310               | \$133,563,168             |                            |                           | \$275,104,562 |
| 2003                   | \$41,174,667            | \$6,206,674                 | \$105,027,137              | \$59,938,321              |                            |                           | \$212,346,799 |
| 2002                   | \$43,206,460            | \$6,206,674                 | \$108,177,154              |                           |                            |                           | \$157,590,288 |

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

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

<sup>3/</sup> Early Childhood Development and Health Fund (Proposition 203 in 2006).

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

SOURCE: Department of Revenue, Luxury Tax Section.

### WHO PAYS

Licensed distributors of cigars and other tobacco products besides cigarettes submit tax payments together with a monthly return [A.R.S. § 42-3501]. Licensed distributors of cigarettes pay the tax through the purchase of tax stamps from the Department of Revenue.

Every pack of cigarettes sold in Arizona must bear a stamp as a method of providing proof that a retailer or distributor is in compliance with Arizona's luxury tax laws [A.R.S. § 42-3401 and § 42-3452]. There are 4 categories of stamps that are sold by the Department of Revenue to distributors, each with a different tax rate:

- Blue stamps have a face value of \$2.00 and include all cigarette taxes;
- Red stamps have a face value of \$1.00 and include only the 40¢ and 60¢ health care taxes; and
- Green and Yellow stamps have a face value of \$0.00.

Green, Yellow, and Red Stamps are used only on tribal nations.

The 40¢ tax (per package of 20 cigarettes) and the 60¢ tax per package are direct taxes on the consumer and are to be collected and paid to the Department of Revenue by the distributors [A.R.S. § 42-3303]. The 18¢ general tax rate per package, the 80¢ Early Childhood Development and Health Tax, and the 2¢ Smoke-Free Arizona tax are considered to be a tax on the seller.

## Luxury Tax on Cigarettes and Tobacco

The type of stamp sold on tribal nations varies depending on 4 factors: 1) whether the consumer is an enrolled member of the Indian Tribe or the consumer is a member of the general public; 2) whether the seller is a tribal member of the nation in which it is conducting business or the seller is a non-tribal member licensed by the federal government to sell goods and services on the nation; 3) whether or not the Indian Tribe levies its own tribal tax; and 4) whether the Indian Tribe exempts its members from the tribal tax.

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

Cigarette purchases by tribal members on their own nations are exempt from state taxes, regardless of seller classification. These sales require a Green or Yellow stamp. Statute gives Indian tribes the ability to levy their own tax on tobacco sales. Green stamps are used if the Tribe does not levy a tax, or if the Tribe has levied a tax, but exempts members of the Tribe. A Yellow stamp is used when the Tribe levies a tax and does not exempt members of the tribe. This provision allows the tribe to retain the funding collected from the optional tax and does not specify how the tribe should spend the revenues collected. *Table 2* displays the stamp assignments by customer and seller classifications.

Table 2

### CIGARETTE STAMP ASSIGNMENTS PER PACK

| <b>Seller</b>                        | <b>Indian Tribe<br/>Member<br/>(No tribal tax)</b> | <b>Exempt Indian<br/>Tribe Member</b> | <b>Non-Exempt Indian<br/>Tribe Member</b> | <b>All Other<br/>Consumers</b> |
|--------------------------------------|--|---------------------------------------|---|--------------------------------|
| All Vendors not on a tribal nation   | \$2 Blue Stamp                                     | \$2 Blue Stamp                        | \$2 Blue Stamp                            | \$2 Blue Stamp                 |
| Tribal Member Retailer               | \$0 Green Stamp                                    | \$0 Green Stamp                       | \$0 Yellow Stamp                          | \$1 Red Stamp <sup>1/</sup>    |
| Federally-Licensed Non-Tribal Seller | \$0 Green Stamp                                    | \$0 Green Stamp                       | \$0 Yellow Stamp                          | \$2 Blue Stamp                 |

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

If the tribe imposes its own tax on cigarettes, the taxes collected by the state for cigarette sales on nations will be levied at a rate that is the difference between the rate the state would otherwise levy and what the tribe imposes [A.R.S. § 42-3302]. The offset applies only to the \$1.00 in taxes collected for each pack sold that are dedicated to the Tobacco Tax and Health Care Fund (40¢) and to the Tobacco Products Tax Fund (60¢) [A.R.S. § 42-3302]. For example, if a tribe imposes a \$0.75 tribal tax rate, the state tax rate would be \$0.25. To date, 5 nations have not enacted a tribal tax on cigarettes and 16 nations have enacted taxes that offset all or a part of the \$1.00 per pack of state cigarettes taxes dedicated to health care.

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

### REVENUE BASE AND RATE

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

## Luxury Tax on Cigarettes and Tobacco

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

The tax rates are as follows [A.R.S. § 42-3052, § 42-3251, § 42-3251.01, § 42-3251.02, and § 42-3371]:

| <b>TOBACCO PRODUCT TAX RATES</b> |                                 |                                     |                                    |                       |                      |                               |
|----------------------------------|---------------------------------|-------------------------------------|------------------------------------|-----------------------|----------------------|-------------------------------|
| <b>Item</b>                      | <b>General<br/>Tax<br/>Rate</b> | <b>1994<br/>TTHCF <sup>1/</sup></b> | <b>2002<br/>TPTF <sup>1/</sup></b> | <b>2006<br/>ECDHF</b> | <b>2006<br/>SFAF</b> | <b>Total<br/>Tax<br/>Rate</b> |
| Cigarettes (per pack of 20)      | 18¢                             | 40¢                                 | 60¢                                | 80¢                   | 2¢                   | \$2.00                        |
| Tobacco per ounce                | 2¢                              | 4.5¢                                | 6.75¢                              | 9¢                    | --                   | 22.25¢                        |
| Cavendish per ounce              | 0.5¢                            | 1.1¢                                | 1.65¢                              | 2.2¢                  | --                   | 5.45¢                         |
| Small Cigars per 20              | 4¢                              | 8.9¢                                | 13.35¢                             | 17.8¢                 | --                   | 44.05¢                        |
| Large cigars 5¢ or less (per 3)  | 2¢                              | 4.4¢                                | 6.6¢                               | 8.8¢                  | --                   | 21.8¢                         |
| Large cigars more than 5¢        | 2¢                              | 4.4¢                                | 6.6¢                               | 8.8¢                  | --                   | 21.8¢                         |

<sup>1/</sup> Tax Rates Dedicated to Health Care.

Tobacco powder or tobacco products used exclusively for agricultural or horticultural purposes and unfit for human consumption are exempt from this tax [A.R.S. § 42-3052]. Additionally, electronic cigarettes and vapor products are not subject to this tax, based on a July 30, 2014 Attorney General legal opinion.

### PAYMENT SCHEDULE

Licensed distributors of cigarettes pay the luxury tax on cigarettes when they purchase a stamp from the Department of Revenue [A.R.S. § 42-3452].

Statute allows distributors to purchase stamps at a cost less than the face value of the stamps. This discount allows distributors to recoup the administrative cost of affixing stamps to cigarette packages. Beginning October 1, 2016, statute allows distributors that purchase cigarette stamps to receive a discount of 3.52% of the purchase of the stamps. Blue and Red stamps will be purchased from the Department of Revenue for 96.48% of the face value of the stamps, or \$1.9296 for Blue stamps and \$0.9652 for Red stamps. Distributors of Green and Yellow stamps will receive the discount via a 3.52 cent administrative allowance for each Green and Yellow stamp purchased, which will be realized when distributors file their monthly reports with DOR. *Table 4* displays the amount of the administrative discount as well as the amount of the tax collected by DOR for each stamp category [A.R.S. § 42-3458].

#### *Electronic Funds Transfer and Tax Filing Requirements*

All licensed tobacco distributors are required to submit payments for cigarette stamp and other tobacco products to DOR via Electronic Fund Transfer (EFT) [A.R.S. 42-3053]. A distributor who fails to make payments in a timely manner via EFT is subject to civil penalties.

Additionally, licensed tobacco distributors are required to submit monthly tax returns and reports as well as refund and rebate requests electronically to DOR.

Table 4

### CIGARETTE STAMP DISCOUNTS AND COLLECTED TAX

| <u>Stamp Category</u> | <u>Discount per Stamp</u> <sup>1/</sup> | <u>DOR<br/>Tax Collected per Pack</u> |
|-----------------------|---|---------------------------------------|
| Blue Stamps           | \$0.0704                                | \$1.9296                              |
| Red Stamps            | \$0.0352                                | \$0.9648 <sup>2/</sup>                |
| Green Stamps          | \$0.0352                                | \$0 <sup>3/</sup>                     |
| Yellow Stamps         | \$0.0352                                | \$0 <sup>3/</sup>                     |

<sup>1/</sup> Retained by distributor

<sup>2/</sup> If Red stamps are sold to tribal member retailers on a tribal nation that has instituted its own tobacco tax, the distributor who purchased the stamps may file for a rebate with DOR for the full face value of the stamps.

<sup>3/</sup> Green and Yellow stamps are differentiated by the end consumer. Green stamps are to be sold to members of the tribal nation where the tribe has not imposed a tribal tax or the tribe exempts its members from its own tribal tax. Yellow stamps are to be sold to tribal members where the tribe does not exempt its members from the tax imposed by the tribe.

If distributors sell Red stamps to Tribal Member Retailers where the Tribe has levied its own tribal tax, the distributors may file for a rebate of the cost of Red stamps with the Department of Revenue. This rebate is granted for the full face value of the purchased stamps, creating a 3.52 cent administrative allowance because the stamps were purchased at 96.48% of face value. Prior to Laws 2016, Chapter 125 rebates of Red stamps were granted at the same price that stamps were purchased.

Licensed distributors of cigars or tobacco products other than cigarettes must pay the tax to the Department of Revenue monthly on or before the 20<sup>th</sup> day of the next month succeeding the month in which the tax accrues. Failure to pay the tax within 10 days of the due date will result in penalty and interest charges from the time the tax was due until paid [A.R.S. § 42-3501].

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this tax in 2018, 2020 or 2021.

#### 2019 LAWS

**Laws 2019, Chapter 65** defines cavendish as a tobacco product that is smoked from a pipe that is either described on packaging as cavendish, contains cavendish or as a cavendish blend, or appears to have been manufactured with flavorings and humectants that exceed 20% of the weight of the tobacco contained in the product.

#### 2017 LAWS

**Laws 2017, Chapter 60** requires payments and tax filings to be made electronically.

#### 2016 LAWS

**Laws 2016, Chapter 122** allows monies in the Medically Needy Account to be used for behavioral health care services.

**Laws 2016, Chapter 125** changes the cigarette stamp discount from 96.0% of face value to 96.48% of face value, and grants an administrative allowance of 3.52 cents for all Green and Yellow stamps, as well as Red stamps where the tax is not pre-collected and the distributor purchases the stamps on credit.

## Luxury Tax on Cigarettes and Tobacco

---

### 2015 LAWS

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

A listing of tax law changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.



# LUXURY TAX ON LIQUOR

## DESCRIPTION

The luxury tax on liquor is levied on wholesalers of spirituous, vinous, and malt liquors.

## DISTRIBUTION

Revenues from this tax are distributed among several funds, including:

*State School Aid.* 1.17% of spirituous liquor tax collections and 14% of tax collections from vinous liquor with a high alcohol content (over 24%) are allocated for state school aid. In practice, these monies are deposited in the General Fund, which in turn funds state school aid. [A.R.S. § 42-3103]

*Corrections Fund.* 20% of the monies collected from spirituous liquor and 50% of the monies collected from vinous and malt liquors are deposited in the Corrections Fund [A.R.S. § 42-3104].

*Drug Treatment and Education Fund.* 7% of the monies collected from spirituous liquor and 18% of the monies collected from vinous and malt liquors are deposited in the Drug Treatment and Education Fund of the Arizona Judiciary [A.R.S. § 42-3106A].

*Corrections Revolving Fund.* 3% of the monies collected from spirituous liquor and 7% of the monies collected from vinous and malt liquors are deposited in a revolving fund of the Department of Corrections [A.R.S. § 42-3106B].

*General Fund.* All remaining tax monies are deposited in the General Fund [A.R.S. § 42-3102].

## WHO PAYS

The luxury tax on liquor is added to the sales price of liquor items and is paid by:

- Wholesalers who purchase malt liquors for resale within Arizona [A.R.S. § 42-3353A].
- Wholesalers who sell spirituous liquors within Arizona [A.R.S. § 42-3354A].
- Every farm winery, microbrewery, craft distiller, or winery holding a direct shipment license that sells vinous or malt liquor at retail or to certain licensees. [A.R.S. § 42-3355].
- Wholesalers who purchase vinous liquors for resale within Arizona before January 1, 2007, and wholesalers who sell vinous liquors within Arizona beginning January 1, 2007 [A.R.S. § 42-3353B and § 42-3354B].

## REVENUE BASE AND RATE

The following is the revenue base and rate for each liquor type [A.R.S. § 42-3052]. A proportionate rate is applied to each liquor type for greater or lesser quantities:

- *Spirituous liquor.* \$3 per gallon. Examples of spirituous liquor include whiskey and vodka.
- *Vinous Liquor with High Alcohol Content.* \$0.25 on each container of 8 ounces or less of vinous liquor having an alcohol content of greater than 24%. Containers exceeding 8 ounces are taxed at a rate of \$0.25 per 8 ounces. An example of vinous liquor at this alcohol content level is brandy. According to the Department of Revenue, no revenue has been collected from this tax in recent years.
- *Vinous Liquor with Low Alcohol Content.* \$0.84 per gallon on each container of vinous liquor with an alcohol content of 24% or less, except cider. An example of vinous liquor at this alcohol content level is white wine.
- *Malt Liquor.* \$0.16 on each gallon of malt liquor or cider. Examples of malt liquor are beer and cider made from apples, pears and other pome fruit that does not exceed an alcohol content of 7%.

## Luxury Tax on Liquor

Table 1

### COLLECTIONS AND DISTRIBUTION

| <b>Fiscal Year</b> | <b>General Fund <sup>1/</sup></b> | <b>Corrections Fund</b> | <b>Wine Promotional Fund <sup>2/</sup></b> | <b>Corrections Revolving Fund</b> | <b>Drug Treatment &amp; Education Fund</b> | <b>Total Collections</b> |
|--------------------|-----------------------------------|-------------------------|--|-----------------------------------|--|--------------------------|
| 2021               | \$43,150,557                      | \$31,795,434            | \$0  | \$4,384,893                       | \$10,944,235                               | \$90,275,119             |
| 2020               | \$38,068,485                      | \$28,345,593            | \$0  | \$4,048,034                       | \$10,124,758                               | \$80,586,870             |
| 2019               | \$37,268,293                      | \$27,235,821            | \$0  | \$3,891,849                       | \$9,726,060                                | \$78,122,023             |
| 2018               | \$36,029,582                      | \$26,898,876            | \$0  | \$3,841,109                       | \$9,608,327                                | \$76,377,895             |
| 2017               | \$34,687,070                      | \$26,292,469            | \$0  | \$3,752,748                       | \$9,393,483                                | \$74,125,770             |
| 2016               | \$33,618,388                      | \$25,774,829            | \$0  | \$3,677,579                       | \$9,209,833                                | \$72,280,629             |
| 2015               | \$33,101,191                      | \$25,446,032            | \$0  | \$3,630,371                       | \$9,092,642                                | \$71,270,235             |
| 2014               | \$32,901,156                      | \$25,496,628            | \$0  | \$3,636,704                       | \$9,111,608                                | \$71,146,096             |
| 2013               | \$31,654,182                      | \$24,686,455            | \$0  | \$3,520,472                       | \$8,822,750                                | \$68,683,859             |
| 2012               | \$31,425,990                      | \$24,635,454            | \$0  | \$3,512,658                       | \$8,805,069                                | \$68,379,171             |
| 2011               | \$28,532,514                      | \$23,221,811            | \$0  | \$3,307,459                       | \$8,303,445                                | \$63,365,229             |
| 2010               | \$29,541,822                      | \$23,918,010            | \$0  | \$3,407,130                       | \$8,551,873                                | \$65,418,835             |
| 2009               | \$28,797,539                      | \$23,587,644            | \$0  | \$3,358,868                       | \$8,434,654                                | \$64,178,705             |
| 2008               | \$28,562,812                      | \$23,976,492            | \$29,003                                   | \$3,411,936                       | \$8,576,309                                | \$64,556,552             |
| 2007               | \$28,277,919                      | \$23,273,991            | \$35,965                                   | \$3,313,708                       | \$8,323,288                                | \$63,188,906             |
| 2006               | \$27,192,240                      | \$22,636,747            | \$38,481                                   | \$3,221,929                       | \$8,096,444                                | \$61,147,360             |
| 2005               | \$26,085,548                      | \$22,068,568            | \$34,667                                   | \$3,139,770                       | \$7,894,513                                | \$59,223,067             |
| 2004               | \$24,543,937                      | \$20,938,588            | \$27,995                                   | \$2,978,318                       | \$7,490,976                                | \$55,979,814             |
| 2003               | \$23,412,284                      | \$20,419,376            | \$25,497                                   | \$2,902,721                       | \$7,306,966                                | \$54,066,844             |
| 2002               | \$22,863,127                      | \$19,836,567            | \$23,391                                   | \$2,820,269                       | \$7,098,014                                | \$52,641,368             |

<sup>1/</sup> Includes funds to be used for state school aid.

<sup>2/</sup> Monies collected for this fund were transferred quarterly by the General Accounting Office to the Department of Commerce to pay back an outstanding loan the now defunct Wine Commission had taken from the Commerce Economic Development Fund. The statute establishing the Wine Promotion Fund was repealed by Laws 2005, Chapter 11.

SOURCE: Department of Revenue, Annual Reports.

### PAYMENT SCHEDULE

Wholesalers, domestic farm wineries, and domestic microbreweries must submit a return and pay the luxury tax on liquor to the Department of Revenue monthly on or before the 20<sup>th</sup> day of the month following the month in which the tax accrues. The tax must be paid within 10 days of the due date to avoid penalty and interest charges [A.R.S. § 42-3353 and § 42-3354].

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this tax in 2015 and 2018 and in the period from 2019 through 2021.

### 2017 LAWS

**Laws 2017, Chapter 60** requires payments and tax filings to be made electronically beginning January 1, 2020 or whenever the Department of Revenue has established an electronic filing program, whichever is later.

## Luxury Tax on Liquor

---

### 2016 LAWS

**Laws 2016, Chapter 76** allows all wineries to obtain a direct shipment license to sell and ship wine directly to consumers. Prior to Chapter 76, a direct shipment license required producers to ship any out-of-state alcohol to a wholesaler, and then to a retailer unless the consumer was physically present at a winery at the time of the purchase, which would allow the winery to ship directly to the consumer's residence or business. The direct shipment license holder is required to pay all applicable luxury taxes. (Effective August 6, 2016)

**Laws 2016, Chapter 125** permanently extends the luxury tax revenue allocation to the Corrections Fund by eliminating the June 30, 2015 repeal date.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

# ALCOHOLIC BEVERAGE LICENSE FEES

## DESCRIPTION

Alcoholic beverage license fees are charged to sellers and producers of these beverages. Fees are charged for original licenses, license renewals, and transfers of licenses. The number of original licenses granted per county is restricted according to county population. Fee amounts vary by type of fee and type of seller or producer (e.g., restaurant, hotel, microbrewery, etc.). The revenues from the license fees are distributed among several recipients.

## DISTRIBUTION

*Club Licenses and Applications.* The revenues derived from club licensing and applications are dedicated to the Department of Economic Security's Economic Security Capital Investments Fund [A.R.S. § 4-116].

*Special Event Licenses.* Collections are dedicated to the Department of Health Services for use in the evaluation and treatment of alcoholics [A.R.S. § 4-203.02A].

*Sampling and Growler Permits.* Collections from sampling and growler permit applications are deposited in the Liquor Licenses Fund and continuously appropriated to the Department of Liquor Licenses and Control in addition to the department's legislative appropriation [A.R.S. § 4-116.01].

*All Other Licenses.* Except for the above club, special event, and some restaurant license fees, two-thirds of license fees are deposited in the Liquor Licenses Fund. Any revenues of this two-thirds of license fees in excess of the amount appropriated to the Liquor Licenses Fund are deposited into the state General Fund. One-third of the license fees collected in counties with a population of 500,000 or less are to be paid monthly by the Director of Liquor Licenses and Control to the treasurer of those counties. For each county with a population of over 500,000, the director is to pay the county treasurer from the remaining one-third of license fees the amount of \$3,000 for each new license issued for premises in unincorporated areas of that county, up to a maximum of \$150,000. The remainder of the one-third of license fees collected in counties with a population of over 500,000 is deposited in the state General Fund [A.R.S. § 4-115].

## WHO PAYS

The tax is paid by manufacturers, wholesalers, out-of-state producers, exporters, importers or rectifiers, retailers of alcoholic beverages, businesses authorized by local governments to sell liquor, and farm wineries or microbreweries. All sellers of alcoholic beverages, including Indian tribal members on reservations, are required to pay the license fees [A.R.S. § 4-209].

## REVENUE BASE AND RATE

*License and Permits.* A flat fee is charged for an original license, annual and biannual license renewals, transfers of licenses, assignments of agents, and interim permits. Licenses can expire annually or biannually depending on the type of license renewal and whether the holder received any compliance penalties in the year prior to renewal. In addition, for each additional original license issued there will be levied a separate issuance fee equal to the license's fair market value which will be deposited in the state General Fund [A.R.S. § 4-209, A.R.S. § 4-203.01, .02, and .03, and A.R.S. § 42-206.01].

*Surcharges.* Certain licenses are assessed various surcharges as part of the annual license renewal fee. The revenues from these surcharges are dedicated to costs associated with audit and support staff activities, and costs associated with an enforcement program to investigate licensees who have been the subject of multiple complaints to the department [A.R.S. § 4-209J&K].

## Alcoholic Beverage License Fees

*Maximum Additional Licenses Per County.* With the exception of bar, beer and wine bar, liquor store and some restaurant licenses issued pursuant to A.R.S. § 4-213E, there is no maximum number of licenses that can be issued. Restaurant licenses that do not meet the definition of a restaurant and receive permission from the Department of Liquor Licenses and Control to continue to operate as a restaurant are limited to a maximum of 15 restaurant licenses in any fiscal year. In FY 2013 and beyond, no additional licensees will be granted permission to continue to operate under A.R.S. § 4-213E.

The Department of Liquor Licenses and Control shall annually issue 1 bar and 1 liquor store license in each county for each 10,000 person increase over the population in that county as estimated by the Office of Economic Opportunity as of July 1, 2010 minus the number of licenses distributed since 2010. The director may also issue new bar and liquor store licenses for each license that has been revoked or reverted in each county for the first 5 revoked or reverted licenses. If the number of revoked or reverted licenses is greater than 5, the director may issue the initial 5 new licenses plus a number equal to 20% of the difference between the total number of revoked or reverted licenses and 5.

The department shall annually issue 1 beer and wine bar license in each county for each 5,000 person increase over the population in that county as of July 1, 2010 minus the number of licenses distributed since 2010 until January 1, 2022, and issue 1 new license for each 10,000 person increase thereafter. However, the director may opt to waive the issuance of any new, or reissuance of any revoked or reverted licenses in any county for 1 year if there has been no request made to the department for the issuance of a license of that series (A.R.S. § 4-206.01B).

Table 1

### COLLECTIONS AND DISTRIBUTION

| Fiscal Year | Total        | General Fund | Department of Economic Security | Department of Health Services | COUNTIES  | Audit Surcharge | Enforcement Surcharge | Liquor Department <sup>1/2/3/</sup> | Liquor Licenses Fund |
|-------------|--------------|--------------|---------------------------------|-------------------------------|-----------|-----------------|-----------------------|-------------------------------------|----------------------|
| 2021        | \$10,773,440 | \$5,453,200  | \$51,575                        | \$13,545                      | \$430,485 | \$195,420       | \$836,105             | \$294,910                           | \$3,498,200          |
| 2020        | \$11,485,604 | \$6,298,746  | \$45,625                        | \$62,615                      | \$420,244 | \$188,710       | \$817,910             | \$277,955                           | \$3,373,800          |
| 2019        | \$10,008,340 | \$5,121,964  | \$45,025                        | \$80,135                      | \$434,381 | \$187,260       | \$810,980             | \$242,595                           | \$3,086,000          |
| 2018        | \$9,741,176  | \$5,032,422  | \$41,700                        | \$72,500                      | \$396,657 | \$182,550       | \$785,625             | \$128,000                           | \$3,047,500          |
| 2017        | \$9,994,536  | \$5,349,139  | \$48,825                        | \$70,925                      | \$390,872 | \$179,230       | \$807,145             | \$141,000                           | \$3,007,400          |
| 2016        | \$8,532,918  | \$3,713,973  | \$47,225                        | \$71,200                      | \$382,115 | \$173,190       | \$789,915             | \$0                                 | \$3,355,300          |
| 2015        | \$7,651,662  | \$3,187,414  | \$47,775                        | \$66,725                      | \$440,228 | \$169,080       | \$777,940             | \$0                                 | \$2,962,500          |
| 2014        | \$6,379,186  | \$1,932,468  | \$54,550                        | \$64,725                      | \$442,258 | \$170,680       | \$782,305             | \$0                                 | \$2,932,200          |
| 2013        | \$6,476,642  | \$2,064,997  | \$59,025                        | \$57,800                      | \$448,900 | \$166,800       | \$767,820             | \$0                                 | \$2,911,300          |
| 2012        | \$5,989,607  | \$1,716,990  | \$45,550                        | \$57,850                      | \$427,877 | \$164,220       | \$761,520             | \$0                                 | \$2,815,600          |
| 2011        | \$8,760,692  | \$4,660,056  | \$55,650                        | \$54,675                      | \$404,971 | \$165,030       | \$761,610             | \$0                                 | \$2,658,700          |
| 2010        | \$6,110,927  | \$2,913,632  | \$46,200                        | \$45,275                      | \$385,795 | \$144,300       | \$662,025             | \$0                                 | \$1,913,700          |
| 2009        | \$6,559,069  | \$5,040,087  | \$56,400                        | \$49,175                      | \$530,252 | \$158,730       | \$724,425             | \$0                                 |                      |
| 2008        | \$6,333,680  | \$4,871,121  | \$49,600                        | \$45,775                      | \$483,938 | \$162,186       | \$721,060             | \$0                                 |                      |
| 2007        | \$6,042,559  | \$4,661,571  | \$47,750                        | \$45,975                      | \$448,928 | \$155,040       | \$683,295             | \$0                                 |                      |
| 2006        | \$5,903,308  | \$4,431,909  | \$49,275                        | \$51,250                      | \$446,672 | \$152,580       | \$673,290             | \$98,332                            |                      |
| 2005        | \$5,581,198  | \$4,206,281  | \$48,850                        | \$47,775                      | \$458,487 | \$151,650       | \$668,155             |                                     |                      |
| 2004        | \$5,473,828  | \$4,219,995  | \$49,100                        | \$44,500                      | \$369,358 | \$147,180       | \$643,695             |                                     |                      |
| 2003        | \$5,018,445  | \$3,826,968  | \$53,800                        | \$42,350                      | \$327,837 | \$143,480       | \$624,010             |                                     |                      |
| 2002        | \$4,746,146  | \$3,776,390  | \$54,850                        | \$40,100                      | \$333,901 | \$97,380        | \$443,525             |                                     |                      |

<sup>1/</sup> See Laws 2005, Chapter 284 – the Department of Liquor Licenses and Control may retain costs associated with the random selection of additional licensees.

<sup>2/</sup> See Laws 2016, Chapter 76 – the director may charge an administrative fee for Wine Direct Shipment licenses for costs associated with administering the direct shipment license.

<sup>3/</sup> See Laws 2018, Chapter 240 – Designates all revenue collected from sampling and growler permits as continuously appropriated within the Liquor Licenses Fund without regard for the legislative appropriation from the fund.

Note: 5% of the revenues generated from licensees that are permitted to continue operation as a restaurant pursuant to A.R.S. § 4-213E will be deposited into the Driving Under the Influence Abatement Fund beginning in FY 2009.

SOURCE: Department of Liquor Licenses and Control.

## Alcoholic Beverage License Fees

### Exemptions:

- Drug stores selling spirituous liquors only upon prescription.
- Any confectionery candy with less than 5% by weight of alcohol.
- Manufacturers, wholesalers and retailers of ethyl alcohol used for scientific, chemical, mechanical, industrial, medicinal or other non-beverage purposes.
- Individuals and establishments authorized by Congress to procure spirituous liquor or ethyl alcohol tax-free.
- Manufacturers of denatured alcohol produced under provisions established by acts of Congress [A.R.S. § 4-226].

### Application Fees:

- Original license: \$100
- Transfer of license: \$100 [A.R.S. § 4-209A]

### Issuance fees for original licenses [A.R.S. § 4-209B]:

Table 2

|     |   |                   |
|-----|---|-------------------|
| 1.  | In-state producers of spirituous liquors  | \$1,500           |
| 2.  | Out-of-state producer's, exporter's, importer's, or rectifier's license, except an out-of-state winery selling 50 or fewer cases of wine in a calendar year | 300               |
| 3.  | Microbrewery license  | 300               |
| 4.  | Wholesalers of spirituous liquors   | 1,500             |
| 5.  | State, and local government, community colleges, or National Guard licenses   | 100               |
| 6.  | On-sale retailers on all spirituous liquors and bar license   | 1,500             |
| 7.  | On-sale retailers beer and wine bar license   | 1,500             |
| 8.  | Railroads, airlines or boats, conveyance licenses   | 1,500             |
| 9.  | Off-sale retailers on all spirituous liquors, liquor store license  | 1,500             |
| 10. | Off-sale retailers beer and wine store license  | 1,500             |
| 11. | Hotels and motels   | 1,500             |
| 12. | Restaurants   | 1,500             |
| 13. | Farm winery   | 100               |
| 14. | Clubs   | 1,000             |
| 15. | Out-of-state winery selling 240 or fewer cases of wine in a calendar year   | 125               |
| 16. | Craft distiller   | 300               |
| 17. | Direct Shipment Wine  | 50                |
| 18. | To-Go Cocktails   | TBD <sup>1/</sup> |

<sup>1/</sup> This permit will be available beginning in 2026 and the fee will be determined by the Department of Liquor Licenses and Control. Until the To-Go Cocktail License is established, a restaurant may lease an off-sale privilege license from a bar or liquor store at a fee determined by the Department. The fee may differ for urban and rural counties.

## Alcoholic Beverage License Fees

Annual License Fees [A.R.S. § 4-209D]:

| Table 3  |   |                   |
|--|---|-------------------|
| 1.   | In-state producers of spirituous liquors  | \$350             |
| 2.   | Out-of-state producer's, exporter's, importer's, or rectifier's license, except an out-of-state winery selling 50 or fewer cases of wine in a calendar year | 50                |
| 3.   | Microbrewery license  | 300               |
| 4.   | Wholesalers of spirituous liquors   | 250               |
| 5.   | Local government, community colleges, or National Guard licenses  | 100               |
| 6.   | On-sale retailers on all spirituous liquors and bar license   | 150               |
| 7.   | On-sale retailers beer and wine bar license   | 75                |
| 8.   | Railroads, airlines or boats, conveyance licenses   | 225               |
| 9.   | Off-sale retailers on all spirituous liquors, liquor store license  | 50                |
| 10.  | Off-sale retailers beer and wine store license  | 50                |
| 11.  | Hotels and motels   | 500               |
| 12.  | Restaurants   | 500 <sup>1/</sup> |
| 13.  | Farm winery   | 100               |
| 14.  | Clubs   | 150               |
| 15.  | Out-of-state winery selling 240 or fewer cases of wine in a calendar year   | 25                |
| 16.  | Craft distiller   | 300               |
| 17.  | Direct Shipment Wine  | 175               |
| 18.  | To-Go Cocktails   | NA <sup>2/</sup>  |
| <sup>1/</sup> If the restaurant is continuing to operate under A.R.S. § 4-213E, an additional fee, to be determined by the Department of Liquor Licenses and Control will be levied. In FY 2013 and beyond, no additional licensees will be granted permission to continue to operate under A.R.S. 4-213E. (Please see Laws 2006, Chapter 383 and Laws 2008, Chapter 256 for additional information) |   |                   |
| <sup>2/</sup> This permit will be available beginning in 2026 and the fee will be determined by the Department of Liquor Licenses and Control. Until the To-Go Cocktail License is established, a restaurant may lease an off-sale privilege license from a bar or liquor store at a fee determined by the Department. The fee may differ for urban and rural counties.                              |   |                   |
| Note: The Department of Liquor Licenses and Control may issue such licenses with staggered renewal dates. A license issued less than 6 months before the scheduled renewal date shall be charged only one-half of the annual license fee [A.R.S. § 4-209C].  |   |                   |
| Note: Establishments operating on a seasonal basis not exceeding 6 months in any year are subject to license fees equal to half the annual rate [A.R.S. § 4-209E].   |   |                   |
| Note: Any licenses that receive nonuse status are excluded from paying any municipal fee or tax attributed to the time that the license was held in nonuse status [A.R.S. § 4-203.05].   |   |                   |

### Transfer Fees for Spirituous Liquor Licenses:

- |     |                           |       |
|-----|---------------------------|-------|
| (1) | From Person to Person     | \$300 |
| (2) | From Location to Location | \$100 |

[A.R.S. § 4-209F-G]

**Assignment Fees.** A \$100 fee is charged to transfer control of a license or to change the license agent responsible for receiving communication from and filing documents with the department. For a holder of multiple licenses, the fee is \$100 for the first license and all remaining licenses transferred to the same agent are \$50 each, with a maximum fee of \$1,000 [A.R.S. § 4-209H].

**NOTE:** License transfers are not permitted for restaurants, hotels, motels, clubs or farm wineries or microbreweries, except that clubs may transfer a license from location to location.

**Interim Permit Fees.** For original license pending or license transfer pending, the fee is \$100 [A.R.S. § 4-203.01].

**Other Licenses.** In addition, special event licenses are issued on a daily basis at a fee of \$25 per day, the wine festival license fee and the farm winery fair license fee are both statutorily set by the director and are currently set at \$15 per day [A.R.S. § 4-203.02 and § 4-203.03].

## Alcoholic Beverage License Fees

---

### PAYMENT SCHEDULE

Original license fees, interim permit fees, and transfer fees are due upon application. Payments for annual license renewal are due in advance. A system of staggered renewal dates may be implemented by the department. Licenses that are not renewed on the due date are subject to a penalty of \$150 [A.R.S. § 4-209A].

The Department of Liquor Licenses and Control collects the tax [A.R.S. § 4-112].

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this fee in 2020.

#### 2021 LAWS

**Laws 2021, Chapter 95** increases the gallons that a craft distiller may sell from 1,189 gallons to 3,566 gallons.

**Laws 2021, Chapter 375** allows bars, restaurants, and liquor stores to sell mixed cocktails for carry-out and delivery orders beginning October 1, 2021. Restaurants are required to lease off-sale privileges from a bar or liquor store through December 31, 2025, as approved by the Department of Liquor License and Control. Beginning January 1, 2026, restaurants will be required to apply for a permit to sell to-go cocktails. In addition, Chapter 375 requires the Department to register alcohol delivery contractors.

#### 2019 LAWS

**Laws 2019, Chapter 136** includes the following provisions:

- Allows a licensee that provides sampling services incidental to an instructional course to charge a fee to the customer for the educational course.
- Creates a new Joint Premises Permit, which can be provided to one or more on-sale licensees with the same type of bar, beer and wine bar, restaurant or remote tasting room license type.
- Creates a pilot program that allows the director to issue up to 10 permits to extend the premises for on-sale licensee located at regional shopping centers. The program terminates on December 31, 2022.

#### 2018 LAWS

**Laws 2018, Chapter 240** includes the following provisions:

- Allows a special event license to be issued to a government entity.
- Allows the director to determine the amount of farm winery festival and farm winery fair licenses, which were previously statutorily set at \$15 per day.
- Allows a farm winery license that operates primarily as a remote tasting room to convert to a remote tasting room license without any additional fee if done by December 31, 2018.
- Allows a county, city or town to deny a craft distillery festival license within 60 days of receiving the application.
- Allows the director to issue a new bar or liquor store license for each revoked or reverted license in a county that has not been reverted, but not to exceed 20% of the total number of revoked or reverted licensees in that county.
- Adjusts the definition of fair market value of bar, beer and wine bar, or liquor store licenses to include market trends during the previous 12 months, and requires an appraisal to determine the fair market value.



## Alcoholic Beverage License Fees

---

- Designates all revenue collected from sampling and growler permits as continuously appropriated within the Liquor Licenses Fund without regard for the legislative appropriation from the fund.

### 2017 LAWS

**Laws 2017, Chapter 168** includes the following provisions:

- Allows the Department of Liquor Licenses and Control to issue 1 new beer and wine bar licenses for every 5,000 person increase over the population in that county as estimated by the Office of Economic Opportunity as of July 1, 2010 minus the number of licenses distributed since 2010 until January 1, 2022. This standard changes to 1 new license for every 10,000 person increase after January 1, 2022. Previously, new beer and wine bar licenses were issued for every 10,000 person increase over the population of the county as of July 1, 2010 minus the number of licenses distributed since 2010, which is the current standard for bar licenses and liquor store licenses.
- Increases the maximum number of board members that can serve on the board from a single county from 2 to 3 board members.
- Limits a local governing body to charge only 1 fee to a licensee for an application of acquisition of control regardless of the number of licenses held by the licensee.
- Requires a licensee to submit a written request for more time before a nonuse license reverts to the state.
- Increases the amount of time a license can be in nonuse status before it must requalify for a license from 2 years to 3 years.
- Changes the limit on special licenses in one calendar year from 12 event licenses to 30 days of special event licenses.
- Allows a special event contractor to assist in the selling of spirituous liquor for a special event licensee. Special event contractors can be a holder of a bar license, beer and wine bar license, hotel and motel license, or a restaurant license.
- The department may prohibit a special event licensee or special event contractor from obtaining a special event license for 1 year for violations of state liquor statutes.
- Allows a licensed producer to donate spirituous liquor to a special event license holder.
- Requires a special event licensee to return unbroken bottles of spirituous liquor to the appropriate licensee or wholesaler.
- Limits the number of events hosted by club licensees where the attendance is not based on membership of the club to 12 events per calendar year.
- Increases the amount of tasting rooms a craft distiller licensee may operate from 1 to 2.
- Changes the provisions of a craft distillery festival license allowing 1 or more licenses for up to 150 calendar days. Previous provisions allowed 25 licenses for up to 75 calendar days.
- Allows the director to issue two remote tasting room licenses to the same location if each license is issued to a different person.
- Adds acquisitions of control and restructurings to the list of assignment fees.
- Prohibits the department from auditing a restaurant during its first 3 months of operation.
- Allows the director to notify the Department of Revenue, the regulatory body of another state, and other industry associates if an out-of-state licensee knowingly violates a cease and desist order from the director.

### 2016 LAWS

**Laws 2016, Chapter 76** allows all wineries to obtain a direct shipment license to sell and ship wine directly to consumers. Prior to Chapter 76, a direct shipment license required producers to ship any out-of-state alcohol to a wholesaler, and then to a retailer unless the consumer was physically present at a winery at the time of the purchase, which would allow the winery to ship directly to the consumer's residence or business. (Effective August 6, 2016)

**Laws 2016, Chapter 161** includes the following provisions:

- Requires a Notice of Change Agent be filed with the director of the Department of Liquor Licenses and Control within 30 days of the agent change. An agent is the natural person who is designated by the applicant or

## Alcoholic Beverage License Fees

---

licensee to receive communications from the Department of Liquor Licenses and Control and to file and sign documents on behalf of the applicant or licensee.

- Allows a restaurant license to receive a permit from the Department of Liquor Licenses and Control to sell beer for off-premise consumption.
- Increases the amount of beer a person can be served while on a boat at one time from 32 ounces to 50 ounces.
- Requires a supplying farm winery in a custom crush arrangement to have a basic permit from the United States Alcohol Tobacco Tax and Trade Bureau for the gallonage to be allocated to the supplying winery. A custom crush arrangement is a contractual agreement where a person or winery provides grapes to a separate winery to be used for the production of wine. The wine is then marketed and sold by the person or winery supplying the grapes.
- Allows the Department of Liquor Licenses and Control to use monies from the sale of seized liquor for investigation purposes.
- If an establishment holds multiple licenses at one location with both on-sale and off-sale privileges (on-sale versus off-sale privileges are also referred to as channels), the bill requires liquor be sold under the channel of the primary use of the establishment. This affects the price at which a wholesaler can sell alcohol to a retailer. Current statute allows wholesalers to sell alcohol to retailers with on-sale privileges at a different price than it sell to retailers with off-sale privileges. This is referred to as channel pricing.
- Changes the reporting requirement for producers and wholesalers to provide sampling from not less than 10 days to not less than 5 days before the event.
- Exempts a passenger in a transportation network company vehicle from laws prohibiting consumption of alcohol as a passenger in a vehicle.
- Adds a refillable container up to 1 gallon, also known as a growler, to the definition of open containers.

**Laws 2016, Chapter 184** requires the Director of the Department of Liquor Licensing and Control to report the use of Enforcement Surcharge monies to the Arizona State Liquor Board.

**Laws 2016, Chapter 345** allows beer and wine store licenses with fewer than 5,000 square feet of store space to obtain sampling privileges if the store dedicates at least 75% of shelf space to the sale of liquor.

### 2015 LAWS

**Laws 2015, Chapter 131** includes the following provisions:

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

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azilbc.gov/21taxbook/21taxbk.pdf>.

## **INSURANCE PREMIUM TAX**

# INSURANCE PREMIUM TAX

## DESCRIPTION

This tax is imposed on net insurance premiums received by insurance companies for risks that exist within the state. Included are premiums for life insurance, accident and health insurance, AHCCCS contracted coverage, fire insurance, vehicle insurance, prepaid dental and legal insurance, and other property and casualty premiums such as homeowners and commercial insurance, medical malpractice, and fidelity and surety insurance.

The tax applies to insurance companies formed under the laws of this state (“domestic” insurance carriers) and insurance companies formed under the laws of another state within the United States or another country (“out-of-state” insurance carriers).

Insurance premium tax also includes “retaliatory” taxes, which are taxes owed by out-of-state insurers to the extent that the sum of taxes an insurer pays in Arizona is less than what the sum of taxes would be if the same insurance business were transacted in the insurer’s “home” state (state of domicile).

## DISTRIBUTION

Except for a portion of the tax on fire insurance premiums and an additional tax paid on vehicle insurance premiums, these tax revenues are deposited in the state’s General Fund [A.R.S. § 20-227].

Eighty-five percent of the fire insurance premium tax is transferred to cities and towns and legally organized fire districts which procure the services of private fire companies and to cities and towns which have their own fire department or legally organized fire district. The proceeds are to be used to assist in funding pension plans for fire fighting personnel. The other 15% is deposited into the state’s General Fund [A.R.S. § 20-224, A.R.S. § 9-951, and A.R.S. § 9-952].

An additional tax of 0.4312% paid on insurance carried on vehicles is separately accounted for and transferred to the Public Safety Personnel Retirement System for deposit in the Highway Patrol Account to assist in funding the pension plan for highway patrol personnel [A.R.S. § 20-224.01].

*Table 1* on the following page provides the historical distribution of insurance premium tax. It should be noted that the “total” column in the following table reflects net collections for the fiscal year, and in some cases, does not equal the amounts distributed to the General Fund, the Public Safety Personnel Retirement System, and to cities and fire districts. In these cases, some collections were carried forward into the next fiscal year and were distributed then.

## WHO PAYS

All authorized insurers and formerly authorized insurers (insurers not currently authorized, but continuing collection of premiums and servicing of existing policies in the state) are subject to the insurance premium tax. In addition, health care service organizations, prepaid dental plan organizations, and prepaid legal insurance corporations are subject to the tax [A.R.S. § 20-206, A.R.S. § 20-224, A.R.S. § 20-401.05, A.R.S. § 20-416, A.R.S. § 20-837, A.R.S. § 20-1010, A.R.S. § 20-1060, A.R.S. § 20-1097.07].

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

## Insurance Premium Tax

Table 1

### INSURANCE PREMIUM COLLECTIONS AND DISTRIBUTION

| <u>Fiscal Year</u> | <u>General Fund</u> | <u>Transfer to Public<br/>Safety<br/>Retirement<br/>System</u> | <u>Transfer to Cities<br/>and Fire Districts</u> | <u>Total</u>  |
|--------------------|---------------------|--|--|---------------|
| 2021               | \$616,251,446       | \$27,159,531   | \$19,246,959                                     | \$662,657,936 |
| 2020               | \$535,163,356       | \$26,507,317   | \$18,797,111                                     | \$580,467,784 |
| 2019               | \$549,596,876       | \$25,562,011   | \$18,195,409                                     | \$593,354,296 |
| 2018               | \$509,276,002       | \$23,233,981   | \$17,165,571                                     | \$549,675,554 |
| 2017               | \$504,339,292       | \$21,009,348   | \$16,419,859                                     | \$541,768,499 |
| 2016               | \$490,576,281       | \$19,312,244   | \$16,777,097                                     | \$530,178,577 |
| 2015               | \$449,546,754       | \$18,212,445   | \$13,343,767                                     | \$481,102,966 |
| 2014               | \$411,760,685       | \$16,942,842   | \$14,481,050                                     | \$443,184,577 |
| 2013               | \$386,776,104       | \$16,185,326   | \$13,141,283                                     | \$416,102,713 |
| 2012               | \$393,990,499       | \$15,720,974   | \$12,606,341                                     | \$422,317,814 |
| 2011               | \$413,765,850       | \$15,978,058   | \$12,514,392                                     | \$442,258,300 |
| 2010               | \$405,612,042       | \$16,696,764   | \$13,492,671                                     | \$435,801,477 |
| 2009               | \$411,370,853       | \$17,507,607   | \$12,480,006                                     | \$441,358,466 |
| 2008               | \$407,035,082       | \$17,569,437   | \$13,361,461                                     | \$437,965,980 |
| 2007               | \$399,850,367       | \$17,861,557   | \$12,652,891                                     | \$430,364,815 |
| 2006               | \$373,703,789       | \$17,057,414   | \$11,842,931                                     | \$402,604,134 |
| 2005               | \$358,752,402       | \$16,234,673   | \$12,459,164                                     | \$387,446,239 |
| 2004               | \$308,967,921       | \$15,441,384   | \$11,677,878                                     | \$336,087,183 |
| 2003               | \$226,648,800       | \$14,009,100   | \$10,588,600                                     | \$251,246,500 |
| 2002               | \$195,036,900       | \$12,633,600   | \$8,148,700                                      | \$215,819,200 |
| 2001               | \$183,394,700       | \$11,419,500   | \$7,187,100                                      | \$202,001,300 |

SOURCE: Department of Insurance and Financial Institutions.

## REVENUE BASE AND RATE

The tax applies to premiums paid for insurance covering liabilities that exist within the state. The tax is levied on the net premium income, which is defined as the total amount received from premiums after deducting cancellations, returned premiums, policy dividends, refund reductions, savings coupons, and similar amounts paid or credited to policyholders within the state, and not reapplied as premiums for new, additional, or extended insurance [A.R.S. § 20-224].

The insurance premium tax rate on life, vehicle, and other property and casualty lines of insurance is 1.70% in calendar year (CY) 2021. Laws 2016, Chapter 358 gradually decreases the tax rate from 2.0% in CY 2015 to 1.7% by CY 2021 (*See Table 2*). This schedule of rate reductions replaced the schedule enacted under Laws 2015, Chapter 220, in which the rate was decreased gradually from 2.0% in CY 2015 to 1.7% in CY 2026. Except for fire insurance and surplus line insurance (types of insurance that are not sufficiently offered by authorized insurers and therefore may be procured from unauthorized out-of-state insurers), the tax rate for most other types of insurance is 2.0% of net premium income [A.R.S. § 20-224].

The tax rate for fire insurance is 0.66% for insurance on properties located in an incorporated city or town which procures the services of a private fire company. The rate on all other fire insurance is 2.2% [A.R.S. § 20-224].

The tax rate on premiums paid to brokers selling surplus line insurance and industrial insurance contracts procured from unauthorized insurers is 3% of the net premium income [A.R.S. § 20-401.07 and A.R.S. § 20-416].

## Insurance Premium Tax

---

Certain types of insurers, employee benefit trusts, and voluntary employees' beneficiary associations are exempted from the insurance premium tax, including some hospital and medical service corporations, some fraternal benefit societies, non-profit military mutual aid associations, and extended warranty insurers [A.R.S. § 20-108].

Title insurance premiums are also exempted from the insurance premium tax and are instead subject to the state income tax [A.R.S. § 20-224 and A.R.S. § 20-1566].

Premiums paid by government entities to non-profit hospitals and medical, dental, and optometric service corporations are exempt from the insurance premium tax [A.R.S. § 20-837].

| Table 2   |             |
|---|-------------|
| INSURANCE PREMIUM<br>TAX RATES <sup>1/2/</sup>  |             |
| <u>Calendar Year</u>  | <u>Rate</u> |
| 2015  | 2.00%       |
| 2016  | 1.95        |
| 2017  | 1.90        |
| 2018  | 1.85        |
| 2019  | 1.80        |
| 2020  | 1.75        |
| 2021  | 1.70        |
| <sup>1/</sup> As enacted by Laws 2016, Chapter 358.   |             |
| <sup>2/</sup> Rates apply to life, vehicle, and other property and casualty lines of insurance. |             |

### TAX REFUNDS AND/OR TAX CREDITS

*Affordable Housing Premium Tax Credit.* A credit against insurance premium tax liability is allowed if the Arizona Department of Housing issues an eligibility statement for qualified projects for affordable housing. The amount of the credit is equal to at least 50% of the Federal Low-Income Housing Credit for the qualified Project. The Department of Housing cannot authorize more than \$4 million in total credits annually. The credit may be distributed among the partners, members or shareholders of the claimant regardless of the size of the participants ownership interest. The total amount of claimed credit may not exceed the claimant organization's tax liability for the year, but may be carried forward for up to 5 years. The credit is repealed on January 1, 2026.

*Enterprise/Military Reuse Zones Tax Credit.* A tax credit against insurance premium tax liability was allowed for net increases in employment positions of residents of the state by an insurer that is located in an enterprise zone or a military reuse zone. As noted below, while both credits have been repealed, unused amounts are allowed to be carried forward for a limited time.

The tax credit for insurers in an enterprise zone equals one-fourth of taxable wages (not to exceed \$500) paid to an employee in a qualified employment position in the first year of employment, one-third of taxable wages (not to exceed \$1,000) in the second year, and one-half of taxable wages (not to exceed \$1,500) in the third year. Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 allowed this credit to sunset at the end of FY 2011, as scheduled. Although new credits may not be earned after tax year (TY) 2011, previously earned credits may be carried forward up to 5 years and used no later than for TY 2016. This credit was replaced by the New Employment Tax Credit, which is described below.

The tax credit for insurers in a military reuse zone equals \$1,000 per year in the first year of employment, increasing by \$500 per year up to \$3,000 per year in the fifth year of employment for each dislocated military base employee, and \$500 per year in the first year of employment, increasing by \$500 per year up to \$2,500 per year in the fifth year of employment for each employee other than a dislocated military base employee. Laws 2017,

## Insurance Premium Tax

Chapter 299 repeals the credit after TY 2017. Although new credits may not be earned after TY 2017, previously earned credits may be carried forward up to 5 years and used no later than for TY 2022.

**Health Insurance Premium Tax Credit.** A premium tax credit is allowed for health care insurers that provide health insurance to qualified individuals and small businesses that are certified by the Arizona Department of Revenue (DOR). An application must be submitted to DOR for the tax credit, which includes a written declaration subject to the penalties of perjury [A.R.S. § 20-224.05 and A.R.S. § 43-210].

An individual or small business must obtain health insurance to receive the credit. In order for the insurer to claim a credit on an individual, that individual must be a United States citizen or legally residing resident. The individual must also: 1) earn less than 250% of the federal poverty level, be a resident of Arizona, not have had health insurance for at least the past 6 consecutive months, and not be enrolled by any other state or federal government health insurance program; or 2) work for a small business that has been in existence for at least 1 calendar year and that has not provided health insurance to its employees for at least 6 months. A small business is defined as between 2 and 25 employees during the most recent calendar year.

The amount of the tax credit for individuals is the lesser of the following: a) \$1,000 for single coverage, \$500 for coverage of a child, or \$3,000 for family coverage; or b) 50% of the health insurance premium. The amount of the tax credit for small businesses is the lesser of the following: \$1,000 for single coverage or \$3,000 for family coverage; or 50% of the health insurance premium.

Health insurers are required to deduct the amount of the tax credit from the premium paid by the individual or small business for health insurance. In this way, the state effectively subsidizes the cost of the individual or small business's health insurance in the amount of the premium tax credit. The maximum amount of tax credits allowed in a calendar year is capped at \$5.0 million. The tax credits are administered by DOR.

**New Employment Tax Credit.** A \$3,000 annual tax credit may be claimed for each net new qualifying job added by an employer in the state. To qualify for the credit, new employment positions must be full-time, meet wage requirements, and offer health insurance paid by the employer (at least 65% of the premium). Credits associated with 1 net new job can be claimed for 3 years. A company may claim first year credits for separate new jobs for up to 3 consecutive years. Since second and third year credits may be claimed against each of the new positions, the taxpayer may claim credits for up to a total of 5 consecutive years. The Arizona Commerce Authority (ACA) is authorized to issue first year credits for up to 10,000 new employees (\$30.0 million) in each year.

Prior to Laws 2017, Chapter 340, a business could not claim the new credit unless it added at least 25 net new jobs in a year in an urban area (5 in a rural area), paid employees at least 100% of the county median wage, and made a capital investment of at least \$5.0 million (\$1.0 million in a rural area). Beginning in TY 2018, Laws 2017, Chapter 340 permits businesses to qualify under the alternative levels of capital investment and wages shown in *Table 3* and permits ACA to authorize credits through June 30, 2025. A business can now invest less than \$5.0 million if they pay wages that exceed 100% of the county median level. The required number of net new jobs remains unchanged. Given the maximum 5-year schedule outlined above, businesses may claim credits through TY 2029. [A.R.S. § 41-1525]

| Table 3                                 |  |
|---|--|
| Investment and Median Wage Requirements |  |
| <u>Urban Location</u>                   |  |
| <u>Minimum Capital Investment</u>       | <u>Wages as Percent of County Median</u> |
| \$5,000,000                             | 100%                                     |
| \$2,500,000                             | 125%                                     |
| \$1,000,000                             | 150%                                     |
| \$500,000                               | 200%                                     |

## Insurance Premium Tax

---

| <u>Rural Location</u>                 |  |
|---------------------------------------|--|
| <u>Minimum<br/>Capital Investment</u> | <u>Wages as Percent<br/>of County Median</u> |
| \$1,000,000                           | 100%   |
| \$500,000                             | 125%   |
| \$100,000                             | 150%   |

In TY 2013 and later years, Laws 2012, Chapter 343 eliminates the requirement (provided by Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1) that no employer can claim more than 400 new jobs in the first year of credit use, 800 jobs in the second year, and 1,200 jobs in the third year. The cap applied to credits claimed against insurance premium, individual income, and corporate income taxes. The credit cannot be claimed against employees that are also claimed under the Military Reuse Zone Tax Credit (A.R.S. § 20-224.04 and A.R.S. § 41-1531). Laws 2014, Chapter 168 changes the requirement for the New Employment Tax Credit program by providing that second and third-year credits can be claimed irrespective of whether the same employee remains employed as long as the employer replaces the vacant position with another qualified employee within 90 days.

*School Tuition Organization Tax Credit.* A taxpayer may claim an insurance premium tax credit, up to the full amount of the donation, for contributions made to a school tuition organization that provides education scholarships and tuition grants either to children of low-income families (A.R.S. § 20-224.06) or to disabled children or children in foster care (A.R.S. § 20-224.07). The full amount of tax credits approved by DOR pursuant to A.R.S. § 43-1183 (low-income credit) for both corporate income tax credits and insurance premium tax credits combined is capped at \$10.0 million per year, with the cap increasing by 20% per year beginning in FY 2008. The credit cap is \$123.1 million in FY 2021. Laws 2019, Chapter 281 limits the annual increase of the credit cap to 15% in FY 2021, 10% in FY 2022, and 5% in FY 2023. Beginning in FY 2024, the increase of the credit cap is limited to the greater of 2% or the annual change of the Metropolitan Phoenix consumer price index. In dollar terms, Chapter 281 limits the growth of the credit cap to \$123.1 million in FY 2021, \$135.4 million in FY 2022, and \$142.1 million in FY 2023. Pursuant to A.R.S. § 43-1184 (displaced and disabled credit) the full amount of tax credits approved by DOR was capped at \$5.0 million per year. Laws 2021, Chapter 412 increased the cap to \$6 million beginning in FY 2022. A taxpayer may carry forward the unused portion of either tax credit for 5 years. A taxpayer claiming the credit shall not be required to pay any retaliatory taxes required by A.R.S. § 20-230. [A.R.S. § 20-224.06 and A.R.S. § 20-224.07].

*Insurance Guaranty Fund Assessment Credit.* A taxpayer may claim an insurance premium tax credit on 20% of any assessment paid to the Arizona Life and Disability Insurance Guaranty Fund (ALDIGF). Taxpayers may take an additional credit of 20% of the assessment in each of the 4 subsequent years following the assessment, thus allowing taxpayers to offset 100% of the cost over a 5-year period.

The ALDIGF was created as a safeguard to meet the obligations of a licensed insurance company in the event that the insurer becomes insolvent. Monies in the fund come from an assessment levied on all other licensed insurers. The maximum assessment amount that can be levied on a single insurer in any one year is capped at 2% of the insurer's average total premiums of similar insurance lines covered by the ALDIGF in the previous 3 years. This assessment was levied in FY 2018 due to the failure of 2 national insurance companies with business in Arizona. Prior to FY 2018, the assessment was last levied in FY 1997. (For more information on Insurance Guarantee Fund Assessments, see *Insurance Guarantee Fund Assessments* section of the Tax Handbook.)

The actual dollar impact of these tax credits is included in *Table 4*:



## Insurance Premium Tax

Table 4

### FY 2021 INSURANCE PREMIUM TAX CREDIT USE

| <b>CREDITS:</b>   | <b>Effective<br/>Calendar Years</b> | <b>Annual Cost</b>  |
|---|-------------------------------------|---------------------|
| Health Insurance Premium <sup>1/</sup>  | 2007 -                              | \$4,205,060         |
| Insurance Guaranty Fund Assessment  | 1991 -                              | 7,095,475           |
| Military Reuse Zone   | 1993 - 2017                         | 0                   |
| New Employment <sup>2/</sup>  | 2011 - 2029                         | 7,008,000           |
| Private School Tuition Organization – Low Income Students <sup>3/</sup>         | 2006 -                              | 46,610,732          |
| Private School Tuition Organization – Disabled/Displaced Students <sup>4/</sup> | 2009 -                              | <u>4,325,730</u>    |
| <b>Total Value of Credits</b>   |                                     | <b>\$69,240,997</b> |

<sup>1/</sup> Credit is capped at \$5 million annually.

<sup>2/</sup> Credits claimed by individuals and corporations are separately reported under individual and corporate income tax credits. The ACA is authorized to issue up to \$30 million of 1<sup>st</sup> year credits in each year between individual and corporate income and insurance premium taxpayers.

<sup>3/</sup> Credits claimed by corporations are separately reported under corporate income tax credits. The credit was capped at \$123.1 million in FY 2021 between corporate income and insurance premium taxpayers. Pursuant to Laws 2019, Chapter 281, the credit cap is increased by 10% in FY 2022, and 5% in FY 2023.

<sup>4/</sup> Credits claimed by corporations are separately reported under corporate income tax credits. The credit is capped at \$6 million annually beginning in FY 2022 between corporate income and insurance premium taxpayers.

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

## PAYMENT SCHEDULE

Payment of the preceding calendar year's insurance premium tax liability is due on or before March 1 of each year. [A.R.S. § 20-224].

Any insurer that paid or is required to pay a tax of \$50,000 or more for the preceding calendar year is required to pay an "installment" payment of 15% of that amount on or before the 15<sup>th</sup> day of each month from March through August. Laws 2017, Chapter 153 increased the threshold of tax liability above which an insurer is required to make installment payments, from \$2,000 to \$50,000 in the preceding calendar year, beginning in calendar year 2018. Installment payments are credited against the insurance premium tax due on March 1 of the following year [A.R.S. § 20-224]. Table 5 lists the dates and descriptions of insurance premium tax payments due in FY 2022.

Table 5

### FY 2022 Insurance Premium Tax Payment Schedule <sup>1/</sup>

| <b><u>Due Date</u></b> | <b><u>Payment Description</u></b>  |
|------------------------|--|
| July 15, 2021          | CY 2021 Installment Payment (15% of CY 2020 Liability)                             |
| August 15, 2021        | CY 2021 Installment Payment (15% of CY 2020 Liability)                             |
| March 1, 2022          | Final Payment (Refund) of CY 2021 Liability<br>Retaliatory Tax Payment for CY 2021 |
| March 15, 2022         | CY 2021 Installment Payment (15% of CY 2021 Liability)                             |
| April 15, 2022         | CY 2021 Installment Payment (15% of CY 2021 Liability)                             |
| May 15, 2022           | CY 2021 Installment Payment (15% of CY 2021 Liability)                             |
| June 15, 2022          | CY 2021 Installment Payment (15% of CY 2021 Liability)                             |

<sup>1/</sup> If tax liability is at least \$50,000 annually.

## Insurance Premium Tax

---

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

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015. There were no changes enacted to this tax in 2020.

#### LAWS 2021

**Laws 2021, Chapter 412** increased the aggregate credit cap for contributions made by corporations and insurers to qualifying school tuition organizations (STO) that provide education scholarships and tuition grants to disabled/displaced students from \$5 million to \$6 million, beginning in FY 2022.

**Laws 2021, Chapter 430** creates a new insurance premium tax credit for affordable housing, which is administered by the Arizona Department of Housing. The Department is required to allocate the Affordable Housing credit for projects in Arizona that qualify for the federal Low-Income Housing Tax Credit and that are placed in service after June 30, 2022. The Affordable Housing credit is at least 50% of the federal Low-Income Housing Tax Credit but cannot exceed \$4 million annually. The credit may not exceed the tax liability of the claimant but may be carried forward for up to 5 years. The Arizona Department of Housing is authorized to allocate a total of \$4 million in tax credits per year from TY 2022 to TY 2025. Each of these 4 award cycles is available for 10 years.

#### LAWS 2019

**Laws 2019, Chapter 281** limits the annual increase of the aggregate credit cap for contributions made by corporations and insurers to qualifying school tuition organizations (STO) that provide education scholarships and tuition grants to students of low-income families from 20% to 15% in FY 2021, 10% in FY 2022, and 5% in FY 2023. Beginning in FY 2024, the increase of the credit cap is limited to the greater of 2% or the annual change of the Metropolitan Phoenix consumer price index. In dollar terms, Chapter 281 limits the growth of the credit cap to \$123.1 million in FY 2021, \$135.4 million in FY 2022, and \$142.1 million in FY 2023.

#### 2018 LAWS

**Laws 2018, Chapter 104** repeals the requirement that taxpayers that claim the Military Reuse Zone Insurance Premium tax credit may not claim the New Employment tax credit with respect to the same employment positions. The Military Reuse Zones Tax Credit was repealed by Laws 2017, Chapter 299.

#### 2017 LAWS

**Laws 2017, Chapter 153** modifies requirements for submitting insurance premium taxes. Beginning in CY 2018, DIFI may choose to require electronic payment and filing of all insurance premium taxes. The bill also increases the threshold of tax liability above which an insurer is required to make installment payments, from \$2,000 to \$50,000 in the preceding calendar year, beginning in CY 2018.

**Laws 2017, Chapter 299** repeals the Military Reuse Zones Tax Credit in TY 2018. Although new credits may not be earned after TY 2017, previously earned credits may be carried forward up to 5 years and used no later than for TY 2022. Based on historical use, repeal of the tax credit is not estimated to have a revenue impact.

**Laws 2017, Chapter 340** extends the date by which New Employment Tax Credits may be authorized and expands access to the credit. The bill extends the last date that ACA can authorize new credits from June 30, 2017 to June 30, 2025. Given a maximum 5-year schedule for claiming the credit (*see New Employment Tax Credit section for information*), businesses may claim credits through TY 2029. Prior to Laws 2017, Chapter 340, a business could not claim the new credit unless it added at least 25 net new jobs in a year in an urban area (5 in a rural area), paid

## Insurance Premium Tax

---

employees at least 100% of the county median wage, and made a capital investment of at least \$5.0 million (\$1.0 million in a rural area). Beginning in TY 2018, Laws 2017, Chapter 340 permits businesses to qualify under the alternative levels of capital investment and wages shown in *Table 3*. The required number of net new jobs remains unchanged. The bill's impact on revenue collections is included within the *Corporate Income Tax* section.

### 2016 LAWS

**Laws 2016, Chapter 38** permits domestic insurers to sell surplus line insurance for risks that exist within the state. DIFI designates types of insurance coverage that is not sufficiently offered by Arizona authorized insurers as surplus insurance lines. Prior to Chapter 38, statute only permitted unauthorized out-of-state insurers to sell surplus lines of insurance in Arizona. The legislation also requires that Arizona authorized insurers pay the same 3.0% insurance premium tax on surplus line insurance as paid by unauthorized out-of-state insurers. (Effective from August 6, 2016)

**Laws 2016, Chapter 358** gradually reduces insurance premium tax rates for life, vehicle, and other property and casualty lines of insurance from 2.0% in CY 2015 to 1.7% in CY 2021 and every subsequent year (*see Table 2*). The legislation replaces the schedule enacted under Laws 2015, Chapter 220, which gradually lowered rates from 2.0% in CY 2015 to 1.7% in CY 2026 and every subsequent year. Relative to Laws 2015, Chapter 220, the legislation is estimated to reduce insurance premium tax collections to the General Fund by \$(3.0) million in FY 2017, followed by further decreases of \$(4.1) million in FY 2018 and \$(4.3) million in FY 2019. Relative to a 2.0% tax rate, the reduced 1.7% rate is estimated to decrease revenues by \$(27.2) million in FY 2022, once the 6-year phase-in under Laws 2016, Chapter 358 is completed. (Effective from August 6, 2016)

**Laws 2016, Chapter 360** eliminates a December 31, 2019 deadline for claiming New Employment Tax Credits against insurance premium taxes. The ACA may authorize new credits through June 30, 2017. Given a maximum 5-year schedule for claiming credits (*see New Employment Tax Credit for more information*), Laws 2016, Chapter 360 effectively extends the last year the credit can be claimed against insurance premium taxes from TY 2019 to TY 2021. The change conforms the insurance premium tax to the individual and corporate income tax treatment of the credit. (Effective retroactively from January 1, 2016)

### 2015 LAWS

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

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

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

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azilbc.gov/21taxbook/21taxbk.pdf>.

## **OTHER GENERAL FUND REVENUE SOURCES**

# BINGO LICENSE AND LIEU TAX

## DESCRIPTION

The bingo license and lieu tax consists of a license fee charged to qualified operators of bingo games and a bingo tax assessed on the receipts from bingo games. There are 3 license classifications for bingo operators based on the amount of gross receipts. The license fee and tax rate vary by classification, with a maximum tax rate of 2% of gross receipts. All bingo games in Arizona must be conducted by a licensed person. The Department of Revenue serves as the licensing authority in the state. The tax is in lieu of the transaction privilege tax.

## DISTRIBUTION

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

| Table 1            |                     |                    |                     |
|--------------------|---------------------|--------------------|---------------------|
| COLLECTIONS        |                     |                    |                     |
| <u>Fiscal Year</u> | <u>General Fund</u> | <u>Fiscal Year</u> | <u>General Fund</u> |
| 2021               | \$165,181           | 2011               | \$504,905           |
| 2020               | \$397,780           | 2010               | \$520,655           |
| 2019               | \$469,026           | 2009               | \$531,588           |
| 2018               | \$473,625           | 2008               | \$558,330           |
| 2017               | \$486,660           | 2007               | \$619,387           |
| 2016               | \$476,079           | 2006               | \$623,480           |
| 2015               | \$507,211           | 2005               | \$610,055           |
| 2014               | \$521,583           | 2004               | \$624,501           |
| 2013               | \$519,998           | 2003               | \$626,770           |
| 2012               | \$508,145           | 2002               | \$629,680           |

SOURCE: Department of Revenue, Annual Report.

## WHO PAYS

The license fee and lieu tax is paid by persons and organizations that have been licensed by the Department of Revenue to conduct the game of bingo [A.R.S. § 5-403 and 5-407H].

## REVENUE BASE

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

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

- *Class A License.* Bingo games for which the gross receipts do not exceed \$75,000 per year. This license cannot be issued to persons holding a liquor license unless it is a club license. The reporting period is 1 year coinciding with the license's term.
- *Class B License.* Bingo games for which gross receipts do not exceed \$500,000 per year. There are 4 reporting periods coinciding with the quarters of the license's term.

## Bingo License and Lieu Tax

---

- *Class C License.* Bingo games for which gross receipts exceed \$500,000 per year. There are 12 reporting periods coinciding with each month of the license's term.

### RATE

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

| Local Governing      |                 |                    |                                 |
|----------------------|-----------------|--------------------|---------------------------------|
| <u>License Class</u> | <u>Body Fee</u> | <u>License Fee</u> | <u>Bingo Tax</u>                |
| A                    | \$5             | \$10               | 2.5% of Adjusted Gross Receipts |
| B                    | \$25            | \$50               | 1.5% of Gross Receipts          |
| C                    | \$50            | \$200              | 2.0% of Gross Receipts          |

### PAYMENT SCHEDULE

*License Fee Due Date.* The license fee, which is non-refundable, is due and paid at the time of application. Licenses expire 1 year from the issue date and must be renewed annually [A.R.S. § 5-403].

*Bingo Tax.* The tax is due at the time of each financial report submitted by the licensee according to the above-described schedule for the corresponding license class [A.R.S. § 5-407I].

*License Fee Collection.* The initial application for license is submitted to the local governing body along with the one-time local governing body fee and the license fee. The license fee and an original or certified copy of the application must be received by the Department of Revenue before a license is issued. Subsequent renewal fees, which are the same amount as the license fee, are paid to the Department of Revenue. A 30-day grace period from the expiration date is given for renewal with a penalty equal to the license fee; otherwise after such period a licensee must reapply for a new license [A.R.S. § 5-403].

The Department of Revenue collects the tax [A.R.S. § 5-407H].

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this tax in 2015 and 2016 as well as in 2018, 2019 and 2020.

### 2021 LAWS

**Laws 2021, Chapter 97** increases the bingo licenses gross receipt thresholds and the cap on the amount of cash prizes payable by check. Chapter 97 provides that Class A License applies to annual gross receipts up to \$75,000 (previous threshold was \$15,000); Class B License applies to annual gross receipts up to \$500,000 (previous threshold was \$300,000); and Class C License applies to annual gross receipts greater than \$500,000 (previous threshold was \$300,000). Chapter 97 also raises the threshold at which bingo prizes must be paid by check from \$150 to \$1,100.

### 2017 LAWS

**Laws 2017, Chapter 60** requires bingo licensees to file tax revenue reports electronically with the Department of Revenue beginning January 1, 2020, or when the Department of Revenue has established an electronic filing program, whichever is later.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlb.gov/21taxbook/21taxbk.pdf>.

# BOULDER CANYON PROJECTS - IN LIEU PAYMENTS

## DESCRIPTION

These are payments made by the United States or its agencies or instrumentalities to the State of Arizona in lieu of taxes from the proceeds of any hydroelectric power development ("Boulder Canyon Projects") on the Colorado River [A.R.S. § 45-1331A].

## DISTRIBUTION

Two-thirds of payments received are dedicated to the state General Fund. The remaining one-third of payments received are placed in a special fund of the county in which the hydroelectric power development is located and are used for recreational facilities, access roads, and public works [A.R.S. § 45-1331].

| Table 1            |                     |                    |                     |
|--------------------|---------------------|--------------------|---------------------|
| COLLECTIONS        |                     |                    |                     |
| <u>Fiscal Year</u> | <u>General Fund</u> | <u>Fiscal Year</u> | <u>General Fund</u> |
| 2021               | \$200,000           | 2011               | \$200,000           |
| 2020               | \$200,000           | 2010               | \$200,000           |
| 2019               | \$200,000           | 2009               | \$200,000           |
| 2018               | \$200,000           | 2008               | \$200,000           |
| 2017               | \$200,000           | 2007               | \$200,000           |
| 2016               | \$200,000           | 2006               | \$200,000           |
| 2015               | \$200,000           | 2005               | \$200,000           |
| 2014               | \$200,000           | 2004               | \$200,000           |
| 2013               | \$200,000           | 2003               | \$200,000           |
| 2012               | \$200,000           | 2002               | \$200,000           |

SOURCE: State Treasurer's Office. Total collections from Boulder Canyon Projects are derived by summing the payments to the state General Fund and to Mohave County.

## WHO PAYS

Department of the Interior - Bureau of Reclamation.

## REVENUE BASE AND RATE

These are lump sum payments received from the Federal Government in lieu of taxes on the proceeds from the Boulder Canyon Projects.

## PAYMENT SCHEDULE

Federal payments are normally made in June of each year.

## IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this tax in the period from 2015 through 2021.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

# COMMERCIAL NUCLEAR GENERATING STATION ASSESSMENT

## DESCRIPTION

The commercial nuclear generating station assessment is levied on each consortium of public service corporations engaged in operating a commercial nuclear generating station. In effect, only the Palo Verde nuclear generating station is assessed by this law. Collection amounts are used by the state to develop emergency response capabilities for accidents caused at a commercial nuclear generating station. The assessment is equal to the amount appropriated by the Legislature from the Nuclear Emergency Management Fund for nuclear emergency response.

## DISTRIBUTION

Through 2017, monies collected from the commercial nuclear generating station assessment were deposited in the General Fund. Laws 2017, Chapter 43 redirected these monies to be deposited directly into the Nuclear Emergency Management Fund (NEMF) [A.R.S. § 26-306.01D] beginning in FY 2018.

Table 1

| <u>Fiscal Year</u> | <b>COLLECTIONS</b>  |             |
|--------------------|---------------------|-------------|
|                    | <u>General Fund</u> | <u>NEMF</u> |
| 2021               | \$0                 | \$2,210,929 |
| 2020               | \$0                 | \$2,576,291 |
| 2019               | \$0                 | \$2,549,792 |
| 2018               | \$0                 | \$2,526,277 |
| 2017               | \$2,503,140         | \$0         |
| 2016               | \$2,412,474         | \$0         |
| 2015               | \$2,404,010         | \$0         |
| 2014               | \$2,269,086         | \$0         |
| 2013               | \$2,153,517         | \$0         |
| 2012               | \$1,782,028         | \$0         |
| 2011               | \$1,812,420         | \$0         |
| 2010               | \$1,569,091         | \$0         |
| 2009               | \$1,523,108         | \$0         |
| 2008               | \$1,440,492         | \$0         |
| 2007               | \$1,367,248         | \$0         |
| 2006               | \$1,198,087         | \$0         |
| 2005               | \$1,168,550         | \$0         |
| 2004               | \$1,036,085         | \$0         |
| 2003               | \$1,012,992         | \$0         |
| 2002               | \$940,611           | \$0         |

SOURCE: Department of Revenue, Annual Reports

## WHO PAYS

The assessment is paid by each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station [A.R.S. § 26-306.01D]. In practice, the assessment is only paid by the Palo Verde nuclear plant.



## Commercial Nuclear Generating Station Assessment

---

### REVENUE BASE AND RATE

Pursuant to Laws 2021, Chapter 71, the amount of the assessment is equal to the biennial legislative appropriation from the Nuclear Emergency Management Fund, plus an additional 10% per year for interest [A.R.S. § 26-306.01D]. However, any unexpended monies in the Nuclear Emergency Management Fund at the end of each fiscal year are used to offset the assessment in future years [A.R.S. § 26-306.02B]. The assessments are used to develop, maintain, and support the state plan for responding to accidents at a commercial nuclear generating station [A.R.S. § 26-306.01A].

### PAYMENT SCHEDULE

The assessment is due to the Department of Revenue each year on the date that the appropriation to the Nuclear Emergency Management Fund becomes available for expenditure. If the assessment is not paid on this date, interest is charged at the rate of 10% per year until payment is received. If a consortium fails to pay the assessment within 1 year, the Legislature may require the Director of Emergency Management to notify the United States Nuclear Regulatory Commission [A.R.S. § 26-306.01D&E].

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to the assessment in 2016, 2018 and 2020.

#### 2021 LAWS

**Laws 2021, Chapter 74** levies an assessment of \$2,210,929 in FY 2022 and \$2,267,935 in FY 2023. Chapter 74 also makes technical changes and removes the Arizona Department of Health Services from receiving a portion of the assessment. (Effective March 23, 2021)

#### 2019 LAWS

**Laws 2019, Chapter 24** levies an assessment of \$2,549,792 in FY 2020 and \$2,576,291 in FY 2021. (Effective March 22, 2019)

#### 2017 LAWS

**Laws 2017, Chapter 43** directs the assessment fees to be deposited in the Nuclear Emergency Management Fund rather than the General Fund. These monies will now be appropriated directly from the Nuclear Emergency Management Fund. Chapter 43 also levies an assessment of \$2,503,140 in FY 2018 and \$2,526,277 in FY 2019. (Effective March 22, 2017)

The following statutory changes levied biennial assessments against each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station. The assessment amounts were then appropriated from the state General Fund to the Nuclear Emergency Management Fund to develop and maintain the state response plan for an accident at a commercial nuclear generating station. The monies were allocated to various entities, including the Department of Emergency and Military Affairs, the Radiation Regulatory Agency, Maricopa County, and the Town of Buckeye.

**Laws 2017, Chapter 313** transferred the responsibilities of the Arizona Radiation Regulatory Agency (ARRA) to the Department of Health Services (DHS) effective January 1, 2018. As a result, a portion of ARRA's FY 2018 NEMF appropriation and the entirety of ARRA's FY 2019 NEMF appropriation of \$789,663 and 5.5 FTE Positions was transferred to the DHS.

## Commercial Nuclear Generating Station Assessment

---

### 2015 LAWS

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

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

# GAMING FEES

## DESCRIPTION

Certain gaming fees are levied by the Arizona Department of Gaming (ADG) on the licensed operators of event wagering and fantasy sports contests as a requirement for conducting the authorized gaming activities in this state. These activities were authorized by Laws 2021, Chapter 234.

There are 2 types of gaming fees levied by the state related to event wagering and fantasy sports contests:

- A license fee paid to ADG for the costs of reviewing licensure applications and processing required background checks.
- A privilege fee paid to ADG by operators (or their designee) based on the adjusted gross revenue derived from the gaming activity.

Event wagering, also known as sports betting, involves wagers on the outcomes of professional and collegiate athletic events, motor racing events, Olympic events and E-Sport events (competitive video games competitions). [A.R.S. § 5-1301].

Fantasy sports contests involves individuals paying a fee to enter a simulated contest, where multiple individual athletes are selected by the individual and the winning outcome is determined by the aggregated statistical results of the athlete's actual performance in the athletic event. [A.R.S. § 5-1201].

## DISTRIBUTION

Event wagering licensure and privilege fee revenue is deposited into the Event Wagering Fund. ADG is authorized to spend up to 10.0% of monies in the fund on event wagering regulation and enforcement costs, after which the remaining funds are transferred to the General Fund [A.R.S. § 5-1318].

Fantasy sports licensure and privilege fee revenue is deposited into the Fantasy Sports Contest Fund. Subject to legislative appropriation, ADG is authorized to spend up to 10.0% of monies in the fund on fantasy sports regulation and enforcement costs. All remaining funds are transferred to the General Fund [A.R.S. § 5-1212].

## WHO PAYS

### Event Wagering – License Eligibility

ADG is authorized to issue event wagering licenses subject to the following restrictions:

- Not more than 10 event wagering operator licenses to non-tribal entities, which must be one of the following types of organizations: a professional sports team or franchise based in Arizona, the operator of an Arizona sports facility that hosts an annual tournament on the PGA Tour, or a promoter of a NASCAR national touring race in Arizona.
- Not more than 10 event wagering operator licenses to Indian tribes, for the purpose of operating mobile event wagering outside the boundaries of tribal lands. To qualify, an Indian tribe must have signed the most recent Tribal-State Gaming Compact and any applicable appendices or amendments.
- Not more than 10 limited event wagering licenses, which must be issued to racetracks or additional wagering facilities (off-track betting locations).

Event wagering that is conducted by an Indian Tribe only on Tribal land is not subject to ADG licensure, but is instead governed by the Tribal-State Gaming process and federal law. [A.R.S. § 5-1303 and A.R.S. § 5-1304].

## Gaming Fees

---

### Event Wagering – License Fees

Statute and ADG regulations outline 7 different event wagering license categories based on what role the entity performs in event wagering operations:

- *Event Wagering Operator* – An entity authorized to facilitate event wagering in the state.
- *Designee* – A person authorized to act on behalf of an event wagering operator and who is responsible for the management and control of event wagering operations. A designee must maintain a designation from a qualified event wagering operator to continue providing event wagering services. Designee licenses last 5 years.
- *Limited Event Wagering Operator* – A racetrack or additional wagering facility with a permit issued by the Division of Racing to offer wagers on horseracing. Limited event wagering licenses last 5 years.
- *Management Services Provider* – An entity that contracts with an event wagering operator to conduct event wagering. Management services provider licenses last 2 years.
- *Supplier* – Individuals who manufacture, distribute, sell, or lease event wagering equipment, systems, or other gaming items to conduct event wagering. A supplier license lasts 2 years.
- *Ancillary Supplier* – A category of supplier that includes affiliates, bookmakers, data centers, geofence providers, identity verification service providers, independent test laboratories, integrity monitoring providers, league data providers, marketing affiliates, payment processors, and any other person as determined by ADG. These licenses last 2 years.
- *Employee* – Primary management officials responsible for event wagering in the state, those who accept wagers, redeem tickets, handle monies, and any other individual as determined by ADG. These licenses last 2 years.

### Event Wagering – Privilege Fee

Event wagering privilege fees are the responsibility of the event wagering operator or their designee [A.R.S. § 5-1318]. Under ADG regulation, privilege fees may be remitted by any "responsible party", which includes event wagering operators, designees, limited event wagering operators, and management services providers.

### Fantasy Sports Contests – License Fees

Statute and ADG regulations outline 4 different fantasy sports license categories based on what role the entity performs in fantasy sports operations:

- *Fantasy Contest Operator* – An entity authorized to facilitate fantasy sports contests and fantasy sports betting
- *Management Company* – A person retained by a fantasy sports contest operator to manage a fantasy sports contest platform and provide general administration as well as other operational services [A.R.S. § 5-1201].
- *Holding Company* – Fantasy contest operators and management companies must identify holding companies that hold at least 10.0% ownership interest in the operation. ADG may require such a holding company to be licensed.
- *Suppliers* – Provides goods or services to a fantasy sports contest operator or management company. Suppliers include fantasy sports contest platform providers, identity verification service providers, payment processors, geofence providers, and any other relevant person as determined by ADG.

### Fantasy Sports Contests – Privilege Fee

Fantasy sports contests privilege fees are the responsibility of the fantasy sports contest operator [A.R.S. § 5-1211].

## Gaming Fees

### REVENUE BASE AND RATE

#### Event Wagering – License Fees

Event wagering operators are required to have a license to facilitate event wagering in the state. Laws 2021, Chapter 234 authorizes ADG to establish the event wagering license fees without any specified dollar limitation. ADG has established the license fees as outlined in *Table 1* below. For each license there is a non-refundable application fee that will be credited toward the initial license fee if the application is accepted. After the initial application acceptance, licenses are issued for multiple years and are subject to the following annual payments as listed in the "Annual Fee" column.

|                                 | Event Wagering License Fees |                            |                   |
|---------------------------------|-----------------------------|----------------------------|-------------------|
|                                 | <u>Application Fee</u>      | <u>Initial License Fee</u> | <u>Annual Fee</u> |
| Event Wagering Operator         | \$100,000                   | \$750,000                  | \$150,000         |
| Designee                        | 100,000                     | 750,000                    | 150,000           |
| Limited Event Wagering Operator | 5,000                       | 25,000                     | 5,000             |
| Management Services Provider    | 1,000                       | 10,000                     | 5,000             |
| Supplier                        | N/A                         | 1,500                      | 500               |
| Ancillary Supplier              | N/A                         | 1,500                      | 500               |
| Employee                        | N/A                         | 250                        | 125               |

#### Event Wagering – Privilege Fee

ADG is required to establish a fee that is applied to the adjusted gross event wagering receipts collected by event wagering operators. ADG has the discretion to set this fee at any rate, although statute requires that ADG "consider" the highest percentage of revenue share that an Indian tribe pays to the state pursuant to the Tribal-State Gaming Compact, which is 8.0%. [A.R.S. § 5-1318].

Adjusted gross event wagering receipts is defined as the total gross amount wagered (known as the handle) minus winnings paid out and any federal excise tax paid by the licensee. In addition, a deduction equal to the value of free bets and promotional credits redeemed by bettors is allowed, subject to the following restrictions (relative to the start of the licensee's operations): For years 1 and 2 of operations, up to 20% of gross amount wagered; For year 3 of operations up to 15% of gross amount wagered; For years 4 and 5 of operations, up to 10% of gross amount wagered; For the sixth year of operations and thereafter, the free bet and promotional credit deduction is not allowed. [A.R.S. § 5-1301].

ADG set the fee for the privilege of operating event wagering at 8.0% of adjusted gross event wagering receipts for bets placed at retail locations and 10.0% of adjusted gross event wagering receipts for online/mobile bets.

#### Fantasy Sports Contests – License Fees

Fantasy sports contest operators are required to have a license to facilitate fantasy sports contests in the state. Laws 2021, Chapter 234 authorizes ADG to establish the fantasy sports contest license fees without any specified dollar limitation. ADG has established the license fees as outlined in *Table 2* below. Each license lasts 2 years and has an initial license fee and a renewal fee paid every 2 years.

|                                 | Fantasy Sports Contest License Fees |                    |
|---------------------------------|-------------------------------------|--------------------|
|                                 | <u>Initial License Fee</u>          | <u>Renewal Fee</u> |
| Fantasy Sports Contest Operator | \$2,000                             | \$1,000            |
| Management Company              | 2,000                               | 1,000              |
| Holding Company                 | 500                                 | 250                |
| Suppliers                       | 250                                 | 125                |

## Gaming Fees

---

### Fantasy Sports Contests – Privilege Fees

ADG is required to establish a fee that is applied to the fantasy sports contest adjusted revenues collected by a fantasy sports contest operator. ADG has the discretion to set this fee at any rate, although statute requires that ADG "consider" the highest percentage of revenue share that an Indian tribe pays to the state pursuant to the Tribal-State Gaming Compact, which is 8.0%. [A.R.S. § 5-1211].

Fantasy sports contest adjusted revenues are the total entry fees an operator collects (known as the handle) minus the total paid out as prizes to fantasy sports contest players, multiplied by the in-state percentage. The in-state percentage is calculated by dividing the total entry fees collected from participants in the state by the total entry fees collected from all participants in the fantasy sports contest. [A.R.S. § 5-1201, A.R.S. § 5-1211].

ADG set the fee for the privilege of operating fantasy sports contests at 5.0% of fantasy sports contest adjusted revenue.

### **PAYMENT SCHEDULE**

#### Event Wagering

Initial event wagering license fees are due upon application. Annual license fees must be paid within 12 months of the date in which they were approved for licensure and annually thereafter. License renewal must be applied for at least 30 days prior to the expiration date of the license.

Fees paid on adjusted gross event wagering receipts collected each month are due to ADG by the 25<sup>th</sup> of the following month [A.R.S. § 5-1318].

#### Fantasy Sports Contest

Initial fantasy sports contest license fees are due upon application. Annual license fees must be paid within 12 months of the date in which they were approved for licensure and annually thereafter. License renewal must be applied for at least 30 days prior to the expiration date of the license.

Fees paid on fantasy sports contest adjusted revenues collected each month are due to ADG on the 25<sup>th</sup> of the following month [A.R.S. § 5-1211].

### **IMPACT OF STATUTORY CHANGES**

#### **2021 LAWS**

**Laws 2021, Chapter 234** contains all the provisions in this section. The FY 2022 budget 3-year plan assumed a General Fund revenue impact of \$200 million in FY 2023 and \$300 million in FY 2024 related to Chapter 234. The JLBC Staff estimated the General Fund impact of this legislation will be \$34.2 million once the market for the authorized games becomes more fully operational. The JLBC Staff estimate reflects the event wagering and fantasy sports contest license and privilege fee revenue described above, along with revenue from the Lottery keno and mobile draw games authorized in the legislation.

# UNCLAIMED PROPERTY COLLECTIONS

## DESCRIPTION

Unclaimed property includes intangible personal property such as traveler's checks, money orders, stocks or other equity interest, principal on debt, demand or savings deposits, customer credits, insurance settlements, property received or held by a court, wages, retirement accounts, and other miscellaneous types of property that are presumed abandoned according to the schedule set out in statute (A.R.S. § 44-302). Unclaimed property also includes tangible property held in a safe deposit box which remains unclaimed after the expiration of the lease on the box (A.R.S. § 44-303). Property is presumed abandoned and therefore unclaimed after it is held for an extended period of time with no owner contact and a "good faith" effort has been made to locate the owner. Abandoned property is transferred to the Department of Revenue (DOR) from many holders, including banks, credit unions, corporations, utilities, insurance companies, governmental entities, and retailers. DOR also establishes and maintains records of escheated estates. An escheated estate is created when a person dies without leaving a will and has no known heirs; the property reverts to the state after 5 years.

DOR acts as custodian of the property and administers a program to locate the owners. Once reported to DOR, unclaimed property is available for refund for 35 years after the last day of the fiscal year in which DOR receives the unclaimed property. Statute requires businesses and other organizations to review their records each year to determine whether they hold any funds, securities, or other property that are unclaimed for the statutory abandonment period. Holders file an annual report and transfer the property to the state. The holding period before property is considered unclaimed varies by type of property. If the properties received by DOR remain unclaimed within a specified time period, the properties are sold by DOR with the proceeds distributed to a number of state funds.

Although the collection and sale of unclaimed property held by the DOR does not constitute a tax, monies derived from this activity represent a significant state revenue source.

## DISTRIBUTION

Monies from the collection and sale of unclaimed property are deposited in the non-appropriated Estate and Unclaimed Property Fund administered by DOR. DOR retains not less than \$100,000 to pay allowed claims while the state attempts to locate abandoned property owners. Revenues from the sale of escheated estates are deposited in the Escheated Estates Fund.

Monies received by DOR from the collection and sale of unclaimed properties and escheated estates are distributed as follows:

- Monies derived from unclaimed victim restitution payments are deposited in the Victim Compensation and Assistance Fund (VCAF) [A.R.S. § 44-313C and A.R.S. § 41-2407A].
- Monies from unclaimed shares and dividends of any corporation incorporated under the laws of Arizona, escheated estates, and unclaimed property in a self-storage unit are deposited in the Permanent State School Fund (PSSF) [A.R.S. § 44-313B, § 37-521A, § 12-885B, § 33-1704G].

The remaining monies are distributed as follows:

- The first \$2.0 million in unclaimed property collections are deposited into the Seriously Mentally Ill Housing Trust Fund.
- The next \$2.5 million are deposited into the Housing Trust Fund.
- The next \$24.5 million are deposited into the DOR Administrative Fund to cover DOR's administrative costs, including unclaimed property contract auditors and the handling, publicizing, and selling of abandoned property.
- All remaining monies are redirected to the General Fund.

## Unclaimed Property Collections

Table 1

### Unclaimed Property Distributions

| Fiscal Year          | General Fund  | Housing Trust Fund | DOR Admin. Fund            | Racing Funds | VCAF <sup>1/</sup> | UAF <sup>2/</sup> | PSF <sup>3/</sup> | AHCCCS SMIHTF <sup>4/</sup> | Total         |
|----------------------|---------------|--------------------|----------------------------|--------------|--------------------|-------------------|-------------------|-----------------------------|---------------|
| 2021                 | \$117,570,231 | \$2,500,000        | \$24,500,000               | \$0          | \$719,854          | \$0               | \$366,550         | \$2,000,000                 | \$147,656,635 |
| 2020                 | \$98,913,893  | \$2,500,000        | \$24,500,000               | \$0          | \$428,344          | \$0               | \$180,124         | \$2,000,000                 | \$128,522,361 |
| 2019                 | \$91,509,200  | \$2,500,000        | \$24,500,000               | \$0          | \$394,900          | \$0               | \$201,600         | \$2,000,000                 | \$121,105,700 |
| 2018                 | \$81,318,200  | \$2,500,000        | \$24,500,000               | \$0          | \$643,600          | \$0               | \$233,800         | \$2,000,000                 | \$111,195,600 |
| 2017                 | \$48,834,800  | \$2,500,000        | \$24,500,000               | \$0          | \$631,200          | \$0               | \$650,800         | \$2,000,000                 | \$79,116,800  |
| 2016                 | \$65,996,200  | \$2,500,000        | \$24,500,000               | \$0          | \$716,800          | \$0               | \$273,600         | \$2,000,000                 | \$95,986,600  |
| 2015                 | \$54,052,200  | \$2,509,300        | \$24,500,000               | \$0          | \$683,200          | \$0               | \$737,100         | \$2,000,000                 | \$84,481,800  |
| 2014                 | \$49,186,400  | \$2,511,100        | \$24,500,000               | \$0          | \$864,600          | \$0               | \$234,600         | \$2,000,000                 | \$79,296,700  |
| 2013                 | \$60,899,600  | \$2,500,000        | \$25,014,700 <sup>5/</sup> | \$0          | \$612,500          | \$0               | \$356,900         | \$2,000,000                 | \$91,383,700  |
| 2012 <sup>6/</sup>   | \$45,840,400  | \$2,500,000        | \$24,500,000               | \$0          | \$100,500          | \$0               | \$140,400         | \$2,000,000                 | \$75,081,300  |
| 2011                 | \$49,120,900  | \$10,500,000       | \$24,500,000               | \$0          | \$1,143,800        | \$0               | \$59,100          | 0                           | \$85,323,800  |
| 2010 <sup>7/8/</sup> | \$101,669,100 | \$10,500,000       | \$24,500,000               | \$0          | \$739,400          | \$0               | \$20,600          | 0                           | \$137,429,100 |
| 2009                 | \$9,526,600   | \$28,554,100       |                            | \$10,383,300 | \$144,600          | \$0               | \$9,100           | 0                           | \$48,617,700  |
| 2008 <sup>9/10</sup> | \$58,020,600  | \$33,684,300       |                            | \$12,248,800 | \$173,100          | \$26,300          | \$11,200          | 0                           | \$104,164,300 |
| 2007 <sup>11/</sup>  | \$12,346,200  | \$40,972,900       |                            | \$14,899,200 | \$1,250,300        | \$2,550,700       | \$408,600         | 0                           | \$72,427,900  |
| 2006 <sup>11/</sup>  | \$22,825,000  | \$26,004,600       |                            | \$9,456,200  | \$128,300          | \$855,500         | \$408,700         | 0                           | \$59,678,300  |
| 2005 <sup>11/</sup>  | \$30,715,200  | \$23,942,700       |                            | \$8,706,400  | \$299,600          | \$1,664,500       | \$426,100         | 0                           | \$65,754,500  |
| 2004                 | \$8,044,000   | \$20,708,300       |                            | \$7,530,300  | \$547,300          | \$1,308,000       | \$397,200         | 0                           | \$38,535,200  |
| 2003                 | \$6,745,700   | \$17,950,700       |                            | \$6,527,500  | \$2,128,000        | \$1,119,000       | \$214,100         | 0                           | \$34,685,000  |
| 2002                 | \$7,656,000   | \$19,761,600       |                            | \$7,186,000  | \$0                | \$868,400         | \$0               | 0                           | \$35,472,000  |

<sup>1/</sup> Victim Compensation and Assistance Fund distributions became effective January 1, 2001, with the implementation of Laws 2001, Chapter 146.

<sup>2/</sup> Utility Assistance Fund.

<sup>3/</sup> Permanent School Fund.

<sup>4/</sup> Arizona Health Care Cost Containment System Seriously Mentally Ill Housing Trust Fund.

<sup>5/</sup> Includes one-time revenues of \$514,700 from General Fund Unclaimed Property collections to cover retention payments and rent expenses.

<sup>6/</sup> In FY 2012 the first \$2 million in unclaimed property collections were deposited into the Department of Health Services Seriously Mentally Ill Housing Trust Fund, the next \$2.5 million were deposited into the Housing Trust Fund, the next \$24.5 million into the Department of Revenue Administration Fund, and all the remaining monies were deposited in the General Fund. Transfers to the VCAF, UAF, and PSF continue to be distributed as under current law.

<sup>7/</sup> In FY 2010 and FY 2011, the first \$10.5 million in unclaimed property collections were deposited in the Housing Trust Fund, the next \$24.5 million were deposited in the DOR Administrative Fund, and all remaining monies were deposited in the General Fund. Transfers to VCAF, UAF and PSF were made in accordance with statute.

<sup>8/</sup> Laws 2009, 4<sup>th</sup> Special Session, Chapter 3 as permanent law, accelerated by 2 years the holding periods for all property types to be presumed abandoned and therefore unclaimed. Chapter 3 also revised the holding period for traveler's checks from 15 to 3 years as well as the holding period for money orders from 7 to 3 years. This was estimated to generate one-time additional revenue of \$39.4 million to the General Fund in FY 2010. Actual FY 2010 collections totaled \$83.7 million, or \$44.3 million more than anticipated. Laws 2010, Chapters 102 and 119 restored the holding period for traveler's checks to 15 years as well as the holding periods for stocks, principal and interest on debt, and any dividend, profit distribution, redemption, payment on principals or other sum held by a business association for its shareholders to 3 years.

<sup>9/</sup> Laws 2007, Chapter 260 as session law, allowed DOR to sell unclaimed securities upon their receipt with the requirement that all proceeds from the sales of these securities in FY 2008 be deposited into the General Fund, instead of the statutory split among the General Fund, Department of Housing, and Department of Racing. This was estimated to generate increased revenue of \$45 million to the General Fund in FY 2008; the actual amount was \$47.2 million.

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

<sup>11/</sup> FY 2005 – FY 2007 General Fund distributions include unclaimed monies arising from the cases of Ladewig v. State of Arizona and Kerr v. State of Arizona.

SOURCE: DOR, Annual Reports. Figures are net of refunds and agency administrative expenses.

Prior to FY 2012, the first \$10.5 million in unclaimed property collections were deposited into the Housing Trust Fund. The next \$24.5 million in collections were deposited into the DOR Administrative Fund and the remaining monies were deposited into General Fund.

Prior to FY 2010, 55% of all remaining monies were transferred to the Housing Trust Fund, 25% to the General Fund, and the remaining 20% was distributed among 8 funds administered by the Department of Racing.



## Unclaimed Property Collections

---

### REVENUE BASE

Property is presumed abandoned and, therefore, unclaimed after it has been held for an extended period of time with no owner contact and a “good faith” effort has been made to locate the owner. The length of time for property to be presumed abandoned varies depending on the classification of property. The property classifications and presumption of abandonment timeframes are as follows [A.R.S. § 44-302, A.R.S. § 38-722, A.R.S. § 12-881]:

#### 1 Year

- Life or endowment insurance policy or an annuity that is payable on proof of death - 1 year after the insured has attained, or would have attained, the limiting age on the mortality table on which the reserve is based.
- Life or endowment insurance policy or an annuity not matured by actual proof of death is deemed matured - 1 year after the insured has attained, or would have attained, the limiting age on the mortality table on which the reserve is based.
- Property that is distributable by a business association or financial organization in a course of dissolution – 1 year after the property becomes distributable.
- Property that is received by a court as proceeds of a class action suit and that is not distributed pursuant to the judgment - 1 year after the date the court distributed the proceeds.
- Wages or other labor compensation - 1 year from payment date.

#### 2 Years

- Property that is held by a court or governmental entity - 2 years after the property becomes distributable.
- Property in any individual retirement account or defined benefit - 2 years after date of the required distribution.
- Excess proceeds from a trustee sale deposited with the county treasurer pursuant to A.R.S. § 33-812 - 2 years from the date of deposit.

#### 3 Years

- Money Order - 3 years after issuance.
- Any stock or other equity interest in a business association or financial organization, including security entitlements - 3 years after the most recent unclaimed dividend, stock split, or other distribution.
- The principal and interest on corporate bonds - 3 years after the maturity and after the last interest payment date.
- Demand, savings, or time deposit and any interest or dividends accrued by the accounts - 3 years after maturity.
- Credits owed to a retail customer - 3 years after the obligation accrued.
- Life or endowment insurance policy or an annuity that has matured or terminated - 3 years after the obligation to pay arose.
- Check, or similar instrument, to include cashier's and certified checks - 3 years after the check or instrument was payable.
- Dividend, profit, distribution, interest, redemption, payment on principal or other sum held or owed by a business to shareholders, bondholders, or other security holders who have not claimed it - 3 years after the date prescribed for payment or delivery.
- All other property not otherwise specified - 3 years after the owner's rights to demand the property or after the obligation to pay or distribute the property arises, whichever occurs first.
- Tangible property held in safe deposit box - 3 years after expiration of safe deposit box lease or rental period.
- Monies deposited into the Arizona State Retirement System (ASRS) Trust Fund established by A.R.S. § 38-712 and the Long-Term Disability (LTD) Trust Fund established by A.R.S. § 38-797.02 - Monies in both the ASRS and LTD Trust Funds are presumed abandoned if the apparent owner has not communicated in writing with ASRS and has not otherwise indicated an interest in the monies for the 3-year period following the required beginning date of distributions.
- Certificates of Deposit and resultant interest – 3 years after maturity.

#### 5 Years

- Escheated estate - 5 years without having identified an heir.

## Unclaimed Property Collections

---

### 15 Years

- Traveler's Check - 15 years after issuance.

Property that is not covered under the Arizona Unclaimed Property Act includes gift certificates, electronic gift cards, nonrefundable tickets, prepaid phone cards, frequent flyer miles, stored value cards, merchandise points and business accounts of less than \$50 [A.R.S. § 44-301].

A.R.S. § 44-304 provides further guidance on how to determine whether property is abandoned.

### **HOW REVENUES ARE COLLECTED**

Holders of unclaimed property include banks, credit unions, corporations, utilities, insurance companies, governmental entities, and retailers. Each institution is required, except for state agencies, to annually report to DOR unclaimed property in its possession. Life insurance companies are required to file the report for each reporting year before May 1 of the succeeding year; all other holders of property presumed abandoned file the report before November 1 and the report covers the last 12 months before July 1 of that year. For the prior fiscal year, county treasurers must file the report on or before November 1. State agencies that hold monies for the payment of voided warrants report no later than the 10<sup>th</sup> day of each month [A.R.S. § 44-307]. In FY 2010 only, Laws 2009, 4<sup>th</sup> Special Session, Chapter 3 required holders of property presumed abandoned to file the report before June 1, 2010 for the period that covered the last 12 months before July 1, 2009.

Upon filing the report with DOR, the holder of unclaimed property shall pay or deliver it to DOR. On payment or delivery of property to DOR, the State of Arizona assumes custody and responsibility for the property. A holder who pays or delivers property to the department in good faith is relieved of all liability with respect to the property that arises after the payment or delivery [A.R.S. § 44-310].

Statute requires DOR to publish a notice at least semiannually of abandoned property that has been paid or delivered to the department. The notice must be published in a newspaper circulated in each county and also published via social media, the radio or another means determined by DOR. DOR's website must contain information about abandoned property no later than November 30 of the year following the year in which abandoned property was paid or delivered to the department [A.R.S. § 44-309].

Unclaimed securities may be sold upon receipt (*for more detail, refer to Laws 2007, Chapter 260*). Within 3 years after receiving abandoned property other than securities, the department must sell the unclaimed properties to the highest bidder at a public sale. Before conducting a sale, the department publishes a notice at least 3 weeks before the sale in the county in which the sale will occur. A purchaser of property at a sale conducted by the department takes the property free of all claims of the owner or previous holder and of all persons claiming through or under the owner or previous holder. [A.R.S. § 44-312].

Securities that are listed on an established stock exchange are sold at prices prevailing on the exchange at the time of the sale. DOR may sell all other securities in the over-the-counter market at prices prevailing at the time of the sale. Except in a case of intentional misconduct or malfeasance by the department, a person claiming their property is not entitled to receive any appreciation in property value that occurred after the delivery to DOR [A.R.S. § 44-312].

Any person who claims property that was paid or delivered to DOR may file a claim to recover the property or its monetary value at the time the property was sold. Within 90 days after a claim is filed the department is required to allow or deny the claim. If the claim is denied, the department informs the claimant of the reasons for the denial and specifies what additional evidence is required before the claim will be allowed. Within 30 days after a claim is allowed the department must deliver the property or pay the net proceeds of a sale of the property to the claimant [A.R.S. § 44-317]. *Table 2* displays refunds of unclaimed properties to its owners.

## Unclaimed Property Collections

---

Table 2

| Unclaimed Property Refunds |               |                    |               |
|----------------------------|---------------|--------------------|---------------|
| <u>Fiscal Year</u>         | <u>Refund</u> | <u>Fiscal Year</u> | <u>Refund</u> |
| 2021                       | \$48,321,802  | 2011               | \$34,677,600  |
| 2020                       | \$42,494,170  | 2010               | \$24,207,900  |
| 2019                       | \$48,373,100  | 2009               | \$22,267,200  |
| 2018                       | \$64,385,400  | 2008               | \$27,859,500  |
| 2017                       | \$57,030,300  | 2007               | \$22,541,000  |
| 2016                       | \$54,884,200  | 2006               | \$17,693,700  |
| 2015                       | \$42,673,900  | 2005               | \$16,241,200  |
| 2014                       | \$34,059,200  | 2004               | \$10,093,800  |
| 2013                       | \$40,013,500  | 2003               | \$10,333,100  |
| 2012                       | \$40,049,500  | 2002               | \$11,903,200  |

SOURCE: DOR, Annual Reports.

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015. There were no changes enacted in 2015, and in the period from 2019 through 2021.

#### 2018 LAWS

**Laws 2018, Chapter 50** limits the time window in which a person can receive a refund for unclaimed property from DOR to 35 years after the final day of the fiscal year in which DOR receives the unclaimed property. Prior to Chapter 50, unclaimed property was available for refund to the owners or their heirs indefinitely. Chapter 50 also requires DOR to publish a notice with the unclaimed property website via social media, radio or another means determined by DOR. (These changes take effect retroactively to December 31, 2017.)

**Laws 2018, Chapter 59** exempts patronage capital credits and fees issued by electric cooperatives from state unclaimed property statute and allows the cooperative to use the abandoned property as specified by the cooperative's bylaws.

#### 2017 LAWS

**Laws 2017, Chapter 229** requires county treasurers to distribute unclaimed victim restitution payments to the Victim Compensation and Assistance Fund (VCAF). Statute requires abandoned monies held by a Justice of the Peace be transferred to the county treasurer if unclaimed after 2 years. After 1 year without claim, the county treasurer deposits victim restitution payments in the VCAF and all other unclaimed monies in the county general fund. Previously, all monies, including victim restitution payments, were transferred to county general funds.

#### 2016 LAWS

**Laws 2016, Chapter 239** requires DOR to establish procedures and metrics to monitor and evaluate contracted unclaimed property auditors who operate on a contingency fee basis. The bill also requires DOR to provide holders of unclaimed property with a notice of rights, which must state that DOR makes a final decision regarding recommendations made by the contracted auditors, as well as information on appeals and complaint procedures and department contact information. Additionally, the bill requires DOR to issue a Request for Information by January 1, 2017 to explore the feasibility of contracting for unclaimed property audits on a non-contingency basis.

DOR currently contracts with private sector auditors to identify unclaimed property that has not been reported by businesses. The majority of these audits involve life insurance companies, whose files are checked against the Social Security Administration's Master Death File to identify potential unclaimed life insurance benefits. These auditors currently operate under contingency contracts, retaining between 10.25% and 12.5% of the value of property that they recover.

## **Unclaimed Property Collections**

---

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azilbc.gov/21taxbook/21taxbk.pdf>.

**PAYMENTS IN LIEU OF  
PROPERTY TAXES**

# AIRCRAFT LICENSE TAX

## DESCRIPTION

The aircraft license tax is a tax imposed on aircraft based and registered in the state [A.R.S. § 28-8335].

## DISTRIBUTION

Effective August 9, 2017, Laws 2017, Chapter 312 provides that monies received from the aircraft license tax be deposited as follows [A.R.S. § 28-8345]:

- 50% to the state General Fund.
- 35% to the State Aviation Fund for use in the construction, development, and improvement of airports.
- 9.5% to counties based on proportion of total state population.
- 5.5% to incorporated cities and towns based on proportion of total state population.

| Table 1  |                     |                      |                 |                         |              |
|--|---------------------|----------------------|-----------------|-------------------------|--------------|
| COLLECTIONS UNDER LAWS 2017, CHAPTER 312   |                     |                      |                 |                         |              |
| <u>Fiscal Year</u>   | <u>General Fund</u> | <u>Aviation Fund</u> | <u>Counties</u> | <u>Cities and Towns</u> | <u>Total</u> |
| 2021   | \$4,329,434         | \$3,030,604          | \$822,592       | \$476,238               | \$8,658,868  |
| 2020   | \$4,134,843         | \$2,894,390          | \$785,620       | \$454,833               | \$8,269,686  |
| 2019   | \$4,121,315         | \$2,816,905          | \$783,050       | \$453,345               | \$8,174,614  |
| 2018 <sup>1/</sup>   | \$3,443,111         | \$2,410,178          | \$654,191       | \$378,742               | \$7,032,339  |
| <sup>1/</sup> Includes collections from August 9, 2017 to June 30, 2018.           |                     |                      |                 |                         |              |
| SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning. |                     |                      |                 |                         |              |

Prior to Chapter 312, all monies received from the aircraft license tax were deposited in the State Aviation Fund, as reflected in Table 2.

| Table 2  |                           |                    |                      |
|--|---------------------------|--------------------|----------------------|
| COLLECTIONS PRIOR TO LAWS 2017, CHAPTER 312  |                           |                    |                      |
| <u>Fiscal Year</u>   | <u>Aviation Fund</u>      | <u>Fiscal Year</u> | <u>Aviation Fund</u> |
| 2018 <sup>1/</sup>   | \$146,117                 | 2008               | \$7,413,608          |
| 2017   | \$7,590,999               | 2007               | \$7,748,524          |
| 2016   | \$7,937,596               | 2006               | \$5,980,022          |
| 2015   | \$6,986,349 <sup>2/</sup> | 2005               | \$5,577,258          |
| 2014   | \$7,326,085               | 2004               | \$5,748,210          |
| 2013   | \$7,374,472               | 2003               | \$4,360,187          |
| 2012   | \$8,802,691               | 2002               | \$3,543,819          |
| 2011   | \$7,733,417               | 2001               | \$3,176,180          |
| 2010   | \$7,582,645               | 2000               | \$3,094,727          |
| 2009   | \$6,900,648               | 1999               | \$2,365,498          |
| <sup>1/</sup> Includes collections from July 1, 2017 to August 9, 2017.            |                           |                    |                      |
| <sup>2/</sup> Does not include a 13 <sup>th</sup> month fiscal year adjustment.    |                           |                    |                      |
| SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning. |                           |                    |                      |

## **Aircraft License Tax**

---

### **WHO PAYS**

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

### **REVENUE BASE AND RATE**

The revenue base is aircraft based in the state and registered with the Arizona Department of Transportation (ADOT). ADOT is responsible for determining the fair market value of such aircraft each year as established by the dealer price guides or other recognized reliable source of information [A.R.S. § 28-8342].

The following are exempt from the aircraft license tax:

- (1) Regularly scheduled aircraft operated by an airline company for hire [A.R.S. § 28-8322].
- (2) Nonresident-owned aircraft not used for intrastate commercial activities and not based in Arizona for more than 90 days per year [A.R.S. § 28-8322].
- (3) Aircraft operated exclusively in the public service by the United States Government, the state, a political subdivision, or the Civil Air Patrol [A.R.S. § 28-8323].

The tax rate is 0.5% of the average fair market value of the aircraft, except that in no case shall the tax be less than \$20 per year unless an exemption has been established [A.R.S. § 28-8335]. A nonresident who bases an aircraft in Arizona for more than 90 days but less than 210 days in any calendar year and is not engaged in intrastate commercial activity is subject to a tax rate equal to 0.1% of the average fair market value [A.R.S. § 28-8336].

The license tax for aircraft in storage or under repair is \$20 per aircraft [A.R.S. § 28-8337]. The license tax for salvaged aircraft that is in storage or being restored is \$5 per aircraft [A.R.S. § 28-8338]. The license tax for antique, classic, warbird, glider, experimental, homebuilt, or balloon aircraft is \$20 per aircraft [A.R.S. § 28-8339]. The license tax for manufacturer's aircraft is \$20 per aircraft [A.R.S. § 28-8340]. The license tax for maintenance aircraft owned by a nonresident is \$20 per aircraft [A.R.S. § 28-8341].

The license tax for aircraft that was registered for the first time after the beginning of a calendar year is prorated [A.R.S. § 28-8324].

### **PAYMENT SCHEDULE**

All aircraft based in the state, except those for which exemptions were provided, must be registered with ADOT within 60 days after the aircraft was brought into the state. The aircraft registration must be renewed each year on or before the last day of February [A.R.S. § 28-8322].

The registration fee is \$5 per year [A.R.S. § 28-8325]. If the registration requirement is not met, then a penalty of \$25 for the first month and \$5 for each succeeding month of delinquency will be assessed [A.R.S. § 28-8329].

The aircraft license tax is payable to ADOT upon initial registration and annually by the last day of February [A.R.S. § 28-8335].

Owners of aircraft in storage or salvaged aircraft must notify ADOT within 10 days of the date the aircraft is returned to use and then pay the appropriate license tax, if any, on a pro rata basis [A.R.S. § 28-8337 and § 28-8338].

### **IMPACT OF STATUTORY CHANGES**

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this tax in 2015 and 2016 and in the period from 2018 through 2021.

### 2017 LAWS

**Laws 2017, Chapter 312** modifies aircraft license tax distribution to account for a change in jet fuel tax distribution. A December 2014 federal policy change requires aviation fuel taxes to be used only for airport-related purposes. Prior law distributed 40% of jet fuel excise tax revenue to the Transaction Privilege Tax (TPT) distribution base and 60% to the state General Fund, and 100% of jet fuel use tax collections to the state General Fund. (For more details on the jet fuel taxes, see the *Jet Fuel Excise and Use Tax* section.) In order to meet compliance with the federal policy change, Chapter 312 distributes jet fuel tax collections entirely to the State Aviation Fund. To make this change revenue neutral, Chapter 312 modifies the aircraft license tax distribution to backfill the losses to the state General Fund and recipients of TPT distribution base funds. (Effective August 9, 2017)

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.



# FLIGHT PROPERTY TAX

## DESCRIPTION

The flight property tax is assessed on the value of airline company aircraft operating in Arizona. The tax is in lieu of ad valorem property taxes on this type of property [A.R.S. § 42-14255].

## DISTRIBUTION

Laws 1986, Chapter 369 shifted flight property tax revenues from the General Fund to the Aviation Fund over a phase-in period of 3 years. Beginning on January 1, 1987, 33% of total tax receipts were deposited in the Aviation Fund. On the same date the following 2 years, the distribution level to the Aviation Fund increased to 66% and 100%, respectively.

Laws 1997, 1<sup>st</sup> Special Session, Chapter 3 changed the distribution of flight property tax revenues so that, starting in FY 1998, 50% of total proceeds were deposited in the General Fund and the other 50% in the Aviation Fund.

Laws 2003, Chapter 263 provided that, beginning in FY 2005, 100% of flight property tax revenues are deposited in the Aviation Fund [A.R.S. § 42-14255].

Table 1

### COLLECTIONS AND DISTRIBUTION

| <u>Fiscal Year</u> | <u>General Fund</u> | <u>Aviation Fund</u> | <u>Total</u> |
|--------------------|---------------------|----------------------|--------------|
| 2021               | \$0                 | \$12,714,725         | \$12,714,725 |
| 2020               | \$0                 | \$13,883,835         | \$13,883,835 |
| 2019               | \$0                 | \$11,728,981         | \$11,728,981 |
| 2018               | \$0                 | \$13,003,735         | \$13,003,735 |
| 2017               | \$0                 | \$10,364,980         | \$10,364,980 |
| 2016               | \$0                 | \$9,295,293          | \$9,295,293  |
| 2015               | \$0                 | \$9,727,092          | \$9,727,092  |
| 2014               | \$0                 | \$12,974,652         | \$12,974,652 |
| 2013               | \$0                 | \$8,084,374          | \$8,084,374  |
| 2012               | \$0                 | \$10,585,261         | \$10,585,261 |
| 2011               | \$0                 | \$9,709,712          | \$9,709,712  |
| 2010               | \$0                 | \$9,451,430          | \$9,451,430  |
| 2009               | \$0                 | \$11,712,920         | \$11,712,920 |
| 2008               | \$0                 | \$13,821,790         | \$13,821,790 |
| 2007               | \$0                 | \$15,300,127         | \$15,300,127 |
| 2006               | \$0                 | \$13,685,936         | \$13,685,936 |
| 2005               | \$0                 | \$13,180,039         | \$13,180,039 |
| 2004               | \$6,320,722         | \$6,320,723          | \$12,641,445 |
| 2003               | \$6,715,536         | \$6,026,213          | \$12,741,749 |
| 2002               | \$6,528,347         | \$6,528,347          | \$13,056,694 |

SOURCE: Department of Transportation, Office of Financial Planning.

## WHO PAYS

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

## Flight Property Tax

---

### REVENUE BASE AND RATE

The Department of Revenue (DOR) determines the full cash value of flight property by August 31 each year. The full cash value is the value determined as of the prior January 1 of the valuation year [A.R.S. § 42-14254A]. DOR establishes the full cash value as follows [A.R.S. § 42-14254B]:

- (1) determines the valuation of flight property by fleet type,
- (2) determines the valuation of each fleet type by the original cost less depreciation,
- (3) computes depreciation using 15-year straight-line depreciation to salvage value, and
- (4) allows additional obsolescence if supported by market evidence.

Small flight property that is operated in the state in air commerce is valued at 30% of its original cost less depreciation [A.R.S. § 42-14254C]. (Small flight property is airline company aircraft with a maximum passenger capacity of less than 56 seats and a maximum payload capacity of less than 18,000 pounds [A.R.S. § 42-14251].)

Arizona's share of the total full cash value of flight property is determined by an apportionment formula, which depends on the number of minutes that flight property is on the ground and on the flight mileage scheduled within and outside Arizona [A.R.S. § 42-14254D].

Flight property is assessed as Class 5 property [A.R.S. § 42-12005]. The assessment ratio for Class 5 property is equal to the ratio that the total *net assessed valuation* of all taxable property for primary and secondary tax purposes in Class 1 (commercial/industrial) and Class 6, paragraph 3 (military reuse zones), and personal property in Class 2 (agricultural/non-profit/golf courses) bears to the total *limited valuation* of such property [A.R.S. § 42-15005].

As the formulas above suggest, the assessment ratio for Class 5 property may change from one year to the next. In the period from 1991 to 2020, the assessment ratio has varied between 14% and 26%. The TY 2021 assessment ratio for this type of property is 15%.

The tax rate equals the sum of the average rates for primary and secondary property taxes in all taxing jurisdictions of the state in the current year [A.R.S. § 42-14255]. The historical flight property tax rates are shown in *Table 2* on the following page.

The property tax liability is calculated in the same manner as other property (see *Property Tax* section), i.e., by multiplying the tax rate by the assessed valuation of the flight property and then dividing the product by 100.

### PAYMENT SCHEDULE

The flight property tax is due and payable at the same time as real and personal property [A.R.S. § 42-14255]. This means that one-half of the tax is due and payable on October 1 of the tax year, unless the total amount of the tax due is \$100 or less, in which case the full amount of the tax is due and delinquent after November 1. The remaining one-half of the tax is due on March 1 of the year following the tax year and becomes delinquent after May 1 [A.R.S. § 42-18052]. Both of these payments fall in the same fiscal year.

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015. There were no changes enacted to this tax from 2015 through 2021.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azilbc.gov/21taxbook/21taxbk.pdf>.

Table 2

**HISTORICAL AVERAGE PROPERTY TAX RATES PER \$100 OF ASSESSED VALUATION**

| <u>Tax Year</u> | <u>Sum of Average State Tax Rates</u> | <u>Primary Tax Rate</u> | <u>Secondary Tax Rate</u> |
|-----------------|---------------------------------------|-------------------------|---------------------------|
| 2020            | \$12.17                               | \$7.87                  | \$4.30                    |
| 2019            | \$12.41                               | \$8.05                  | \$4.37                    |
| 2018            | \$12.62                               | \$8.01                  | \$4.61                    |
| 2017            | \$12.75                               | \$8.54                  | \$4.21                    |
| 2016            | \$12.95                               | \$8.73                  | \$4.22                    |
| 2015            | \$12.77                               | \$8.74                  | \$4.03                    |
| 2014            | \$12.67                               | \$8.75                  | \$3.92                    |
| 2013            | \$12.54                               | \$8.52                  | \$4.02                    |
| 2012            | \$11.75                               | \$7.89                  | \$3.87                    |
| 2011            | \$10.94                               | \$7.28                  | \$3.67                    |
| 2010            | \$9.67                                | \$6.32                  | \$3.35                    |
| 2009            | \$9.20                                | \$6.13                  | \$3.07                    |
| 2008            | \$9.23                                | \$6.24                  | \$2.99                    |
| 2007            | \$10.04                               | \$6.75                  | \$3.29                    |
| 2006            | \$10.99                               | \$7.24                  | \$3.75                    |
| 2005            | \$11.56                               | \$7.81                  | \$3.75                    |
| 2004            | \$11.81                               | \$8.09                  | \$3.72                    |
| 2003            | \$12.18                               | \$8.36                  | \$3.82                    |
| 2002            | \$12.49                               | \$8.56                  | \$3.93                    |
| 2001            | \$12.55                               | \$8.54                  | \$4.01                    |

SOURCE: Arizona Property Tax Rates and Assessed Valuations, published by the Arizona Tax Research Association (ATRA).

## VOLUNTARY CONTRIBUTIONS BY THE GAME AND FISH COMMISSION

### DESCRIPTION

The Game and Fish Commission may elect to make voluntary contributions to the state, county, municipality, school district, community college district, or other special taxing district in lieu of property taxes when purchasing real property within the district [A.R.S. § 17-272A].

### DISTRIBUTION

The County Treasurer distributes the monies received to the various taxing jurisdictions in which the property is located in the same manner as property taxes are distributed (see *Distribution* under Property Taxes) [A.R.S. § 17-272E].

| Table 1            |                                      |
|--------------------|--------------------------------------|
| COLLECTIONS        |                                      |
| <u>Fiscal Year</u> | <u>Net Collections</u> <sup>1/</sup> |
| 2021               | \$43,528                             |
| 2020               | \$38,139                             |
| 2019               | \$34,534                             |
| 2018               | \$34,867                             |
| 2017               | \$22,140                             |
| 2016               | \$22,736                             |
| 2015               | \$18,127                             |
| 2014               | \$16,286                             |
| 2013               | \$35,242                             |
| 2012               | \$10,776                             |
| 2011               | \$11,141                             |
| 2010               | \$11,482                             |
| 2009               | \$10,799                             |
| 2008               | \$10,369                             |
| 2007               | \$12,630                             |
| 2006               | \$12,382                             |
| 2005               | \$12,009                             |
| 2004               | \$12,229                             |
| 2003               | \$12,485                             |
| 2002               | \$12,485                             |

<sup>1/</sup> Laws 1996, 7<sup>th</sup> Special Session, Chapter 2 repealed the state property tax. Beginning in FY 1998, amounts represent contributions that were collected for local jurisdictions. Amounts were distributed to local jurisdictions and not retained by the state.

SOURCE: Arizona Game and Fish Department, Habitat Branch.

### WHO PAYS

The Game and Fish Commission may make voluntary contributions instead of paying property taxes if the commission purchases the following types of real property [A.R.S. § 17-272A]:

## Voluntary Contributions by the Game and Fish Commission

---

- (1) The property was subject to taxation, or
- (2) The property was exempt from taxation at the time of purchase due to one of the following reasons:
  - Held by a charitable organization as parkland and no rent or value was received by the charitable organization, or
  - Held by a charitable organization to preserve and protect scientific, biological, geological, paleontological, natural, or archaeological resources.

The Game and Fish Commission is not required to make contributions with respect to lands acquired for fish hatcheries, game farms, firing ranges, reservoir sites, administrative sites, or rights-of-way to fishing waters [A.R.S. § 17-272F].

### REVENUE BASE AND RATE

The Game and Fish Commission is required to consult with the assessor of the county in which the property is located and determine the assessed valuation as Class 2 agricultural property. The assessed valuation of the property cannot be increased from one year to the next by more than 2% [A.R.S. § 17-272B].

The tax rates are the same as those set for real and personal property for agricultural purposes or Class 2 property. The amount of the contribution is determined by applying the current aggregate property tax rate to the determined valuation [A.R.S. § 17-272C].

### PAYMENT SCHEDULE

The County Treasurer collects the voluntary contributions from the Game and Fish Commission at the same time and in the same manner as ad valorem property taxes (see *Payment Schedule* under Property Taxes) [A.R.S. § 17-272D].

The voluntary contributions may be made by the Game and Fish Commission from the Game, Nongame, Fish and Endangered Species Fund, the Conservation Development Fund, the Arizona Game and Fish Commission Heritage Fund, or any other source of monies available to and budgeted by the commission [A.R.S. § 17-272A].

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this revenue category from 2015 to 2021.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

# WATERCRAFT REGISTRATION FEE

## DESCRIPTION

The Arizona Constitution, Article 9, Section 16 exempts all watercraft registered for operation in the state, except those owned and operated for commercial purposes, from property taxes. Instead, watercraft is subject to the watercraft registration fee, which is a fee levied based on the length of a watercraft [A.R.S. § 5-321]. The watercraft registration fee replaced the former watercraft license tax in FY 2006 (Laws 2005, Chapter 318).

(Statute defines "watercraft" as any boat designed to be propelled by machinery, oars, paddles or wind for navigation on the water [A.R.S. § 5-301].)

## DISTRIBUTION

Each month, watercraft license fee revenues are deposited as follows [A.R.S. § 5-323]:

- 65% of revenues are transferred to the Watercraft Licensing Fund. Such monies are subject to legislative appropriation. Monies deposited in this fund are used for administration and enforcement of watercraft laws.
- The remaining 35% of revenues are deposited by the Arizona Game and Fish Department as follows: (1) 15% to the State Lake Improvement Fund and (2) 85% to the Law Enforcement and Boating Safety Fund.

Total net collections from the watercraft license fee are shown in the table below.

| Table 1<br>COLLECTIONS           |                        |                    |                        |
|----------------------------------|------------------------|--------------------|------------------------|
| <u>Fiscal Year</u>               | <u>Net Collections</u> | <u>Fiscal Year</u> | <u>Net Collections</u> |
| 2021                             | \$6,984,326            | 2011               | \$4,450,746            |
| 2020                             | \$6,765,844            | 2010               | \$5,120,398            |
| 2019                             | \$6,581,150            | 2009               | \$5,468,067            |
| 2018                             | \$4,233,043            | 2008               | \$4,955,124            |
| 2017                             | \$4,245,613            | 2007               | \$5,398,134            |
| 2016                             | \$4,217,386            | 2006               | \$4,338,741            |
| 2015                             | \$4,348,579            | 2005               | \$2,317,368            |
| 2014                             | \$4,432,379            | 2004               | \$1,061,931            |
| 2013                             | \$4,146,344            | 2003               | \$2,327,090            |
| 2012                             | \$4,301,047            | 2002               | \$2,259,952            |
| SOURCE: Game and Fish Department |                        |                    |                        |

## WHO PAYS

The fee is paid by the owner of each watercraft that requires numbering by the state [A.R.S. § 5-321]. Numbering is required for all undocumented watercraft underway, moored, or anchored on the waters of this state [A.R.S. § 5-322].

## REVENUE BASE AND RATE

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

## Watercraft Registration Fee

---

The fees for watercraft are as follows:

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

Pursuant to Laws 2012, Chapter 237, residents and nonresidents pay the same boating registration fee. The prior system of a different fee for residents compared to nonresidents was out of compliance with federal law; however, Chapter 237 additionally requires nonresidents to pay a boating safety infrastructure fee (NBSIF).

Pursuant to Laws 2013, Chapter 197, the Arizona Game and Fish Commission is authorized to establish by rule new registration and boating safety infrastructure fees for watercraft owned by residents and non-residents of Arizona.

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

Chapter 197 stipulated that the total amount of watercraft registration fees collected in any fiscal year does not exceed 50% more than the amount appropriated from the Watercraft Licensing Fund in FY 2013 (which was \$4,504,200). Laws 2018, Chapter 103 later repealed that provision.

In addition, owners of motorized watercraft may be charged a fee for the Lower Colorado River Multispecies Conservation Program (MSCP) [A.R.S. § 5-323].

The main exemptions from the watercraft registration fee are [A.R.S. § 5-322A]:

- (1) Foreign watercraft temporarily using the waters of the state.
- (2) Military or public vessels of the United States, except recreational type of public vessels.
- (3) Watercraft used solely as lifeboats.
- (4) Undocumented watercraft operating under a valid temporary certificate.
- (5) Documented watercraft numbered in accordance with the regulations of the United States Coast Guard.

### **PAYMENT SCHEDULE**

Watercraft registration fees are due at the time of application for watercraft registration with the Arizona Game and Fish Department [A.R.S. § 5-321A].

Laws 1982, Chapter 255 authorized the Arizona Game and Fish Commission to establish rules for registering watercraft on a staggered monthly basis. All registrations expire according to schedules established by the commission [A.R.S. § 5-321.01].

### **IMPACT OF STATUTORY CHANGES**

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this fee in the period from 2015 through 2017 or from 2019 through 2021

### **2018 LAWS**

**Laws 2018, Chapter 103** repeals the limitation on watercraft license fees, which capped fee collections at 150% of the department's FY 2013 appropriation from the Watercraft Licensing Fund.

## **Watercraft Registration Fee**

---

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azilbc.gov/21taxbook/21taxbk.pdf>.



# GOVERNMENT PROPERTY LEASE EXCISE TAX

## DESCRIPTION

The Government Property Lease Excise Tax (GPLET) was enacted in 1996 (Laws 1996, Chapter 349) to allow cities, towns, counties and county stadium districts (hereafter referred to as "government lessors") to lease property that they own to private parties ("prime lessees") for commercial, residential rental, or industrial purposes for at least 30 days [A.R.S. § 42-6201]. GPLET replaced the tax on possessory interests that was repealed in 1995 (*for a more detailed discussion, see Possessory Interest section*).

Because the Arizona Constitution exempts federal, state, county, and municipal property from taxation, government lessors do not have to pay any property taxes. Instead, the prime lessees are required to pay a GPLET on the building ("government property improvement") that they lease from the government lessor. Unlike the property tax, GPLET is based on factors other than a property's assessed value, such as a building's square footage and usage.

### Grandfather Provisions

Laws 2010, Chapter 321 provided new requirements for all leases subject to GPLET that were entered into on or after June 1, 2010. The act provided new and higher tax rates, as well as new abatement and reporting requirements. Additionally, the act grandfathered all leases that were entered into before June 1, 2010, or that resulted from a development agreement, ordinance, or resolution approved before this date and entered into within 10 years of such approval. Laws 2017, Chapter 120 provides that for a lease to be grandfathered under the original GPLET rates, the Department of Revenue (DOR) must determine that such lease is in compliance with the aforementioned requirement.

A grandfathered lease that is amended after June 1, 2010 continues to be subject to the provisions in effect prior to Laws 2010, Chapter 321, if all of the following conditions are met: (1) the amendment furthers the purpose of the original lease, (2) any land added under the amendment is contiguous to the land under the original lease and does not increase the land area by more than 50%, and (3) any government property improvement added under the amendment does not increase the area of gross building space by more than 100% [A.R.S. § 42-6203].

## DISTRIBUTION

The county treasurer is required to distribute the excise tax within 30 days of receipt as follows [A.R.S. § 42-6205]:

- 13% to the county general fund
- 7% to the city, if applicable
- 7% to the community college district, if applicable
- 73% to the school district not within a high school district (or 36.5% each to the high school and elementary district), if applicable.

If inapplicable, proceeds are split proportionally among the other entities. *Table 1* below shows the annual amount of GPLET collections in the last 20 years.

## Government Property Lease Excise Tax

Table 1

### COLLECTIONS <sup>1/ 2/</sup>

| <u>Calendar Year</u> | <u>Net Collections</u> | <u>Calendar Year</u> | <u>Net Collections</u> |
|----------------------|------------------------|----------------------|------------------------|
| 2020                 | \$14,368,848           | 2010                 | \$5,672,312            |
| 2019                 | \$14,229,685           | 2009                 | \$3,091,291            |
| 2018                 | \$13,718,519           | 2008                 | \$3,204,870            |
| 2017                 | \$9,489,639            | 2007                 | \$3,108,195            |
| 2016                 | \$9,492,158            | 2006                 | \$2,921,164            |
| 2015                 | \$8,780,769            | 2005                 | \$2,696,092            |
| 2014                 | \$6,643,785            | 2004                 | \$2,898,944            |
| 2013                 | \$6,042,658            | 2003                 | \$3,013,352            |
| 2012                 | \$5,812,888            | 2002                 | \$2,721,824            |
| 2011                 | \$6,038,494            | 2001                 | \$2,230,063            |

<sup>1/</sup> The tax became effective December 1, 1996.

<sup>2/</sup> The state does not collect any monies from the tax.

SOURCE: League of Arizona Cities and Towns, 1996 – 2010  
County Treasurers, 2011 – 2018

### WHO PAYS

County treasurers collect the tax annually on prime lessees who use or occupy the government property [A.R.S. § 42-6202].

The following are exempt from GPLET [A.R.S. § 42-6208]:

1. Property used for government activity.
2. Property used for public housing.
3. Easements and rights-of-way of railroads and gas, electric, pipeline, and telephone utilities.
4. Interests in a facility that is owned by the government lessor and used primarily for athletic, recreational, entertainment, artistic, cultural, or convention activities.
5. Property that is used for aviation-related purposes, including hangars, tie-downs, aircraft maintenance, commercial aircraft terminal franchises, rental car operations, parking facilities, restaurants, stores, and other services located in a terminal.
6. The use by a commercial airline of the runways and terminal facilities of a state, city, town, or county airport.
7. Leases of property or interests in a transportation facility that is constructed or operated pursuant to Title 28, Chapter 22.
8. Interest in state trust lands.
9. Interest in property held in trust for an Indian tribe by the United States government.
10. Interest in "contractor-acquired property" or "government-furnished property" that is owned by the government and used to perform a government contract.
11. Property of a corporation that is organized or directed by a county, city, or town to be used for public purposes.
12. Interest in property used by a chamber of commerce.
13. Interest in property used by tax-exempt organizations under 501(c)(3) of the Internal Revenue Code.
14. Interest in parking garages or decks owned and operated by the government lessor, or operated on behalf of the government lessor by an entity other than the prime lessee.
15. Residential rentals occupied by the prime lessee.

## Government Property Lease Excise Tax

---

### Tax Abatement

As noted in *Table 2*, a city or town is allowed to fully abate the tax on a government property improvement in the first 8 years after the certificate of occupancy is issued if the following requirements are met [A.R.S. § 42-6209]:

1. The improvement is located in a single central business district in the city or town and is subject to a lease or development agreement entered into on or after April 1, 1985.
2. The improvement is located entirely within a "slum or blighted area" established pursuant to Title 36, Chapter 12, Article 3.
3. The government property improvement resulted or will result in an increase in property value of at least 100%.

Pursuant to Laws 2018, Chapter 231, the central business district must be "geographically compact" and no larger than the greatest of: (1) the total land area of an existing central business district as of January 1, 2018, (2) 2.5% of the total land area within the exterior boundaries of the city or town, or (3) 960 acres. Chapter 231 defines a "geographically compact" central business district as having a length that is no more than twice its width. Any central business district existing prior to January 1, 2018 is deemed "geographically compact."

Laws 2010, Chapter 321 prohibits a city or town from designating more than 1 central business district within its corporate boundaries and approving a new lease or development agreement within 1 year of such designation. Unless the grandfather provisions are met, the act prohibits a city or town from approving a new lease or development agreement on or after June 1, 2010 unless the government lessor: (1) approves the lease or development agreement by simple majority vote without the use of consent calendar, (2) notifies the governing bodies of affected taxing jurisdictions where the government property is located at least 60 days prior to approval, and (3) determines that the economic and fiscal benefits to the state and county, city, or town where the government property is located will exceed the benefits received by the prime lessee, as determined by an independent third party.

Laws 2017, Chapter 120 limits the lease period for a government property improvement for which GPLET is abated to 8 years, including the abatement period. The 8-year limit applies to leases approved by the governing body of the government lessor after December 31, 2016. For leases approved prior to January 1, 2017, the lease period is limited to 25 years, including the abatement period.

### Park Property Lease Excise Tax

Each county is required to levy and collect an annual Park Property Lease Excise Tax on each prime lessee of a lease with the National Park Service of a property improvement located in that county [A.R.S. § 42-6210]. The tax is assessed, collected, and distributed in the same manner GPLET, except that:

1. Each lease or development agreement is neither required to include a notice of tax liability nor a provision that failure to pay could result in divesting the prime lessee of any interest in the right of occupancy of the property.
2. The tax rate cannot be less than 20% of GPLET (see the *Tax Base and Rate* section below).

## REVENUE BASE AND RATE

### Grandfathered Leases

The tax rates applied to a government property improvement subject to a pre-June 2010 grandfathered lease are as follows [A.R.S. § 42-6203(A)]:

- \$1.00 per square foot for 1-story office buildings
- \$1.25 per square foot for office buildings with 2 to 7 stories
- \$1.75 per square foot for office buildings with 8 or more stories
- \$1.50 per square foot for retail buildings
- \$1.50 per square foot for hotel/motel buildings
- \$0.75 per square foot for warehouse or industrial buildings
- \$0.50 per square foot for residential rental buildings

## Government Property Lease Excise Tax

---

- \$1.00 per square foot for any other building
- \$100 per parking space for parking garages

Lessees pay a percentage of the “base” rates listed above depending on where the property is located, the start date of the lease, and when the original certificate of occupancy for the government property improvement was issued, as summarized in *Table 2* below.

The tax rate on a government property improvement subject to a lease or development agreement entered into after June 30, 1996 and that is located outside a “slum and blighted area” is 150% of the applicable rate listed above. The tax rate on a government property improvement subject to a pre-April 1, 1985 lease or development agreement, or on an improvement at a rural (county population under 400,000 prior to 1988) county or city airport is 20% of the applicable rate listed above.

As noted above, tax abatement is restricted to government property improvements within a single central business district within the “slum and blighted area.” Other improvements outside the single central business district but still within the “slum and blighted area” will pay 80% of the tax.

### New Leases

The 2021 tax rates applied to a government property improvement subject to a new lease entered into on or after June 1, 2010 are as follows [A.R.S. § 42-6203(B)]:

- \$2.39 per square foot for 1-story office buildings
- \$2.75 per square foot for office buildings with 2 to 7 stories
- \$3.70 per square foot for office buildings with 8 or more stories
- \$3.00 per square foot for retail buildings
- \$2.39 per square foot for hotel/motel buildings
- \$1.61 per square foot for warehouse or industrial buildings
- \$0.91 per square foot for residential rental buildings
- \$2.39 per square foot for any other building
- \$238.77 per parking space for parking garages

The GPLET rates above apply to Tax Year 2021. Laws 2010, Chapter 321 requires the Department of Revenue (DOR) to adjust the tax rates for inflation each year. The act also provides that the tax rates for government property improvements subject to a lease entered into on or after June 1, 2011 be reduced by 10% if the aggregate of all property tax rates of all taxing jurisdictions in which the government property improvement is located is less than 90% of the county-wide average combined property tax rates in the tax year in which the lease is entered into. For example, if the average combined property tax rate is \$10.00 for all properties in a county but \$9.00 or less for those properties located in the same taxing jurisdictions as the GPLET property, then the tax rates would be reduced by 10%.

Laws 2010, Chapter 321 requires that all new leases entered into on or after June 1, 2010 begin within 10 years after the approval of the development agreement. The act limits the term of such lease to 25 years, including any abatement period regardless of whether the lease is transferred or conveyed to subsequent prime lessees during that period. Moreover, the act requires the government lessor to convey the title to the government property improvement and underlying land to the prime lessee as soon as practicable but no later than 12 months after the expiration of the lease. Additionally, such property is prohibited from subsequently being designated as Class 6 or any other discounted assessment.

For leases approved after December 31, 2016, Laws 2017, Chapter 120 reduces the maximum lease period for a government property improvement for which GPLET is abated from 25 to 8 years, including the abatement period regardless of whether the lease is transferred or conveyed to subsequent prime lessees during that period. As under prior law, the government lessor is required to convey the title to the government property improvement and underlying land to the prime lessee as soon as practicable but no later than 12 months after the expiration of

## **Government Property Lease Excise Tax**

---

the lease. In addition, property conveyed to a prime lessee is prohibited from subsequently being designated as Class 6 or any other discounted assessment.

### **PAYMENT SCHEDULE**

The excise tax is due and payable to the county treasurer annually on or before December 1 [A.R.S. § 42-6204].

### **POSSESSORY INTEREST**

In 1985, the Arizona Legislature enacted legislation that provided a method for the taxation of possessory interests. A possessory interest is created when a private party is granted the exclusive use of real property owned by a non-taxable entity. Typically, possessory interests are created when private individuals, companies, or corporations lease, rent, or use federal, state, county, or municipal government-owned facilities and land for their own benefit.

The tax on possessory interest was enacted in response to the extensive use of the property tax exemption for government owned property as an economic development tool. (Article 9 of the Arizona Constitution provides that federal, state, county, and municipal government property be exempt from taxation.) The new law specifically provided that possessory interests in federal, state, county, and municipal government property would become subject to taxation. Additionally, the law established possessory interest tax exemptions and provided special valuation rules for possessory interests that were created prior to April 1, 1985.

Over time, the possessory interest tax was challenged in court in a number of cases. As a result, the court held that limiting the special valuation to possessory interests created before April 1, 1985 was in violation of the uniformity clause under the Arizona Constitution. The court also held that the possessory interest exemptions went beyond the constitutional tax exemptions and were therefore ruled invalid. The effect of these court rulings was that all possessory interests became taxed in the same manner as other properties.

In 1995, the Legislature repealed the possessory interest tax (effective retroactively from January 1, 1995). The intent statement expressed the Legislature's desire that possessory interests not be subject to ad valorem taxation until a new taxing mechanism was enacted. Laws 1996, Chapter 349 created such a taxing mechanism in the form of GPLET, which was to serve as the successor to the possessory interest tax.

## Government Property Lease Excise Tax

Table 2

### TAX RATES FOR GRANDFATHERED PRE-JUNE 2010 LEASES

| <u>Location of Property</u>  | <u>Start Date of Lease</u>                | <u>Years Since Date of Issuance of<br/>Original Certificate of<br/>Occupancy (COO)</u> | <u>Percentage of "Base"<br/>Excise Tax Rate<br/>(by age of COO)</u> |
|--|---|--|---|
| Inside of a Redevelopment Area   | On or after 4/1/1985                      | 0 – 10   | 100%  |
|  |   | 10 – 20  | 80%   |
|  |   | 20 – 30  | 60%   |
|  |   | 30 – 40  | 40%   |
|  |   | 40 – 50  | 20%   |
|  |   | 50 or more   | 0%  |
| Outside of a Redevelopment Area  | On or after 4/1/1985 but before 6/30/1996 | 0 – 10   | 100%  |
|  |   | 10 – 20  | 80%   |
|  |   | 20 – 30  | 60%   |
|  |   | 30 – 40  | 40%   |
|  |   | 40 – 50  | 20%   |
|  |   | 50 or more   | 0%  |
| Inside of a "Slum" or "Blighted" Area  | Before 6/1/2010                           | 0 – 10   | 80%   |
|  |   | 10 – 20  | 80%   |
|  |   | 20 – 30  | 60%   |
|  |   | 30 – 40  | 40%   |
|  |   | 40 – 50  | 20%   |
|  |   | 50 or more   | 0%  |
| Outside of a "Slum" or "Blighted" Area   | On or after 6/30/1996                     | 0 – 10   | 150%  |
|  |   | 10 – 20  | 120%  |
|  |   | 20 – 30  | 90%   |
|  |   | 30 – 40  | 60%   |
|  |   | 40 – 50  | 30%   |
|  |   | 50 or more   | 0%  |
| Inside of a "Central Business District"  | On or after 4/1/1985                      | 0 – 8  | 0%  |
|  |   | 8 – 10   | 80%   |
|  |   | 10 – 20  | 80%   |
|  |   | 20 – 30  | 60%   |
|  |   | 30 – 40  | 40%   |
|  |   | 30 – 40  | 20%   |
| At an Airport Owned by a County (or a City within a County) with a Population of 400,000 or Less | Before 6/1/2010                           | 0 – 10   | 20%   |
|  |   | 10 – 20  | 16%   |
|  |   | 20 – 30  | 60%   |
|  |   | 30 – 40  | 40%   |
|  |   | 40 – 50  | 20%   |
|  |   | 50 or more   | 0%  |
| Location is Not Specified  | Before 4/1/1985                           | 0 – 10   | 20%   |
|  |   | 10 – 20  | 16%   |
|  |   | 20 – 30  | 60%   |
|  |   | 30 – 40  | 40%   |
|  |   | 40 – 50  | 20%   |
|  |   | 50 or more   | 0%  |
| National Park Service Property   | Before 6/1/2010                           | 0 – 10   | 100%  |
|  |   | 10 – 20  | 80%   |
|  |   | 20 – 30  | 60%   |
|  |   | 30 – 40  | 40%   |
|  |   | 40 or more   | 20%   |

## Government Property Lease Excise Tax

---

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this tax in 2016 and in the period from 2019 through 2021.

#### 2018 LAWS

**Laws 2018, Chapter 231** provides the following changes to the tax abatement program for government property improvements located in a central business district:

- Adjusts the maximum size of a central business district to the greatest of: (1) the total land area of an existing central business district as of January 1, 2018, (2) 2.5% of the total land area within the exterior boundaries of the city or town, or (3) 960 acres.
- Defines a "geographically compact" central business district as having a length that is no more than twice its width. Any central business district existing prior to January 1, 2018 is deemed "geographically compact."
- Specifies that a slum or blighted area designation made after September 30, 2018 automatically terminates after 10 years, unless after a review by the city or town, the designation is formally renewed, modified, or terminated in whole or in part.
- Directs each municipality, by October 1, 2020, to review each slum or blighted area in which a central business district is located that was designated before September 30, 2018 and renew, modify, or terminate it.

#### 2017 LAWS

**Laws 2017, Chapter 120** limits the length of a lease for a property with an abated GPLET approved by the governing body of the government lessor through a development agreement, ordinance or resolution after December 31, 2016 to 8 years. Additionally, Chapter 120 requires the government lessor to calculate the GPLET liability for each prime lessee. (Prior to Chapter 120, the prime lessee was required to make this calculation.) Moreover, Chapter 120 requires the government lessor to either maintain a public database by county or municipality, as applicable, of all leases subject to GPLET, or alternatively, post its lease agreements on a county or municipal website where the government property improvement is located.

#### 2015 LAWS

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

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

## **HIGHWAY USER TAXES/FEES**



# HIGHWAY USER REVENUE FUND OVERVIEW

## DESCRIPTION

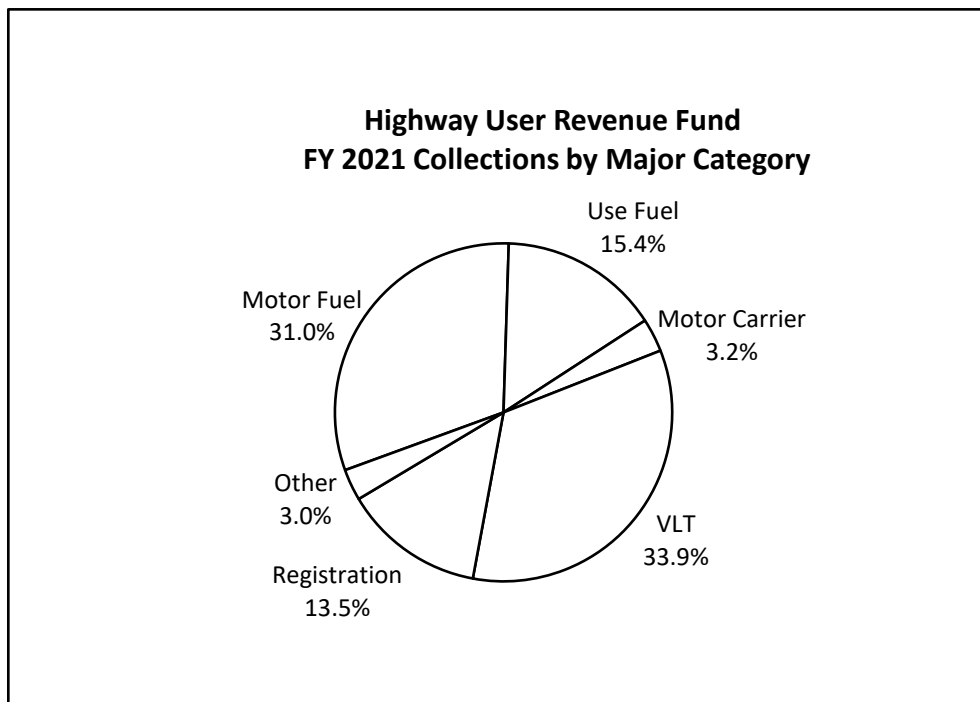
The State of Arizona taxes motor fuels and imposes various other fees related to the registration and operation of motor vehicles. Included are motor vehicle fuel taxes, use fuel taxes, vehicle license taxes, motor carrier fees, vehicle registration fees, and various other miscellaneous fees. Depending on the category, all, or a portion of these taxes and fees are distributed to the Arizona Highway User Revenue Fund (HURF). This [2021 Tax Handbook](#) contains individual sections on the major tax components of HURF, including Motor Vehicle Fuel Tax, Use Fuel Tax, Vehicle License Tax (VLT), and the Motor Carrier Fee (which replaced the Motor Carrier Tax in FY 1998). Vehicle registration fees and various other fees that are part of HURF are not included in the handbook.

HURF revenues are a major source of funding to the state for highway construction, highway maintenance and improvements, and other highway-related expenditures. A portion of HURF revenue is also distributed to Arizona cities, towns, and counties for highway-related purposes.

## DISTRIBUTION

HURF collections totaled approximately \$1.6 billion in FY 2021. This was an increase of 7.5% from FY 2020 collections. The largest source of HURF revenue comes from VLT. The next biggest category is motor fuel or gas taxes, followed by Use Fuel Tax, then the registration and other fees. As noted above, more detailed discussion of the tax categories is provided in subsequent sections of the handbook.

The following chart provides a graphic representation of the relative importance of each of the HURF revenue categories for FY 2021:



## Highway User Revenue Fund Overview

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

| HURF COLLECTIONS<br>(\$ in Thousands) |                                       |                         |  |                                  |  |                                     |              |
|---------------------------------------|---------------------------------------|-------------------------|--|----------------------------------|--|-------------------------------------|--------------|
| <b>Fiscal<br/>Year</b>                | <b>Motor<br/>Vehicle<br/>Fuel Tax</b> | <b>Use Fuel<br/>Tax</b> | <b>Vehicle<br/>License<br/>Tax <sup>1/</sup></b> | <b>Motor<br/>Carrier<br/>Fee</b> | <b>Registration<br/>Fees <sup>2/</sup></b> | <b>Other<br/>Fees <sup>2/</sup></b> | <b>Total</b> |
| 2021                                  | \$505,225                             | \$249,838               | \$551,141  | \$52,129                         | \$220,075                                  | \$48,762                            | \$1,627,170  |
| 2020                                  | \$515,447                             | \$217,958               | \$473,259  | \$45,472                         | \$191,464                                  | \$37,236                            | \$1,480,836  |
| 2019                                  | \$531,068                             | \$218,818               | \$469,470  | \$45,812                         | \$192,926                                  | \$62,128                            | \$1,520,221  |
| 2018                                  | \$527,355                             | \$202,114               | \$444,757  | \$42,823                         | \$181,227                                  | \$57,503                            | \$1,455,779  |
| 2017                                  | \$515,116                             | \$201,697               | \$421,939  | \$42,091                         | \$177,818                                  | \$57,863                            | \$1,416,524  |
| 2016                                  | \$505,687                             | \$193,291               | \$395,952  | \$41,058                         | \$173,647                                  | \$57,989                            | \$1,367,624  |
| 2015                                  | \$481,250                             | \$184,500               | \$369,719  | \$40,227                         | \$168,541                                  | \$56,549                            | \$1,300,787  |
| 2014                                  | \$467,004                             | \$176,368               | \$348,509  | \$38,842                         | \$163,667                                  | \$56,532                            | \$1,250,922  |
| 2013                                  | \$461,046                             | \$177,240               | \$326,541  | \$37,310                         | \$157,749                                  | \$57,332                            | \$1,217,218  |
| 2012                                  | \$461,979                             | \$180,242               | \$320,979  | \$37,350                         | \$158,073                                  | \$59,173                            | \$1,217,796  |

<sup>1/</sup> The amounts indicated reflect only the portion of VLT that is distributed to HURF.

<sup>2/</sup> The amounts indicated reflect a minor change in revenue categorization. In prior years, authorized third-party retainage of revenues was recorded in Other Fees. ADOT is now recording that amount in Registration Fees.

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

HURF may be expended for the following purposes (see *Arizona Constitution, Article 9, Section 14*):

- (1) The cost of administering taxes that are deposited in the fund.
- (2) Refunds and adjustments provided for by law.
- (3) Payment of highway obligations.
- (4) The cost of construction, reconstruction, maintenance and repair of public highways and bridges and county, city and town roads and streets.
- (5) The cost of state enforcement of traffic laws.
- (6) The cost of publication and distribution of *Arizona Highways Magazine*.
- (7) Distribution to counties, incorporated cities and towns according to law.

HURF is distributed each fiscal year in the following manner [A.R.S. § 28-6533]:

### Direct Allocations

First, certain distributions are made before applying the statutory formula.

- According to statute, 1.6% of the motor vehicle fuel tax collections portion of HURF is deposited in the State Lake Improvement Fund (SLIF), except that 1% of such collections is retained in the Watercraft Fuel Tax Administration (Administration) Fund by the Arizona Department of Transportation (ADOT) to defray administrative expenses [A.R.S. § 28-5926].
- According to statute, 0.55% of the motor vehicle fuel tax collections portion of HURF is transferred to the Off-Highway Vehicle Recreation (OHV) Fund on a monthly basis [A.R.S. § 28-5927].
- According to statute, \$1.0 million is allocated to the Economic Strength Project Fund [A.R.S. § 28-6534].
- The Legislature appropriates an amount to ADOT for funding vehicle registration compliance operations, included in the "Other" column in *Table 3* below.
- Beginning in FY 2015, the Legislature has directly allocated \$30.0 million to local governments. If this amount were not directly allocated, it would flow through the formula and be distributed to both the State Highway

## Highway User Revenue Fund Overview

Fund and to local governments. By directly allocating the \$30.0 million, local governments receive that full amount rather than splitting it with the State Highway Fund.

- In FY 2021, the Legislature discontinued the \$30 million direct allocation to local governments, resulting in an effective increase to the State Highway Fund of about \$12.8 million.

### Statutory Formula Distribution

After making the above distributions, the balance of collections is distributed by statutory formula as follows [A.R.S. § 28-6538]:

- 50.5% State Highway Fund (SHF).  
Of the monies distributed to SHF, 15.2% (12.6% by statute and 2.6% per State Transportation Board policy) are further distributed as follows [A.R.S. § 28-6538B]:
  - 75% to counties with a population of 1.5 million or more for design, right-of-way purchase, or construction of controlled access highways to be included as state routes or state highways in regional transportation plans and the state highway system.
  - 25% to counties with a population of more than 800,000 but less than 1.5 million for design, right-of-way purchase, or construction of controlled access highways to be included as state routes or state highways in regional transportation plans and the state highway system.These amounts (6.4% of all HURF for the statutory portion and 1.3% for the Board policy portion) are displayed in the "County Controlled Access" column in *Table 3* and are in practice distributed to Maricopa Association of Governments and Pima Association of Governments, respectively, which are regional planning agencies for their respective areas.  
The remaining 84.8% (or 42.8% of all HURF) is retained by the State Highway Fund, as displayed in the "State Highway Fund" column in *Table 3*, which is primarily used to fund ADOT's operating budget and capital projects.
- 19% Counties - Each county receives 72% of its HURF distribution based on 2 criteria: the portion of gasoline distributed by fuel suppliers to gasoline stations in the county and an estimation of diesel consumed in the county. The other 28% of the county distribution is based on unincorporated population.
- 27.5% Incorporated cities and towns - Cities and towns receive half of their HURF distribution based on their share of statewide incorporated population. The other half is based on the portion of gasoline supplied at the county level. Once a county's pro-rata share of gasoline supplies is determined, those monies are distributed based on a city's or town's total population in relation to the county's incorporated population.
- 3% Incorporated cities with population greater than 300,000 persons - This distribution to Phoenix, Tucson, and Mesa is based on population.

*Table 2* below summarizes HURF actual distribution percentages for FY 2020 after the Economic Strength Project and other distributions noted above.

*Table 3* below summarizes HURF distributions by major category. Please refer to the table in the Summary of Highway Construction section of the Capital Outlay section in the *FY 2021 Appropriations Report* for a more detailed explanation of the distribution of HURF revenues. It should be noted that the FY 2020 amounts in *Table 3* vary slightly from those presented in the *Appropriations Report*. The numbers in *Table 3* reflect actual collections, while the numbers in the *FY 2021 Appropriations Report* were based on estimated collections.

The tax base and tax rates, payment schedules, and the impact of tax law changes for the Motor Vehicle Fuel Tax, Use Fuel Tax, VLT, and Motor Carrier Fee are provided in the individual write-ups for each of the HURF revenue categories in the following section of the handbook.

**Table 2**

### PERCENTAGE DISTRIBUTION OF STATUTORY FORMULA HURF MONIES

|                    |                    |
|--------------------|--------------------|
| Cities             | 30.5%              |
| Counties           | 19.0%              |
| Controlled Access  | 7.7% <sup>1/</sup> |
| State Highway Fund | 42.8%              |
| <b>Total</b>       | <b>100.0%</b>      |

<sup>1/</sup> Includes 1.3% (2.6% of 50.5% SHF share) distributed for Controlled Access per State Transportation Board policy.

## Highway User Revenue Fund Overview

Table 3

### HURF DISTRIBUTION (\$ in Thousands)

| Fiscal Year | State Highway Fund | County Controlled Access | Cities and Towns | Counties  | DPS       | Economic Strength Project | Other                    | Total       |
|-------------|--------------------|--------------------------|------------------|-----------|-----------|---------------------------|--------------------------|-------------|
| 2021        | \$656,178          | \$121,801                | \$492,461        | \$306,779 | \$4,126   | \$1,000                   | \$44,824 <sup>1/</sup>   | \$1,627,170 |
| 2020        | \$582,270          | \$112,580                | \$454,683        | \$283,245 | \$3,344   | \$1,000                   | \$43,714 <sup>2/</sup>   | \$1,480,836 |
| 2019        | \$580,459          | \$108,072                | \$461,903        | \$287,743 | \$18,714  | \$1,000                   | \$62,330 <sup>3/</sup>   | \$1,520,221 |
| 2018        | \$552,829          | \$103,120                | \$416,621        | \$259,534 | \$102,623 | \$1,000                   | \$20,052 <sup>4/</sup>   | \$1,455,779 |
| 2017        | \$539,324          | \$100,699                | \$406,348        | \$253,135 | \$97,142  | \$1,000                   | \$18,876 <sup>5/</sup>   | \$1,416,523 |
| 2016        | \$518,948          | \$97,047                 | \$391,173        | \$243,682 | \$98,008  | \$1,000                   | \$17,768 <sup>6/</sup>   | \$1,367,624 |
| 2015        | \$496,230          | \$92,975                 | \$374,413        | \$233,241 | \$86,445  | \$1,000                   | \$16,483 <sup>7/</sup>   | \$1,300,786 |
| 2014        | \$474,132          | \$84,985                 | \$342,230        | \$213,192 | \$120,208 | \$1,000                   | \$15,174 <sup>8/</sup>   | \$1,250,921 |
| 2013        | \$460,839          | \$82,603                 | \$332,234        | \$206,965 | \$122,320 | \$1,000                   | \$11,258 <sup>9/</sup>   | \$1,217,219 |
| 2012        | \$328,879          | \$58,949                 | \$304,092        | \$193,524 | \$125,607 | \$1,000                   | \$205,745 <sup>10/</sup> | \$1,217,796 |

- <sup>1/</sup> A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled \$3.9 million in FY 2021. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled \$6.0 million in FY 2021. Other distributions included \$679,900 for the Registration Compliance program, \$8.0 million for SLIF, \$80,800 for the Administration Fund, and \$2.8 million for the OHV Fund.
- <sup>2/</sup> A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled \$2.5 million in FY 2020. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled \$6.2 million in FY 2020. Other distributions included \$658,000 for the Registration Compliance program, \$8.2 million for SLIF, \$82,500 for the Administration Fund, and \$2.8 million for the OHV Fund.
- <sup>3/</sup> A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled \$1.7 million in FY 2019. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled \$6.2 million in FY 2019. Other distributions included \$654,400 for the Registration Compliance program, \$8.4 million for SLIF, \$85,000 for the Administration Fund, and \$2.9 million for the OHV Fund.
- <sup>4/</sup> A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled \$1.8 million in FY 2018. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled \$6.3 million in FY 2018. Other distributions included \$656,100 for the Registration Compliance program, \$8.4 million for SLIF, \$84,400 for the Administration Fund, and \$2.9 million for the OHV Fund.
- <sup>5/</sup> A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled \$1.7 million in FY 2017. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled \$5.5 million in FY 2017. Other distributions included \$649,700 for the Registration Compliance program, \$8.2 million for SLIF, \$82,400 for the Administration Fund, and \$2.8 million for the OHV Fund.
- <sup>6/</sup> A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled \$1.5 million in FY 2016. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled \$4.8 million in FY 2016. Other distributions included \$652,700 for the Registration Compliance program, \$8.0 million for SLIF, \$80,900 for the Administration Fund, and \$2.8 million for the OHV Fund.
- <sup>7/</sup> A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled \$1.2 million in FY 2015. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled \$4.3 million in FY 2015. Other distributions included \$651,800 for the Registration Compliance program, \$7.6 million for SLIF, \$77,000 for the Administration Fund, and \$2.7 million for the OHV Fund.
- <sup>8/</sup> A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled \$1.2 million in FY 2014. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled \$3.7 million in FY 2014. Other distributions included \$671,500 for the Registration Compliance program, \$4,500 for the Automation Projects Fund, \$7.0 million for SLIF, \$70,200 for the Administration Fund, and \$2.6 million for the OHV Fund.
- <sup>9/</sup> A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled \$1.0 million in FY 2013. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled \$3.2 million in FY 2013. Other distributions included \$624,800 for the Registration Compliance program, \$(765,200) for reversions, \$4.6 million for SLIF, \$46,600 for the Administration Fund, and \$2.5 million for the OHV Fund.
- <sup>10/</sup> Laws 2011, Chapter 24 transferred \$105.8 million from the SHF share of HURF VLT to the General Fund in FY 2012. This amount includes a Fund Reduction and Transfer from SHF of \$28.0 million, a Highway Patrol Vehicle Replacement HURF transfer to DPS of \$6.8 million, a VLT transfer of \$8.4 million, a Safety Enforcement and Transportation Infrastructure Fund (SETIF) transfer of \$0.4 million (which is done via the VLT), DPS funding shift savings of \$23.6 million, and Motor Vehicle Division (MVD) funding shift savings of \$38.6 million. A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund in FY 2012. The transfer totaled \$1.2 million. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled \$2.1 million in FY 2012.

SOURCE: ADOT, Office of Financial Planning.

## Highway User Revenue Fund Overview

---

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this tax in 2021.

### 2020 LAWS

**Laws 2020, Chapter 52** (FY 2021 Revenue Budget Reconciliation Bill) modifies the \$30 million direct allocation to local governments. Since HURF revenues are no longer used for DPS operating expenses, the FY 2021 budget did not continue the \$30 million allocation and those monies will now go through the normal distribution process. This will result in an effective increase to the State Highway Fund of about \$12.8 million.

### 2019 LAWS

**Laws 2019, Chapter 263** (FY 2020 General Appropriations Act) eliminates the use of HURF in the Department of Public Safety (DPS) budget for FY 2020. Previously, the Legislature had appropriated an amount to DPS for funding a portion of highway patrol costs. Statute still permits, however, the use of up to \$10.0 million of HURF annually for the DPS budget [A.R.S. § 28-6537]. The FY 2020 budget did not allocate any monies from HURF to DPS.

### 2018 LAWS

**Laws 2018, Chapter 278** suspends, as session law, the statutory cap of \$10.0 million established by A.R.S. § 28-6537 governing HURF revenues available to fund DPS' Highway Patrol costs.

**Laws 2018, Chapter 283** amends Laws 2017, Chapter 312 to reduce the special HURF distribution from \$60.0 million to \$30.0 million in FY 2020. (*See section 7.*) In addition to that modification of the special HURF distribution, the legislation eliminates the \$30.0 million allocation from the Highway Expansion and Extension Loan Program Fund in FY 2019. (*See section 6.*) These measures were taken due to the creation of the Highway Safety Fee established in Laws 2018, Chapter 265. For more information, please see the Department of Public Safety section in the *FY 2019 Appropriations Report*.

### 2017 LAWS

**Laws 2017, Chapter 44** removes requirements for spending, reporting and certification regarding expenditures of local revenues on street and highway purposes for counties with a population of more than 400,000 persons and cities and towns with more than 30,000 persons located in such a county. The legislation also eliminates the penalty for not meeting those requirements, which was a reduction in HURF monies distributed to the noncompliant county, city or town.

**Laws 2017, Chapter 303** suspends, as session law, the statutory cap of \$10.0 million established by A.R.S. § 28-6537 governing HURF revenues available to fund DPS' Highway Patrol costs.

**Laws 2017, Chapter 312** continues the special \$30.0 million HURF distribution authorized in Laws 2015, Chapter 10 for another year through FY 2019 and increases that distribution to \$60.0 million in FY 2020, effective August 9, 2017. (*See section 9.*) This continues the distribution that began in Laws 2014, Chapter 9 as modified by Laws 2015, Chapter 10. In addition to the special HURF distribution, the legislation allocates \$30.0 million from the Highway Expansion and Extension Loan Program Fund in each of FY 2018 and FY 2019 for highway construction directly to counties and cities and towns in percentages reflecting current non-state distribution of HURF revenues. (*See section 8.*)

## Highway User Revenue Fund Overview

---

### 2016 LAWS

**Laws 2016, Chapter 119** suspends, as session law, the statutory cap of \$10.0 million established by A.R.S. § 28-6537 governing HURF revenues available to fund DPS' Highway Patrol costs.

**Laws 2016, Chapter 125** continues the special HURF distribution authorized in Laws 2015, Chapter 10 for another year through FY 2018, effective August 6, 2016. (*See section 8.*) This continues the distribution begun in Laws 2014, Chapter 9 as modified by Laws 2015, Chapter 10. In addition to the special HURF distribution, the legislation allocates \$30.0 million from the General Fund for highway construction directly to counties and cities and towns in percentages reflecting current non-state distribution of HURF revenues. (*See section 9.*)

**Laws 2016, Chapter 163** requires counties receiving HURF revenues to publish by December 31 of each year an annual financial report detailing the budgeted and actual expenditures from the prior fiscal year's HURF funds received.

**Laws 2016, Chapter 258** is an emergency measure that amends current statutes with respect to the method by which state-shared revenues are apportioned among counties and municipalities, as described below.

#### Counties

Under current law, state-shared revenue is distributed to a county based on its population count as of the last federal decennial census [A.R.S. § 42-5029(I)]. During the fifth year following the decennial census, a county may contract with the U.S. Census Bureau to conduct a special census of the population of that county. Beginning on July 1 in the sixth year following the decennial census, the result of the special census must be used as the basis for apportioning state-shared revenue to that county until the next federal decennial census [A.R.S. § 42-5033].

If a special census is not conducted, Laws 2016, Chapter 258 provides a county the following 3 options, all of which must be exercised before May 1 of the sixth year following a federal decennial census:

1. County submits its own population estimate as of the fifth year following the last decennial census, as approved by the Office of Employment and Population Statistics.
2. County contracts with the U.S. Census Bureau to conduct a sample survey in order to produce a mid-decade county population estimate.
3. County requests to continue to use the population count from the most recent U.S. decennial census.

If a county elects to use one of the options above, that population figure must be used (for purposes of apportioning state-state shared revenue) in the sixth year following the decennial census through June 30 of the year following the next decennial census.

#### Municipalities

Under current law, state-shared revenue is distributed to an incorporated city or town based on its population count as of the last federal decennial census [A.R.S. § 42-5029(I)]. During the fifth year following the decennial census, a city/town may contract with the U.S. Census Bureau to conduct a special census of the population of that municipality. Beginning July 1 in the sixth year following the decennial census, the special census must be used as the basis for apportioning state-shared revenue to that municipality until the next federal decennial census [A.R.S. § 42-5033].

For purposes of apportioning state-shared revenue, Laws 2016, Chapter 258 provides a city/town the option to use either the population count from the special census or the most recent population estimate from the U.S. Census Bureau. However, Chapter 258 provides that the population count from the special census be used for only 1 year. Beginning on July 1 in the second year following the special census, a city/town must use the most recent population estimate from the U.S. Census Bureau. If a special census is not conducted, Chapter 258 requires a city/town to use the most recent population estimate from the U.S. Census Bureau beginning on July 1 in the second year following the decennial census through June 30 of the year following the next decennial census.

## Highway User Revenue Fund Overview

---

**Laws 2016, Chapter 277** replaces the motor vehicle dealer licensing application and renewal fees collected by the Department of Financial Institutions with dealer fees collected by ADOT. Under the legislation, if the dealer has a contractual relationship with a third-party lender, the dealer is subject to 1) a \$400 annual license filing fee, of which \$300 is deposited in the General Fund and \$100 in HURF, and 2) a \$250 annual dealer renewal fee, of which \$150 is deposited into the General Fund and \$100 is deposited into HURF. These fees are equivalent to the fees collected prior to the legislation. The legislation became effective August 6, 2016.

### 2015 LAWS

**Laws 2015, Chapter 10** requires, as session law, \$30.0 million of HURF revenues in FY 2015, FY 2016 and FY 2017 to be allocated directly to counties, cities and towns in percentages reflecting the current non-state distribution of HURF revenues. The legislation repeals the requirement for a \$60.0 million allocation in FY 2017 as required by Laws 2014, Chapter 9. The language specifies that these HURF revenues may only be spent on direct construction/repair and right-of-way expenditures.

**Laws 2015, Chapter 17** suspends, as session law, the statutory cap of \$10.0 million established by A.R.S. § 28-6537 governing HURF revenues available to fund DPS' Highway Patrol costs.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

# MOTOR VEHICLE FUEL TAX

## DESCRIPTION

The motor vehicle fuel tax is levied on each gallon of motor vehicle fuel, commonly known as gasoline, produced or imported into the state by a distributor. The tax rate is 18¢ per gallon, and the large majority of revenues are deposited in the Highway User Revenue Fund (HURF) to pay for highway construction and maintenance. The rate was last adjusted in 1990. In addition to the 18¢ per gallon motor vehicle fuel tax, there is also a 1¢ per gallon tax on gasoline and other petroleum products placed in underground storage tanks (see the *Underground Storage Tank Tax* section for more information.)

## DISTRIBUTION

Table 1 shows a 20-year revenue history for this tax. Almost all of the tax on motor vehicle fuel consumed in vehicles operated on Arizona roads and highways is deposited in HURF [A.R.S. § 28-6533].

NOTE: Prior years' tax handbooks displayed statutory distributions to the State Lake Improvement Fund, Watercraft Fuel Tax Administration Fund, and Off Highway Vehicle Recreation Fund as coming directly from motor vehicle tax collections. In 2017, ADOT reported that, as a technical matter, those distributions instead come from the motor vehicle fuel tax portion of the Highway User Revenue Fund and revised its reporting accordingly. The *2018 Tax Handbook* conforms with the revised reporting and displays those distributions in the *Highway User Revenue Fund Overview* section rather than in this section.

Tax collections are distributed on the following basis (see Table 2 on following page):

- *Aircraft.* Taxes collected from sales of motor vehicle fuel consumed in aircraft are deposited in the State Aviation Fund. However, if a refund is claimed, 5¢ on each gallon of tax collected remains in the State Aviation Fund and the balance is refunded to the taxpayer [A.R.S. § 28-5611].`
- *Remainder.* The net collections remaining after refunds and the above distributions are deposited in HURF [A.R.S. § 28-5925]. (See *HURF Overview* at the beginning of this section for distribution of HURF monies.)

Table 1

### COLLECTIONS

| <u>Fiscal Year</u> | <u>Net Collections</u> | <u>Fiscal Year</u> | <u>Net Collections</u> |
|--------------------|------------------------|--------------------|------------------------|
| 2021               | \$512,699,298          | 2011               | \$471,346,375          |
| 2020               | \$523,499,259          | 2010               | \$471,232,029          |
| 2019               | \$541,214,864          | 2009               | \$474,008,922          |
| 2018               | \$536,651,832          | 2008               | \$512,094,400          |
| 2017               | \$527,157,899          | 2007               | \$516,208,893          |
| 2016               | \$518,458,963          | 2006               | \$503,210,580          |
| 2015               | \$492,554,392          | 2005               | \$496,340,649          |
| 2014               | \$476,475,676          | 2004               | \$478,829,323          |
| 2013               | \$470,658,374          | 2003               | \$463,864,197          |
| 2012               | \$471,264,772          | 2002               | \$452,550,965          |

SOURCE: ADOT, Office of Financial Planning.



## Motor Vehicle Fuel Tax

### WHO PAYS

The motor vehicle fuel tax is presumed to be a direct tax on the consumer but is still collected and remitted to ADOT by suppliers for the purpose of convenience. In other words, the tax is collected and paid to ADOT by a supplier, who then adds the tax to the price of motor vehicle fuel in order to recover it from the consumer [A.R.S. § 28-5606].

Table 2

#### DISTRIBUTION OF COLLECTIONS

| <b>Fiscal<br/>Year</b> | <b>Highway User<br/>Revenue Fund <sup>1/</sup></b> | <b>State<br/>Aviation<br/>Fund</b> | <b>Refunds to<br/>Taxpayers</b> | <b>Net<br/>Collections</b> |
|------------------------|--|------------------------------------|---------------------------------|----------------------------|
| 2021                   | \$505,224,900                                      | \$327,649                          | \$7,146,749                     | \$505,224,900              |
| 2020                   | \$515,447,923                                      | \$360,942                          | \$7,690,394                     | \$523,499,259              |
| 2019                   | \$531,067,688                                      | \$316,959                          | \$9,830,217                     | \$541,214,864              |
| 2018                   | \$527,355,093                                      | \$341,400                          | \$8,955,340                     | \$536,651,832              |
| 2017                   | \$515,115,783                                      | \$306,780                          | \$11,735,335                    | \$527,157,899              |
| 2016                   | \$505,686,632                                      | \$325,479                          | \$12,446,852                    | \$518,458,963              |
| 2015                   | \$481,249,488                                      | \$329,326                          | \$10,975,578                    | \$492,554,392              |
| 2014                   | \$467,004,158                                      | \$313,075                          | \$9,158,443                     | \$476,475,676              |
| 2013                   | \$461,046,068                                      | \$358,677                          | \$9,253,630                     | \$470,658,374              |
| 2012                   | \$461,978,721                                      | \$312,914                          | \$8,973,138                     | \$471,264,772              |
| 2011                   | \$463,532,008                                      | \$383,655                          | \$7,430,713                     | \$471,346,375              |
| 2010                   | \$464,016,951                                      | \$339,980                          | \$6,875,098                     | \$471,232,029              |
| 2009                   | \$467,401,612                                      | \$380,429                          | \$6,226,880                     | \$474,008,922              |
| 2008                   | \$503,954,401                                      | \$420,915                          | \$7,719,084                     | \$512,094,400              |
| 2007                   | \$509,239,936                                      | \$460,470                          | \$6,508,486                     | \$516,208,893              |
| 2006                   | \$499,069,011                                      | \$462,598                          | \$3,678,970                     | \$503,210,580              |
| 2005                   | \$491,113,158                                      | \$499,136                          | \$4,728,355                     | \$496,340,649              |
| 2004                   | \$472,997,475                                      | \$572,686                          | \$5,259,161                     | \$478,829,323              |
| 2003                   | \$458,739,246                                      | \$646,314                          | \$4,478,637                     | \$463,864,197              |
| 2002                   | \$446,345,944                                      | \$510,378                          | \$5,694,643                     | \$452,550,965              |

<sup>1/</sup> Use Fuel Tax collections excluded.

### REVENUE BASE AND RATE

The revenue base is motor vehicle fuel, which includes all products that are commonly or commercially known or sold as gasoline. This definition includes casinghead gasoline (unprocessed natural gas containing natural gasoline and other liquid hydrocarbon vapors produced from an oil well), natural gasoline and all flammable liquids composed of a mixture of selected hydrocarbons manufactured or blended for use in internal combustion engines. Motor vehicle fuel does not include transmix, jet or aviation fuel, or any fuels covered under the use fuel tax [A.R.S. § 28-101].

The following are exempted from the motor vehicle fuel tax [A.R.S. § 28-5610]:

- Motor vehicle fuel for which proof of export is available in the form of a terminal issued destination state shipping paper, and is either exported by a supplier that is licensed in the destination state, or sold by a supplier to a distributor for immediate export.
- Motor vehicle fuel that was acquired by a distributor on which the tax has previously been paid and was subsequently exported across the state border.

## **Motor Vehicle Fuel Tax**

---

- Motor vehicle fuel sold on an Indian reservation to a tribal member.
- Motor vehicle fuel sold off an Indian reservation for purposes of operating a motor vehicle for the benefit of an Indian tribe.
- Motor vehicle fuel that is moving in interstate or foreign commerce and that is not destined or diverted to a point in this state.
- Motor vehicle fuel that is sold to the United States or its agencies or instrumentalities.

The tax rate is 18¢ per gallon [A.R.S. § 28-5606].

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

A person who buys and uses motor vehicle fuel is entitled to a refund if he or she pays the tax on the fuel and either [A.R.S. § 28-5611]:

- uses the fuel for purposes other than operating a motor vehicle on a highway, a motor vehicle on a transportation facility or toll road (public-private partnerships), or a watercraft on a waterway in Arizona,
- buys aviation fuel for use in aircraft applying seeds, fertilizer, or pesticides, or
- loses the fuel by fire, theft or other accident.

### **PAYMENT SCHEDULE**

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

### **IMPACT OF STATUTORY CHANGES**

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this tax from 2015 through 2021.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

# USE FUEL TAX

## DESCRIPTION

The use fuel tax applies to diesel and other fuels, but not to gasoline and alternative fuels. For vehicles weighing less than 26,000 pounds, the tax rate is the motor vehicle fuel tax rate, or 18¢ per gallon. For vehicles weighing more than 26,000 pounds, the tax rate is 26¢ per gallon. Revenues from the tax are deposited in the Highway User Revenue Fund (HURF).

## DISTRIBUTION

The use fuel tax is deposited in HURF [A.R.S. § 28-5730]. (See *HURF Overview* at the beginning of this section for distribution of HURF monies.)

| Table 1  |                        |                    |                        |
|--|------------------------|--------------------|------------------------|
| COLLECTIONS  |                        |                    |                        |
| <u>Fiscal Year</u>   | <u>Net Collections</u> | <u>Fiscal Year</u> | <u>Net Collections</u> |
| 2021   | \$249,838,316          | 2011               | \$178,684,336          |
| 2020   | \$217,957,656          | 2010               | \$171,308,245          |
| 2019   | \$218,817,526          | 2009               | \$173,930,895          |
| 2018   | \$202,113,866          | 2008               | \$207,859,050          |
| 2017   | \$201,696,623          | 2007               | \$210,281,755          |
| 2016   | \$193,290,854          | 2006               | \$213,460,036          |
| 2015   | \$184,499,917          | 2005               | \$194,368,181          |
| 2014   | \$176,367,953          | 2004               | \$179,002,025          |
| 2013   | \$177,240,384          | 2003               | \$166,744,147          |
| 2012   | \$180,242,229          | 2002               | \$161,507,309          |
| SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning. |                        |                    |                        |

## WHO PAYS

The use fuel tax is presumed to be a direct tax on the consumer but is still collected and remitted to the Arizona Department of Transportation (ADOT) by suppliers for the purpose of convenience. In other words, the tax is collected and paid to ADOT by a supplier, who then adds the tax to the price of use fuel in order to recover it from the consumer [A.R.S. § 28-5606].

## REVENUE BASE AND RATE

The revenue base is use fuel, which includes all gases and liquids used to propel motor vehicles that are not subject to the motor vehicle fuel tax [A.R.S. § 28-5601].

An interstate user of use fuel on which the use fuel tax has not been paid is required to remit an amount that is computed by multiplying the number of gallons of use fuel used by the tax rate per gallon. The taxable gallonage is computed on the basis of miles traveled in Arizona as compared to total miles traveled in and outside the state. The actual method of computation is decided by ADOT [A.R.S. § 28-5720].

The following are exempted from the use fuel tax [A.R.S. § 28-5610]:

## Use Fuel Tax

---

- Use fuel for which proof of export is available in the form of a terminal-issued destination state shipping paper, and is either exported by a supplier that is licensed in the destination state, or sold by a supplier to a distributor for immediate export.
- Use fuel that was acquired by a distributor on which the tax has previously been paid and was subsequently exported across the state border.
- Use fuel sold on an Indian reservation to a tribal member.
- Use fuel sold off an Indian reservation for purposes of operating a motor vehicle for the benefit of an Indian tribe.
- Use fuel that is moving in interstate or foreign commerce and that is not destined or diverted to a point in this state.
- Use fuel that has been accidentally contaminated by dye and hence rendered unsalable as highway fuel.
- Dyed diesel fuel.

NOTE: There is no use fuel tax on alternative fuels [A.R.S. § 28-5606].

The tax rate is 18¢ per gallon for vehicles weighing less than 26,000 pounds. The tax rate is 26¢ per gallon for vehicles weighing more than 26,000 pounds [A.R.S. § 28-5606]. There is an exception to both of these rates for healthy forest enterprises, which pay 9¢ per gallon.

### **PAYMENT SCHEDULE**

Tax that is accrued in any calendar month shall be paid on or before the 27<sup>th</sup> day of the succeeding calendar month to ADOT [A.R.S. § 28-5925].

### **IMPACT OF STATUTORY CHANGES**

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this tax in the period from 2015 through 2021.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azilbc.gov/21taxbook/21taxbk.pdf>.

# VEHICLE LICENSE TAX

## DESCRIPTION

The Vehicle License Tax (VLT) is an ad valorem tax levied on registered vehicles in the state. The tax is levied per \$100 of a vehicle's assessed value. For the first 12 months of the vehicle's life, the assessed value is 60% of the manufacturer's base retail price. For each subsequent year, the assessed value is 16.25% less than the previous year. The rate per \$100 of assessed value is \$2.80 for new vehicles and \$2.89 for renewals.

Table 1

### COLLECTIONS

| <u>Fiscal Year</u> | <u>Net Collections</u> | <u>Fiscal Year</u> | <u>Net Collections</u> |
|--------------------|------------------------|--------------------|------------------------|
| 2021               | \$1,226,266,999        | 2011               | \$719,280,662          |
| 2020               | \$1,053,745,450        | 2010               | \$735,972,889          |
| 2019               | \$1,045,019,207        | 2009               | \$796,683,787          |
| 2018               | \$990,139,421          | 2008               | \$858,975,998          |
| 2017               | \$939,766,758          | 2007               | \$875,746,210          |
| 2016               | \$881,841,424          | 2006               | \$831,950,743          |
| 2015               | \$823,916,863          | 2005               | \$747,013,406          |
| 2014               | \$776,650,468          | 2004               | \$695,325,929          |
| 2013               | \$728,290,689          | 2003               | \$633,788,189          |
| 2012               | \$716,086,941          | 2002               | \$601,666,653          |

SOURCE: ADOT, Office of Financial Planning.

## DISTRIBUTION

Monies received by the Director of the Arizona Department of Transportation (ADOT) from this tax are distributed as follows [A.R.S. § 28-5808]:

For monies collected from most vehicles:

- 45% to the Highway User Revenue Fund (HURF)
- 24.6% to county general funds
- 5.8% to counties for transportation-related purposes
- 24.6% to incorporated cities and towns

Once the 45% of HURF is distributed, the VLT distribution appears as follows:

### Counties - 38.7%

- 24.6% to county general funds
- 14.1% to county highway and transportation purposes

### Cities and Towns - 38.0%

- 24.6% to incorporated city and town general funds
- 13.4% to incorporated city and town highway and transportation purposes

### State - 23.3%

- 19.0% to the State Highway Fund
- 3.1% to Motor Vehicle Department (MVD) third parties
- 0.9% to the state General Fund
- 0.3% to the Department of Public Safety Parity Compensation (DPS) Fund

## Vehicle License Tax

Table 2

### DISTRIBUTION

| <b>Fiscal Year</b>  | <b>State General Fund</b> | <b>State Highway Fund</b> | <b>MVD Third Parties <sup>1/</sup></b> | <b>Local Governments <sup>2/</sup></b> | <b>DPS Parity Comp Fund</b> | <b>Net Collections</b> |
|---------------------|---------------------------|---------------------------|--|--|-----------------------------|------------------------|
| 2021 <sup>3/</sup>  | \$34,031,974              | \$213,907,193             | \$43,873,374                           | \$930,328,254                          | \$4,126,204                 | \$1,226,266,999        |
| 2020 <sup>4/</sup>  | \$33,124,601              | \$191,273,551             | \$28,632,555                           | \$797,171,355                          | \$3,543,388                 | \$1,053,745,450        |
| 2019 <sup>5/</sup>  | \$51,213,367              | \$176,389,479             | \$32,271,808                           | \$781,612,168                          | \$3,532,385                 | \$1,045,019,207        |
| 2018 <sup>6/</sup>  | \$9,047,112               | \$186,164,005             | \$31,547,056                           | \$760,041,747                          | \$3,339,501                 | \$990,139,421          |
| 2017 <sup>7/</sup>  | \$8,378,583               | \$177,280,870             | \$29,658,748                           | \$721,286,730                          | \$3,161,827                 | \$939,766,758          |
| 2016 <sup>8/</sup>  | \$7,447,186               | \$167,311,596             | \$27,010,326                           | \$677,099,368                          | \$2,972,948                 | \$881,841,424          |
| 2015 <sup>9/</sup>  | \$6,956,810               | \$158,315,406             | \$23,469,044                           | \$632,404,919                          | \$2,770,684                 | \$823,916,863          |
| 2014 <sup>10/</sup> | \$6,401,486               | \$149,551,575             | \$21,821,576                           | \$596,259,670                          | \$2,616,160                 | \$776,650,468          |
| 2013 <sup>11/</sup> | \$6,091,579               | \$141,182,351             | \$19,696,323                           | \$558,873,217                          | \$2,447,220                 | \$728,290,689          |
| 2012 <sup>12/</sup> | \$111,110,374             | \$86,559,610              | \$18,666,754                           | \$497,354,125                          | \$2,396,078                 | \$716,086,941          |
| 2011 <sup>13/</sup> | \$47,278,118              | \$121,085,125             | \$17,436,109                           | \$531,081,982                          | \$2,399,328                 | \$719,280,662          |
| 2010 <sup>14/</sup> | \$45,955,022              | \$126,415,528             | \$16,046,738                           | \$545,063,803                          | \$2,491,798                 | \$735,972,889          |
| 2009 <sup>15/</sup> | \$68,637,851              | \$129,031,249             | \$16,060,465                           | \$580,992,141                          | \$1,962,081                 | \$796,683,787          |
| 2008 <sup>16/</sup> | \$2,269,219               | \$175,782,821             | \$16,304,558                           | \$661,705,985                          | \$2,913,415                 | \$858,975,998          |
| 2007                | \$684,102                 | \$180,569,892             | \$15,524,579                           | \$675,984,843                          | \$2,982,792                 | \$875,746,210          |

<sup>1/</sup> A.R.S. § 28-5101 provides for the reimbursement of authorized MVD third parties for their services performed. The majority of reimbursement monies come from the State Highway Fund.

<sup>2/</sup> Includes the following VLT distributions equaling 76.7% of all VLT: 24.6% for incorporated city and town general funds, 24.6% for county general funds, 14.1% for county highway and transportation purposes and 13.4% for incorporated city and town highway purposes.

<sup>3/</sup> In FY 2021, there was a distribution in the amount of \$9.9 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of \$734,400 for school financial assistance and \$15,700 from the MVD Registration Compliance program per Laws 2002, Chapter 328, which requires ADOT to deposit 50% of any increase in VLT collections due to vehicle registration enforcement in the General Fund.

<sup>4/</sup> In FY 2020, there was a distribution in the amount of \$8.6 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Per Laws 2019, Chapter 263, there was another distribution in the amount of \$23.4 million to the General Fund from the \$15.5 million transfer of the "excess" highway safety fee revenues and the \$7.9 million suspension of State Highway Fund appropriated funding in the DPS budget. Additionally, there were allocations to the General Fund of \$1,137,000 for school financial assistance and \$14,000 from the MVD Registration Compliance program per Laws 2002, Chapter 328, which requires ADOT to deposit 50% of any increase in VLT collections due to vehicle registration enforcement in the General Fund.

<sup>5/</sup> In FY 2019, there was a distribution in the amount of \$7.9 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Per Laws 2018, Chapter 276, there was another distribution in the amount of \$42 million to the General Fund from the elimination of HURF in the DPS budget. Additionally, there were allocations to the General Fund of \$930,300 for school financial assistance and \$25,400 from the MVD Registration Compliance program per Laws 2002, Chapter 328, which requires ADOT to deposit 50% of any increase in VLT collections due to vehicle registration enforcement in the General Fund.

<sup>6/</sup> In FY 2018, there was a distribution in the amount of \$8.1 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of \$1.0 million for school financial assistance and \$9,800 from the MVD Registration Compliance program.

<sup>7/</sup> In FY 2017, there was a distribution in the amount of \$7.2 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of \$1.2 million for school financial assistance and \$27,200 from the MVD Registration Compliance program.

<sup>8/</sup> In FY 2016, there was a distribution in the amount of \$6.2 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of \$930,600 for school financial assistance and \$274,000 from the MVD Registration Compliance program.

<sup>9/</sup> In FY 2015, there was a distribution in the amount of \$5.5 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of \$1.2 million for school financial assistance and \$305,400 from the MVD Registration Compliance program.

<sup>10/</sup> In FY 2014, there was a distribution in the amount of \$4.9 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of \$892,100 for school financial assistance and \$600,700 from the MVD Registration Compliance program.

<sup>11/</sup> In FY 2013, there was a distribution in the amount of \$4.2 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of approximately \$1.0 million for school financial assistance and about \$855,900 from the MVD Registration Compliance program.

<sup>12/</sup> In FY 2012, there was a one-time distribution in the amount of \$109.1 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of approximately \$1.3 million for school financial assistance and about \$700,000 from the MVD Registration Compliance program.

<sup>13/</sup> In FY 2011, there was a one-time distribution in the amount of \$44.6 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of \$1.6 million for school financial assistance and \$1.1 million from the MVD Registration Compliance program.

<sup>14/</sup> In FY 2010, there was a one-time distribution in the amount of \$43.8 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of \$1.0 million for school financial assistance and \$1.2 million from the MVD Registration Compliance program.

<sup>15/</sup> In FY 2009, there was a one-time distribution in the amount of \$67.0 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of \$600,000 for school financial assistance and \$1.0 million from the MVD Registration Compliance program.

<sup>16/</sup> This amount includes allocations to the General Fund of \$900,000 for school financial assistance and \$1.4 million from the MVD Registration Compliance program.

SOURCE: ADOT, Office of Financial Planning.

## Vehicle License Tax

---

For monies collected from alternative fuel vehicles (except those purchased on or after January 1, 2020 that exceed 10,000 pounds), car rental surcharges, and private ambulances, fire fighting vehicles, and school buses:

- 37.61% to HURF
- 20.45% to county general funds
- 4.91% to counties for transportation-related purposes
- 20.45% to incorporated cities and towns
- 5.73% to the State Highway Fund
- 10.85% to the General Fund for school financial assistance

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

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

Of the VLT distributed to the State Highway Fund, 1.51% is dedicated to the Parity Compensation Fund.

### WHO PAYS

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

### REVENUE BASE

The VLT is levied on the assessed value of each vehicle. Effectively, the tax is levied on 10 classes of vehicles [A.R.S. § 28-5801]:

- (1) Passenger vehicles
- (2) Commercial vehicles
- (3) Non-commercial one-half ton pick-ups and similar vehicles
- (4) Buses
- (5) Taxis
- (6) Travel trailers
- (7) Trailers
- (8) Motorcycles and scooters
- (9) Privately-owned motor vehicles used exclusively as a school bus
- (10) Motor vehicles powered by alternative fuels

The taxable value of vehicles in these classes is determined as follows:

#### 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

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

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

## Vehicle License Tax

---

### Alternative Fuel Vehicles (Class 10)

- During the first 12 months of the life of a vehicle (as determined by its initial registration) purchased before January 1, 2020, the assessed value of the vehicle is a percentage set by the ADOT Director of the manufacturer's base retail price, not to exceed 10% per legislative intent. After the first 12 months of the vehicle's life, the assessed value of the vehicle is 15% less for each 12-month period than the manufacturer's base retail price.
- For vehicles purchased on or after January 1, 2020, there are 2 classifications based on weight:
  - During the first 12 months of life of a vehicle that is 10,000 pounds or less, the assessed value of the vehicle is 30% 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.
  - For vehicles that exceed 10,000 pounds, the assessed value is determined in the same manner as Class 1 through 8 vehicles [A.R.S. § 28-5805].

### **RATE**

For Classes 1 through 8, the VLT rate is \$2.80 per \$100 of assessed value for the first 12 months of the vehicle's life, and \$2.89 per \$100 of value thereafter. Exception: for noncommercial trailers that are not travel trailers and have a gross vehicle weight of less than 10,000 pounds, the VLT is a one-time tax of \$105 on initial registration and is a one-time tax of \$70 on renewal of registration [A.R.S. § 28-5801].

For Classes 9 and 10, the VLT rate is \$4 per \$100 of assessed value [A.R.S. § 28-5804, 28-5805].

For trailers and semitrailers that are not travel trailers over 10,000 pounds gross vehicle weight, the VLT is a one-time fee of \$555 for trailers which have not previously been registered, \$355 for trailers less than 6 years old which have been previously registered in another state, and \$100 for trailers 6 or more years old which have been previously registered in another state.

*Minimum Tax.* For Classes 1 through 8, the minimum amount of the VLT is \$10 per year for each vehicle subject to the tax [A.R.S. § 28-5801]. For Class 9 and Class 10 vehicles, the minimum VLT is \$5 per year [A.R.S. § 28-5804, 28-5805].

### **EXEMPTIONS**

A veteran who is a resident of Arizona and whose vehicle, or replacement of such vehicle, is acquired by financial aid from the U.S. Department of Veterans Affairs is exempt from this license tax [A.R.S. § 28-5802].

No license tax or registration fee shall be collected for a vehicle that is personally owned by a veteran, a veteran and another party, or the surviving spouse of a veteran, if such veteran is certified by the U.S. Department of Veterans Affairs as 100% disabled and drawing compensation. Only 1 vehicle or its replacement may claim this exemption during each 12-month period.

A vehicle owned by a resident who receives disability payments under Title 16 of the Social Security Act is exempt from the VLT. Such resident must show satisfactory proof of such assistance [A.R.S. § 28-5803]. Only 1 vehicle may be claimed by a resident with a disability.

An Arizona resident who is a member of the U.S. Armed Forces, including a member of a National Guard or Reserve unit, who is deployed in support of a worldwide contingency operation of the U.S. Armed Forces may register or renew the registration of a motor vehicle for 1 year without payment of registration fees and VLT. No more than 2 motor vehicles owned or leased by the member of the U.S. Armed Forces may be claimed. This exemption may only be taken 1 time by the member of the U.S. Armed Forces, the member's spouse or the member's legally-designated representative [A.R.S. § 28-5811].



## Vehicle License Tax

---

A spouse or dependent of a first responder or U.S. military member killed in the line of duty is exempted from VLT and the registration fee. The exemption ends when the spouse remarries or dies, or when the dependent turns 18 (or 23 if a full-time student), and is limited to 1 vehicle per claimant [A.R.S. § 28-5803.01].

An enrolled member of an Arizona tribe who resides within the boundaries of a reservation may claim an exemption from the VLT [Arizona Constitution, Article 20, Section 5].

### PAYMENT SCHEDULE

The VLT is due and collected annually at the time of vehicle registration [A.R.S. § 28-5801]. Exception: depending on eligibility, owners of vehicles may participate in a 2-year or 5-year vehicle registration program and prepay the VLT for the subsequent year or years [A.R.S. § 28-2159].

ADOT collects tax payments and fees.

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this tax in 2017 and 2020 through 2021.

### 2019 LAWS

**Laws 2019, Chapter 206** clarifies that a vehicle owned by a government entity is exempted from the requirement to collect a rental vehicle surcharge. Such rental vehicle surcharges levied on persons other than government entities must be used for reimbursement of the VLT imposed on the rental vehicles.

**Laws 2019, Chapter 313** alters the formula for calculating the VLT due for an alternative fuel vehicle. The bill makes the following changes:

- For vehicles initially registered or transferred in 2022, the initial value of the vehicle will be 20% of the manufacturer's base retail price rather than 1%.
- For vehicles initially registered or transferred in 2023, the initial value of the vehicle will be 60% of the manufacturer's base retail price as it is with gas powered vehicles.
- The initial value of vehicles purchased before 2022 will continue to be calculated based on 1% of the manufacturer's base retail price until the vehicle is transferred to a new owner.

### 2018 LAWS

**Laws 2018, Chapter 265** modifies the alternative fuel vehicle VLT rate as follows:

1. For alternative fuel vehicles purchased before January 1, 2020, the taxable value of the vehicle is a percentage set by the ADOT Director of the manufacturer's base retail price, not to exceed 10%, per legislative intent. For each successive 12-month period, the vehicle's assessed value is 15% less for each 12-month period than the manufacturer's base retail price.
2. For alternative fuel vehicles purchased after January 1, 2020 that are 10,000 pounds or less, the value of the vehicle is 30% of the manufacturer's base retail price. For each successive 12-month period, the vehicle's assessed value is 15% less than the assessed value for the preceding 12-month period.
3. For alternative fuel vehicles purchased after January 1, 2020 that are over 10,000 pounds, the standard VLT rate will apply.

Prior to Chapter 265, the assessed value for motor vehicles powered by alternative fuel was determined in the same manner as Class 9 vehicles.

### 2016 LAWS

**Laws 2016, Chapter 12** further modifies Laws 2015, Chapter 186 by replacing the phrase “law enforcement officer, firefighter or emergency responder” with “first responder.” The bill also defines “first responder” as the same meaning prescribed in A.R.S. § 36-661 (i.e., law enforcement officer, a firefighter or an ambulance attendant) and includes a person who is a volunteer first responder and who is operating in an official capacity on behalf of a governmental entity that is involved in an emergency of law enforcement response. These changes are effective on March 14, 2016.

**Laws 2016, Chapter 213** establishes a VLT and registration exemption for a spouse or dependent of a U.S. military member who died as the result of injuries suffered in the line of duty. The exemption applies to military members who were killed before and after the bill’s effective date of August 6, 2016.

**Laws 2016, Chapter 258** is an emergency measure that amends current statutes with respect to the method by which state-shared revenues are apportioned among counties and municipalities, as described below.

#### Counties

Under current law, state-shared revenue is distributed to a county based on its population count as of the last federal decennial census [A.R.S. § 42-5029(I)]. During the fifth year following the decennial census, a county may contract with the U.S. Census Bureau to conduct a special census of the population of that county. Beginning on July 1 in the sixth year following the decennial census, the result of the special census must be used as the basis for apportioning state-shared revenue to that county until the next federal decennial census [A.R.S. § 42-5033].

If a special census is not conducted, Laws 2016, Chapter 258 provides a county the following 3 options, all of which must be exercised before May 1 of the sixth year following a federal decennial census:

1. County submits its own population estimate as of the fifth year following the last decennial census, as approved by the Office of Employment and Population Statistics.
2. County contracts with the U.S. Census Bureau to conduct a sample survey in order to produce a mid-decade county population estimate.
3. County requests to continue to use the population count from the most recent U.S. decennial census.

If a county elects to use one of the options above, that population figure must be used (for purposes of apportioning state-state shared revenue) in the sixth year following the decennial census through June 30 of the year following the next decennial census.

#### Municipalities

Under current law, state-shared revenue is distributed to an incorporated city or town based on its population count as of the last federal decennial census [A.R.S. § 42-5029(I)]. During the fifth year following the decennial census, a city/town may contract with the U.S. Census Bureau to conduct a special census of the population of that municipality. Beginning July 1 in the sixth year following the decennial census, the special census must be used as the basis for apportioning state-shared revenue to that municipality until the next federal decennial census [A.R.S. § 42-5033].

For purposes of apportioning state-shared revenue, Laws 2016, Chapter 258 provides a city/town the option to use either the population count from the special census or the most recent population estimate from the U.S. Census Bureau. However, Chapter 258 provides that the population count from the special census be used for only 1 year. Beginning on July 1 in the second year following the special census, a city/town must use the most recent population estimate from the U.S. Census Bureau. If a special census is not conducted, Chapter 258 requires a city/town to use the most recent population estimate from the U.S. Census Bureau beginning on July 1 in the second year following the decennial census through June 30 of the year following the next decennial census.

## Vehicle License Tax

---

### 2015 LAWS

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

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

# MOTOR CARRIER FEE

## DESCRIPTION

The motor carrier fee replaced the motor carrier tax with the enactment of Laws 1997, Chapter 8. The fee is annually imposed on vehicles with a weight in excess of 12,000 pounds for the use of public highways. The amount of the fee varies according to vehicle weight, with a maximum fee of \$800 for vehicles that weigh up to 80,000 pounds. Collections from the motor carrier fee are dedicated to the Highway User Revenue Fund (HURF).

## DISTRIBUTION

Table 1 shows a 20-year revenue history for this fee.

| Table 1  |                        |                    |                        |
|--|------------------------|--------------------|------------------------|
| COLLECTIONS  |                        |                    |                        |
| <u>Fiscal Year</u>   | <u>Net Collections</u> | <u>Fiscal Year</u> | <u>Net Collections</u> |
| 2021   | \$52,128,892           | 2011               | \$36,299,755           |
| 2020   | \$45,472,271           | 2010               | \$35,807,490           |
| 2019   | \$45,812,078           | 2009               | \$40,483,421           |
| 2018   | \$42,822,555           | 2008               | \$40,177,453           |
| 2017   | \$42,090,754           | 2007               | \$45,226,185           |
| 2016   | \$41,058,142           | 2006               | \$40,504,406           |
| 2015   | \$40,226,982           | 2005               | \$37,980,023           |
| 2014   | \$38,841,688           | 2004               | \$34,617,452           |
| 2013   | \$37,310,404           | 2003               | \$32,856,325           |
| 2012   | \$37,349,582           | 2002               | \$29,346,709           |
| SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning. |                        |                    |                        |

All collections from the motor carrier fee are deposited in HURF [A.R.S. § 28-6501]. (See *HURF Overview* at the beginning of this section for distribution of HURF.)

## WHO PAYS

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

## REVENUE BASE

Motor vehicle means a motor driven vehicle that has a declared gross vehicle weight of more than 12,000 pounds (typically, a delivery type van, a large 1-ton pickup truck, or some recreational vehicles), and is subject to vehicle registration, excluding a vehicle that is exempt from gross weight fees [A.R.S. § 28-5851].

## RATE

Motor carriers pay a flat fee that varies with the weight class of the motor vehicle, as shown in Table 2 [A.R.S. § 28-5854].

## Motor Carrier Fee

---

Table 2

### FEE SCHEDULE

| <u>Vehicle Weight</u> | <u>Fee</u> | <u>Vehicle Weight</u> | <u>Fee</u> |
|-----------------------|------------|-----------------------|------------|
| 12,001 - 14,000 lbs.  | \$64       | 32,001 - 36,000 lbs.  | \$155      |
| 14,001 - 16,000 lbs.  | \$73       | 36,001 - 40,000 lbs.  | \$173      |
| 16,001 - 18,000 lbs.  | \$82       | 40,001 - 45,000 lbs.  | \$336      |
| 18,001 - 20,000 lbs.  | \$91       | 45,001 - 50,000 lbs.  | \$374      |
| 20,001 - 22,000 lbs.  | \$101      | 50,001 - 55,000 lbs.  | \$412      |
| 22,001 - 24,000 lbs.  | \$110      | 55,001 - 60,000 lbs.  | \$450      |
| 24,001 - 26,000 lbs.  | \$119      | 60,001 - 65,000 lbs.  | \$627      |
| 26,001 - 28,000 lbs.  | \$128      | 65,001 - 70,000 lbs.  | \$693      |
| 28,001 - 30,000 lbs.  | \$137      | 70,001 - 75,000 lbs.  | \$750      |
| 30,001 - 32,000 lbs.  | \$146      | 75,001 - 80,000 lbs.  | \$800      |

The following vehicles are exempt from this fee [A.R.S. § 28-5853]:

- School buses
- Motor vehicles used in the production of
  - motion pictures
  - industrial, training, and educational films
  - television commercials
  - video discs and video tapes

The Director of ADOT shall compute a reduced fee that is seven-tenths of the original fee if the motor carrier pre-qualifies for a reduced fee prior to registration and if other specific circumstances regarding vehicle load status are met [A.R.S. § 28-5855; A.R.S. § 28-5856; A.R.S. § 28-5857].

The fee for a vehicle that weighs more than 26,000 pounds and is driven less than 2,000 miles each year is \$80. The fee for a vehicle that weighs more than 26,000 pounds and is driven between 2,000 and 4,000 miles a year is \$160 [A.R.S. § 28-5867].

In addition to a commercial registration fee of \$4 and a gross weight fee, each light motor vehicle pays an annual fee of \$64. A light motor vehicle is a self-propelled motor driven vehicle that has a declared gross weight of 12,000 or fewer pounds and used to transport for hire persons, freight or property. The light motor vehicle fee exempts the vehicle from transaction privilege tax or similar taxes related to transporting for hire [A.R.S. § 28-5492]. Vehicle for hire companies (i.e., taxis, livery vehicles or limousines) and transportation network companies (such as Uber and Lyft) are exempt from the light motor vehicle fee [A.R.S. § 42-5062].

Non-resident motor carriers, or non-resident persons, who operate a motor vehicle in this state may purchase a Single-Trip Motor Carrier Fee Permit instead of paying the regular motor carrier fee. A single-trip permit is only effective during the specific trip for which it is issued. The motor carrier fee on a single-trip permit is \$12 for 50 miles or less or \$48 for more than 50 miles traveled on the highways of this state [A.R.S. § 28-5863].

ADOT may also issue a Special 30-Day Motor Carrier Fee Permit for vehicles not in the commercial transportation business, only in the state for a limited period of time and will make limited use of Arizona's highways. The motor carrier fee for a special 30-day permit is \$96 [A.R.S. § 28-5864].

## **Motor Carrier Fee**

---

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

In the event the director determines that a motor carrier overpaid the fee, penalty, or interest, the director shall credit that amount on any current amount due or refund the excess amount [A.R.S. § 28-5859].

### **PAYMENT SCHEDULE**

Fee is payable at the time the motor vehicle is registered with the state [A.R.S. § 28-5854B].

The collecting agency is ADOT [A.R.S. § 28-5854B].

### **IMPACT OF STATUTORY CHANGES**

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this fee in 2015, and from 2017 through 2021.

### **2016 LAWS**

**Laws 2016, Chapter 171** revises the annual license fee for taxis and eliminates the \$64 annual light motor vehicle fee for vehicle for hire companies (i.e., taxis, livery vehicles or limousines). These changes are effective on September 1, 2016.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azilbc.gov/21taxbook/21taxbk.pdf>.

# HIGHWAY SAFETY FEE

## DESCRIPTION

Laws 2018, Chapter 265 establishes the highway safety fee which is charged on car registrations and is annually imposed at the time of registration of a vehicle. The fee will fund highway patrol related operations under the Department of Public Safety. Chapter 265 requires the Director of the Arizona Department of Transportation (ADOT) to set the fee on car registrations sufficient to fund 110% of the highway patrol budget for each upcoming fiscal year, less any unencumbered balance in the Highway Patrol Fund that exceeds 10% of the prior year deposit [A.R.S. § 28-2007]. Laws 2021, Chapter 413 repeals the highway safety fee as of July 1, 2021.

## DISTRIBUTION

The fee generated \$188.5 million in FY 2021. In FY 2020, the fee generated \$207.0 million. In FY 2019, the revenue for this new fee, which was deposited starting January 1, 2019, generated \$111.9 million. Laws 2019, Chapter 268 repeals the fee on July 1, 2021.

All collections from the highway safety fee are deposited in the Arizona Highway Patrol Fund [A.R.S. § 28-2007].

## WHO PAYS

A person who registers their vehicle with the state of Arizona [A.R.S. § 28-2007].

## REVENUE BASE

The highway safety fee will draw revenue from owners of vehicles that register their vehicle with the state of Arizona [A.R.S. § 28-2007].

## RATE

Individuals who register their vehicle pay a flat fee that is determined by the Director of ADOT annually for each fiscal year [A.R.S. § 28-2007].

## PAYMENT SCHEDULE

Fee is payable at the time the motor vehicle is registered with the state [A.R.S. § 28-2007].

The collecting agency is ADOT [A.R.S. § 28-2007].

## IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this fee in 2020.

## 2021 LAWS

**Laws 2021, Chapter 413** modifies the highway safety fee by prohibiting ADOT from charging the highway safety fee to any vehicle registrations that take effect starting in July 2021 moving forward. Any issuance of the highway safety fee from July 2021 moving forward will be refunded to the customer.

## Highway Safety Fee

---

### 2019 LAWS

**Laws 2019, Chapter 268** modifies the highway safety fee as follows:

1. The bill repeals the highway safety fee on July 1, 2021.
2. The bill repeals the statutory requirement that the Director of ADOT establish the highway safety fee at 110% of the Highway Patrol budget.
3. The bill removes the rulemaking exemption for ADOT to determine the amount set for the highway safety fee.



## **OTHER FUND REVENUE SOURCES**

# AVIATION FUEL TAX

## DESCRIPTION

The aviation fuel tax is levied on each gallon of aviation fuel produced or imported into Arizona. Aviation fuel is defined as fuel that is expressly manufactured for use in an internal combustion engine of an aircraft. The tax rate is 5¢ per gallon, and revenues are deposited in the State Aviation Fund.

## DISTRIBUTION

The tax on aviation fuel is deposited in the State Aviation Fund [A.R.S. § 28-8345]. The monies in the fund are dedicated to the construction, development, and improvement of airports in the state.

| Table 1            |                        |                    |                        |
|--------------------|------------------------|--------------------|------------------------|
| COLLECTIONS        |                        |                    |                        |
| <u>Fiscal Year</u> | <u>Net Collections</u> | <u>Fiscal Year</u> | <u>Net Collections</u> |
| 2021               | \$327,649              | 2011               | \$383,655              |
| 2020               | \$360,942              | 2010               | \$339,980              |
| 2019               | \$316,959              | 2009               | \$380,429              |
| 2018               | \$341,400              | 2008               | \$420,915              |
| 2017               | \$306,780              | 2007               | \$460,470              |
| 2016               | \$325,479              | 2006               | \$462,598              |
| 2015               | \$329,326              | 2005               | \$499,136              |
| 2014               | \$313,075              | 2004               | \$572,686              |
| 2013               | \$358,677              | 2003               | \$646,314              |
| 2012               | \$312,914              | 2002               | \$510,378              |

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

## WHO PAYS

The aviation fuel tax is presumed to be a direct tax on the consumer but is still collected and remitted to the Arizona Department of Transportation (ADOT) by suppliers for the purpose of convenience. In other words, the tax is collected and paid to ADOT by a supplier, who then adds the tax to the price of aviation fuel in order to recover it from the consumer [A.R.S. § 28-5606].

## REVENUE BASE AND RATE

The revenue base is aviation fuel, which means all flammable liquids composed of a mixture of selected hydrocarbons manufactured and blended for the purpose of operating an internal combustion engine in an aircraft. Aviation fuel does not include fuel used in jet or turbine powered aircraft [A.R.S. § 28-101].

The following are exempted from the aviation fuel tax [A.R.S. § 28-5610]:

- Aviation fuel for which proof of export is available in the form of a terminal issued destination state shipping paper, and is either exported by a supplier that is licensed in the destination state, or sold by a supplier to a distributor for immediate export.
- Aviation fuel that was acquired by a distributor on which the tax has previously been paid and that was subsequently exported across the state border.
- Aviation fuel that is moving in interstate or foreign commerce and that is not destined or diverted to a point in this state.

## Aviation Fuel Tax

---

- Aviation fuel that is sold to the United States or its agencies or instrumentalities.

The tax rate is 5¢ per gallon [A.R.S. § 28-8344].

### **PAYMENT SCHEDULE**

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

### **IMPACT OF STATUTORY CHANGES**

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this tax in the period from 2015 through 2021.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

# HOSPITAL ASSESSMENT

## DESCRIPTION

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

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

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

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

The enactment of HB 2668 (Laws 2020, Chapter 46) further expands the assessment beginning October 1, 2020. In contrast to the original assessment, the Health Care Investment Fund assessment is levied to increase base reimbursement rates for services on AHCCCS’ dental and physician fee schedules. The assessment also makes directed payments to hospitals to supplement the base reimbursement level for services provided to AHCCCS members. Monies flow through the Health Care Investment Fund, also established by Laws 2020, Chapter 46.

## COLLECTIONS

Combined, the hospital assessment and the Health Care Investment Fund Assessment generated an estimated \$852.3 million in collections in FY 2021. *Table 1* below provides historical assessment collections since the assessment’s initial implementation in FY 2014.

## Hospital Assessment

Table 1

### COLLECTIONS

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|---------------|
| 2021*              | \$852,334,871 |
| 2020               | \$329,326,003 |
| 2019               | \$286,187,021 |
| 2018               | \$287,956,535 |
| 2017               | \$265,500,280 |
| 2016               | \$250,204,956 |
| 2015               | \$270,538,669 |
| 2014               | \$75,193,195  |

\* AHCCCS' preliminary assessment estimate

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

### DISTRIBUTION

In FFY 2022, AHCCCS' proposed model for both assessments would generate \$971.5 million in aggregate revenues.

Assessment amounts collected under the original hospital assessment may be used to fund the acute care costs of Proposition 204 Childless Adult Restoration (0-100% FPL), other Proposition 204 populations and Adult Expansion (100-133% FPL). These costs are included within the AHCCCS budget. Of the proposed hospital assessment amount, \$533.6 million would be used to fund the acute care costs of these populations. AHCCCS retained this assessment target from FFY 2021.

Under the ACA, the federal government provides an increased federal match rate for Proposition 204 childless adults. The blended match rate declined from 91.5% in FY 2020 to 90% in FY 2021 and FY 2022. Hospital assessment funding for other Proposition 204 populations receives a regular 2-to-1 match rate.

Beyond the original hospital assessment, assessment collections deposited into the new Health Care Investment Fund may be used to increase reimbursement rates in AHCCCS' dental and physician fee schedules, as well as to increase base reimbursement payments to hospitals serving AHCCCS members. Each hospital reimbursement class is placed in a payment pool with its own target pay-to-cost ratio. Of the proposed hospital assessment amount, \$437.8 million would be distributed through the Health Care Investment Fund. Of this amount, \$367.3 million would be used to fund the state share of directed hospital payments.

Assessment funds distributed to AHCCCS are not remitted to the General Fund, do not lapse and are continuously appropriated. [A.R.S. § 36-2901.09]

### WHO PAYS

A.R.S. § 36-2901.08A and A.R.S. § 36-2999.73 allow AHCCCS the option to levy the assessments on a participating hospital's revenues, discharges or bed days to fund the state share of costs incurred for Affordable Care Act expansion and to fund the cost of making directed payments to hospitals and increasing base reimbursement rates in AHCCCS' dental and physician fee schedules. [A.R.S. § 36-2901.01, A.R.S. § 36-2901.07] Statute also permits AHCCCS to establish the amount, method, modifications or exemptions to the assessment, such as the size of the hospital, the specialty services available to patients and the geographic location of the hospital. [A.R.S. § 36-2901.08C] Federal regulations require that assessments be broad-based and uniformly applied to all providers within a specified class of providers. *Table 2* lists the hospital providers (by peer hospital classification) that contributed to the FFY 2021 assessment and the respective percentage amounts to the total funds AHCCCS collected in FFY 2021.

## Hospital Assessment

**Table 2**

| <b>Hospital Provider Peer Group (# of hospitals) <sup>1/</sup></b> | <b>FFY 2021 Subtotals</b> | <b>% of total</b> |
|--|---------------------------|-------------------|
| Urban Acute Providers (27)   | \$523,647,880             | 61.4%             |
| Critical Access Hospital (CAH) Providers (11)                      | 10,960,308                | 1.3%              |
| Non-CAH Rural Acute Providers (12)                                 | 106,087,574               | 12.4 %            |
| Long-Term Care Provider (6)  | 477,750                   | 0.1%              |
| Large Psychiatric Provider (10)                                    | 9,964,297                 | 1.2%              |
| Pediatric-Intensive General Acute Hospitals (2)                    | 58,792,229                | 6.9%              |
| Medium Pediatric Intensive General Acute Hospitals (5)             | 134,231,197               | 15.7%             |
| Freestanding Children's Hospitals (1)                              | <u>8,173,637</u>          | <u>1.0%</u>       |
| <b>Total</b>   | <b>\$852,334,871</b>      | <b>100.0%</b>     |

\*AHCCCS' preliminary assessment estimate

<sup>1/</sup> In FFY 2021, 74 hospitals participated in the hospital assessment.

### REVENUE BASE AND RATE

AHCCCS determines the amount to collect based on the estimated state funding needed to cover ACA expansion (original hospital assessment), directed payments to hospital (new assessment), and base reimbursement rates to AHCCCS' dental and physician fee schedules (new assessment). Each hospital's share of the inpatient assessment is calculated by multiplying discharges reported on the hospital's Medicare Cost Report by the hospital's per-inpatient discharge rate. Although rates differ among hospital peer groups, each hospital must agree to the discharge rate before it can be imposed. *Table 3* outlines each peer hospital group's discharge rate on a per-inpatient basis for FFY 2021 and FFY 2022.

Since its January 1, 2014 implementation, the total hospital assessment liability has been split among hospitals according to their number of reported discharges and the per-inpatient discharge rate. In FFY 2021, AHCCCS added an assessment on outpatient services to keep pace with expected population growth and to meet 42 CFR § 433.68, a federal requirement that prevents health care assessments from exceeding 6% of net revenues. The outpatient assessment is calculated by multiplying net outpatient revenues by the provider type assessment rate percentage. *Table 3* outlines the percentage of each peer hospital group's outpatient net revenue for FFY 2022.

**Table 3**

| <b>Hospital Provider Peer Group (# of hospitals)</b>   | <b>FFY 2021<br/>Inpatient<br/>Discharge<br/>Rate</b> | <b>FFY 2022<br/>Inpatient<br/>Discharge<br/>Rate <sup>1/</sup></b> | <b>FFY 2021<br/>Outpatient<br/>% of Net<br/>Revenue</b> | <b>FFY 2022<br/>Outpatient<br/>% of Net<br/>Revenue <sup>2/</sup></b> |
|--|--|--|---|---|
| Urban Acute Providers (27)                             | \$908.75   | 953.25   | 6.7254%   | 7.9039%   |
| Critical Access Hospitals (CAH) (11)                   | 908.75   | 953.25   | 1.6814%   | 1.5808%   |
| Non-CAH Rural Acute Providers (12)                     | 908.75   | 953.25   | 4.0352%   | 4.7423%   |
| Long-Term Care Provider (6)                            | 227.50   | 238.50   | 1.6814%   | 1.9759%   |
| Large Psychiatric Provider (10) <sup>3/</sup>          | 227.50   | 238.50   | 1.6814%   | 1.9759%   |
| Pediatric-Intensive General Acute Hospitals (2)        | 727.00   | 762.75   | 4.3715%   | 5.1375%   |
| Medium Pediatric Intensive General Acute Hospitals (5) | 818.00   | 857.75   | 5.0440%   | 5.9278%   |
| Freestanding Children's Hospitals (1)                  | <u>182.00</u>  | <u>\$190.75</u>  | <u>1.3451%</u>  | <u>1.5808%</u>  |
| <b>WEIGHTED AVERAGE</b>                                | <b>\$746.71</b>                                      | <b>\$783.86</b>  | <b>5.3256%</b>  | <b>6.2318%</b>  |

<sup>1/</sup> For FFY 2022, AHCCCS used discharge data from FY 2019 Medicare Cost reports to calculate the inpatient assessment rate. The original hospital assessment would be allocated \$400.2 million of inpatient revenue while the Health Care Investment Fund would be allocated \$109.5 million.

<sup>2/</sup> For FFY 2022, AHCCCS used FYE 2019 net patient revenues and gross patient revenues as reported in FYE 2018 Uniform Accounting Reports. The original hospital assessment would be allocated \$133.4 million of outpatient revenue while the Health Care Investment Fund would be allocated \$328.4 million.

<sup>3/</sup> For discharges from a psychiatric sub-provider within an acute care hospital, the assessment rate is equal to the rate paid by Large Psychiatric Providers, or \$238.50 in FFY 2022.

## Hospital Assessment

---

Before any assessment can be imposed, federal Centers for Medicare & Medicaid Services (CMS) approval is required. Each hospital's inpatient discharge rate and assessment on net outpatient revenue (in FFY 2022) is verified to comply with federal regulations for permissible health care-related taxes outlined in federal regulations 42 CFR 433.68.

### PAYMENT SCHEDULE

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

Hospital payments from the Health Care Investment Fund are made on a quarterly basis to participating hospitals. AHCCCS implemented physician and dental fee schedule increases of 15% via a higher monthly capitation rate effective October 1, 2020.

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of all statutory changes that have been enacted by the Legislature. The first legislation was in 2013. There were no statutory changes to the Hospital Assessment in 2014 through 2019. In FY 2020, the legislature expanded the hospital assessment.

#### 2020 LAWS

**Laws 2020, Chapter 46** requires AHCCCS to establish an assessment on hospital revenue, discharges, or bed days for the purpose of funding fee schedule increases for providers as well as increased payments to hospitals. The AHCCCS director is required to present the methodology to the JLBC before the implementation of the assessment and thereafter, if the methodology is modified.

#### 2013 LAWS

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

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

# INSURANCE GUARANTY FUND ASSESSMENTS

## DESCRIPTION

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

## DISTRIBUTION

Each Guaranty Fund is broken into 3 accounts

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

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

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

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

- Life insurance account
- Disability account
- Annuity account

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

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



## Insurance Guaranty Fund Assessments

Table 1

### COLLECTIONS – ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND <sup>1/</sup>

| <u>Fiscal<br/>Year</u> | <u>Automobile<br/>Account</u> | <u>Worker's Compensation<br/>Account</u> <sup>2/</sup> | <u>Other<br/>Account</u> | <u>Total Net<br/>Collections</u> |
|------------------------|-------------------------------|--|--------------------------|----------------------------------|
| 1998                   | \$3,949,018                   | \$0  | \$1,446,788              | \$5,395,806                      |

<sup>1/</sup> Since FY 1996, assessments were only levied in FY 1998.

<sup>2/</sup> Laws 2014, Chapter 186 moved the workers' compensation account from the Industrial Commission Special Fund to the Arizona Property and Casualty Insurance Guaranty Fund.

SOURCE: Department of Insurance and Financial Institutions

Table 2

### COLLECTIONS – LIFE AND DISABILITY INSURANCE GUARANTY FUND <sup>1/</sup>

| <u>Fiscal<br/>Year</u> | <u>Life<br/>Account</u> | <u>Disability<br/>Account</u> | <u>Annuity<br/>Account</u> | <u>Total Net<br/>Collections</u> <sup>2/ 3/</sup> |
|------------------------|-------------------------|-------------------------------|----------------------------|---|
| 2021 <sup>4/ 5/</sup>  | \$0                     | \$7,006,021                   | \$0                        | \$7,006,257                                       |
| 2020                   | \$0                     | \$15,789,400                  | \$0                        | \$15,789,400                                      |
| 2019                   | \$0                     | \$9,159,400                   | \$0                        | \$9,159,400                                       |
| 2018                   | \$0                     | \$6,980,900                   | \$0                        | \$6,980,900                                       |
| 1997                   | \$13,542,<br>000        | \$0                           | \$10,089,000               | \$23,631,000                                      |

<sup>1/</sup> No assessment was levied between FY 1997 and FY 2018.

<sup>2/</sup> The FY 2018 collections shown in the table include a \$3,000,000 administrative assessment pursuant to A.R.S. §20-686A.

<sup>3/</sup> The FY 2020 collections shown in the table include a \$1,968,100 administrative assessment pursuant to A.R.S. §20-686A.

<sup>4/</sup> The FY 2021 collections shown in the table include a \$4,349 disability account assessment pursuant to A.R.S. §20-686A.

<sup>5/</sup> The FY 2021 collections shown in the table include a \$236 administrative account assessment pursuant to A.R.S. §20-686A.

SOURCE: Department of Insurance and Financial Institutions

## WHO PAYS

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

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

As shown in *Table 1*, prior to FY 2018 the guaranty fund assessments have not been levied since 1998. However, an assessment of \$7.0 million was levied for the Life and Disability Insurance Guaranty Fund (LDIGF) in FY 2018. The assessment is the result of the failure of 2 national insurance companies that sold policies in Arizona. The affected policies are primarily long-term care policies and are covered by the disability insurance account of the LDIGF. While the exact amount of liabilities to the fund is not yet known, estimates exceed \$150 million. The department and the board intend to levy assessments over multiple years to cover the expected liabilities to match actual fund payouts, rather than making larger assessments up front.

## Insurance Guaranty Fund Assessments

---

### REVENUE BASE

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

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

The Life and Disability Insurance Guaranty Fund is made up of 2 types of assessments, Class A and Class B. Class A assessments are set at a level by fund administrators to pay for administration expenses. Class B assessments are divided into the 3 accounts. The amount of a Class B assessment that goes to a particular account is proportional to the share of an insolvent or impaired insurer's total premiums that are covered under that particular account, except for long term care policies. For example, if 10% of an impaired insurer's premiums are covered by the disability insurance account, then 10% of the assessment levied to member insurers as a result of the impaired insurer will go to the disability insurance account under the Life and Disability Insurance Guaranty Fund, except for assessments for long term care policies which are split - 50% allocated to disability insurers and 50% allocated to life and annuity insurers. The total from both Class A and Class B assessments imposed on a member insurer in 1 calendar year cannot exceed 2% of the average of total premiums collected during the 3 years before the offending member insurer became insolvent [A.R.S. § 20-686].

### PREMIUM TAX OFFSET

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

### RECENT HISTORY

Recent assessments to the ALDIGF levied since FY 2018 are due to the failure of 2 national insurance companies with business in Arizona, Penn Treaty Network American Insurance Company and its subsidiary, American Network Insurance Company. Unlike other large multi-state insurance companies that sell multiple lines of insurance, Penn Treaty and American Network almost exclusively issued long-term care insurance policies. These types of policies increased in the 1990's as the Baby Boom generation began to plan for retirement. However, many of the actuarial assumptions that went into the pricing decisions were wrong, causing the costs of the policies to outweigh the premiums collected.

Due to these miscalculations combined with the economic and financial conditions of the Great Recession, the Pennsylvania Department of Insurance determined that Penn Treaty and American Network would not have the ability to cover future claims without an average premium increase of 300%. In 2009, the Pennsylvania Department of Insurance deemed such premium increases to be unfair to policyholders and instead requested an order of liquidation. After years of litigation, a Pennsylvania court ordered the liquidation in March 2017, requiring state guaranty funds to cover claims issued in the respective states.

As a result of the liquidation order, the ALDIGF board issued an assessment in November 2017 (its first since FY 1997) to ensure the ALDIGF is adequately funded (*See table 2, above*). Similar assessments will continue over many years, likely decreasing over time, to match the annual fund payouts. While the exact amount of the total assessments is not yet known, the department estimates that total assessments could exceed \$150 million through CY 2051.

## Insurance Guaranty Fund Assessments

---

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015. There were no changes enacted to these assessments in 2015, 2016, 2017, 2019, 2020, or 2021.

### 2018 LAWS

**Laws 2018, Chapter 64** expands the Life and Disability Insurance Guaranty Fund board from 9 to 11 members and adds health care service organizations as assessment-paying member insurers. Chapter 64 also redefines how Class B assessments for long term care policies are paid, allocating 50% of the assessment to disability insurers and 50% to life and annuity insurers. (Effective December 31, 2018)

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

# MARIJUANA EXCISE TAX

## DESCRIPTION

The marijuana excise tax, which was approved by voters in November 2020 and commonly referred to as Proposition 207, is a tax on the sale and use of recreational marijuana for persons 21 years of age and older. Proposition 207 established a 16.0% tax on the sale of recreational marijuana and marijuana products [A.R.S. § 42-5452]. Marijuana establishments are also required to pay licensing fees. The monies collected from the excise tax and licensing fees are deposited into the Smart and Safe Arizona Fund.

## DISTRIBUTION

Monies collected from the 16% excise tax levied on the sale of recreational marijuana and marijuana products are deposited into the Smart and Safe Arizona Fund (SSAF). SSAF monies are first used to pay administrative costs for certain agencies. The remainder of these monies are distributed on or before June 30 and December 31 of each year as follows [A.R.S. § 36-2856]:

- 33.0% to community college districts, including:
  - 15.0% divided equally among each district.
  - 0.5% divided equally among each provisional district.
  - 17.5% divided among the districts according to enrollment.
- 31.4% to municipal police and fire departments, divided according to the number of individuals from each department enrolled in the Public Safety Personnel Retirement System.
- 25.4% to the Highway User Revenue Fund (HURF) for state and local transportation programs.
- 10.0% to the Justice Reinvestment Fund, including:
  - 3.5% to county health departments.
  - 3.5% to DHS for grants to qualified non-profit organizations that provide justice reinvestment programs.
  - 3.0% to DHS to address public health issues affecting the state.
- 0.2% to the Attorney General for enforcement.

Total collections and distributions from the marijuana excise tax from February through June 2021 are shown in the *Table 1* below.

**Table 1**

### COLLECTIONS AND DISTRIBUTION

| <u>Fiscal</u><br><u>Year</u> | <u>Community</u><br><u>Colleges</u> | <u>Local Law</u><br><u>Enforcement and</u><br><u>Fire Departments</u> | <u>State and Local</u><br><u>Transportation</u><br><u>Programs</u> | <u>Public Health</u><br><u>and Criminal</u><br><u>Justice Programs</u> | <u>Attorney</u><br><u>General</u> | <u>Total</u><br><u>Collections</u> |
|------------------------------|-------------------------------------|---|--|--|-----------------------------------|------------------------------------|
| 2021 <sup>1/</sup>           | \$12,264,684                        | \$11,670,032  | \$9,440,090  | \$3,716,571  | \$74,331                          | \$37,165,708                       |

<sup>1/</sup> Collections for FY 2021 only include the months of February through June.

SOURCE: State Treasurer

## WHO PAYS

The 16.0% marijuana excise tax is levied on the sale and use of recreational marijuana and marijuana products and paid by the marijuana establishment [A.R.S. § 42-5452]. In addition to the excise tax, the Department of Revenue (DOR) is also collecting regular Transaction and Privilege Tax (TPT) and Use Tax from the sale of recreational marijuana. The monies collected under TPT and Use Tax are distributed to the General Fund and local governments.

## **Marijuana Excise Tax**

---

### **REVENUE BASE AND RATE**

Establishments that want to sell recreational marijuana may apply for a license at a rate of \$25,000 for an initial license and a fee of \$5,000 for a renewal of the recreational marijuana license, according to the Arizona Administrative Code Title 9, Chapter 18. Pursuant to A.R.S. § 36-2854, licenses must be renewed every two years. The licenses are available at a rate of 1 license for every 10 registered pharmacies in the state. An additional 26 licenses are available as part of the Social Equity program [A.R.S. § 36-2854]. According to the Arizona Department of Health Services, there were 143 licensees as of June 30, 2021. Establishments that obtain a recreational marijuana license will then pay a 16.0% excise tax on the sale of recreational marijuana and marijuana products. If the establishment also holds a medical marijuana license, the 16% tax will not be levied on the sale of marijuana purchased by individuals with a medical marijuana card.

### **PAYMENT SCHEDULE**

The fees for licenses are due with the applications. The excise tax levied on the sale of recreational marijuana and marijuana products is due by the 20<sup>th</sup> of each month.

### **IMPACT OF STATUTORY CHANGES**

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2020.

#### **LAWS 2021**

**Laws 2021, Chapter 196** adds the marijuana excise tax to the state's confidentiality statutes.

#### **LAWS 2020**

**Proposition 207** allows the sale of recreational marijuana by licensed marijuana establishments to individuals 21 years of age and older. The proposition requires that revenues from the sale of the newly created 16% excise tax on recreational marijuana and marijuana products be distributed as follows:

- 33.0% to community colleges
- 31.4% to local law enforcement and fire departments
- 25.4% to the state and local transportation programs
- 10.0% to public health and criminal justice programs
- 0.2% to the Attorney General

# PARI-MUTUEL TAX

## DESCRIPTION

The pari-mutuel tax is assessed on the amount of money wagered at horse and dog racing facilities and simulcasts in the state. The tax structure is separated according to the type of racing – horse or dog – and the population size of the county in which the facility is located. Live dog racing was prohibited in Arizona as of January 2017.

In July 2015, the Department of Racing was consolidated into the Department of Gaming under the title of the Division of Racing [A.R.S. § 5-101.01A]. The Division of Racing collects fees for licenses issued to facilities and personnel involved in the racing industry and regulatory assessments. The distribution has varied in the past several years. (See *Distribution* discussion below.)

The state's pari-mutuel tax does not apply to any Tribal gaming activities. Instead, on-reservation pari-mutuel wagering activity pursuant to the Tribal-State gaming compact is included as part of a tribe's calculation of Class III net gaming win. This Class III net win is subject to the tribal gaming contribution rates under the 2021 Gaming Compacts.

## DISTRIBUTION

Table 1 below provides pari-mutuel tax and license fee collections for the past 20 years. Prior to FY 2010, pari-mutuel taxes, license fees, and unclaimed property monies collected by the Department of Revenue (DOR) were distributed among several different racing funds. In FY 2010 and FY 2011 these proceeds were all distributed to the General Fund. In FY 2012, licenses and assessments were deposited into the Racing Regulation Fund, while the pari-mutuel taxes continued to be deposited into the General Fund. Since FY 2013, all proceeds are distributed to the Racing Regulation Fund.

| COLLECTIONS        |                          |                 |                          |
|--------------------|--------------------------|-----------------|--------------------------|
| <u>Fiscal Year</u> | <u>Pari-Mutuel Taxes</u> | <u>Licenses</u> | <u>Total Collections</u> |
| 2021               | \$120,646                | \$294,200       | \$414,846                |
| 2020               | \$175,303                | \$133,275       | \$308,578                |
| 2019               | \$242,683                | \$240,386       | \$483,069                |
| 2018               | \$236,678                | \$152,379       | \$389,057                |
| 2017               | \$225,334                | \$254,905       | \$480,239                |
| 2016               | \$158,085                | \$165,641       | \$323,726                |
| 2015               | \$185,892                | \$324,945       | \$510,837                |
| 2014               | \$215,525                | \$177,906       | \$393,431                |
| 2013               | \$234,628                | \$361,513       | \$596,141                |
| 2012               | \$254,801                | \$182,088       | \$436,889                |
| 2011               | \$284,807                | \$130,200       | \$415,007                |
| 2010               | \$314,021                | \$73,600        | \$387,621                |
| 2009               | \$326,590                | \$80,356        | \$406,946                |
| 2008               | \$429,592                | \$168,600       | \$598,200                |
| 2007               | \$431,437                | \$53,500        | \$484,900                |
| 2006               | \$527,860                | \$61,426        | \$589,286                |
| 2005               | \$483,901                | \$194,954       | \$655,914                |
| 2004               | \$565,204                | \$130,900       | \$696,104                |
| 2003               | \$628,564                | \$111,750       | \$740,314                |
| 2002               | \$750,354                | \$158,988       | \$909,342                |

SOURCE: Arizona Department of Gaming.

## Pari-Mutuel Tax

---

### WHO PAYS

The taxpayer is the person, firm, partnership, corporation, or association that holds a pari-mutuel permit. No single permittee may simultaneously own more than 4 racetracks within the state. No permittee that holds a permit in a county of over 700,000 persons may simultaneously hold a permit for the same kind of racing in another county having a population of over 700,000 [A.R.S. § 5-108.03].

### REVENUE BASE AND RATE

The revenue base is the “handle,” which is defined as the total amount of money contributed to pari-mutuel pools by bettors [A.R.S. § 5-101 and A.R.S. § 5-111].

Laws 2016, Chapter 246 prohibits live dog racing in Arizona as of January 1, 2017. Prior to Chapter 246, the state received 5.5% of the total handle for dog racing.

For horse racing, the state receives 2% of the first \$1.0 million of the daily pari-mutuel pool, and 5% of the amount exceeding \$1.0 million of the daily pari-mutuel pool [A.R.S. § 5-111C].

Exemptions to the pari-mutuel tax include [A.R.S. § 5-111]:

- The portion of the handle for wagering on simulcasts of out-of-state races.
- Racing meetings conducted by county fair associations with the permission of the Racing Commission. This exemption is limited to one racing meeting each year.
- Monies received from races held on charity days. Charity days are defined as days on which the net proceeds of the pari-mutuel pool are donated to non-profit organizations and corporations that benefit the public.

*Licenses and assessments.* The Division of Racing issues annual licenses and assessments to facilities and personnel involved in the racing industry. The Division of Racing establishes and collects fees for the licenses it issues [A.R.S. § 5-104].

The licenses and assessments include:

- Racing licenses.
- A regulatory assessment from the purse accounts to pay for racing animal medication testing, and animal safety and welfare.
- A regulatory assessment from each permittee for each day of dark day simulcasting conducted in excess of the number of live racing days conducted by the permittee.
- A regulatory assessment from each commercial racing permittee payable from amounts deducted from pari-mutuel pools by the permittee, in addition to the amounts the permittee is authorized to deduct from amounts wagered on live and simulcast races from in-state and out-of-state wagering handled by the permittee.

Note that these fees and assessments shall not be reduced for hardship tax credits or capital improvements.

Persons, firms, partnerships, corporations, or associations applying for a pari-mutuel permit are not charged a permit fee. Instead, the Division of Racing charges an annual licensing fee of \$150 to the following individuals representing permit applicants, where appropriate: racetrack owners with a stake of 10% or greater, corporate officers, and racetrack general managers. However, prior to the issuance of a permit, each applicant must post a bond document of up to \$300,000 for horse racing payable to the Division of Racing and the state [A.R.S. § 5-107D]. Each pari-mutuel permit holder must also make a refundable \$5,000 deposit with the Division of Racing 10 days prior to a racing meeting to ensure payment of the amount of pari-mutuel tax due to the state [A.R.S. § 5-107C].

## Pari-Mutuel Tax

---

### TAX REFUNDS AND/OR TAX CREDITS

*Hardship Credit.* Under prior law, a permittee was eligible for a hardship tax credit determined as follows [A.R.S. § 5-111]:

- Determine the percentage decrease in pari-mutuel wagering in the previous fiscal year compared to the base year. The base year is defined as the highest total pari-mutuel wagering at the racetrack and all additional wagering facilities owned by the permittee for FY 1990 through FY 1994.
- Multiply the total pari-mutuel tax liability for the current year by the percentage decrease determined above and multiply the result by 3.
- Reduce the permittee's pari-mutuel tax due for the current period, and all future periods, by the result. The hardship tax credit can be used in addition to any other tax exemptions, rebates, and credits.

The credits do not apply to licenses and assessments.

Laws 2016, Chapter 247 eliminated the Hardship Credit effective May 13, 2016. Hardship credits earned prior to May 13, 2016 may still be used to offset pari-mutuel tax owed after the effective date. The formula for determining the amount of pari-mutuel tax owed and the amount of hardship credits that can be applied to the pari-mutuel tax is displayed in *Table 2* on the following page. Prior to the elimination of the hardship credit, determination of the amount of hardship credits awarded was based on statutorily set base levels, industry trends and state pari-mutuel taxes from dollars wagered during the most recent fiscal year. *Table 2* assumes the continued operation of each of Arizona's commercial race tracks. Yavapai Downs was not in operation in FY 2017. However, J&J Equine Enterprises purchased the property in January 2018 and changed the track name from Yavapai Downs to Arizona Downs. The Arizona Downs track was granted a temporary permit to conduct live racing between FY 2019 and FY 2021 and reopened for horse racing at the start of FY 2020. The Apache Greyhound Park currently takes wagers on simulcast races but does not conduct any live racing.

*Capital Improvements.* The permittee's pari-mutuel annual tax liability may be reduced to fund capital improvements to racetracks. The reduction can be up to 1% of the total handle in counties having a population of 500,000 or more, and up to 2% in all other counties. The annual reduction continues until sufficient funds have been obtained for the completion of the capital improvement project. The projects must be approved by the Racing Commission. [A.R.S. § 5-111.02 and A.R.S. § 5-111.03].

The capital improvements provision expired on June 30, 1992 for counties with populations of 500,000 or more, and on June 30, 1999 for all other counties. Projects approved prior to these dates may continue with the tax reduction until sufficient funds have been obtained for completion of the capital improvement.

The capital improvement reduction does not apply to licenses and assessments.

### PAYMENT SCHEDULE

Pari-mutuel taxes are paid daily during the racing season. The tax is collected by the Division of Racing.



**FY 2021 Hardship Tax Credit Usage Based on the FY 2020 Dollars Wagered <sup>1/</sup>**

| Table 2  |           | (a)              | (b)                | (c)                         | (d)   | (e)   | (f)                                  | (g)                              | (h)  | (i)                                  | (j)                  | (k) <sup>1/</sup>                       |
|----------|-----------|------------------|--------------------|-----------------------------|---|---|--------------------------------------|----------------------------------|--|--------------------------------------|----------------------|---|
| Track    | Base Year | Base Year Amount | Tax Rate           | FY 20 Actual Amount Wagered | FY 20 Amount Wagered Subject to Pari-Mutuel Tax | FY 20 Pari-Mutuel Tax owed before Hardship Credit | FY 20 Amount Wagered on Charity Days | FY 20 Allowable Hardship Credits | FY 20 Pari-Mutuel Tax paid after Hardship Credit | Carryover from FY 20 Hardship Credit | FY 20 Percent Change | FY 21 Tax due based on Percent Decrease |
|          |           |                  |                    |                             |   | =b*d  |                                      |                                  | =e-f-g   | =g-e                                 | =(c-a)/a             | =e* j                                   |
| AZ Downs | FY 1994   | \$17,490,826     | 2.0% <sup>2/</sup> | \$2,659,661                 | \$516,139                                       | \$10,255  | \$0                                  | \$0                              | \$10,255   | \$0                                  | -84.79%              | \$8,696                                 |
| Turf     | FY 1994   | \$101,467,993    | 2.0% <sup>2/</sup> | \$79,239,165                | \$6,930,154                                     | \$137,012   | \$4,421 <sup>4/</sup>                | \$0                              | \$132,591 <sup>6/</sup>                          | \$14,564 <sup>6/</sup>               | -21.91%              | \$30,016                                |
| Rillito  | FY 1990   | \$3,887,981      | 2.0% <sup>2/</sup> | \$538,491                   | \$503,488                                       | \$10,070  | \$0                                  | \$10,171                         | \$0 <sup>2/</sup>                                | \$262,776                            | -86.15%              | \$8,675                                 |
| Apache   | FY 1990   | \$12,262,396     | 5.5%               | \$9,516,940                 | \$0 <sup>3/</sup>                               | \$0   | \$0                                  | \$0 <sup>5/</sup>                | \$0 <sup>2/</sup>                                | \$0 <sup>5/</sup>                    | -22.39%              | \$0                                     |
| Tucson   | FY 1990   | \$38,110,346     | 5.5%               | \$4,009,058                 | \$0 <sup>3/</sup>                               | \$0   | \$0                                  | \$0 <sup>5/</sup>                | \$0 <sup>2/</sup>                                | \$0 <sup>5/</sup>                    | -89.48%              | \$0                                     |

- <sup>1/</sup> Laws 2016, Chapter 247 eliminated the hardship credit effective May 13, 2016, no additional Hardship credits will be awarded after the effective date. Hardship credits earned prior to May 13, 2016 may still be used by racing tracks to offset pari-mutuel tax owed after this date.
- <sup>2/</sup> For horse racing, the state receives 2% of the first \$1.0 million of the daily pari-mutuel pool, and 5% of the amount exceeding \$1.0 million of the daily pari-mutuel pool [A.R.S. § 5-111C].
- <sup>3/</sup> Laws 2016, Chapter 246 prohibited live dog racing in Arizona effective January 2017. The Apache Greyhound track and the Tucson Greyhound track conduct only simulcast races; no live races are held at the Apache or Tucson racetrack. Wagering on simulcasts of out-of-state races is not subject to pari-mutuel tax [A.R.S. § 5-111].
- <sup>4/</sup> Charity days are defined as days on which the net proceeds of the pari-mutuel pool are donated to non-profit organizations and corporations that benefit the public. Monies received from races held on charity days are exempt from pari-mutuel tax [A.R.S. § 5-111].
- <sup>5/</sup> Laws 2016, Chapter 247 eliminated the hardship credit effective May 13, 2016. Although Chapter 247 allows credits earned before May 13, 2016 to still be used by racing tracks to offset pari-mutuel tax owed after this date, greyhound tracks are unable to use previously-accrued credits due to the elimination of live dog racing by Chapter 246.
- <sup>6/</sup> The Turf racetrack elected not to use the remaining balance of Hardship Credits.
- <sup>7/</sup> If the resulting amount in column (h) is negative, the track does not pay the pari-mutuel tax but rather that amount is subtracted from the Allowable Hardship Credit in column (g).

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015. There were no changes enacted to this tax in 2017 and 2018.

#### 2021 LAWS

**Laws 2021, Chapter 6** classifies knowingly holding an unauthorized racing meeting as a class 6 felony and expands the definition of "racketeering" to include acts that involve holding and unauthorized racing meeting for financial gain [A.R.S. § 5-107.01H, A.R.S. § 13-2301D].

**Laws 2021, Chapter 171** removes the limit on a live-racing permittee in a county with a population between 700,000 and 1,500,000 persons of owning or leasing 6 additional wagering facilities between August 27, 2019, and June 30, 2022. A live-racing permittee in such a county does need the written consent of a racetrack enclosure to own or lease an additional wagering facility within 60 miles of the racetrack in a county:

- With a population between 200,000 and 500,000 persons, or
- With a population greater than 3,000,000 persons [A.R.S. § 5-118].

**Laws 2021, Chapter 234** allows for wagering on live and simulcast races through the same means as the state's newly authorized event wagering activities, which includes online and mobile applications. Previously, state law authorized a process of "advance deposit wagering" for races that was conducted only by telephone. This change to allow for online and mobile race wagering is subject to any restrictions in federal law [A.R.S. § 5-1314B].

**Laws 2021, Chapter 405** requires the Department of Gaming, by January 1, 2023, to convert a dog racing permittee's permit to a harness racing permit if the permittee meets the qualifications for a harness racing permit [A.R.S. § 5-110H]. Harness racing is a form of horse racing in which the horses race with a specific gait and typically pull along the jockey in a harness.

#### 2020 LAWS

**Laws 2020, Chapter 36** continues the Department of Gaming through July 1, 2026.

#### 2019 LAWS

**Laws 2019, Chapter 197** requires the Department of Gaming to allocate 1% of the horse racing handle to the Arizona Thoroughbred Breeders Association (ATBA) on a monthly basis. Chapter 197 creates the Arizona Horse Breeders' Fund to receive monies from the 1% handle allocation. The 1% allocation will be phased in according to the following schedule:

- 34% of the 1% handle allocation in FY 2020
- 67% of the 1% handle allocation in FY 2021
- 100% of the 1% handle allocation in FY 2022 and subsequent years

Additionally, Chapter 197 creates the Retired Racehorse Adoption Fund and requires the ATBA to contribute up to \$25,000 annually to the Retired Racehorse Adoption Fund.

#### 2016 LAWS

**Laws 2016, Chapter 246** prohibits live dog racing in Arizona effective January 1, 2017. A qualified live dog racing permit holder may still conduct advance deposit wagering and wagering at additional wagering facilities owned or leased by the permit holder without having live dog racing.

**Laws 2016, Chapter 247** eliminates the hardship tax credit effective May 13, 2016. Hardship credits earned prior to May 13, 2016 may still be used by racing tracks to offset pari-mutuel tax owed after this date.

### 2015 LAWS

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

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

# TELECOMMUNICATIONS SERVICES EXCISE TAX

## DESCRIPTION

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

## DISTRIBUTION

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

Table 1

| COLLECTIONS AND DISTRIBUTION |   |  |  |  |  |
|------------------------------|---|--|--|--|--|
| <u>Fiscal Year</u>           | <u>Emergency<br/>Telecomm. Svcs.<br/>Revolving Fund</u> | <u>Telecomm. Fund<br/>for the Deaf</u> | <u>Poison<br/>Control Fund <sup>1/</sup></u> | <u>AZ State<br/>Schools for the<br/>Deaf &amp; the Blind <sup>1/</sup></u> | <u>Teratogen<br/>Information<br/>Program <sup>1/</sup></u> |
| 2021                         | \$18,912,788  | \$3,313,360                            | -  | -  | -  |
| 2020                         | \$18,461,122  | \$3,597,537                            | -  | -  | -  |
| 2019                         | \$17,717,433  | \$3,939,596                            | -  | -  | -  |
| 2018                         | \$15,713,205  | \$4,386,029                            | -  | -  | -  |
| 2017                         | \$17,810,659  | \$4,405,381                            | -  | -  | -  |
| 2016                         | \$17,695,124  | \$4,641,805                            | -  | -  | -  |
| 2015                         | \$17,850,677  | \$4,852,778                            | -  | -  | -  |
| 2014                         | \$17,109,403  | \$4,865,666                            | -  | -  | -  |
| 2013                         | \$16,425,768  | \$4,587,729                            | -  | -  | -  |
| 2012                         | \$16,481,762  | \$4,857,379                            | -  | -  | -  |
| 2011                         | \$16,606,135  | \$6,452,762                            | -  | -  | -  |
| 2010                         | \$16,453,500  | \$6,086,692                            | -  | -  | -  |
| 2009                         | \$17,774,128  | \$6,274,404                            | -  | -  | -  |
| 2008                         | \$17,332,349  | \$6,581,940                            | -  | -  | -  |
| 2007                         | \$23,074,167  | \$6,744,231                            | -  | -  | -  |
| 2006                         | \$28,736,951  | \$3,860,508                            | \$1,128,620                                  | \$ 867,140   | \$48,678   |
| 2005                         | \$27,245,559  | \$4,035,765                            | \$1,066,833                                  | \$1,363,179  | \$53,771   |
| 2004                         | \$25,691,865  | \$5,091,661                            | \$1,437,566                                  | \$1,362,312  | -  |
| 2003                         | \$23,510,706  | \$6,338,095                            | \$2,340,528                                  | -  | -  |
| 2002                         | \$21,927,338  | \$6,395,057                            | \$2,365,295                                  | -  | -  |

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

SOURCE: Department of Revenue, Annual Reports

## Telecommunications Services Excise Tax

---

### WHO PAYS

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

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

### REVENUE BASE AND RATE

#### BASE

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

The *Telecommunications Provider Proceeds Tax* is imposed on the public service corporations’ gross proceeds of sales or gross income from the business of providing exchange access services [A.R.S. § 42-5252B]. Exchange services are essentially wired telephone or telecommunication exchange lines that provide access from the customer to the local telecommunications network. This tax does not apply to wireless and VoIP.

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

#### RATE

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

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

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

### PAYMENT SCHEDULE

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

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015. There were no changes enacted to this revenue category in the period from 2015 through 2021.

A listing of tax law changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlb.gov/21taxbook/21taxbk.pdf>.

# TRIBAL GAMING CONTRIBUTIONS

## DESCRIPTION

Pursuant to the Indian Gaming Regulatory Act of 1988, Indian tribes are permitted to enter a gaming compact with the state to allow Class III ("casino-style") gaming to take place on tribal lands. Indian tribes that have entered a Tribal-State gaming compact are required to pay a share of their net win, which is the difference between gaming wins and losses before deducting casino operating costs, to the Arizona Department of Gaming (ADG).

The first Tribal-State gaming compacts in Arizona were signed and implemented in 1992. In 2002, voters passed Proposition 202, which continued tribal gaming and corresponded with the signing of new "standard form" Tribal-State compacts as specified in the ballot measure that were to last for 20 years. In 2021 amended and restated gaming compacts were entered into between the state and most Arizona Indian tribes for another 20 years.

The 2021 compacts stipulate that certain specified tribes contribute 1.0% to 8.0% of their net win to the state, depending on the annual level of the tribe's net winnings. All other tribes not specifically listed are required to contribute 0.75% of their net win to the state.

The 2021 compacts also require certain tribes to contribute to the 2021 Compact Trust Fund, with those funds then distributed to various tribes based on the allocation and priority system outlined in the compacts.

## DISTRIBUTION

Of the total tribal contributions, the 2021 compacts require that 12.0% goes directly to either 2 types of allocations: 1) Cities, towns, and counties for government services; or 2) Deposited into the Commerce and Economic Development Commission Local Communities Fund, which provides grants to cities, towns, and counties for government services that benefit the general public [A.R.S. § 41-1505.12]. Tribes generally notify the State of their planned allocation on or before the first day of the Tribe's fiscal year.

The remaining 88.0% of tribal contributions is deposited into the Arizona Benefits Fund. \$8.0 million or 9.0% of the fund (whichever is greater) is subject to legislative appropriation to ADG for administrative expenses. In addition, 2.0% is allocated to ADG to fund state and local programs for the prevention, education, and treatment of problem gambling. The remaining funds are to be distributed as follows [A.R.S § 5-601.02]:

- 56.0% to the Instructional Improvement Fund to be used by school districts
- 28.0% to the Trauma and Emergency Service Fund to reimburse hospitals for unrecovered costs
- 8.0% to the Wildlife Conservation Fund to conserve, enhance, and restore Arizona's wildlife resources
- 8.0% to the Tourism Fund to promote tourism in the state.

*Table 3*, located at the end of this section, provides historical tribal gaming contributions and distributions since FY 2004.

## WHO PAYS

Any Indian tribe that signs the Tribal-State gaming Compact is required to contribute a portion of its Class III net win for each fiscal year to the state for the privilege of operating casino-style gaming.

The 2021 compacts require the following tribes to contribute to the 2021 Compact Trust Fund:

- The Gila River Indian Community shall contribute \$1.0 million per year for the first 3 years, \$3.9 million for each of the next two years, then \$4.8 million per year for years 5 through 10.
- The Salt River Pima-Maricopa Indian Community shall contribute \$2.8 million per year for the first 3 years and \$4.8 million each year for years 3-10.

## Tribal Gaming Contributions

- The Tohono O'odham Nation shall contribute \$2.8 million per year for the first 3 years and \$4.8 million each year for years 3 through 10.

### REVENUE BASE AND RATE

The revenue base for tribal contributions is the net win on Class III games, which is the difference between gaming wins and losses before deducting casino operating costs. Under federal law, Class III games include all gaming activity permitted by a Tribal-State compact beyond certain specific games such as bingo. In practice, Class III games are typically thought of as "casino-style" or "Las Vegas-style" games. *Table 1* outlines the Class III games authorized under the Proposition 202 standard form compact, along with the expanded list of games authorized under the 2021 Gaming Compacts.

| <b>Table 1</b>   |   |
|--|---|
| <b><u>Games Authorized Under 2003 Compact</u></b>                          | <b><u>Games Authorized Under 2021 Compact</u></b> |
| Slot Machines  | Slot Machines                                     |
| Blackjack  | Blackjack   |
| Poker  | Poker   |
| Jackpot Poker  | Jackpot Poker                                     |
| Keno   | Keno  |
| Lottery  | Lottery   |
| Pari-Mutuel Wagering on Horse Races  | Pari-Mutuel Wagering on Horse Races               |
| Pari-Mutuel Wagering on Dog Races <sup>1/</sup>                            | Off-Track Pari-Mutuel Wagering                    |
| Off-Track Pari-Mutuel Wagering   | Baccarat  |
|  | Roulette  |
|  | Craps   |
|  | Sic Bo  |
|  | Pai Gow   |
|  | Dealer Controlled Electronic Table Games          |
|  | Event Wagering (On-Reservation)                   |
|  | Fantasy Sports Contests (On-Reservation)          |
| <sup>1/</sup> Live dog racing was prohibited in Arizona as of January 2017 |   |

Under the 2003 compacts, each tribe's gaming contribution was determined on a sliding scale based on the tribe's annual Class III net win, as shown in *Table 2* below.

| <b>Table 2</b>                                   |  |
|--|--|
| <b>Tribal Contribution Rates – 2003 Compacts</b> |  |
| <b><u>Rate</u></b>                               | <b><u>Annual Class III Net Win</u></b> |
| 1.0%   | First \$25 million                     |
| 3.0%   | Next \$50 million                      |
| 6.0%   | Next \$25 million                      |
| 8.0%   | Above \$100 million                    |

Under the Amended 2021 compacts, only the following tribes are subject to the rates in *Table 3*: Gila River Indian Community, Salt River Indian Community, Ak Chin Indian Community, Tohono O'odham Nation, and Pascua Yaqui Tribe. The tribes which continue to be subject to the 1% to 8% contribution schedule may reduce their contribution rate to a 0.75% flat rate if certain 2021 compact provisions are violated (sometimes referred to as "poison pill" provisions) – these include: 1) Inter-tribal parity provisions (not allowing a specific tribe to exceed their gaming facility/device limits); and 2) Gaming exclusivity provisions (not authorizing additional off-reservation gaming changes under state law).

If a tribe is not included among the above listed tribes, then it is subject to a flat rate of 0.75% of Class III net win. Under the 2021 compact, a tribe subject to the 0.75% flat rate is required to revert to the rates describe in *Table 3*

## **Tribal Gaming Contributions**

---

if ADG determines that the tribe has exceeded the gaming facility or gaming device limitations contained in the compact.

### **PAYMENT SCHEDULE**

Tribal contributions to the Arizona Benefits Fund are paid quarterly to ADG and are to be made no later than 25 days after the last day of each fiscal quarter (relative to the tribe's fiscal year or the fiscal year of the tribe's gaming enterprise).

Contributions made to local cities, towns, and counties are to be made annually within 60 days of the last day of the tribe's fiscal year (or the fiscal year of the tribe's gaming enterprise). Any contributions not sent to a recipient by this time will be deposited into the Commerce and Economic Development Commission Local Communities Fund.

Payments into the 2021 Compact Trust Fund are due quarterly within 30 days after the last day of the fiscal quarter. Quarterly contributions are to be one-fourth of the yearly total required by the 2021 Amended Tribal-State Compact.

### **IMPACT OF STATUTORY CHANGES**

#### **2021 LAWS**

**Laws 2021, Chapter 234** created the 2021 Compact Trust Fund for the purpose of mitigating the impacts to Indian tribes from gaming authorized by the 2021 Amended Tribal-State Gaming Compacts and for providing economic benefits to beneficiary Indian tribes.



Table 3

TRIBAL GAMING CONTRIBUTIONS AND DISTRIBUTIONS <sup>1/</sup>

| Fiscal Year | ADG Regulation | Problem Gambling | Instructional Improvement Fund | Trauma and Energy Services Fund | Wildlife Conservation Fund | Tourism Fund | State Government Distribution | Local Government Distribution <sup>2/</sup> | Total         |
|-------------|----------------|------------------|--------------------------------|---------------------------------|----------------------------|--------------|-------------------------------|---|---------------|
| 2021        | \$8,738,891    | \$1,941,977      | \$48,394,036                   | \$24,197,018                    | \$6,913,433                | \$6,913,433  | \$97,098,788                  | \$13,291,219                                | \$110,390,007 |
| 2020        | 9,161,100      | 2,040,749        | 50,877,738                     | 25,427,734                      | 7,265,066                  | 7,265,066    | 102,037,453                   | 13,970,025                                  | 116,007,478   |
| 2019        | 8,835,085      | 1,963,042        | 48,918,218                     | 24,459,109                      | 6,988,317                  | 6,988,317    | 98,152,088                    | 13,149,406                                  | 111,301,494   |
| 2018        | 8,484,380      | 1,885,417        | 46,984,612                     | 23,492,306                      | 6,712,087                  | 6,712,087    | 94,270,890                    | 12,521,209                                  | 106,791,099   |
| 2017        | 8,083,781      | 1,796,785        | 44,776,871                     | 22,388,436                      | 6,396,696                  | 6,396,696    | 89,839,265                    | 12,171,877                                  | 102,011,142   |
| 2016        | 8,167,732      | 1,815,051        | 45,231,085                     | 22,615,543                      | 6,461,584                  | 6,461,584    | 90,752,579                    | 12,252,168                                  | 103,004,747   |
| 2015        | 8,000,000      | 1,768,497        | 44,047,559                     | 22,023,780                      | 6,292,509                  | 6,292,509    | 88,424,854                    | 11,073,942                                  | 99,498,796    |
| 2014        | 8,000,000      | 1,734,570        | 43,116,596                     | 43,116,596                      | 6,159,514                  | 6,159,514    | 86,728,492                    | 11,110,954                                  | 97,839,446    |
| 2013        | 8,000,000      | 1,730,552        | 43,006,351                     | 21,503,176                      | 6,143,764                  | 6,143,764    | 86,527,607                    | 11,054,208                                  | 97,581,815    |
| 2012        | 8,000,000      | 1,698,738        | 42,133,367                     | 21,066,684                      | 6,019,052                  | 6,019,052    | 84,936,893                    | 12,406,538                                  | 97,343,431    |
| 2011        | 8,000,000      | 1,576,805        | 38,787,522                     | 199,393,761                     | 5,541,074                  | 5,541,074    | 78,840,236                    | 11,695,194                                  | 90,535,430    |
| 2010        | 8,000,000      | 1,557,862        | 38,267,751                     | 19,133,875                      | 5,466,822                  | 5,466,722    | 77,893,132                    | 11,120,883                                  | 89,014,015    |
| 2009        | 8,000,000      | 1,729,935        | 42,989,427                     | 21,494,714                      | 6,141,347                  | 6,141,347    | 86,496,770                    | 11,037,954                                  | 97,534,724    |
| 2008        | 8,642,304      | 1,920,512        | 47,859,160                     | 23,929,580                      | 6,837,023                  | 6,837,023    | 96,025,602                    | 15,152,219                                  | 111,177,821   |
| 2007        | 8,000,000      | 1,844,483        | 46,132,602                     | 23,066,301                      | 6,590,372                  | 6,590,372    | 92,224,129                    | 11,375,744                                  | 103,599,873   |
| 2006        | 8,000,000      | 1,621,758        | 40,021,045                     | 20,010,522                      | 5,717,292                  | 5,717,292    | 81,087,909                    | 10,620,530                                  | 91,708,439    |
| 2005        | 8,000,000      | 1,307,707        | 31,403,471                     | 15,701,735                      | 4,486,210                  | 4,476,210    | 65,385,333                    | 7,589,825                                   | 72,975,158    |
| 2004        | 8,000,000      | 759,140          | 16,350,809                     | 8,175,404                       | 2,335,830                  | 2,335,830    | 37,957,013                    | 2,590,530                                   | 40,547,543    |

<sup>1/</sup> The numbers displayed represent monies distributed to agencies and may not correspond with agencies' actual expenditures or appropriation amounts.

<sup>2/</sup> Local distributions may not proportionally match state distributions due to timing issues associated with different fiscal years.

# UNDERGROUND STORAGE TANK TAX

## DESCRIPTION

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

## DISTRIBUTION

The Director of the Arizona Department of Transportation (ADOT) acts as the collecting agent for the Director of DEQ and is required, by the 20<sup>th</sup> day of each month, to distribute the UST Tax monies, net of administrative costs received during the preceding calendar month, to the Director of DEQ [A.R.S. § 28-6001]. The tax monies are then credited into the UST Revolving Fund [A.R.S. § 49-1036] and can be used in the following manner [A.R.S. § 49-1015]:

- Reimbursement for corrective action costs incurred by a political subdivision or an owner or an operator of an UST which is subject to the tax [A.R.S. § 49-1053].
- Provide grant monies. [A.R.S. § 49-1071].
- Reimburse DEQ for costs in taking corrective actions [A.R.S. § 49-1017].
- Reimburse DEQ for "reasonable" administration costs [A.R.S. § 49-1015].

*Reimbursable Costs.* The UST Revolving Fund may be used to reimburse costs of corrective actions incurred in soil and groundwater remediation. Corrective action cost reimbursements are limited to releases reported prior to January 1, 2023. Applications for preapproval must be submitted no later than December 31, 2029 and reimbursement of eligible costs must be submitted no later than December 31, 2030.

| Table 1                                     |                        |                    |                        |
|---|------------------------|--------------------|------------------------|
| COLLECTIONS                                 |                        |                    |                        |
| <u>Fiscal Year</u>                          | <u>Net Collections</u> | <u>Fiscal Year</u> | <u>Net Collections</u> |
| 2021  | \$32,875,717           | 2011               | \$28,644,426           |
| 2020  | \$31,999,200           | 2010               | \$28,703,900           |
| 2019  | \$32,804,131           | 2009               | \$28,652,200           |
| 2018  | \$33,037,711           | 2008               | \$31,581,700           |
| 2017  | \$30,302,036           | 2007               | \$32,092,000           |
| 2016  | \$31,796,946           | 2006               | \$36,174,100           |
| 2015  | \$29,853,233           | 2005               | \$30,759,200           |
| 2014  | \$28,579,676           | 2004               | \$28,090,000           |
| 2013  | \$29,023,072           | 2003               | \$27,769,100           |
| 2012  | \$28,233,058           | 2002               | \$27,819,100           |
| SOURCE: Department of Environmental Quality |                        |                    |                        |

## WHO PAYS

The operator and owner of an UST, which serves as the final dispenser of motor vehicle fuel, aviation fuel, and diesel, is responsible for payment of this tax. UST means tank(s) used to contain vehicle fuel, aviation fuel, and diesel with at least 10% of its volume underground [A.R.S. § 49-1001 and 49-1031B].

## Underground Storage Tank Tax

---

Excluded are:

- 1) non-commercial types of tanks
- 2) certain regulated pipeline facilities
- 3) tanks owned and operated by Indian tribes
- 4) septic tanks or wastewater collection systems
- 5) surface water impoundment pit
- 6) tanks situated on the floor of an underground area such as a basement.

A separate license is not required for payment of this tax [A.R.S. § 28-6003B].

### REVENUE BASE AND RATE

The tax rate is 1¢ per gallon of regulated substance placed in a tank in any calendar year [A.R.S. § 49-1031].

“Regulated substance” means petroleum or a substance defined in the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) of 1980, not including a substance regulated as hazardous waste under the Solid Waste Disposal Act of 1984 [A.R.S. § 49-1001].

The tax does not apply to (1) USTs operated by the Federal or State Government or (2) USTs used for jet fuel [A.R.S. § 49-1031C]. Indian tribes are also exempt but through an intergovernmental agreement may participate in the new programs by paying the UST Tax [A.R.S. § 49-1057].

*Additional Fees.* Owners and operators subject to the UST Tax shall pay an annual registration fee of \$100 for each tank [A.R.S. § 49-1020].

### PAYMENT SCHEDULE

The tax is due and payable annually by March 31 for the proceeding calendar year and is delinquent if not postmarked or delivered in person by that same date. A return is required to be filed at this time [A.R.S. § 49-1032].

Most taxpayers make periodic payments to ADOT at the same time and manner as the Motor Vehicle Fuel Tax. This refers to those distributions of products that ADOT normally collects for, such as gasoline, aviation fuel, and diesel oxygenated fuel. The Director of DEQ may extend the filing time for "good cause" provided that at least 90% of the tax liability is paid upon the extension request [A.R.S. § 49-1033].

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

#### 2021 LAWS

**Laws 2021, Chapter 407** suspends the administrative cap established in A.R.S. § 49-1015 for FY 2021 and authorizes DEQ to transfer up to \$6.5 million from the UST Revolving Fund for administrative expenses and for sewage remediation.

**Laws 2021, Chapter 440** includes the following provisions:

- Repeals the January 1, 2024 sunset date for the UST excise tax.
- Modifies UST performance standards.
- Allows monies in the UST Revolving Fund to be used to reimburse DEQ for reasonable and necessary costs that it incurs in administering the UST Site Improvement Program, rather than UST grant programs.

## Underground Storage Tank Tax

---

- Requires the UST excise tax and supported programs to be reviewed during the legislative sunset review of DEQ.
- Modifies preapproval process and eligibility requirements for reimbursement of corrective action.
- Modifies actions that can be taken by DEQ in placing liens against properties for unrecovered corrective action costs.
- Lengthens the period for conducting baseline assessments of USTs to January 1, 2033.
- Modifies standards for reimbursement of noncorrective actions.
- Applies new stipulations for UST owners and operators and those with previously ineligible claims to apply for and receive reimbursement of corrective action costs.
- Allows DEQ to determine the amount of monies in the UST Revolving Fund available to pay previously ineligible claims and pay claims at least once annually.
- Requires DEQ to develop criteria to prioritize payments that include reimbursing small UST owners and operators.
- Makes technical and conforming changes.

### 2020 LAWS

**Laws 2020, Chapter 55** suspends the administrative cap established in A.R.S. § 49-1015 for FY 2021 and authorizes DEQ to transfer up to \$6.5 million from the UST Revolving Fund for administrative expenses and for sewage remediation.

### 2019 LAWS

**Laws 2019, Chapter 269** includes the following provisions:

- Suspends the administrative cap established in A.R.S. § 49-1015 for FY 2020 and authorizes DEQ to transfer up to \$6.5 million from the UST Revolving Fund for administrative expenses and for sewage remediation.
- Appropriates and transfers \$5.0 million from the UST Revolving Fund to the Water Quality Assurance Revolving Fund.

**Laws 2019, Chapter 114** includes the following provisions:

- Modifies corrective action eligibility requirements.
- Requires DEQ's lien against a party responsible for a UST release for unrecovered corrective actions costs to be in the amount of the estimated increase in the property's appraised market value after the completed corrective action.
- Increases the maximum allowable grant amounts for a UST owner or operator:
  - From \$100,000 to \$200,000 for actions necessary to ensure the UST, the UST piping and the UST under-dispenser containment comply with new installation standards and other federal requirements;
  - From \$10,000 to \$20,000 for the confirmation of a suspected release at a UST or site;
  - From \$30,000 to \$40,000 for a baseline assessment of a site; and
  - From \$100,000 to \$300,000 total per site.
- Adds a reimbursement of up to \$15,000 if petroleum is encountered during the UST removal and additional excavation is needed.
- Makes technical and conforming changes.

### 2018 LAWS

**Laws 2018, Chapter 276** transfers \$1.4 million from the UST Revolving Fund to the Arizona Department of Administration for Phase 5 of the DEQ web portal, myDEQ, which will automate additional permitting and compliance processes that are currently conducted with paper.

**Laws 2018, Chapter 280** suspends the administrative cap established in A.R.S. § 49-1015 for FY 2019 and authorizes DEQ to transfer up to \$6.5 million from the UST Revolving Fund for administrative expenses and for sewage remediation.

## Underground Storage Tank Tax

---

**Laws 2018, Chapter 299** includes the following provisions:

- Amends Laws 2015, Chapter 247 to permit reimbursement up to \$1.0 million per facility for corrective actions conducted between July 1, 2010 and December 31, 2016 for releases that were properly reported and confirmed before federal responsibility requirements went into effect in 1988. The reimbursement amount is reduced by the amount of previously paid claims. A facility is prohibited from obtaining additional reimbursement if previous reimbursement exceeded \$1.0 million. Requests for reimbursement from the UST Revolving Fund must be made by the owner or operator by December 31, 2018.
- Amends Laws 2015, Chapter 247 to permit an owner or operator that satisfies the federal reporting requirements through insurance to receive additional corrective action reimbursement for work conducted on or after January 1, 2016 without filing a timely claim against its insurance carrier if the release was reported between July 1, 2006 and December 31, 2015. Reimbursement is limited to \$500,000 per facility after meeting a cost sharing obligation payment of \$50,000. No reductions are made for payments previously made under the corrective action program. In effect, this allows these facilities to receive up to \$1.0 million in reimbursement payments like other facilities that maintained insurance and holds them harmless for not filing a timely release against their insurance carrier.
- Makes technical and conforming changes.

### 2017 LAWS

**Laws 2017, Chapter 305** transfers \$3.2 million from the UST Revolving Fund to the Arizona Department of Administration for Phase 4 of the DEQ web portal, myDEQ, which will automate additional permitting and compliance processes that are currently conducted with paper.

**Laws 2017, Chapter 308** suspends the administrative cap established in A.R.S. § 49-1015 for FY 2018 and authorizes DEQ to transfer up to \$6.5 million from the UST Revolving Fund for administrative costs.

### 2016 LAWS

**Laws 2016, Chapter 120** clarifies that the UST Revolving Fund shall continue to retain its interest earnings rather than deposit them into the General Fund. This provision had been inadvertently changed in Laws 2015, Chapter 247. Additionally, Chapter 120 suspends the administrative cap established in A.R.S. § 49-1015 for FY 2017 and authorizes DEQ to transfer up to \$6.5 million from the UST Revolving Fund for administrative costs.

### 2015 LAWS

**Laws 2015, Chapter 13** suspends the administrative cap established in A.R.S. § 49-1051 for FY 2016 and authorizes DEQ to transfer up to \$6.5 million from the UST Revolving Fund for administrative costs.

**Laws 2015, Chapter 247** includes the following provisions:

- Amends Laws 2013, Chapter 244 to extend the UST tax to January 1, 2024.
- Amends Laws 2014, Chapter 14 to establish a newly-revised corrective action program.
- Repeals the State Assurance Account (SAF), the Regulated Substances Fund (RSF), the Grant Account, the UST Policy Commission, and the UST Technical Appeals Panel.
- Reorganizes the UST Revolving Fund, redefines its allowable uses, and transfers all the unencumbered, unexpended monies from abolished funds and accounts to the reorganized UST Revolving Fund.
- Establishes a 7-year baseline period beginning January 1, 2016 and requires DEQ to establish standards for conducting a baseline assessment.
- Allows UST owners and operators to request grants of up to \$100,000 per facility for the cost of a baseline assessment and other non-corrective actions specified in Laws 2015, Chapter 247.
- Establishes a new preapproval process, which will allow DEQ to reimburse certain owners and operators that implement preapproved corrective action with monies from the UST Revolving Fund.
- Limits preapproved corrective action cost reimbursements to releases reported prior to January 1, 2023.
- Establishes reimbursement mechanisms for previously time-barred claims for releases reported by certain dates.

## Underground Storage Tank Tax

---

- Limits reimbursement for previously time-barred claims to \$500,000 per facility for applicants using a financial responsibility (FR) mechanism other than insurance and \$1.0 million per facility for applicants using insurance as an FR mechanism. (This chapter was later amended by Laws 2018, Chapter 299 to provide full eligibility for facilities that were inadvertently barred from receiving the full reimbursement amount).
- Provides eligibility for preapproved corrective action reimbursement for certain owners and operators through a cost sharing obligation payment of the first \$50,000 per facility for work conducted beginning January 1, 2016.
- Removes the requirement for the Director of DEQ to submit an annual recommendation to the Legislature regarding any revision to the tax rate necessary to maintain the fund and, instead, requires DEQ to compile and submit a report on the status of the UST program by December 31, 2017 and every 3 years thereafter.
- Transfers statutes related to intergovernmental agreements with Indian tribes.
- Makes technical and conforming changes to statute.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azilbc.gov/21taxbook/21taxbk.pdf>.

# UNEMPLOYMENT INSURANCE TAX

## DESCRIPTION

Employers are required to pay both federal and state unemployment insurance taxes. Each employer is required to make contributions based on wages paid for employment, the employer's history of benefit charges, and the solvency of the statewide unemployment insurance (UI) system. These contributions are used to pay benefits to unemployed persons.

In summary, an employer is paying the following taxes and assessment on the first \$7,000 of an employee's wages each for CY 2021:

- a base state unemployment tax of between 0.08% and 20.66% (with an average of 2.28%).
- a net Federal Unemployment Tax Act (FUTA) rate of 0.6%

The base state unemployment insurance rate is between 0.02% and 5.4% of the first \$7,000 of each employee's wages each calendar year (CY) through CY 2022 and the first \$8,000 of wages in CY 2023 and each year thereafter pursuant to Laws 2021, Chapter 412. An individual employer's rate varies depending on the solvency of an employer's unemployment insurance account. These rates may be further adjusted depending on the solvency of the state's overall unemployment insurance system. For CY 2021, the base rates have been adjusted upward to range from 0.08% to 20.66% due to decreases to the UI Trust Fund balance in CY 2020 resulting from unemployment benefit claims increases during the COVID-19 pandemic. The average state unemployment insurance rate is 2.28% in CY 2021, resulting in an effective average per-employee tax of approximately \$160.

The average employer tax rate is anticipated to decline in CY 2022 as a result of deposits into the UI Trust Fund in CY 2021. The FY 2022 General Appropriation Act includes an FY 2021 supplemental appropriation of \$62,000,000 from the General Fund for deposit in the UI Trust Fund. In addition, the Executive deposited \$758,826,800 of federal American Rescue Plan Act (ARPA) monies in the fund in July 2021. These deposits increased the balance in the UI Trust Fund to \$1.15 billion by July 31, 2021, which the Executive estimates will result in a decrease in the average employer tax rate to 1.47% in CY 2022, or an average employer tax of approximately \$103 per employee. The estimated 1.47% rate for CY 2022 is below the pre-pandemic average employer tax rate of 1.60% from CY 2020.

The state unemployment insurance taxes fund 26 weeks of benefits at a maximum of \$240 per week through FY 2022. Beginning in FY 2023, the maximum benefit increases to \$320 per week and the weeks of benefits declines to 24 weeks if the state's unemployment rate in the prior calendar quarter is less than 5% pursuant to Laws 2021, Chapter 412. During periods of high unemployment, the state tax may not generate sufficient revenue to fund all 26 weeks of benefits. The state can then borrow funds from the federal government to cover its cost, as Arizona did in 2010.

In addition, an employer pays a net federal unemployment tax of 0.6% of the first \$7,000 of each employee's wages in CY 2021. Arizona employers who pay their state taxes on time receive a tax credit equal to 5.4% on the standard federal unemployment tax (FUTA) rate of 6.0% for a net rate of 0.6%. The FUTA rate may increase above 0.6% if the Unemployment Insurance Trust Fund has unpaid loan balances from the federal government for at least 2 years. Arizona's FUTA rate last rose above 0.6% in CY 2013. (*See 2020 Tax Handbook for Additional information*).

FUTA funds are deposited into 3 federal accounts. The first, the Employment Security Administration Account (ESAA), supports state program administration for the Unemployment Insurance program and the Employment Service program. The second, the Extended Unemployment Compensation Account (EUCA), provides the funds for the 50% share of the Extended Benefits program; the other 50% share is from the state's Unemployment Compensation Fund. The third, the Federal Unemployment Account (FUA), provides a loan fund for state unemployment programs in distress to ensure a continued flow of benefits.

## Unemployment Insurance Tax

---

### Federal Coronavirus Response UI Changes

In response to the Coronavirus Pandemic, the Federal Government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Families First Coronavirus Response Act. This legislation made several revisions to the unemployment insurance program administered by the Department of Economic Security.

#### **CARES Act Unemployment Provisions – March 2020**

1. Increased Unemployment Insurance benefits by \$600 weekly in addition to the benefit to which the enrollee would otherwise receive. Effectively increased weekly benefits for most Arizona enrollees from \$240 under current law to \$840. The \$600 increase was 100% federally-funded. The increase applied to enrollees from the date of enactment of the CARES Act (March 2020) through July 31, 2020. Following the expiration of the \$600 increase, the President issued an Executive Order on August 8, 2020 establishing the Lost Wages Assistance program, which used federal disaster relief monies to temporarily implement a \$300 per week increase in Unemployment Insurance benefits retroactive to August 1, 2020. Funding for the Lost Wages Assistance program in Arizona expired September 12, 2020.
2. Established Pandemic Emergency Unemployment Compensation (PEUC), which added an extra 13 weeks of benefits for individuals that have already exhausted their regular 26 weeks of unemployment benefits. PEUC Benefits were 100% federally financed and were effective from March 27, 2020 through December 31, 2020. The CARES Act required that an individual exhaust PEUC benefits prior to enrolling in the Extended Benefits program, which provides 13 additional weeks of UI benefits beyond the 13-week extension covered by PEUC. As a result, individuals who initially enrolled in the regular UI program may have been eligible for at least 52 weeks of total unemployment benefits as long as the state has triggered the conditions to provide Extended Benefits (26 weeks regular UI + 13 weeks PEUC + 13 weeks Extended Benefits = 52 weeks). Arizona met federally-established unemployment thresholds to provide extended benefits on June 14, 2020 and was eligible through April 17, 2021. Extended benefits were also 100% federally funded through December 31, 2020 (See Families First Coronavirus Response Act Unemployment Provisions below).
3. Established Pandemic Unemployment Assistance (PUA), which expanded eligibility for unemployment compensation to self-employed individuals and job entrants for individuals who lack access to unemployment insurance or other private paid leave and were not able or available to work due to COVID-19. PUA was 100% federally funded and was in effect retroactively to January 27, 2020 through December 31, 2020.
4. Funded the benefit costs of the “Shared Work program” with 100% Federal Funds through December 31, 2020. The Shared Work program allowed employees to receive a prorated unemployment benefit if, in lieu of implementing layoffs, an employer reduced hours worked.
5. Prohibited states from reducing unemployment benefit levels that were in effect January 1, 2020 as a condition of receiving additional unemployment funding through the CARES Act.
6. Stipulated that additional unemployment insurance increases under the bill do not count towards income or asset tests for the purposes of eligibility determinations for Medicaid or the Children's Health Insurance program.
7. Provided 100% federal reimbursement for first week of regular unemployment insurance benefits costs for states that eliminate 1-week waiting period for benefits. This provision was in effect through December 31, 2020.
8. Reimbursed government and nonprofit entities for half of unemployment insurance benefits paid between March 13, 2020 and December 31, 2020.

#### **Families First Coronavirus Response Act Unemployment Provisions – April 2020**

1. Provided \$1 billion for emergency grants to states for unemployment insurance administration. Each state's grant was in proportion to the state's share of wages subject to the unemployment insurance employer tax. Federal Funds Information for States, which tracks federal legislation for state governments, estimated that Arizona would receive \$6.3 million in initial grants.
2. Increased the federal share of funding for the Extended Benefits program from 50% to 100% through December 31, 2020. The Extended Benefits program allows unemployment insurance beneficiaries in states with high unemployment rates to receive benefits beyond the regular 26-week benefit limit
3. Made any loans requested by states from the federal government to address projected shortfalls in their state unemployment insurance trust funds interest-free through December 31, 2020.



## **Unemployment Insurance Tax**

---

### **Continued Assistance for Unemployed Workers Act of 2020 – December 2020**

1. Extends PUA to a maximum of 50 weeks of benefits, payable beginning the week ending January 2, 2021.
2. Extended PEUC to a maximum of 24 weeks, available through benefit week ending September 4, 2021.

### **American Rescue Plan Act of 2021 – March 2021**

1. Provided 29 weeks of PUA benefits in addition to the 50 weeks of benefits provided by the CAA. The additional PUA benefits were payable beginning with the benefit week ending March 20, 2021.
2. Provided 29 weeks of PEUC benefits, in addition to the 24 weeks provided by the CAA. The additional PEUC benefits are available through benefit week ending September 4, 2021.

Effective July 10, 2021, the Executive ended the \$300 federal supplement to unemployment insurance benefits that were put in place due to the Coronavirus Pandemic.

## Unemployment Insurance Tax

### DISTRIBUTION

Contributions are deposited in the Unemployment Compensation Fund and are used for the benefit of persons unemployed through no fault of their own [A.R.S. § 23-701].

Table 1

| <u>Fiscal Year</u> | <u>Average State<br/>Contribution<br/>Rate <sup>1/</sup></u> | <b>COLLECTIONS</b>            |   |  |                                   |
|--------------------|--|-------------------------------|---|--|-----------------------------------|
|                    |  | <u>Total<br/>Collections</u>  | <u>Unemployment<br/>Tax<br/>Contributions</u> | <u>Reimbursement<br/>Payments in<br/>Lieu of Tax <sup>2/</sup></u> | <u>Federal<br/>Reimbursements</u> |
| 2021               | 2.28%  | \$7,538,643,687               | \$495,975,868                                 | \$49,934,044   | \$6,992,733,774                   |
| 2020               | 1.60%  | \$5,132,200,910               | \$382,554,712                                 | \$9,778,325  | \$4,739,867,873                   |
| 2019               | 1.73%  | \$444,743,565                 | \$430,695,116                                 | \$11,547,371   | \$2,501,078                       |
| 2018               | 2.36%  | \$513,382,500                 | \$496,845,436                                 | \$13,651,773   | \$2,885,291                       |
| 2017               | 2.38%  | \$497,209,125                 | \$479,203,084                                 | \$15,020,981   | \$2,985,059                       |
| 2016               | 2.40%  | \$483,885,156 <sup>3/</sup>   | \$463,819,390                                 | \$15,826,137   | \$4,239,629 <sup>3/</sup>         |
| 2015               | 2.40%  | \$711,205,617                 | \$440,950,664                                 | \$18,962,246   | \$251,292,706                     |
| 2014               | 2.40%  | \$918,177,420                 | \$431,452,278                                 | \$22,607,013   | \$464,118,129                     |
| 2013               | 2.40%  | \$1,101,706,097 <sup>5/</sup> | \$415,808,516                                 | \$26,457,982   | \$659,439,599 <sup>2/</sup>       |
| 2012               | 2.90% <sup>4/</sup>  | \$1,485,462,876 <sup>5/</sup> | \$391,350,470                                 | \$37,569,725   | \$1,056,542,680 <sup>2/</sup>     |
| 2011               | 2.64% <sup>4/</sup>  | \$2,257,212,580 <sup>6/</sup> | \$354,688,388                                 | \$50,022,678   | \$1,852,501,515 <sup>8/</sup>     |
| 2010               | 2.08%  | \$1,755,552,142               | \$277,863,738                                 | \$52,537,283   | \$1,425,151,121 <sup>8/</sup>     |
| 2009               | 1.36%  | \$587,359,403                 | \$246,091,332                                 | \$21,889,172   | \$319,378,899 <sup>8/</sup>       |
| 2008               | 1.39%  | \$301,561,384                 | \$282,038,804                                 | \$14,111,465   | \$5,411,115                       |
| 2007               | 1.52%  | \$324,836,608                 | \$304,835,124                                 | \$13,736,790   | \$6,264,694                       |
| 2006               | 1.48%  | \$311,615,055                 | \$288,389,906                                 | \$16,099,858   | \$7,125,290                       |
| 2005               | 1.43%  | \$254,702,773                 | \$228,222,848                                 | \$18,269,674   | \$8,210,251                       |
| 2004               | 1.01%  | \$239,618,898                 | \$162,309,395                                 | \$20,411,672   | \$56,897,831                      |
| 2003               | 0.80%  | \$228,540,796                 | \$135,055,266                                 | \$16,718,797   | \$76,766,733                      |
| 2002               | 0.80%  | \$185,776,445                 | \$137,021,529                                 | \$11,142,567   | \$37,612,349                      |

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

<sup>2/</sup> Certain non-profit organizations, the state government and its political subdivisions may elect to make payments in lieu of contributions equal to the regular benefits and one-half of the extended benefits paid [A.R.S. § 23-750].

<sup>3/</sup> The Unemployment Insurance Title XII Loan was paid off on 05/01/2015.

<sup>4/</sup> Rate includes a special assessment of 0.4% in CY 2011 and 0.5% in CY 2012 according to Laws 2011, Chapter 218 to pay down the state's federal loan balance.

<sup>5/</sup> Includes funds received from the federal government for borrowing and emergency unemployment.

<sup>6/</sup> Includes funds received from the federal government for borrowing, emergency unemployment, extended benefits, and the Reed Act.

<sup>7/</sup> In FY 2012 - FY 2013, Federal Reimbursements include extensions of benefits authorized by the Emergency Unemployment Compensation program enacted in the federal Supplemental Appropriations Act of 2008, as well as additional extensions authorized by the Unemployment Compensation Extension Act of 2008, by the American Recovery and Reinvestment Act of 2009 (ARRA), and most recently by the American Taxpayer Relief Act of 2012. All of these benefit extensions and increases are federally funded. In addition, these funds include monies received from the federal loan.

<sup>8/</sup> In FY 2009 - FY 2011, the Federal Reimbursements include extensions of benefits authorized by the Emergency Unemployment Compensation program enacted in the federal Supplemental Appropriations Act of 2008, as well as additional extensions authorized by both the Unemployment Compensation Extension Act of 2008 and the American Recovery and Reinvestment Act of 2009 (ARRA) and a benefit increase also authorized by ARRA. All of these benefits extensions and increases are federally funded. In addition, these funds include monies received from the federal loan and the Reed Act.

SOURCE: Department of Economic Security

### WHO PAYS

The unemployment insurance tax is paid by Arizona employers [A.R.S. § 23-726].

## Unemployment Insurance Tax

---

The following employing units are excluded from the definition of employer and are, therefore, not subject to the unemployment insurance tax (for definition of employer and employing unit, see A.R.S. § 23-613):

- (1) Any employing unit that has not employed at least 1 individual for some portion of a day in each of 20 different calendar weeks during the current or preceding calendar year, and has not paid \$1,500 or more in wages in any calendar quarter of the current or preceding calendar year. This exclusion does not apply to an employer of the following services:
  - (a) Services performed in the employ of this state or any of its instrumentalities, any political subdivisions of this state and their instrumentalities, or any combination of these employing units with each other or with similar employing units in other states.
  - (b) Services performed for an employing unit that volunteer for coverage.
  - (c) Services that are subject to the Federal Unemployment Tax, when a credit may be taken against the federal tax for amounts paid into the State Unemployment Compensation Fund.
  - (d) Services performed for an employing unit that acquires the business of a covered employer.
- (2) Any employing unit that has not employed at least 10 individuals in each of 20 calendar weeks during the current or preceding calendar year and has not paid \$20,000 or more in wages in any calendar quarter of the current or preceding calendar year for agriculture employment.
- (3) An employing unit that has not paid \$1,000 or more in wages in any calendar quarter of the current or preceding calendar year for domestic service in a private home, local college club, or local chapter of a college fraternity or sorority.
- (4) An employer that has a combined Unemployment Compensation Fund contribution, Unemployment Special Assessment Fund contribution, and Arizona Job Training Fund contribution amount of less than \$10 due in a quarter.

NOTE: Employers, once covered by unemployment insurance, are not permitted to terminate coverage simply by virtue of this exemption [A.R.S. § 23-725].

### REVENUE BASE

The revenue base is the wages from employment. The unemployment insurance tax is levied on the first \$7,000 of wages paid by an employer to each employee during a calendar year through 2022 and on the first \$8,000 of wages in calendar year 2023 and each year thereafter. Wages mean remunerations for services from whatever source including commissions, bonuses, fringe benefits, and the cash value of remuneration in any medium other than cash [A.R.S. § 23-622]. (Exclusions from the statutory definition of wages are provided in A.R.S. § 23-622B.)

A.R.S. § 23-615 and § 23-617 list the services not included in the definition of employment.

### RATE

#### State Base Rate

The maximum base rate of contribution is 5.40% of the wages paid by the employer during each calendar year [A.R.S. § 23-728].

An employer, whose account has not been chargeable with benefits during the 12 consecutive calendar month period ending June 30 of the preceding calendar year, pays a contribution rate of 2.0% [A.R.S. § 23-729].

If the employer's account has been subject to charges for benefits, the maximum rate is adjusted downward depending on the employer's reserve, which is the contributions received from the employer minus benefits charged [A.R.S. § 23-730]:

- (1) If the employer's total contributions paid on or before July 31 of the preceding calendar year equals or exceeds the total benefits chargeable to the employer's account prior to July 1 of the preceding calendar year, the contribution rate for the ensuing calendar year is determined by the employer's Positive Reserve Ratio. An employer's reserve ratio is the percentage that results from dividing the employer's reserve surplus (the excess of contributions paid to the Unemployment Compensation Fund over benefits charged to the

## Unemployment Insurance Tax

employer's account) by the employer's average annual payroll. The new contribution rate is determined from the Positive Reserve Ratio as shown in *Table 2* on the next page:

**Table 2**

**EMPLOYER CONTRIBUTION RATES  
POSITIVE RESERVE RATIO**

| <u>Positive Reserve Ratio</u> | <u>Base Statutory Rate</u> | <u>2021 Adjusted Rate</u> <sup>1/</sup> |
|-------------------------------|----------------------------|---|
| less than 3% <sup>2/</sup>    | 2.60%                      | 9.92%                                   |
| 3% to 4%                      | 2.40%                      | 9.15%                                   |
| 4% to 5%                      | 2.15%                      | 8.20%                                   |
| 5% to 6%                      | 1.90%                      | 7.25%                                   |
| 6% to 7%                      | 1.65%                      | 6.29%                                   |
| 7% to 8%                      | 1.40%                      | 5.34%                                   |
| 8% to 9%                      | 1.15%                      | 4.39%                                   |
| 9% to 10%                     | 0.90%                      | 3.43%                                   |
| 10% to 11%                    | 0.65%                      | 2.48%                                   |
| 11% to 12%                    | 0.40%                      | 1.53%                                   |
| 12% to 13%                    | 0.15%                      | 0.57%                                   |
| 13% or more                   | 0.02%                      | 0.08%                                   |

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

- (2) If an employer's reserve equals zero, the adjusted contribution rate for the ensuing calendar year shall be 10.30%. If an employer has a negative reserve ratio, the contribution rate is displayed in Table 3.

**Table 3**

**EMPLOYER CONTRIBUTION RATES  
NEGATIVE RESERVE RATIO**

| <u>Negative Reserve Ratio</u> | <u>Base Statutory Rate</u> | <u>2021 Adjusted Rate</u> <sup>1/</sup> |
|-------------------------------|----------------------------|---|
| less than 3%                  | 2.85%                      | 10.87%                                  |
| 3% to 4%                      | 3.05%                      | 11.63%                                  |
| 4% to 5%                      | 3.30%                      | 12.59%                                  |
| 5% to 6%                      | 3.55%                      | 13.54%                                  |
| 6% to 7%                      | 3.80%                      | 14.49%                                  |
| 7% to 8%                      | 4.05%                      | 15.45%                                  |
| 8% to 9%                      | 4.30%                      | 16.40%                                  |
| 9% to 10%                     | 4.55%                      | 17.36%                                  |
| 10% to 11%                    | 4.80%                      | 18.31%                                  |
| 11% to 12%                    | 5.05%                      | 19.26%                                  |
| 12% to 13%                    | 5.30%                      | 20.22%                                  |
| 13% or more                   | 5.40%                      | 20.66%                                  |

<sup>1/</sup> Base rate adjusted to account for overall system solvency.

### State Adjusted Rate

Employer contribution rates may be further adjusted depending on the level of overall assets in the Unemployment Compensation Fund [A.R.S. § 23-730]. The ratio of total assets of such fund on July 31 to the total taxable payrolls for the preceding year is designated as the Fund Ratio and is used to determine the systemwide Required Income Rate in accordance with *Table 4*. The required income rate will be used in a calculation to determine whether the employer contribution rates need to be adjusted.

## Unemployment Insurance Tax

---

Table 4

| <u>Fund Ratio</u> | <u>Required Income Rate</u> |
|-------------------|-----------------------------|
| 12.0% or more     | 0.40%                       |
| 10.0% to 12.0%    | 0.50%                       |
| 9.5% to 10.0%     | 0.60%                       |
| 9.0% to 9.5%      | 0.70%                       |
| 8.5% to 9.0%      | 0.80%                       |
| 8.0% to 8.5%      | 0.90%                       |
| 7.5% to 8.0%      | 1.00%                       |
| 7.0% to 7.5%      | 1.10%                       |
| 6.5% to 7.0%      | 1.20%                       |
| 6.0% to 6.5%      | 1.30%                       |
| 5.5% to 6.0%      | 1.40%                       |
| 5.0% to 5.5%      | 1.50%                       |
| 4.5% to 5.0%      | 1.70%                       |
| 4.0% to 4.5%      | 1.80%                       |
| 3.5% to 4.0%      | 2.00%                       |
| 3.0% to 3.5%      | 2.00%                       |
| less than 3.0%    | 2.40%                       |

At the beginning of each year the department computes the Estimated Required Tax Yield from employers. This is the product of the total taxable payrolls for the preceding year multiplied by the Required Income Rate as determined from the Fund Ratio. The contribution rates are adjusted proportionately if the Estimated Required Tax Yield differs from the amount that would be collected using the contribution rates determined from the employer's Reserve Ratio. An employer's final rate of contribution is never less than 0.02% [A.R.S. § 23-730].

### Sample State Rate Calculation

An employer who has benefit charges in the past year with total contributions in excess of total benefits charged and a positive reserve ratio of less than 3% would have a base statutory rate of 2.6% as identified in Positive Reserve Ratio in *Table 2*. This rate is then adjusted further based upon a series of calculations beginning with the determination of the fund ratio. Assuming a hypothetical Unemployment Compensation Fund balance of \$634.9 million and state taxable payroll of \$22.49 billion, the fund ratio would be 2.82%. In accordance with *Table 4*, the Required Income Rate would be 2.40%. When applied against the state taxable payroll, the estimated required tax yield would be \$539.7 million, which is then adjusted down by any interest. Assuming \$26.3 million of interest, the adjusted required tax yield would be \$513.4 million.

The next calculation determines whether the actual tax rates will generate the required tax yield (of \$513.4 million). If not, then the base rate needs to be adjusted. As part of the calculation, the aggregate taxable payroll within each ratio group is multiplied by its unadjusted tax rate to arrive at the unadjusted yield for each ratio group; then all the unadjusted yields for each ratio group are added together to arrive at the total unadjusted yield. The unadjusted yield is then adjusted downward for non-adjustable yield, which consists of taxes collected from employers with no benefit charges in the prior year pursuant to A.R.S. § 23-729. Assuming a \$144.9 million unadjusted yield and \$14.0 million of non-adjustable yield, the net adjusted yield would be \$130.9 million (\$144.9 million - \$14.0 million), and the net adjusted required tax yield would be \$499.4 million (\$513.4 million - \$14.0 million). The \$499.4 million required yield is divided by the \$130.9 million net adjusted yield to derive an adjustment factor of 3.815.

The contribution rate within each reserve ratio group is multiplied by the adjustment factor to arrive at the adjusted contribution rate for the year. In this example, the final adjusted contribution rate for the year would be 9.92% (2.6% X 3.815) for employers within that reserve ratio group as shown in *Table 2*. However, this rate may be further adjusted if the state has an outstanding loan balance and the legislature has authorized an additional assessment.

## Unemployment Insurance Tax

---

### Special Assessment

The weak labor market that followed the last recession increased the amount of claims against Arizona's Unemployment Compensation Fund. Arizona was one of 33 states that borrowed from the U.S. Department of Labor to fund unemployment benefits. To pay off the federal loan and moderate the loss of the FUTA credit, the state established a special assessment for CY 2011 and CY 2012 only. The maximum allowable assessment was 0.8% (*see Laws 2011, Chapter 218*). The assessment was set at 0.5% in CY 2012, which was the final year of the assessment.

### Statewide Effective Rate

After adjusting for all of these factors, the average effective state rate is approximately 2.28% in CY 2021.

### Federal Rate

In FY 2011, FUTA was 6.2% on the first \$7,000 of wages, but was offset by a 5.4% credit for a net tax rate of 0.8% in states with programs that conform to federal standards. Beginning July 1, 2011, the FUTA rate declined to 6.0% for a net tax rate of 0.6%. FUTA funds are deposited into 3 federal accounts which support state program administration, the Extended Benefits program, and the loan fund for state unemployment programs in distress.

Arizona had to borrow money to pay its share of the 26 weeks of benefits. The state was unable to repay its loan and had a negative federal account balance in January 2011 and January 2012. Under federal law, it was required to repay the federal loan by no later than November 10, 2012 or have its FUTA credit reduced. Since the state was unable to repay the federal UI loan before November 10, 2012, the FUTA tax rate credit was reduced by 0.3% in CY 2012 and CY 2013. This reduction effectively increased employers' net federal tax rate from 0.6% to 0.9%. The state did not have a federal UI loan balance on January 1, 2014 so the net federal tax rate returned to 0.6% in CY 2014.

### Relationship with Job Training Employer Tax

Pursuant to Laws 2000, Chapter 383, the state began levying a new tax referred to as the Job Training Employer Tax as of January 1, 2001. This tax is imposed on each employer in the state at 0.1% of taxable wages. However, through a variety of exemptions, several categories of employers are excluded. Four of these exemptions are tied to the level of FUTA taxes. Effective January 1, 2001 through June 30, 2012, if the FUTA rate declined to 6.0% or less, as occurred on July 1, 2011 when the FUTA rate declined to 6.0%, the law provided for these exemptions to be eliminated and the exempted employers would have to start paying the tax. However, effective August 2, 2012, Laws 2012, Chapter 162 amended A.R.S. § 23-730.02 to change the exemptions elimination trigger to a FUTA rate that is less than 6.0%. Because contributions are paid by employers on a quarterly basis, the exemptions were restored administratively as of the beginning of the third quarter of 2012 (July 1, 2012). The tax was collected by DES and deposited in the Arizona Job Training Fund.

Laws 2015, Chapter 10 repealed the Job Training Employer Tax effective January 1, 2016. Laws 2017, Chapter 307, however, extended the Job Training Fund until June 30, 2022 to spend down the fund balance.

### Combined State and Federal Rate

The average combined state and federal rate is 2.88%, consisting of an average base state unemployment tax of 2.28%, and a net FUTA rate of 0.6%.

## **PAYMENT SCHEDULE**

Contributions are paid by employers on a quarterly basis with due dates determined by DES [A.R.S. § 23-723]. The department serves as the collecting agency for state unemployment taxes and special assessments [A.R.S. § 23-726A].

## **IMPACT OF STATUTORY CHANGES**

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

## Unemployment Insurance Tax

---

There were no changes enacted to this tax in 2017 and 2019.

### 2021 LAWS

**Laws 2021, Chapter 412** increases the maximum weekly unemployment insurance benefits from \$240 to \$320, effective July 1, 2022. It also decreases the number of weekly of unemployment benefits from 26 weeks to 24 weeks if the state unemployment rate is less than 5% in the prior calendar quarter, effective July 1, 2022. Chapter 412 increases the taxable payroll base from \$7,000 to \$8,000 beginning January 1, 2023. It requires DES to obtain current and actual employment and earned income information from third-party sources when it determines eligibility for unemployment benefits. The identity verification process may include digital and/or physical identity authentication factors. It requires DES to report by December 31 annually on unemployment insurance fraud for the previous fiscal year.

### 2020 LAWS

**Laws 2020, Chapter 48** allows the Department of Economic Security (DES) to implement alternative unemployment insurance benefit eligibility and employer contribution requirements consistent with federal guidance for individuals and employers affected by a declaration of emergency related to the coronavirus disease 2019 (COVID-19).

### 2018 LAWS

**Laws 2018, Chapter 171** makes several changes to employment security law including exempting certain medical professionals from unemployment insurance taxes and the type of evidence an independent contractor must present to the Department of Economic Security (DES) to be exempt from unemployment tax.

**Laws 2018, Chapter 340** requires the DES to establish a voluntary worker training program and defines suitable work as any employment offer that pays 120% of the individual's weekly unemployment benefit amount. If, after 4 weeks, a beneficiary is offered a job that is defined as suitable work, they must accept the offer and if they do not, their benefits will expire.

### 2016 LAWS

**Laws 2016, Chapter 185** repeals A.R.S. § 23-765, which increased the contribution rates for employers who participate in the Shared Work Program. It also restored the exemption for unemployment insurance contributions if the quarterly amount owed is less than \$10.

### 2015 LAWS

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

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

# UTILITY CORPORATION ASSESSMENTS

## DESCRIPTION

Two separate assessments are imposed on public service corporations to support the statutory duties of the Corporation Commission's Utilities Division and the Residential Utility Consumer Office (RUCO).

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

## DISTRIBUTION

*Utilities Division.* Proceeds from the Utilities Division assessment are dedicated to the Utility Regulation Revolving Fund (URRF) to pay representing attorneys and the expenses of the Utilities Division of the Corporation Commission, including related expenses of the Corporation Commission's Legal, Administration, and Hearing Divisions [A.R.S. § 40-408B-C].

*Residential Utility Consumer Office.* Proceeds from the RUCO assessment are dedicated to the RUCO Revolving Fund for the operation of RUCO [A.R.S. § 40-409B-C].

*Disposition.* Both funds are subject to legislative appropriation. Monies remaining in the funds at the end of the fiscal year do not revert to the state General Fund, but are used to calculate the annual assessments [A.R.S. § 40-408D-F and § 40-409D-F].

*Table 1* on the following page provides tax collections for the past 20 years. As noted above, the Utilities Division assessment is distributed to URRF, and the RUCO assessment is distributed to the RUCO Revolving Fund.

## WHO PAYS

Public service corporations with gross operating revenues exceeding \$500,000 from intrastate operations during the preceding calendar year must pay the tax [A.R.S. § 40-401 and § 40-401.01]. (Prior to Laws 2005, Chapter 79, the qualifying level of revenues was \$250,000.)

*Exceptions.* Corporations that are not required to hold certificates of convenience and necessity are exempted from this assessment [A.R.S. § 40-401A and § 40-401.01A]. In effect, this exception applies mainly to railroads [A.R.S. § 40-281A]. The RUCO assessment also does not apply to member-owned nonprofit cooperative corporations [A.R.S. § 40-461].

## REVENUE BASE

*Utilities Division.* The assessment for the Corporation Commission's Utilities Division is levied on the gross operating revenue from each corporation's intrastate operations during the preceding calendar year [A.R.S. § 40-401 B].

*Residential Utility Consumer Office.* The assessment for RUCO is levied on the gross operating revenue during the preceding calendar year from each corporation's intrastate operations that served residential consumers [A.R.S. § 40-401.01B].



| Table 1                      |   |                                 |                              |
|------------------------------|---|---------------------------------|------------------------------|
| COLLECTIONS AND DISTRIBUTION |   |                                 |                              |
| <u>Fiscal Year</u>           | <u>Utilities Division<br/>Net Collections</u> | <u>RUCO Net<br/>Collections</u> | <u>Total<br/>Collections</u> |
| 2021                         | \$13,985,900                                  | \$1,349,600                     | \$15,335,500                 |
| 2020                         | \$13,237,000                                  | \$957,200                       | \$14,194,200                 |
| 2019 <sup>1/</sup>           | \$22,403,900                                  | \$1,342,300                     | \$23,746,200                 |
| 2018 <sup>1/</sup>           | \$3,621,300                                   | \$1,141,400                     | \$4,762,700                  |
| 2017                         | \$23,936,200                                  | \$1,230,500                     | \$25,166,700                 |
| 2016                         | \$10,268,400                                  | \$1,158,400                     | \$11,426,800                 |
| 2015                         | \$15,280,100                                  | \$1,161,100                     | \$16,441,200                 |
| 2014 <sup>2/</sup>           | \$22,886,000                                  | \$1,132,100                     | \$24,018,100                 |
| 2013                         | \$12,997,700                                  | \$1,375,100                     | \$14,372,800                 |
| 2012                         | \$13,655,900                                  | \$1,319,200                     | \$14,975,100                 |
| 2011                         | \$13,226,800                                  | \$1,325,200                     | \$14,552,000                 |
| 2010                         | \$17,548,800                                  | \$1,308,700                     | \$18,857,500                 |
| 2009                         | \$14,702,300                                  | \$1,313,100                     | \$16,015,400                 |
| 2008                         | \$14,702,300                                  | \$1,313,100                     | \$16,015,400                 |
| 2007                         | \$13,787,200                                  | \$1,313,300                     | \$15,100,500                 |
| 2006                         | \$12,225,000                                  | \$1,184,000                     | \$13,409,000                 |
| 2005                         | \$11,100,900                                  | \$1,110,200                     | \$12,211,100                 |
| 2004                         | \$11,158,000                                  | \$1,131,700                     | \$12,289,700                 |
| 2003                         | \$8,418,500                                   | \$1,095,200                     | \$9,513,700                  |
| 2002                         | \$10,622,575                                  | \$1,045,200                     | \$11,667,775                 |

<sup>1/</sup> The assessment is levied on June 15 of each year for the upcoming fiscal year. Generally, most assessment payments are received after June 30. However, in 2018, a timing issue caused all of the 2018 assessment collections to occur after the close of FY 2018 after July 1.

<sup>2/</sup> In 2014, a higher than usual percentage of the assessment collections were received prior to July 1, which resulted in higher collections in FY 2014.

SOURCE: Corporation Commission, Annual Reports.

## RATE

*Utilities Division.* The assessment for the Utilities Division is set at a rate determined by the Corporation Commission that will raise monies equal to the amount determined as follows [A.R.S. § 40-401B]:

- (1) Determine the amount appropriated by the Legislature to operate the Utilities Division, including related appropriations for the Corporation Commission's Legal, Administration, and Hearing Divisions, for the following fiscal year.
- (2) Multiply the amount determined in (1) by 1.2.
- (3) Subtract the monies estimated to remain unexpended in URRF at the end of the current fiscal year. The difference computed is the amount to be raised by the assessment.

The assessment is allocated to each public service corporation with gross operating revenues exceeding \$500,000 from intrastate operations during the preceding calendar year proportionate to each public service corporation's share of the total amount of gross operating revenues earned by all such public service corporations.

*Residential Utility Consumer Office.* The assessment for RUCO is set at a rate that will raise monies equal to the amount determined as follows [A.R.S. § 40-401.01B]:

## Utility Corporation Assessments

---

- (1) Determine the amount appropriated by the Legislature for operating RUCO for the following fiscal year.
- (2) Subtract the monies estimated to remain in the RUCO Revolving Fund at the end of the current fiscal year.  
The difference computed is the amount to be raised by the assessment.

The assessment is allocated to each public service corporation with gross operating revenues exceeding \$500,000 from intrastate operations during the preceding calendar year proportionate to each public service corporation's share of the total amount of gross operating revenues derived from serving residential consumers earned by all such public service corporations.

*Maximum Combined Rate.* Notwithstanding the assessment formulas, the combined assessment rates may not exceed 0.25% of any corporation's gross operating revenues from intrastate operations during the preceding calendar year [A.R.S. § 40-401C and § 40-401.01C]. (Prior to Laws 2005, Chapter 79, the combined assessment rates could not exceed 0.20%.)

### PAYMENT SCHEDULE

*Due Date.* The Corporation Commission must levy both assessments no later than June 15 of each year. Notice is then sent to each corporation by certified mail. The assessments are due within 15 days after such mailing [A.R.S. § 40-401D and § 40-401.01D].

*Collecting Agencies.* The Corporation Commission [A.R.S. § 40-408B and § 40-409B]. In the event a corporation fails or refuses to pay the amount assessed within 15 days without filing objections to the assessment statement with the Corporation Commission, the Corporation Commission shall transmit a certified copy of the statement of the assessment to the Department of Public Safety (DPS). Within 10 days after receipt of the copy of the statement, DPS shall proceed to collect the amount stated due, with legal interest, by seizure and sale of any goods or property in the state belonging to the public service corporation [A.R.S. § 40-407].

*Filing Dates.* Public service corporations with gross operating revenues exceeding \$500,000 must file an estimate of their gross operating revenues from intrastate operations during the previous calendar year on or before January 10. All public service corporations must file a statement showing the amount of such revenues received during the prior calendar year by May 1, as well as a statement showing the gross operating revenues derived from intrastate operations during the preceding calendar year that were received from residential consumers. [A.R.S. § 40-401E-F, and § 40-401.01E]. (Prior to Laws 2005, Chapter 79, the threshold for the January 10 filing was \$250,000.)

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to the assessments in the period from 2015 through 2021.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azilbc.gov/21taxbook/21taxbk.pdf>.

# WATER USE TAX

## DESCRIPTION

The tax is applied on water use by a municipal water delivery system. Beginning in FY 2018, the first \$1.8 million of this tax's annual revenues are directed to the appropriated Safe Drinking Water Program Fund to be used for the Safe Drinking Water Program and the remaining monies are deposited into the Water Quality Assurance Revolving Fund (WQARF). Prior to this change, all of these tax monies were deposited into WQARF.

Through the Safe Drinking Water Program, the Department of Environmental Quality (DEQ) regulates over 1,500 water systems with the help of local counties. Through the WQARF Program, DEQ identifies, assesses, and cleans up soil and groundwater that is contaminated with hazardous substances.

## DISTRIBUTION

Table 1 below provides historical water use tax collections since FY 2001. Prior to FY 2018, net tax collections (gross collections less collection fees) were deposited in WQARF by the State Treasurer [A.R.S. § 42-5304]. Allowable uses of WQARF-monies are detailed in A.R.S. § 49-282E. Beginning in FY 2018, the first \$1.8 million of this tax's annual revenues are directed to the appropriated Safe Drinking Water Program Fund to be used for the Safe Drinking Water Program and the remaining monies are deposited into WQARF.

| Table 1                                       |                        |                    |                        |
|---|------------------------|--------------------|------------------------|
| COLLECTIONS                                   |                        |                    |                        |
| <u>Fiscal Year</u>                            | <u>Net Collections</u> | <u>Fiscal Year</u> | <u>Net Collections</u> |
| 2021  | \$2,646,927            | 2011               | \$2,377,136            |
| 2020  | \$2,442,336            | 2010               | \$2,392,765            |
| 2019  | \$2,418,656            | 2009               | \$2,375,423            |
| 2018  | \$2,689,420            | 2008               | \$2,550,646            |
| 2017  | \$2,446,164            | 2007               | \$2,449,270            |
| 2016  | \$2,197,353            | 2006               | \$2,403,644            |
| 2015  | \$2,455,869            | 2005               | \$2,156,683            |
| 2014  | \$2,428,062            | 2004               | \$2,195,590            |
| 2013  | \$2,427,127            | 2003               | \$2,150,995            |
| 2012  | \$2,545,748            | 2002               | \$2,213,435            |
| SOURCE: Department of Revenue, Annual Report. |                        |                    |                        |

## WHO PAYS

The tax is paid by the owners or operators of municipal water delivery systems [A.R.S. § 42-5302B].

A "municipal water delivery system" is an entity that distributes or sells potable water mainly through a pipeline system owned by either: [A.R.S. § 42-5301]

- An incorporated city or town.
- A private entity regulated as a public service corporation by the Arizona Corporation Commission.
- A special taxing district under Title 48, Chapter 6 of the Arizona Revised Statutes.
- An entity regulated as a water supply system by DEQ.

## Water Use Tax

---

### REVENUE BASE AND RATE

The revenue base is gallons of water delivered to customers of a municipal water delivery system. Water delivered to a customer for resale is exempt from this tax. The tax rate is 0.65¢ per 1,000 gallons of water delivered to customers [A.R.S. § 42-5302A].

### PAYMENT SCHEDULE

Payment of the water use tax, if the municipal water delivery system is also subject to the transaction privilege tax, is reported and paid monthly to the Department of Revenue with the transaction privilege tax. Otherwise, the due and delinquent date is the same as the transaction privilege tax [A.R.S. § 42-5302B and A.R.S. § 42-5014]. Electronic filing and payment requirements are the same as for the transaction privilege tax.

### IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015. There were no changes enacted to this tax in 2015 and 2016 and in the period from 2018 through 2021.

#### 2017 LAWS

**Laws 2017, Chapter 308** modifies A.R.S. § 42-5304 to redirect the first \$1.8 million of net revenues collected from the Water Use Tax to the new appropriated Safe Drinking Water Program Fund. The remaining net revenues are deposited in the Water Quality Assurance Revolving Fund (WQARF). Prior to this change, all net revenues collected from the Water Use Tax were deposited in WQARF. Chapter 308 directs the remaining FY 2018 tax collections in WQARF to be used for the Water Quality Monitoring Program.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azilbc.gov/21taxbook/21taxbk.pdf>.

# WORKERS' COMPENSATION INSURANCE PREMIUM TAX

## DESCRIPTION

Both a tax and an assessment is levied on workers' compensation insurance premium. These levies are in lieu of all other taxes on workers' compensation insurance [A.R.S. § 23-961].

The state requires most employers to obtain such insurance so that employees and their families are provided financial protection from industrial injuries or death. The tax rate may be a maximum of 3% of net premiums, and revenues are used for the administrative expenses of the Industrial Commission of Arizona [A.R.S. § 23-961].

## DISTRIBUTION

*Administrative Fund.* Tax collections for the Administrative Fund are used for all administrative expenses of the Industrial Commission. Expenditures from the Administrative Fund are subject to budgetary review and legislative appropriation. Tax collections to this fund are to be no more than necessary to cover actual expenses, and unless the Special Fund [see description below] is not on an actuarially sound basis, any surplus or deficit in revenue above or below the expenses shall be included in the calculation of the rate to be fixed the following year [A.R.S. § 23-1081].

*Special Fund.* Collections for the Special Fund provide additional compensation payments or awards to promote the rehabilitation of disabled workers. Since July 25, 1981, monies in the Special Fund may be allocated to acquire real property or construct and furnish or procure a new office building for the Industrial Commission. Since April 19, 1983, the Special Fund may also provide loans to the Administrative Fund [A.R.S. § 23-1065].

Net collections by fund are provided in *Table 1* on the following page.

## WHO PAYS

The levy on workers' compensation insurance premiums is paid by insurance carriers issuing workers' compensation insurance, and employers providing workers' compensation insurance through the self-insurance method [A.R.S. § 23-961].

## REVENUE BASE

The levy on workers' compensation insurance premiums is based on total direct premiums paid or contracted for during the preceding calendar year minus deductions for cancellations, returned premiums, policy dividends, refunds and similar amounts paid or credited to policyholders within this state and not reapplied as premiums for new, additional or extended insurance [A.R.S. § 23-961]. The above applies to premiums paid to insurers. For self-insured employers, the levy is based on the premiums that would have been paid by the employer if fully insured under a plan available from an insurance carrier issuing workers' compensation insurance, during the preceding calendar year. Employers of domestic servants are not subject to the "workmen's compensation" statutes [A.R.S. § 23-902].

## RATE

There are 2 separate rates:

- (1) *Tax Rate for Administrative Fund.* No more than 3% of net premiums, but for self-insured employers, not less than \$250 annually [A.R.S. § 23-961]. The Industrial Commission set an Administrative Fund rate of 1.75% for CY 2020.

## Workers' Compensation Insurance Premium Tax

- (2) *Special Fund Assessment.* Effective July 1, 2015, the Special Fund assessment rate is not to exceed 1% and is to be set at a rate no more than necessary to keep the Special Fund actuarially sound, but for self-insured employers, the minimum annual payment is \$250 [A.R.S. § 23-1065]. Up to an additional 0.5% may be levied to cover Special Fund liabilities in excess of \$6.0 million [A.R.S. § 23-1065F]. The Industrial Commission set a Special Fund total rate of 0.00% in CY 2020.

Table 1

| COLLECTIONS   |  |   |                                    |                          |
|---------------|--|---|------------------------------------|--------------------------|
| Calendar Year | Net Collections<br>Administrative Fund <sup>1/</sup> | Net Collections<br>Special Fund <sup>2/</sup> | Special Fund<br>Rate <sup>2/</sup> | Total Net<br>Collections |
| 2020          | \$18,158,634   | \$0   | 0%                                 | \$18,158,634             |
| 2019          | \$19,011,703   | \$0   | 0%                                 | \$19,011,703             |
| 2018          | \$19,582,000   | \$0   | 0%                                 | \$19,582,000             |
| 2017          | \$26,316,000   | \$0   | 0%                                 | \$26,316,000             |
| 2016          | \$17,561,500   | \$0   | 0%                                 | \$17,561,500             |
| 2015          | \$16,917,500   | \$8,459,200                                   | 0.75%                              | \$25,376,700             |
| 2014          | \$19,752,400   | \$19,753,500                                  | 1.75%                              | \$39,506,000             |
| 2013          | \$29,080,400   | \$23,783,100                                  | 2.25%                              | \$52,863,500             |
| 2012          | \$27,721,800   | \$23,103,100                                  | 2.5%                               | \$50,824,900             |
| 2011          | \$24,166,300   | \$20,140,000                                  | 2.5%                               | \$44,306,300             |
| 2010          | \$20,486,000   | \$19,328,000                                  | 2.5%                               | \$39,814,000             |
| 2009          | \$25,950,000   | \$12,975,000                                  | 1.5%                               | \$38,925,000             |
| 2008          | \$30,558,100   | \$15,279,100                                  | 1.5%                               | \$45,837,200             |
| 2007          | \$31,786,900   | \$26,490,900                                  | 2.5%                               | \$58,277,800             |
| 2006          | \$28,382,700   | \$23,653,400                                  | 2.5%                               | \$52,036,100             |
| 2005          | \$24,647,200   | \$20,540,600                                  | 2.5%                               | \$45,187,800             |
| 2004          | \$21,758,100   | \$10,888,700                                  | 1.5%                               | \$32,646,800             |
| 2003          | \$20,117,300   | \$0   | 0%                                 | \$20,117,300             |
| 2002          | \$15,716,000   | \$0   | 0%                                 | \$15,716,000             |
| 2001          | \$16,257,700   | \$0   | 0%                                 | \$16,257,700             |

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

<sup>2/</sup> Effective July 1, 2015, the Special Fund assessment is not to exceed 1% and is set at a rate no more than necessary to keep it actuarially sound. Up to an additional 0.5% may be levied to cover Special Fund liabilities in excess of \$6.0 million.

NA = Not Available

SOURCE: Industrial Commission.

### PAYMENT SCHEDULE

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

Since the 1983 tax year, insurance carriers are required to make quarterly payments on the Administrative Fund tax and Special Fund assessment if their tax liability for the preceding calendar year was \$2,000 or more. Quarterly payments are submitted to the state on or before the last day of the month following the close of each quarter. All quarterly payments are deducted from the levy that is payable on the regular March due date [A.R.S. § 23-961]. The quarterly payments are to equal one of the following methods, applied to all 4 quarters in a tax year:

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

## **Workers' Compensation Insurance Premium Tax**

---

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

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

### **IMPACT OF STATUTORY CHANGES**

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2015.

There were no changes enacted to this revenue category in 2015 through 2021.

A listing of statutory changes prior to the 2015 legislative session is available on the JLBC website located at <https://www.azjlbc.gov/21taxbook/21taxbk.pdf>.

## **APPENDIX D**



## APPENDIX D

### FISCAL IMPACT OF STATUTORY CHANGES

This report details the estimated dollar value of individual historical tax law changes enacted by the Legislature since FY 1989. The report is limited to statutory changes with a General Fund revenue impact.

The report includes individual tables for calendar years 1988 through 2021. The tables provide a listing of statutory changes for each calendar year, and the estimated dollar revenue impact of these changes for ensuing fiscal years. The dollar change reflects the estimated impact at the time of enactment. Unless otherwise noted, the dollar estimate has not been subsequently revised to reflect the actual result. Also included is a one-page summary of the estimated impact of statutory changes for each fiscal year, which provides the estimated marginal dollar value of statutory changes relative to the prior year.

Since the repeal of the state property tax in 1996, the General Fund revenue impact of property tax legislation is often negligible. Instead, property tax law changes typically affect the General Fund by increasing Arizona Department of Education (ADE) expenditures. Generally, any legislation that reduces the local property tax base results in higher General Fund expenditures. Under the statutory K-12 funding formula, the state share of education funding increases whenever local property values decrease. This higher level of K-12 spending is not reflected in the following tables. However, property tax legislation that reduced tax levies deposited into the General Fund was included in the tables. (Tax levied on property located in unorganized districts and certain districts ineligible for state aid, known as minimum qualifying tax rate (MQTR) districts, are deposited in the General Fund.)

There are several caveats related to the estimated dollar impact of tax law changes included in this report. The impact of the 0.6% sales tax authorized by Proposition 301 in 2000 has not been included in the following tables. In addition, the tobacco tax increases authorized by Proposition 303 in 2002 and Propositions 201 and 203 in 2006 have not been included. The revenues generated by these tax law changes were deposited into dedicated funds; therefore, they did not have a General Fund impact.

Additionally, no inflation factors have been applied to the “out year” estimates, which may understate their impact. Also, the estimates do not include a “dynamic” component. The potential behavioral impact of taxpayers of tax reductions or tax increases has not been incorporated into the numbers. It is very difficult to estimate how inflationary changes, as well as changes in taxpayer behavior over time, would have affected the estimated dollar value of statutory changes enacted in prior years. As a result, cumulative totals for the marginal annual values of the statutory changes are not provided.

The estimated incremental value of statutory changes for FY 2022 is a net General Fund revenue reduction of \$(873.2) million. The revenue loss is primarily attributable to two individual income tax provisions: (1) the imposition of a 4.5% maximum tax rate, including the Proposition 208 surcharge, on taxable income above \$250,000/\$500,000 [-\$836 million] under Laws 2021, Chapter 411 and (2) exempting 100% of military pension from income tax [-\$48.3 million] under Laws 2021, Chapter 412.

JLBC Staff  
November 2021

**Estimated Incremental Dollar Value of General Fund Tax Changes <sup>1/</sup>**  
**(\$ in Thousands)**

| <b>Fiscal Year</b> | <b>Sales Tax</b> | <b>Individual Income Tax</b> | <b>Corporate Income Tax</b> | <b>Property Tax</b> | <b>Other Taxes</b> | <b>Total <sup>2/</sup> Annual Changes</b> |
|--------------------|------------------|------------------------------|-----------------------------|---------------------|--------------------|---|
| <b>1989</b>        | 23,100.0         | 35,400.0                     | 29,000.0                    | 28,200.0            | 6,000.0            | 121,700.0                                 |
| <b>1990</b>        | 7,000.0          | 63,900.0                     | -                           | 22,600.0            | 15,800.0           | 109,300.0                                 |
| <b>1991</b>        | (4,404.0)        | 118,680.0                    | 30,900.0                    | 49,640.0            | 13,560.0           | 208,376.0                                 |
| <b>1992</b>        | (377.5)          | 9,200.0                      | 400.0                       | -                   | 485.0              | 9,707.5                                   |
| <b>1993</b>        | (7,972.1)        | (13,500.0)                   | -                           | (1,343.0)           | 3,472.0            | (19,343.1)                                |
| <b>1994</b>        | (12,243.5)       | (10,776.0)                   | -                           | (1,200.0)           | (1,233.0)          | (25,452.5)                                |
| <b>1995</b>        | (21,217.0)       | (102,826.0)                  | 4,200.0                     | (850.0)             | -                  | (120,693.0)                               |
| <b>1996</b>        | (46,151.9)       | (202,260.5)                  | (18,000.0)                  | (18,256.0)          | -                  | (284,668.4)                               |
| <b>1997</b>        | (23,494.3)       | (950.0)                      | (60.0)                      | (150,095.3)         | -                  | (174,599.6)                               |
| <b>1998</b>        | (59,862.9)       | (114,969.0)                  | 2,601.9                     | 17.3                | (105.0)            | (172,317.7)                               |
| <b>1999</b>        | (3,684.2)        | (51,091.5)                   | (7,015.2)                   | -                   | (80,000.0)         | (141,790.9)                               |
| <b>2000</b>        | (8,402.3)        | (27,177.9)                   | (13,982.3)                  | (51.6)              | (55,000.0)         | (104,614.1)                               |
| <b>2001</b>        | (3,392.0)        | (82,895.0)                   | (46,486.1)                  | (30.0)              | (25,000.0)         | (157,803.1)                               |
| <b>2002</b>        | (2.1)            | 9,825.3                      | (40,759.6)                  | (2,234.9)           | -                  | (33,171.3)                                |
| <b>2003</b>        | (2.2)            | 11,384.5                     | 21,567.0                    | (1,738.3)           | (18,830.0)         | 12,381.0                                  |
| <b>2004</b>        | -                | -                            | -                           | -                   | 50,418.1           | 50,418.1                                  |
| <b>2005</b>        | -                | (1,834.0)                    | -                           | -                   | 3,892.0            | 2,058.0                                   |
| <b>2006</b>        | (600.0)          | (14,200.0)                   | (3,250.0)                   | -                   | -                  | (18,050.0)                                |
| <b>2007</b>        | (1,678.6)        | (176,090.0)                  | (10,990.0)                  | -                   | (5,000.0)          | (193,758.6)                               |
| <b>2008</b>        | (100.0)          | (185,510.0)                  | (31,900.0)                  | -                   | -                  | (217,510.0)                               |
| <b>2009</b>        | -                | (4,150.0)                    | (29,720.0)                  | -                   | -                  | (33,870.0)                                |
| <b>2010</b>        | -                | (8,030.0)                    | (33,330.0)                  | -                   | -                  | (41,360.0)                                |
| <b>2011</b>        | 918,000.0        | 16,120.0                     | (35,390.0)                  | -                   | -                  | 898,730.0                                 |
| <b>2012</b>        | -                | (900.0)                      | (12,100.0)                  | -                   | -                  | (13,000.0)                                |
| <b>2013</b>        | -                | 4,590.0                      | (16,100.0)                  | -                   | -                  | (11,510.0)                                |
| <b>2014</b>        | (922,800.0)      | (56,850.0)                   | (21,900.0)                  | -                   | -                  | (1,001,550.0)                             |
| <b>2015</b>        | (16,780.0)       | (44,900.0)                   | (102,282.0)                 | -                   | -                  | (163,962.0)                               |
| <b>2016</b>        | (4,200.0)        | (12,000.0)                   | (108,500.0)                 | -                   | (983.4)            | (125,683.4)                               |
| <b>2017</b>        | (13,170.0)       | (35,500.0)                   | (93,400.0)                  | -                   | (4,300.0)          | (146,370.0)                               |
| <b>2018</b>        | (14,500.0)       | (29,833.3)                   | (104,000.0)                 | -                   | (4,300.0)          | (152,633.3)                               |
| <b>2019</b>        | 10,000.0         | 156,466.6                    | (27,000.0)                  | -                   | (4,300.0)          | 135,166.6                                 |
| <b>2020</b>        | 54,700.0         | (290,733.3)                  | 18,900.0                    | -                   | (4,700.0)          | (221,833.3)                               |
| <b>2021</b>        | 20,600.0         | 300.0                        | 2,600.0                     | -                   | (2,500.0)          | 21,000.0                                  |
| <b>2022</b>        | -                | (883,400.0)                  | 4,304.2                     | -                   | 5,900.0            | (873,195.8)                               |

<sup>1/</sup> The estimates exclude one-time increases or decreases in revenue collections. The tax changes also exclude General Fund distribution formula changes and additional K-12 expenditures that were the direct result of property tax legislation. The estimates also reflect the projected fiscal impact at the time of enactment and have not been adjusted for the actual dollar value of a tax change.

<sup>2/</sup> Each yearly amount represents the incremental dollar value of tax law changes relative to the prior year. For example, the total net tax reduction in FY 2008 relative to FY 2007 was \$(217.5) million.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1988**

(\$ in Thousands)

|   | <u>FY 1988</u> | <u>FY 1989</u>   |
|---|----------------|------------------|
| <b>INDIVIDUAL INCOME</b>                        |                |                  |
| Elimination of Gasoline Deduction<br>Ch. 271    |                | 10,000.0         |
| Federal Income Tax Windfall Cap<br>Ch. 271      |                | 25,400.0         |
| <b>TOTAL INDIVIDUAL INCOME</b>                  | <u></u>        | <u>35,400.0</u>  |
| <b>CORPORATE INCOME</b>                         |                |                  |
| Elimin. of Lower Cap. Gains Rate<br>Ch. 271     |                | 14,000.0         |
| Controlled Corp. Dividends Conformed<br>Ch. 271 |                | 13,000.0         |
| Depletion Deduction Conformed<br>Ch. 271        |                | 1,000.0          |
| Elimination of Gasoline Deduction<br>Ch. 271    |                | 1,000.0          |
| <b>TOTAL CORPORATE INCOME</b>                   | <u></u>        | <u>29,000.0</u>  |
| <b>SALES AND USE</b>                            |                |                  |
| Accounting Allowance Cap. - \$500<br>Ch. 271    |                | 3,000.0          |
| No Exemption for Semi-conductors<br>Ch. 271     |                | 1,700.0          |
| Taxation of Casual Commercial Rents<br>Ch. 271  |                | 3,300.0          |
| Hotel/Motel Tax Increase to 5.5%<br>Ch. 271     |                | 4,200.0          |
| Rental Real Property Increase to 5%<br>Ch. 271  |                | 10,900.0         |
| <b>TOTAL SALES AND USE</b>                      | <u></u>        | <u>23,100.0</u>  |
| <b>PROPERTY</b>                                 |                |                  |
| Assessment Ratio Freeze to 1987<br>Ch. 271      |                | 1,600.0          |
| QTR for Homeowners Capped<br>Ch. 271            |                | 9,300.0          |
| State Education Rate Set at \$0.09<br>Ch. 271   |                | 17,300.0         |
| <b>TOTAL PROPERTY</b>                           | <u></u>        | <u>28,200.0</u>  |
| <b>OTHER</b>                                    |                |                  |
| Increase Ins. Prem. Tax to 2.0%<br>Ch. 4        |                | 6,000.0          |
| <b>TOTAL OTHER</b>                              | <u></u>        | <u>6,000.0</u>   |
| <b>TOTAL</b>                                    |                | <u>121,700.0</u> |

## Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1989**

(\$ in Thousands)

|  | <u>FY 1989</u> | <u>FY 1990</u>   |
|--|----------------|------------------|
| <b>INDIVIDUAL INCOME</b>                             |                |                  |
| Federal Conformity<br>Ch. 211                        |                | 1,900.0          |
| Eliminate Deduction of Fed. Excise Tax<br>Ch. 211    |                | 4,000.0          |
| Federal Windfall Retention<br>Ch. 312                |                | 16,800.0         |
| Reduce Consumer Interest Deduction to 50%<br>Ch. 312 |                | 39,000.0         |
| Taxation of Previous Exempt Pensions                 |                | 2,200.0          |
| <b>TOTAL INDIVIDUAL INCOME</b>                       |                | <b>63,900.0</b>  |
| <b>CORPORATE INCOME</b>                              |                |                  |
| None   |                |                  |
| <b>TOTAL CORPORATE INCOME</b>                        |                |                  |
| <b>SALES AND USE</b>                                 |                |                  |
| Taxation of Catalog Sales<br>Ch. 312                 |                | 7,000.0          |
| <b>TOTAL SALES AND USE</b>                           |                | <b>7,000.0</b>   |
| <b>PROPERTY</b>                                      |                |                  |
| Minimum QTR School District Tax<br>Ch. 312           |                | 26,000.0         |
| Tax Reduction for Unorg. Districts<br>Ch. 312        |                | (3,400.0)        |
| <b>TOTAL PROPERTY</b>                                |                | <b>22,600.0</b>  |
| <b>OTHER</b>   |                |                  |
| Minimum VLT to \$30<br>Ch. 4                         |                | 15,800.0         |
| <b>TOTAL OTHER</b>                                   |                | <b>15,800.0</b>  |
| <b>TOTAL</b>   |                | <b>109,300.0</b> |

## Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1990**

(\$ in Thousands)

|  | <u>FY 1990</u> | <u>FY 1991</u>   |
|--|----------------|------------------|
| <b>INDIVIDUAL INCOME</b>   |                |                  |
| Federal Conformity<br>Ch. 63   |                | 4,880.0          |
| Tax Simplification - Widened Tax Base, Increased<br>Tax Rates<br>Ch. 3 |                | 110,000.0        |
| Limitation of Renters Credit<br>Ch. 3                                  |                | 3,800.0          |
| <b>TOTAL INDIVIDUAL INCOME</b>   |                | <b>118,680.0</b> |
| <b>CORPORATE INCOME</b>  |                |                  |
| Federal Conformity<br>Ch. 63   |                | 5,300.0          |
| Tax Simplification - Widened Tax Base<br>Ch. 3                         |                | 25,600.0         |
| <b>TOTAL CORPORATE INCOME</b>  |                | <b>30,900.0</b>  |
| <b>SALES AND USE</b>   |                |                  |
| Elimination of Account Allowance<br>Ch. 3                              |                | 8,000.0          |
| Tax Reduction - Rental Real Property<br>Ch. 3                          |                | (1,800.0)        |
| County Property Tax Relief<br>Ch. 3                                    |                | (10,000.0)       |
| Rodeo Sales Exemption<br>Ch. 239                                       |                | (47.0)           |
| Tax Suspension - Federal Bldgs.<br>Ch. 251                             |                | (94.0)           |
| Bed Tax to Tourism<br>Ch. 391  |                | (463.0)          |
| <b>TOTAL SALES AND USE</b>   |                | <b>4,404.0</b>   |
| <b>PROPERTY</b>  |                |                  |
| Minimum QTR School Dist. Tax<br>Ch. 3                                  |                | 40,700.0         |
| Assessment Ratio Changes<br>Ch. 3                                      |                | 8,940.0          |
| <b>TOTAL PROPERTY</b>  |                | <b>49,640.0</b>  |
| <b>OTHER</b>   |                |                  |
| Minimum QTR School Dist. Tax = Salt River<br>Ch. 3                     |                | 7,000.0          |
| Assessment Ratio Changes = Salt River<br>Ch. 3                         |                | 660.0            |
| Minimum VLT Reduction<br>Ch. 3   |                | (3,600.0)        |
| Cigarette Tax Increase<br>Ch. 3  |                | 9,500.0          |
| <b>TOTAL OTHER</b>   |                | <b>13,560.0</b>  |
| <b>TOTAL</b>   |                | <b>208,376.0</b> |

## Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1991**

(\$ in Thousands)

|  | <u>FY 1991</u> | <u>FY 1992</u> | <u>FY 1993</u>   | <u>FY 1994</u>   |
|--|----------------|----------------|------------------|------------------|
| <b>INDIVIDUAL INCOME</b>                       |                |                |                  |                  |
| Federal Conformity<br>Ch. 146                  |                | 7,600.0        | 7,600.0          | 7,600.0          |
| Eliminate Ret. Contrib. Subtraction<br>Ch. 155 |                | 1,600.0        | 1,600.0          | 1,600.0          |
| <b>TOTAL INDIVIDUAL INCOME</b>                 | <u></u>        | <u>9,200.0</u> | <u>9,200.0</u>   | <u>9,200.0</u>   |
| <b>CORPORATE INCOME</b>                        |                |                |                  |                  |
| Federal Conformity<br>Ch. 146                  |                | 400.0          | 400.0            | 400.0            |
| <b>TOTAL CORPORATE INCOME</b>                  | <u></u>        | <u>400.0</u>   | <u>400.0</u>     | <u>400.0</u>     |
| <b>SALES AND USE</b>                           |                |                |                  |                  |
| Membership Camping Tax<br>Ch. 31               |                | 122.5          | 122.5            | 122.5            |
| Medical Equipment Exemption<br>Ch. 200         |                | (500.0)        | (500.0)          | (500.0)          |
| <b>TOTAL SALES AND USE</b>                     | <u></u>        | <u>(377.5)</u> | <u>(377.5)</u>   | <u>(377.5)</u>   |
| <b>PROPERTY</b>                                |                |                |                  |                  |
| Rental property; Assess. Reduction<br>Ch. 134  |                |                | (1,200.0)        | (2,400.0)        |
| <b>TOTAL PROPERTY</b>                          | <u></u>        | <u></u>        | <u>(1,200.0)</u> | <u>(2,400.0)</u> |
| <b>OTHER</b>                                   |                |                |                  |                  |
| Drano Tax Repeal<br>Ch. 184                    |                | 320.0          | 320.0            | 320.0            |
| Groundwater Fees<br>Ch. 211                    |                | 165.0          | 165.0            | 165.0            |
| <b>TOTAL OTHER</b>                             | <u></u>        | <u>485.0</u>   | <u>485.0</u>     | <u>485.0</u>     |
| <b>TOTAL</b>                                   |                | <u>9,707.5</u> | <u>8,507.5</u>   | <u>7,307.5</u>   |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1992**

(\$ in Thousands)

|  | <u>FY 1992</u> | <u>FY 1993</u>    |
|--|----------------|-------------------|
| <b>INDIVIDUAL INCOME</b>                       |                |                   |
| Increased Exemptions Phase-in<br>Ch. 290       |                | (12,000.0)        |
| Withhold Penalty Forgiveness<br>Ch. 220        |                | (1,500.0)         |
| <b>TOTAL INDIVIDUAL INCOME</b>                 |                | <b>(13,500.0)</b> |
| <b>CORPORATE INCOME</b>                        |                |                   |
| None   |                |                   |
| <b>TOTAL CORPORATE INCOME</b>                  |                |                   |
| <b>SALES AND USE</b>                           |                |                   |
| Church Leases Exemption<br>Ch. 29              |                | (50.0)            |
| Restaurant Food: Use Tax Exemp.<br>Ch. 32      |                | (100.0)           |
| Motion Picture Sales Tax Refund<br>Ch. 96      |                | (67.1)            |
| Semi-Trailers, Bowl Games Exemption<br>Ch. 135 |                | (600.0)           |
| Feed and Seed Exemption<br>Ch. 162             |                | (1,600.0)         |
| Lessor Utility Exemptions<br>Ch. 215           |                | (1,921.0)         |
| Manufactured Bldgs. Exemptions<br>Ch. 217      |                | (100.0)           |
| Aircraft Sales Tax Exemptions<br>Ch. 222       |                | (300.0)           |
| Microwave Systems Exemptions<br>Ch. 237        |                | (84.0)            |
| R & D Equipment Exemptions<br>Ch. 238          |                | (250.0)           |
| Repeal Aircraft Exemptions<br>Ch. 290          |                | (2,900.0)         |
| <b>TOTAL SALES AND USE</b>                     |                | <b>(7,972.1)</b>  |
| <b>PROPERTY</b>                                |                |                   |
| Widow/Widower Exemption<br>Ch. 5               |                | (50.0)            |
| Local Telecom. Property<br>Ch. 41              |                | (70.0)            |
| Pipeline Valuations<br>Ch. 51                  |                | (50.0)            |
| Sewer/Wastewater Prop. Cent. Valued<br>Ch. 347 |                | 27.0              |
| <b>TOTAL PROPERTY</b>                          |                | <b>(143.0)</b>    |
| <b>OTHER</b>                                   |                |                   |
| VLT: Rental Car Surcharge<br>Ch. 219           |                | 600.0             |
| Cigarette Luxury Stamps<br>Ch. 55              |                | (100.0)           |
| Jet Fuel Reduction<br>Ch. 221                  |                | (1,028.0)         |
| Insurance Premium Tax Offset<br>Ch. 290        |                | 4,000.0           |
| <b>TOTAL OTHER</b>                             |                | <b>3,472.0</b>    |
| <b>TOTAL</b>                                   |                | <b>(18,143.1)</b> |

## Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1993**

(\$ in Thousands)

|   | <u>FY 1993</u> | <u>FY 1994</u>    | <u>FY 1995</u>    | <u>FY 1996</u>    | <u>FY 1997</u>    | <u>FY 1998</u>     |
|---|----------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| <b>INDIVIDUAL INCOME</b>                        |                |                   |                   |                   |                   |                    |
| Increased Dependent Exemption<br>Ch. 9          |                | (5,600.0)         | (5,600.0)         | (5,600.0)         | (5,600.0)         | (5,600.0)          |
| Increased Exemption - Elderly<br>Ch. 9          |                | (2,700.0)         | (2,700.0)         | (2,700.0)         | (2,700.0)         | (2,700.0)          |
| Accelerate Medical Deductions<br>Ch. 9          |                | (2,300.0)         | (2,300.0)         | (2,300.0)         | (2,300.0)         | (2,300.0)          |
| Alternative Fuel Vehicles Credit<br>Ch. 160     |                | (176.0)           | (176.0)           | (176.0)           | (176.0)           | (176.0)            |
| <b>TOTAL INDIVIDUAL INCOME</b>                  |                | <u>(10,776.0)</u> | <u>(10,776.0)</u> | <u>(10,776.0)</u> | <u>(10,776.0)</u> | <u>(10,776.0)</u>  |
| <b>CORPORATE INCOME</b>                         |                |                   |                   |                   |                   |                    |
| None  |                |                   |                   |                   |                   |                    |
| <b>TOTAL CORPORATE INCOME</b>                   |                |                   |                   |                   |                   |                    |
| <b>SALES AND USE</b>                            |                |                   |                   |                   |                   |                    |
| Phase-out of Commercial Lease Tax<br>Ch. 9      |                | (8,100.0)         | (26,300.0)        | (47,300.0)        | (70,600.0)        | (96,300.0)         |
| Feed Lots Exemption<br>Ch. 64                   |                | (331.8)           | (331.8)           | (331.8)           | (331.8)           | (331.8)            |
| Residential Care Homes - Use Exemp.<br>Ch. 103  |                | (1,300.0)         | (1,300.0)         | (1,300.0)         | (1,300.0)         | (1,300.0)          |
| Motion Picture Tax Refund<br>Ch. 104            |                | (20.4)            | (20.4)            | (20.4)            | (20.4)            | (20.4)             |
| Retail Classifications Changes<br>Ch. 132       |                | (138.3)           | (138.3)           | (138.3)           | (138.3)           | (138.3)            |
| Health Care Centers - Exemptions<br>Ch. 199     |                | (227.0)           | (227.0)           | (227.0)           | (227.0)           | (227.0)            |
| Alternative Use Fuel - Exemption<br>Ch. 206     |                | (50.0)            | (50.0)            | (50.0)            | (50.0)            | (50.0)             |
| Nursing Care Leases<br>Ch. 212                  |                | (976.0)           | (976.0)           | (976.0)           | (976.0)           | (976.0)            |
| Sales Deductions - Telecomm. Charges<br>Ch. 240 |                | (1,100.0)         | (1,100.0)         | (1,100.0)         | (1,100.0)         | (1,100.0)          |
| <b>TOTAL SALES AND USE</b>                      |                | <u>(12,243.5)</u> | <u>(30,443.5)</u> | <u>(51,443.5)</u> | <u>(74,743.5)</u> | <u>(100,443.5)</u> |
| <b>PROPERTY</b>                                 |                |                   |                   |                   |                   |                    |
| None  |                |                   |                   |                   |                   |                    |
| <b>TOTAL PROPERTY</b>                           |                |                   |                   |                   |                   |                    |
| <b>OTHER</b>                                    |                |                   |                   |                   |                   |                    |
| Wine Commission Fees<br>Ch. 40                  |                | (33.0)            | (33.0)            | (33.0)            | (33.0)            | (33.0)             |
| Liquor License Fees<br>Ch. 133                  |                | (1,200.0)         | (1,200.0)         | (1,200.0)         | (1,200.0)         | (1,200.0)          |
| <b>TOTAL OTHER</b>                              |                | <u>(1,233.0)</u>  | <u>(1,233.0)</u>  | <u>(1,233.0)</u>  | <u>(1,233.0)</u>  | <u>(1,233.0)</u>   |
| <b>TOTAL</b>                                    |                | <u>(24,252.5)</u> | <u>(42,452.5)</u> | <u>(63,452.5)</u> | <u>(86,752.5)</u> | <u>(112,452.5)</u> |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.

- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.



**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1994**

(\$ in Thousands)

|   | <u>FY 1994</u> | <u>FY 1995</u>     | <u>FY 1996</u>     |
|---|----------------|--------------------|--------------------|
| <b>INDIVIDUAL INCOME</b>  |                |                    |                    |
| IRS Conformity<br>Ch. 41  |                | 6,200.0            | 6,200.0            |
| Personal Income Tax Cut<br>Ch. 41   |                | (106,900.0)        | (106,900.0)        |
| Medical Savings Account<br>Ch. 45   |                |                    | (175.0)            |
| Water Conservation Inc. Tax Credit<br>Ch. 90                                  |                | (1,626.0)          | (1,874.0)          |
| Income Tax Benefit Rule<br>Ch. 354  |                | (500.0)            | (500.0)            |
| Pollution Control Credits<br>Ch. 117  |                |                    | (1,500.0)          |
| <b>TOTAL INDIVIDUAL INCOME</b>  |                | <b>(102,826.0)</b> | <b>(104,749.0)</b> |
| <b>CORPORATE INCOME</b>   |                |                    |                    |
| IRS Conformity<br>Ch. 41  |                | 10,000.0           | 10,000.0           |
| Lower Corporate Rate<br>Ch. 41  |                | (5,800.0)          | (5,800.0)          |
| Consolidated Returns <sup>1/</sup><br>Ch. 41                                  |                |                    | (13,400.0)         |
| Pollution Control Credits<br>Ch. 117  |                |                    | (1,000.0)          |
| <b>TOTAL CORPORATE INCOME</b>   |                | <b>4,200.0</b>     | <b>(10,200.0)</b>  |
| <b>SALES AND USE</b>  |                |                    |                    |
| MITRA; Chemicals<br>Ch. 41  |                |                    | (4,000.0)          |
| Super Bowl Exemption<br>Ch. 145   |                |                    | (481.9)            |
| Personal Property Liquidators<br>Ch. 174                                      |                | (1,000.0)          | (1,000.0)          |
| Prison Food TPT Exemption<br>Ch. 240  |                | (80.0)             | (80.0)             |
| University Cars Exemption<br>Ch. 305  |                | (57.0)             | (57.0)             |
| Feed Exemption<br>Ch. 307   |                | (655.0)            | (655.0)            |
| Amusement/Instruc. Exemption<br>Ch. 312                                       |                | (825.0)            | (825.0)            |
| Tax Accounting<br>Ch. 346   |                |                    | (11,870.0)         |
| Omnibus Alternative Fuels<br>Ch. 353  |                | (400.0)            | (400.0)            |
| Government Contract Overhead<br>Ch. 377                                       |                |                    | (8,000.0)          |
| <b>TOTAL SALES AND USE</b>  |                | <b>(3,017.0)</b>   | <b>(27,368.9)</b>  |
| <b>PROPERTY</b>   |                |                    |                    |
| MITRA; 1% Personal Prop./Phasedown<br>Ch. 41                                  |                |                    | (16,496.0)         |
| Livestock<br>Ch. 102  |                |                    | (660.0)            |
| Homeowners' Rebate Freeze<br>Ch. 41 Not Included-Tax Cut as Spending Increase |                | 0.0                | 0.0                |
| Telecommunications Cos. Valuations<br>Ch. 271                                 |                | (850.0)            | (850.0)            |
| <b>TOTAL PROPERTY</b>   |                | <b>(850.0)</b>     | <b>(18,006.0)</b>  |
| <b>OTHER</b>  |                |                    |                    |
| None  |                |                    |                    |
| <b>TOTAL OTHER</b>  |                |                    |                    |
| <b>TOTAL</b>  |                | <b>(102,493.0)</b> | <b>(160,323.9)</b> |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.

- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

<sup>1/</sup> Chapter 41 provided a tax credit totalling \$115 million for certain consolidated returns, which was to be spread over 10 years. In the 11th year, DOR is required to refund any unused credit (refer to Calendar Year 2006 tax law changes page at the end of this section).

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1995**

(\$ in Thousands)

|   | <u>FY 1995</u>              | <u>FY 1996</u>              | <u>FY 1997</u>              |
|---|-----------------------------|-----------------------------|-----------------------------|
| <b>INDIVIDUAL INCOME</b>                  |                             |                             |                             |
| Income Tax Reduction<br>Ch. 9             |                             | (200,000.0)                 | (200,000.0)                 |
| Summer Schools and Jobs<br>Ch. 236        |                             | (337.5)                     | (337.5)                     |
| <b>TOTAL INDIVIDUAL INCOME</b>            | <u>                    </u> | <u>(200,337.5)</u>          | <u>(200,337.5)</u>          |
| <b>CORPORATE INCOME</b>                   |                             |                             |                             |
| Consolidated Tax Returns<br>Ch. 31        |                             | (400.0)                     | (400.0)                     |
| Lower Corporate Rate<br>Ch. 41            |                             | (2,200.0)                   | (2,200.0)                   |
| Pollution Control Credits<br>Ch. 117      |                             | (1,000.0)                   | (1,000.0)                   |
| <b>TOTAL CORPORATE INCOME</b>             | <u>                    </u> | <u>(3,600.0)</u>            | <u>(3,600.0)</u>            |
| <b>SALES AND USE</b>                      |                             |                             |                             |
| Motion Picture Tax Refund<br>Ch. 98       |                             | (100.0)                     | (100.0)                     |
| Sales Tax Amenities<br>Ch. 267            |                             | (700.0)                     | (700.0)                     |
| <b>TOTAL SALES AND USE</b>                | <u>                    </u> | <u>(800.0)</u>              | <u>(800.0)</u>              |
| <b>PROPERTY</b>                           |                             |                             |                             |
| Personal Property Tax Reductions<br>Ch. 9 |                             |                             | (17.3)                      |
| Property Tax Reduc. Min. Value<br>Ch. 137 |                             |                             | (78.0)                      |
| Possessory Interest; Repeal<br>Ch. 294    |                             | (1,100.0)                   | (1,100.0)                   |
| <b>TOTAL PROPERTY</b>                     | <u>                    </u> | <u>(1,100.0)</u>            | <u>(1,178.0)</u>            |
| <b>OTHER</b>                              |                             |                             |                             |
| None                                      | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| <b>TOTAL OTHER</b>                        | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| <b>TOTAL</b>                              | <u>                    </u> | <u>(205,837.5)</u>          | <u>(205,915.5)</u>          |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1996**

(\$ in Thousands)

|   | <u>FY 1996</u>    | <u>FY 1997</u>     | <u>FY 1998</u>     |
|---|-------------------|--------------------|--------------------|
| <b>INDIVIDUAL INCOME</b>  |                   |                    |                    |
| Income Tax Definitions<br>Ch. 49                                      |                   | (860.0)            | (860.0)            |
| Neighborhood Protection Deductions<br>Ch. 309                         |                   | (90.0)             | (90.0)             |
| <b>TOTAL INDIVIDUAL INCOME</b>  | <u>          </u> | <u>(950.0)</u>     | <u>(950.0)</u>     |
| <b>CORPORATE INCOME</b>   |                   |                    |                    |
| Neighborhood Protection Act<br>Ch. 309                                |                   | (60.0)             | (60.0)             |
| Enterprise Zones: Tax Credits<br>Ch. 344                              |                   |                    | (1,575.1)          |
| <b>TOTAL CORPORATE INCOME</b>   | <u>          </u> | <u>(60.0)</u>      | <u>(1,635.1)</u>   |
| <b>SALES AND USE</b>  |                   |                    |                    |
| Arts Fund; Partnership<br>Ch. 186                                     |                   |                    | (1,475.9)          |
| Prime Contracting Sales Tax<br>Ch. 319                                |                   |                    | (30,000.0)         |
| Movie Studios Incentives<br>Ch. 322                                   |                   | (49.3)             | (49.3)             |
| Homeowners Organizations<br>Ch. 326                                   |                   | (100.0)            | (100.0)            |
| <b>TOTAL SALES AND USE</b>  | <u>          </u> | <u>(194.3)</u>     | <u>(31,625.2)</u>  |
| <b>PROPERTY</b>   |                   |                    |                    |
| Property Tax Reductions<br>Ch. 2 - Does not include \$50M in spending |                   | (150,000.0)        | (150,000.0)        |
| <b>TOTAL PROPERTY</b>   | <u>          </u> | <u>(150,000.0)</u> | <u>(150,000.0)</u> |
| <b>OTHER</b>  | <u>          </u> | <u>          </u>  | <u>          </u>  |
| <b>TOTAL OTHER</b>  | <u>          </u> | <u>          </u>  | <u>          </u>  |
| <b>TOTAL</b>  |                   | <u>(151,159.3)</u> | <u>(184,210.3)</u> |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1997**

(\$ in Thousands)

|  | <u>FY 1997</u> | <u>FY 1998</u>     | <u>FY 1999</u>     |
|--|----------------|--------------------|--------------------|
| <b>INDIVIDUAL INCOME</b>                           |                |                    |                    |
| Tax Credit; School Tuition Organizations<br>Ch. 48 |                |                    | (8,443.2)          |
| Welfare Reform; Arizona Works<br>Ch. 300           |                |                    | (8,030.8)          |
| IRS Conformity<br>Ch. 63                           |                | (3,330.0)          | (3,330.0)          |
| Energy Conservation Incentives<br>Ch. 137          |                |                    | (34.1)             |
| Income Adjustments<br>Ch. 238                      |                | (749.0)            | (749.0)            |
| Air Quality Omnibus<br>Ch. 274                     |                | (250.0)            | (250.0)            |
| Savings Account; Postsecondary Ed.<br>Ch. 171      |                |                    | (20.4)             |
| Tax Relief Act of 1997 - Rates Reductions<br>Ch. 8 |                | (110,800.0)        | (110,800.0)        |
| <b>TOTAL INDIVIDUAL INCOME</b>                     |                | <b>(115,129.0)</b> | <b>(131,657.5)</b> |
| <b>CORPORATE INCOME</b>                            |                |                    |                    |
| IRS Conformity<br>Ch. 62                           |                | 4,177.0            | 4,177.0            |
| Welfare Reform; Arizona Works<br>Ch. 300           |                |                    | (585.2)            |
| <b>TOTAL CORPORATE INCOME</b>                      |                | <b>4,177.0</b>     | <b>3,591.8</b>     |
| <b>SALES AND USE</b>                               |                |                    |                    |
| Light Vehicle Fees<br>Ch. 110                      |                | (2,000.0)          | (2,000.0)          |
| Used Oil Amendments<br>Ch. 178                     |                | (92.2)             | (92.2)             |
| Use Tax Exemptions - Libraries<br>Ch. 227          |                | (36.9)             | (36.9)             |
| Sales Tax; Nursing Homes<br>Ch. 245                |                |                    | (2,000.0)          |
| Omnibus Tax Changes<br>Ch. 274                     |                | (542.9)            | (542.9)            |
| <b>TOTAL SALES AND USE</b>                         |                | <b>(2,672.0)</b>   | <b>(4,672.0)</b>   |
| <b>PROPERTY</b>                                    |                |                    |                    |
| None   |                |                    |                    |
| <b>TOTAL PROPERTY</b>                              |                |                    |                    |
| <b>OTHER</b>                                       |                |                    |                    |
| Agriculture Omnibus<br>Ch. 228                     |                | (90.0)             | (90.0)             |
| Health Care Omnibus<br>Ch. 268                     |                | (15.0)             | (15.0)             |
| <b>TOTAL OTHER</b>                                 |                | <b>(105.0)</b>     | <b>(105.0)</b>     |
| <b>TOTAL</b>                                       |                | <b>(113,729.0)</b> | <b>(132,842.7)</b> |

## Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

# TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1998

(\$ in Thousands)

|   | <u>FY 1998</u> | <u>FY 1999</u>     | <u>FY 2000</u>     | <u>FY 2001</u>     |
|---|----------------|--------------------|--------------------|--------------------|
| <b>INDIVIDUAL INCOME</b>  |                |                    |                    |                    |
| Prop. 200 - Campaign Finance  |                |                    | (1,279.1)          | (1,279.1)          |
| Alternative Fuels<br>Ch. 221  |                | (923.0)            | (2,854.8)          | 0.0                |
| Omnibus Taxation of 1998<br>Ch. 283   | 160.0          | (3,240.0)          | (6,410.0)          | (6,410.0)          |
| Tax Relief Act of 1998 - Rates Reductions<br>Ch. 3                              |                | (30,000.0)         | (50,000.0)         | (50,000.0)         |
| Wheels to Work<br>Ch. 208   |                |                    | (1,140.0)          | (1,140.0)          |
| Tax Exemptions; Exempts; Credits<br>Ch. 286                                     |                |                    | (1,347.0)          | (1,347.0)          |
| <b>TOTAL INDIVIDUAL INCOME</b>  | <u>160.0</u>   | <u>(34,163.0)</u>  | <u>(63,030.9)</u>  | <u>(60,176.1)</u>  |
| <b>CORPORATE INCOME</b>   |                |                    |                    |                    |
| Income Tax Credits; Coal Taxes<br>Ch. 137                                       |                | (1,600.0)          | (1,600.0)          | (1,600.0)          |
| Tax Relief Act of 1998 - Rates Reductions and<br>Deduction Elimination<br>Ch. 3 |                | (10,000.0)         | (20,000.0)         | (20,000.0)         |
| Wheels to Work<br>Ch. 208   |                |                    | (1,140.0)          | (1,140.0)          |
| Tax Exemptions, Deductions<br>Ch. 286   |                |                    | (577.3)            | (577.3)            |
| <b>TOTAL CORPORATE INCOME</b>   | <u></u>        | <u>(11,600.0)</u>  | <u>(23,317.3)</u>  | <u>(23,317.3)</u>  |
| <b>SALES AND USE</b>  |                |                    |                    |                    |
| Sales and Use; Printing<br>Ch. 132  |                | (100.0)            | (200.0)            | (200.0)            |
| Flight Property Exemptions<br>Ch. 177   |                | (110.0)            | (30.0)             | (30.0)             |
| Alternative Fuels<br>Ch. 221  |                | (577.0)            | (1,434.6)          | (1,434.6)          |
| Tax Exemptions, Deductions<br>Ch. 286   | (60.0)         | (857.2)            | (296.5)            | (296.5)            |
| <b>TOTAL SALES AND USE</b>  | <u>(60.0)</u>  | <u>(1,644.2)</u>   | <u>(1,961.1)</u>   | <u>(1,961.1)</u>   |
| <b>PROPERTY</b>   |                |                    |                    |                    |
| Telecommunications <sup>1/</sup><br>Ch. 220                                     |                |                    | (19.3)             | (19.3)             |
| Widow, Widowers Exemption <sup>1/</sup><br>Ch. 261                              |                |                    | (32.3)             | (32.3)             |
| <b>TOTAL PROPERTY</b>   | <u></u>        | <u></u>            | <u>(51.6)</u>      | <u>(51.6)</u>      |
| <b>OTHER</b>  |                |                    |                    |                    |
| Tax Relief Act of 1998 - VLT Rate Reduction<br>Ch. 3                            |                | (80,000.0)         | (100,000.0)        | (100,000.0)        |
| <b>TOTAL OTHER</b>  | <u></u>        | <u>(80,000.0)</u>  | <u>(100,000.0)</u> | <u>(100,000.0)</u> |
| <b>TOTAL</b>  | <u>100.0</u>   | <u>(127,407.2)</u> | <u>(188,360.9)</u> | <u>(185,506.1)</u> |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

<sup>1/</sup> Revenue loss due to reduced levies on property located in unorganized districts and minimum qualifying tax rate (MQTR) districts. Property tax levies in such districts are deposited in the General Fund.

# TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1999

(\$ in Thousands)

|   | <u>FY 1999</u> | <u>FY 2000</u>    | <u>FY 2001</u>     | <u>FY 2002</u>     |
|---|----------------|-------------------|--------------------|--------------------|
| <b>INDIVIDUAL INCOME</b>  |                |                   |                    |                    |
| Public Retirement Benefits<br>Ch. 50  |                |                   | (1,766.7)          | (1,766.7)          |
| Alternative Fuel Vehicles<br>Ch. 168  |                |                   | (427.1)            |                    |
| Taxpayer Bill of Rights<br>Ch. 250  |                | (200.0)           | (600.0)            | (400.0)            |
| IRS Conformity<br>Ch. 317   | (240.0)        | 2,330.0           | 690.0              | (3,190.0)          |
| <b>TOTAL INDIVIDUAL INCOME</b>  | <u>(240.0)</u> | <u>2,130.0</u>    | <u>(2,103.8)</u>   | <u>(5,356.7)</u>   |
| <b>CORPORATE INCOME</b>   |                |                   |                    |                    |
| Tax Relief and Fiscal Control (Trigger) Rate<br>Reduced from 8.0% to 7.0%; R&D Cap.<br>Removed<br>Ch. 5 |                |                   | (37,000.0)         | (74,000.0)         |
| Income Allocation (Airline Bill)<br>Ch. 190   |                |                   | (700.0)            | (1,400.0)          |
| Alternative Fuel Vehicles<br>Ch. 168  |                |                   | (1,052.1)          |                    |
| IRS Conformity<br>Ch. 317   | 5,170.0        | 2,920.0           | 2,920.0            | 890.0              |
| <b>TOTAL CORPORATE INCOME</b>   | <u>5,170.0</u> | <u>2,920.0</u>    | <u>(35,832.1)</u>  | <u>(74,510.0)</u>  |
| <b>SALES AND USE</b>  |                |                   |                    |                    |
| Sales Tax Exemption; Expendables<br>Ch. 153   | (100.0)        | (3,500.0)         | (3,500.0)          | (3,500.0)          |
| Tax Relief and Fiscal Control (Trigger) Mining<br>Severance Tax Reduction<br>Ch. 5                      |                | (4,667.0)         | (8,000.0)          | (8,000.0)          |
| <b>TOTAL SALES AND USE</b>  | <u>(100.0)</u> | <u>(8,167.0)</u>  | <u>(11,500.0)</u>  | <u>(11,500.0)</u>  |
| <b>PROPERTY</b>   |                |                   |                    |                    |
| Reduced Min. Value of Personal Property <sup>1/</sup><br>1st SS, Ch. 5                                  |                |                   | (30.0)             | (30.0)             |
| <b>TOTAL PROPERTY</b>   |                |                   | <u>(30.0)</u>      | <u>(30.0)</u>      |
| <b>OTHER</b>  |                |                   |                    |                    |
| Omni. Reconciliation - VLT Cut<br>Ch. 5   |                | (35,000.0)        | (60,000.0)         | (60,000.0)         |
| <b>TOTAL OTHER</b>  |                | <u>(35,000.0)</u> | <u>(60,000.0)</u>  | <u>(60,000.0)</u>  |
| <b>TOTAL</b>  | <u>4,830.0</u> | <u>(38,117.0)</u> | <u>(109,465.9)</u> | <u>(151,396.7)</u> |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

<sup>1/</sup> Revenue loss due to reduced levies on property located in unorganized districts and minimum qualifying tax rate (MQTR) districts. Property tax levies in such districts are deposited in the General Fund. Provision does not include \$21.4 million in increased Arizona Department of Education expenditures.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2000**

(\$ in Thousands)

|  | <u>FY 2000</u> | <u>FY 2001</u>    | <u>FY 2002</u>    | <u>FY 2003</u>    |
|--|----------------|-------------------|-------------------|-------------------|
| <b>INDIVIDUAL INCOME</b>   |                |                   |                   |                   |
| Renewable Energy Incentives<br>Ch. 214                           |                |                   |                   | (57.0)            |
| Technology Training Credit<br>Ch. 239                            |                |                   | (300.0)           | (300.0)           |
| IRS Conformity<br>Ch. 252  | (680.0)        | (2,796.0)         | (3,260.0)         | (636.0)           |
| Agricultural Preservation District<br>Ch. 267                    |                |                   | (100.0)           | (100.0)           |
| Character Instruction Tax Credit<br>Ch. 313                      |                |                   | (75.0)            | (75.0)            |
| Handicapped Preschoolers Tax Credit<br>Ch. 394                   |                |                   | (100.0)           | (100.0)           |
| Clean Air Act<br>Ch. 405 (neighborhood electric vehicle credit)  |                | (15,750.0)        |                   |                   |
| Clean Air Act <sup>1/</sup><br>Ch. 405 (alt fuel vehicle credit) |                | (59,100.0)        | (26,700.0)        | (3,100.0)         |
| Alternative Fuels Program Changes<br>Ch. 1 (7th Special Session) |                | (4,427.0)         |                   |                   |
| Low-income Tax Credit<br>Ch. 1 (5th Special Session)             |                |                   | (20,100.0)        | (20,100.0)        |
| Tuition Tax Credit<br>Ch. 1 (5th Special Session)                |                |                   | (3,750.0)         | (3,847.5)         |
| <b>TOTAL INDIVIDUAL INCOME</b>                                   | <b>(680.0)</b> | <b>(82,073.0)</b> | <b>(54,385.0)</b> | <b>(28,315.5)</b> |
| <b>CORPORATE INCOME</b>  |                |                   |                   |                   |
| Technology Training Credit<br>Ch. 239                            |                |                   | (2,500.0)         | (2,500.0)         |
| IRS Conformity<br>Ch. 252  | (15.0)         | 21.0              | 175.0             | 149.0             |
| Clean Air Act<br>Ch. 405   |                |                   | 192.3             | 192.3             |
| Clean Air Act <sup>1/</sup><br>Ch. 405 (alt fuel vehicle credit) |                | (7,300.0)         | (6,600.0)         | (1,600.0)         |
| <b>TOTAL CORPORATE INCOME</b>                                    | <b>(15.0)</b>  | <b>(7,279.0)</b>  | <b>(8,732.7)</b>  | <b>(3,758.7)</b>  |
| <b>SALES AND USE</b>   |                |                   |                   |                   |
| Renewable Energy Incentives<br>Ch. 214                           |                | (40.7)            | (42.8)            | (45.0)            |
| Spaceport Launch Site Exemption<br>Ch. 359                       | (18.4)         | (36.7)            | (36.7)            | (36.7)            |
| <b>TOTAL SALES AND USE</b>                                       | <b>(18.4)</b>  | <b>(77.4)</b>     | <b>(79.5)</b>     | <b>(81.7)</b>     |
| <b>PROPERTY</b>  |                |                   |                   |                   |
| Renewable Energy Incentives <sup>2/</sup><br>Ch. 214             |                |                   |                   | (8.8)             |
| Cemeteries; Property Tax Exemption <sup>2/</sup><br>Ch. 258      |                |                   |                   | (7.3)             |
| Electrical Generation Facilities <sup>2/</sup><br>Ch. 384        |                |                   | (2,234.9)         | (3,957.1)         |
| <b>TOTAL PROPERTY</b>  |                |                   | <b>(2,234.9)</b>  | <b>(3,973.2)</b>  |
| <b>OTHER</b>   |                |                   |                   |                   |
| None   |                |                   |                   |                   |
| <b>TOTAL OTHER</b>   |                |                   |                   |                   |
| <b>TOTAL</b>   | <b>(713.4)</b> | <b>(89,429.4)</b> | <b>(65,432.1)</b> | <b>(36,129.1)</b> |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.

- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

<sup>1/</sup> Amounts for FY 2001, FY 2002, and FY 2003 represent actual impact rather than initial estimated impact. Totals do not include approximately \$(12.7) million paid out for consumer loss recovery, for a total alternative fuel impact of approximately \$(117) million.

<sup>2/</sup> Revenue loss due to reduced levies on property located in unorganized districts and minimum qualifying tax rate (MQTR) districts. Property tax levies in such districts are deposited in the General Fund.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2001**

(\$ in Thousands)

|  | <u>FY 2001</u> | <u>FY 2002</u>    | <u>FY 2003</u>    |
|--|----------------|-------------------|-------------------|
| <b>INDIVIDUAL INCOME</b>   |                |                   |                   |
| Conditional Appropriations; Taxation<br>(reduce standard deduction)<br>Ch. 235 |                | (15,000.0)        | (15,000.0)        |
| Department of Revenue; Confidentiality<br>Ch. 261                              |                | 1,400.0           | 1,300.0           |
| IRS Conformity<br>Ch. 296  | (123.0)        | (280.0)           | (385.0)           |
| Retirement Benefits; Defined Contribution<br>Ch. 380                           |                | (300.0)           | (300.0)           |
| Equity Tax Act; Archaic Laws<br>Ch. 382  |                | (552.8)           | (552.8)           |
| <b>TOTAL INDIVIDUAL INCOME</b>   | <u>(123.0)</u> | <u>(14,732.8)</u> | <u>(14,937.8)</u> |
| <b>CORPORATE INCOME</b>  |                |                   |                   |
| IRS Conformity<br>Ch. 296  | (470.0)        | (1,098.0)         | (1,315.0)         |
| Enterprise Zone Program; Extension<br>Ch. 370 (impact can not be determined)   |                |                   |                   |
| <b>TOTAL CORPORATE INCOME</b>  | <u>(470.0)</u> | <u>(1,098.0)</u>  | <u>(1,315.0)</u>  |
| <b>SALES AND USE</b>   |                |                   |                   |
| None   |                |                   |                   |
| <b>TOTAL SALES AND USE</b>   | <u></u>        | <u></u>           | <u></u>           |
| <b>PROPERTY</b>  |                |                   |                   |
| None   |                |                   |                   |
| <b>TOTAL PROPERTY</b>  | <u></u>        | <u></u>           | <u></u>           |
| <b>OTHER</b>   |                |                   |                   |
| None   |                |                   |                   |
| <b>TOTAL OTHER</b>   | <u></u>        | <u></u>           | <u></u>           |
| <b>TOTAL</b>   | <u>(593.0)</u> | <u>(15,830.8)</u> | <u>(16,252.8)</u> |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.



**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2002 \***

(\$ in Thousands)

|   | <u>FY 2002</u> | <u>FY 2003</u>    | <u>FY 2004</u>    | <u>FY 2005</u>    |
|---|----------------|-------------------|-------------------|-------------------|
| <b>INDIVIDUAL INCOME</b>                          |                |                   |                   |                   |
| IRS Conformity<br>Ch. 344                         |                | (14,480.0)        | (14,480.0)        | (14,480.0)        |
| <b>TOTAL INDIVIDUAL INCOME</b>                    |                | <b>(14,480.0)</b> | <b>(14,480.0)</b> | <b>(14,480.0)</b> |
| <b>CORPORATE INCOME</b>                           |                |                   |                   |                   |
| Repeal Dividends Income Tax Subtraction<br>Ch. 50 |                | 11,200.0          | 11,200.0          | 11,200.0          |
| IRS Conformity<br>Ch. 344                         |                | 5,610.0           | 5,610.0           | 5,610.0           |
| <b>TOTAL CORPORATE INCOME</b>                     |                | <b>16,810.0</b>   | <b>16,810.0</b>   | <b>16,810.0</b>   |
| <b>SALES AND USE</b>                              |                |                   |                   |                   |
| None  |                |                   |                   |                   |
| <b>TOTAL SALES AND USE</b>                        |                |                   |                   |                   |
| <b>PROPERTY</b>                                   |                |                   |                   |                   |
| None  |                |                   |                   |                   |
| <b>TOTAL PROPERTY</b>                             |                |                   |                   |                   |
| <b>OTHER</b>                                      |                |                   |                   |                   |
| IRS Conformity - Estate Tax<br>Ch. 344            |                | (18,830.0)        | (38,140.0)        | (57,740.0)        |
| <b>TOTAL OTHER</b>                                |                | <b>(18,830.0)</b> | <b>(38,140.0)</b> | <b>(57,740.0)</b> |
| <b>TOTAL</b>                                      |                | <b>(16,500.0)</b> | <b>(35,810.0)</b> | <b>(55,410.0)</b> |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

\* Includes 45th Legislature, 2nd Special Session (December 2001), 3rd Special Session (March 2002), and 2nd Regular Session.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2003 \***

(\$ in Thousands)

|   | <u>FY 2003</u> | <u>FY 2004</u>  | <u>FY 2005</u>  |
|---|----------------|-----------------|-----------------|
| <b>INDIVIDUAL INCOME</b>                              |                |                 |                 |
| None  |                |                 |                 |
| <b>TOTAL INDIVIDUAL INCOME</b>                        |                |                 |                 |
| <b>CORPORATE INCOME</b>                               |                |                 |                 |
| None  |                |                 |                 |
| <b>TOTAL CORPORATE INCOME</b>                         |                |                 |                 |
| <b>SALES AND USE</b>                                  |                |                 |                 |
| None  |                |                 |                 |
| <b>TOTAL SALES AND USE</b>                            |                |                 |                 |
| <b>PROPERTY</b>                                       |                |                 |                 |
| None  |                |                 |                 |
| <b>TOTAL PROPERTY</b>                                 |                |                 |                 |
| <b>OTHER</b>  |                |                 |                 |
| Remove Medicaid Exemption/Ins. Premium Tax<br>Ch. 136 |                | 69,728.1        | 92,970.1        |
| <b>TOTAL OTHER</b>                                    |                | <u>69,728.1</u> | <u>92,970.1</u> |
| <b>TOTAL</b>  |                | <u>69,728.1</u> | <u>92,970.1</u> |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

\* Includes 45th Legislature, 6th Special Session (November 2002), and 46th Legislature, 1st Special Session (March 2003), and 1st Regular Session.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2004**

(\$ in Thousands)

|   | <u>FY 2004</u> | <u>FY 2005</u>   |
|---|----------------|------------------|
| <b>INDIVIDUAL INCOME</b>                |                |                  |
| IRS Conformity<br>Ch. 196               |                | (1,800.0)        |
| Stillborn Children Exemption<br>Ch. 214 |                | (34.0)           |
| <b>TOTAL INDIVIDUAL INCOME</b>          | <u></u>        | <u>(1,834.0)</u> |
| <b>CORPORATE INCOME</b>                 |                |                  |
| None                                    |                |                  |
| <b>TOTAL CORPORATE INCOME</b>           | <u></u>        | <u></u>          |
| <b>SALES AND USE</b>                    |                |                  |
| None                                    |                |                  |
| <b>TOTAL SALES AND USE</b>              | <u></u>        | <u></u>          |
| <b>PROPERTY</b>                         |                |                  |
| None                                    |                |                  |
| <b>TOTAL PROPERTY</b>                   | <u></u>        | <u></u>          |
| <b>OTHER</b>                            |                |                  |
| Liquor Fees<br>Ch. 275                  |                | 250.0            |
| <b>TOTAL OTHER</b>                      | <u></u>        | <u>250.0</u>     |
| <b>TOTAL</b>                            |                | <u>(1,584.0)</u> |

## Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2005**

(\$ in Thousands)

|  | FY 2005 | FY 2006           | FY 2007           | FY 2008           | FY 2009           | FY 2010            | FY 2011            |
|--|---------|-------------------|-------------------|-------------------|-------------------|--------------------|--------------------|
| <b>INDIVIDUAL INCOME</b>   |         |                   |                   |                   |                   |                    |                    |
| IRS Conformity<br>Ch. 334  |         | (5,400.0)         | (5,090.0)         | (7,950.0)         | (7,950.0)         | (7,950.0)          | (7,950.0)          |
| Elimination of "Marriage Penalty"<br>Ch. 334                     |         | (6,400.0)         | (12,800.0)        | (12,800.0)        | (12,800.0)        | (12,800.0)         | (12,800.0)         |
| Index Standard Deduction to CPI<br>Ch. 334                       |         | (2,400.0)         | (4,800.0)         | (7,200.0)         | (7,200.0)         | (7,200.0)          | (7,200.0)          |
| Active Duty Military Pay Exemption<br>Ch. 303                    |         |                   | (10,300.0)        | <sup>1/</sup>     | <sup>1/</sup>     | <sup>1/</sup>      | <sup>1/</sup>      |
| Graywater Tax Credit <sup>2/</sup><br>Ch. 292                    |         |                   |                   | (250.0)           | (250.0)           | (250.0)            | (250.0)            |
| Small Business Investment Credit<br>Ch. 316                      |         |                   |                   | <sup>3/</sup>     | <sup>3/</sup>     | <sup>3/</sup>      | <sup>3/</sup>      |
| <b>TOTAL INDIVIDUAL INCOME</b>                                   |         | <b>(14,200.0)</b> | <b>(32,990.0)</b> | <b>(28,200.0)</b> | <b>(28,200.0)</b> | <b>(28,200.0)</b>  | <b>(28,200.0)</b>  |
| <b>CORPORATE INCOME</b>  |         |                   |                   |                   |                   |                    |                    |
| IRS Conformity<br>Ch. 196  |         | (3,000.0)         | 5,210.0           | 9,410.0           | 9,410.0           | 9,410.0            | 9,410.0            |
| AZ National Guard Employment Credit<br>Ch. 264                   |         | (250.0)           | (250.0)           | (250.0)           | (250.0)           | (250.0)            | (250.0)            |
| Motion Picture Tax Incentives<br>Ch. 317                         |         |                   | (8,000.0)         | (9,200.0)         | (9,200.0)         | (9,200.0)          | (9,200.0)          |
| Graywater Tax Credit <sup>2/</sup><br>Ch. 292                    |         |                   |                   | (500.0)           | (500.0)           | (500.0)            | (500.0)            |
| Corporate Sales Factor <sup>4/</sup><br>Ch. 289                  |         |                   |                   | (32,000.0)        | (62,000.0)        | (91,000)           | (120,000)          |
| Corporate Consolidated Credit <sup>5/</sup><br>Laws 1994 Ch. 41  |         |                   |                   |                   |                   |                    |                    |
| <b>TOTAL CORPORATE INCOME</b>                                    |         | <b>(3,250.0)</b>  | <b>(3,040.0)</b>  | <b>(32,540.0)</b> | <b>(62,540.0)</b> | <b>(91,540.0)</b>  | <b>(120,540.0)</b> |
| <b>SALES AND USE</b>   |         |                   |                   |                   |                   |                    |                    |
| Motion Picture Tax Incentives<br>Ch. 317                         |         | (600.0)           | (1,200.0)         | (1,300.0)         | (1,300.0)         | (1,300.0)          | (1,300.0)          |
| <b>TOTAL SALES AND USE</b>                                       |         | <b>(600.0)</b>    | <b>(1,200.0)</b>  | <b>(1,300.0)</b>  | <b>(1,300.0)</b>  | <b>(1,300.0)</b>   | <b>(1,300.0)</b>   |
| <b>PROPERTY</b>  |         |                   |                   |                   |                   |                    |                    |
| Business Property Tax Reduction <sup>6/</sup><br>Ch. 302         |         |                   |                   |                   |                   |                    |                    |
| Increased Widows Property Tax Exemption <sup>7/</sup><br>Ch. 309 |         |                   |                   |                   |                   |                    |                    |
| <b>TOTAL PROPERTY</b>  |         |                   |                   |                   |                   |                    |                    |
| <b>OTHER</b>   |         |                   |                   |                   |                   |                    |                    |
| None   |         |                   |                   |                   |                   |                    |                    |
| <b>TOTAL OTHER</b>   |         |                   |                   |                   |                   |                    |                    |
| <b>TOTAL</b>   |         | <b>(18,050.0)</b> | <b>(37,230.0)</b> | <b>(62,040.0)</b> | <b>(92,040.0)</b> | <b>(121,040.0)</b> | <b>(150,040.0)</b> |

## Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

<sup>1/</sup> Chapter 303 established a one-time active duty pay exemption. Laws 2006, Chapter 342 (see following page) made the exemption permanent, as well as expanding the exemption to National Guard or Reserves..

<sup>2/</sup> Individual and corporate credit combined capped at \$750,000 per year for 5 years beginning in FY 2008.

<sup>3/</sup> Credit capped at \$20 million for tax years 2007 through 2014. No estimates of impact by year.

<sup>4/</sup> Revised since 2020 Tax Handbook to correct an error.

<sup>5/</sup> Legislation enacted in 1994 provided a tax credit totalling \$115 million for certain consolidated returns which was to be spread over 10 years. In the 11th year, DOR is required to refund any unused credit. This legislation is estimated to have a one-time impact of \$(4) million in FY 2007, and \$(55.5) million in FY 2008.

<sup>6/</sup> Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be \$12.3 million in FY 2007, \$26.6 million in FY 2008, \$42.8 million in FY 2009, \$61.5 million in FY 2010, \$82.7 million in FY 2011, \$102.8 million in FY 2012, \$114.2 million in FY 2013, and \$126.5 million in FY 2015. Full implementation in FY 2016 is expected to cost \$140 million.

<sup>7/</sup> Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be \$500,000 in FY 2007 and \$512,000 in FY 2008.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2006**

(\$ in Thousands)

|  | <u>FY 2006</u> | <u>FY 2007</u>     | <u>FY 2008</u>     |
|--|----------------|--------------------|--------------------|
| <b>INDIVIDUAL INCOME</b>   |                |                    |                    |
| IRS Conformity<br>Ch. 357  |                | (700.0)            | 400.0              |
| Individual Income Tax Rate Reduction<br>Ch. 354                    |                | (156,100.0)        | (334,000.0)        |
| Solar Energy Device Credit<br>Ch. 333                              |                | (500.0)            | (500.0)            |
| Active Duty Military Pay Exemption <sup>1/</sup><br>Ch. 342        |                |                    | (12,200.0)         |
| <b>TOTAL INDIVIDUAL INCOME</b>                                     | <u></u>        | <u>(157,300.0)</u> | <u>(346,300.0)</u> |
| <b>CORPORATE INCOME</b>  |                |                    |                    |
| IRS Conformity<br>Ch. 357  |                | (700.0)            | (800.0)            |
| Solar Energy Device Credit<br>Ch. 333                              |                | (500.0)            | (500.0)            |
| School Tuition Tax Credit <sup>2/</sup><br>Chs. 14 & 325           |                | (10,000.0)         | (12,000.0)         |
| <b>TOTAL CORPORATE INCOME</b>                                      | <u></u>        | <u>(11,200.0)</u>  | <u>(13,300.0)</u>  |
| <b>SALES AND USE</b>   |                |                    |                    |
| Solar Energy Device Credit<br>Ch. 333                              |                | (500.0)            | (500.0)            |
| Exemption for Purchase of Liquid Natural Gas<br>Ch. 371            |                | (378.6)            | (378.6)            |
| Tax Simplification-Eliminate 3 Categories<br>Ch. 354               |                | (200.0)            | (200.0)            |
| <b>TOTAL SALES AND USE</b>   | <u></u>        | <u>(1,078.6)</u>   | <u>(1,078.6)</u>   |
| <b>PROPERTY</b>  |                |                    |                    |
| State Equalization Rate Suspension <sup>3/</sup><br>Ch. 354        |                |                    |                    |
| Nonprofit Hospital Property Tax Exemption <sup>4/</sup><br>Ch. 327 |                |                    |                    |
| <b>TOTAL PROPERTY</b>  | <u></u>        | <u></u>            | <u></u>            |
| <b>OTHER</b>   |                |                    |                    |
| Health Insurance Premium Tax Credit<br>Ch. 378                     |                | (5,000.0)          | (5,000.0)          |
| <b>TOTAL OTHER</b>   | <u></u>        | <u>(5,000.0)</u>   | <u>(5,000.0)</u>   |
| <b>TOTAL</b>   |                | <u>(174,578.6)</u> | <u>(365,678.6)</u> |

## Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Chapter 342 made the one-time active duty pay exemption enacted by Laws 2005, Chapter 303 permanent.

In addition, the act expands the exemption to include active National Guard or Reserves.

2/ Credit capped at \$10 million for FY 2007. The cap will increase 20% annually beginning in FY 2008.

3/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be \$215.2 million in FY 2007, \$226.0 million in FY 2008, and \$239.6 million in FY 2009.

4/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be \$60,000 per year beginning in FY 2007.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2007**

(\$ in Thousands)

|  | <u>FY 2007</u>              | <u>FY 2008</u>              | <u>FY 2009</u>              |
|--|-----------------------------|-----------------------------|-----------------------------|
| <b>INDIVIDUAL INCOME</b>   |                             |                             |                             |
| IRS Conformity<br>Ch. 1  |                             | (1,300.0)                   | (980.0)                     |
| College Savings Plan<br>Ch. 258  |                             |                             | (2,500.0)                   |
| Military Relief Fund<br>Ch. 258  |                             |                             | (1,000.0)                   |
| <b>TOTAL INDIVIDUAL INCOME</b>   | <u>                    </u> | <u>(1,300.0)</u>            | <u>(4,480.0)</u>            |
| <b>CORPORATE INCOME</b>  |                             |                             |                             |
| IRS Conformity<br>Ch. 1  |                             | (300.0)                     | 60.0                        |
| <b>TOTAL CORPORATE INCOME</b>  | <u>                    </u> | <u>(300.0)</u>              | <u>60.0</u>                 |
| <b>SALES AND USE</b>   |                             |                             |                             |
| None   |                             |                             |                             |
| <b>TOTAL SALES AND USE</b>   | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| <b>PROPERTY</b>  |                             |                             |                             |
| Business Property Tax Reduction <sup>1/</sup><br>Ch. 258                     |                             |                             |                             |
| Business Personal Property Accelerated Depreciation <sup>2/</sup><br>Ch. 258 |                             |                             |                             |
| <b>TOTAL PROPERTY</b>  | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| <b>OTHER</b>   |                             |                             |                             |
| None   |                             |                             |                             |
| <b>TOTAL OTHER</b>   | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| <b>TOTAL</b>   |                             | <u>(1,600.0)</u>            | <u>(4,420.0)</u>            |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Laws 2005, Chapter 302 phased down the assessment ratio for business personal property over 10 years. Chapter 258 accelerates the phase down from the remaining 8 years to 4 years. Impact will occur as increased Arizona Department of Education expenditures. The incremental cost of the accelerated phase down is expected to be an additional \$3.1 million in FY 2009.

2/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be \$4.0 million per year beginning in FY 2009.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2008**

(\$ in Thousands)

|  | <u>FY 2008</u> | <u>FY 2009</u>   | <u>FY 2010</u> | <u>FY 2011</u>   | <u>FY 2012</u>    |
|--|----------------|------------------|----------------|------------------|-------------------|
| <b>INDIVIDUAL INCOME</b>                                 |                |                  |                |                  |                   |
| IRS Conformity<br>Ch. 94                                 |                | (970.0)          |                |                  |                   |
| <b>TOTAL INDIVIDUAL INCOME</b>                           |                | <u>(970.0)</u>   |                |                  |                   |
| <b>CORPORATE INCOME</b>                                  |                |                  |                |                  |                   |
| IRS Conformity<br>Ch. 94                                 |                | (80.0)           |                |                  |                   |
| Research and Development Credit <sup>1/</sup><br>Ch. 290 |                |                  |                | (5,700.0)        | (11,200)          |
| <b>TOTAL CORPORATE INCOME</b>                            |                | <u>(80.0)</u>    |                | <u>(5,700.0)</u> | <u>(11,200.0)</u> |
| <b>SALES AND USE</b>                                     |                |                  |                |                  |                   |
| None   |                |                  |                |                  |                   |
| <b>TOTAL SALES AND USE</b>                               |                |                  |                |                  |                   |
| <b>PROPERTY</b>  |                |                  |                |                  |                   |
| None   |                |                  |                |                  |                   |
| <b>TOTAL PROPERTY</b>                                    |                |                  |                |                  |                   |
| <b>OTHER</b>   |                |                  |                |                  |                   |
| None   |                |                  |                |                  |                   |
| <b>TOTAL OTHER</b>                                       |                |                  |                |                  |                   |
| <b>TOTAL</b>   |                | <u>(1,050.0)</u> |                | <u>(5,700.0)</u> | <u>(11,200.0)</u> |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

<sup>1/</sup> Revised since 2020 Tax Handbook to correct an error.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2009**

(\$ in Thousands)

|   | <u>FY 2009</u> | <u>FY 2010</u>    | <u>FY 2011</u>    | <u>FY 2012</u>    |
|---|----------------|-------------------|-------------------|-------------------|
| <b>INDIVIDUAL INCOME</b>                            |                |                   |                   |                   |
| IRS Conformity<br>Ch. 2                             |                | (4,000.0)         | (880.0)           | (880.0)           |
| Contributions to Charitable Organizations<br>Ch. 80 |                | (5,000.0)         | (5,900.0)         | (5,900.0)         |
| Renewable Energy Investment <sup>1/</sup><br>Ch. 96 |                |                   |                   |                   |
| <b>TOTAL INDIVIDUAL INCOME</b>                      |                | <u>(9,000.0)</u>  | <u>(6,780.0)</u>  | <u>(6,780.0)</u>  |
| <b>CORPORATE INCOME</b>                             |                |                   |                   |                   |
| IRS Conformity<br>Ch. 2                             |                | (4,410.0)         | (100.0)           | (100.0)           |
| Renewable Energy Investment <sup>1/</sup><br>Ch. 96 |                |                   | (5,000.0)         | (5,000.0)         |
| <b>TOTAL CORPORATE INCOME</b>                       |                | <u>(4,410.0)</u>  | <u>(5,100.0)</u>  | <u>(5,100.0)</u>  |
| <b>SALES AND USE</b>                                |                |                   |                   |                   |
| None  |                |                   |                   |                   |
| <b>TOTAL SALES AND USE</b>                          |                |                   |                   |                   |
| <b>PROPERTY</b>                                     |                |                   |                   |                   |
| Renewable Energy Investment <sup>1/</sup><br>Ch. 96 |                |                   |                   |                   |
| <b>TOTAL PROPERTY</b>                               |                |                   |                   |                   |
| <b>OTHER</b>  |                |                   |                   |                   |
| None  |                |                   |                   |                   |
| <b>TOTAL OTHER</b>                                  |                |                   |                   |                   |
| <b>TOTAL</b>  |                | <u>(13,410.0)</u> | <u>(11,880.0)</u> | <u>(11,880.0)</u> |

## Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

<sup>1/</sup> Chapter 96 provides income and property tax incentives for qualifying renewable energy companies that invest in headquarter or manufacturing facilities in the state, including land, buildings, machinery and equipment, from tax year 2010 to 2014. The income tax credits are refundable, and are capped at \$70 million annually. The \$(5) million impact is a revised estimate for CY 2010. The cumulative \$(5) million reduction is shown as a corporate income tax reduction for display purposes.



# TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2010

(\$ in Thousands)

|   | FY 2010 | FY 2011          | FY 2012           | FY 2013           | FY 2014           |
|---|---------|------------------|-------------------|-------------------|-------------------|
| <b>INDIVIDUAL INCOME</b>  |         |                  |                   |                   |                   |
| IRS Conformity <sup>1/</sup><br>Ch. 176   |         |                  |                   |                   |                   |
| STO Contribution Deadline Extension<br>Ch. 188  |         | (2,500.0)        | (2,500.0)         | (2,500.0)         | (2,500.0)         |
| STO Maximum Credit Inflation Adjustment<br>Ch. 293  |         | (600.0)          | (600.0)           | (600.0)           | (600.0)           |
| Research and Development Refundable Credit <sup>2/</sup><br>Ch. 312                         |         | (5,000.0)        | (5,000.0)         | (5,000.0)         | (5,000.0)         |
| Renewable Energy Production Credit <sup>3/</sup><br>Ch. 312                                 |         |                  |                   |                   |                   |
| Out-of-State Filers Proportionality<br>6th SS, Ch. 3  |         | 22,000.0         | 22,000.0          | 22,000.0          | 22,000.0          |
| <b>TOTAL INDIVIDUAL INCOME</b>  |         | <b>13,900.0</b>  | <b>13,900.0</b>   | <b>13,900.0</b>   | <b>13,900.0</b>   |
| <b>CORPORATE INCOME</b>   |         |                  |                   |                   |                   |
| IRS Conformity <sup>1/</sup><br>Ch. 176   |         |                  |                   |                   |                   |
| Research and Development Refundable Credit <sup>2/</sup><br>Ch. 312                         |         |                  |                   |                   |                   |
| Renewable Energy Production Credit <sup>3/</sup><br>Ch. 312                                 |         |                  | (10,000.0)        | (20,000.0)        | (20,000.0)        |
| <b>TOTAL CORPORATE INCOME</b>   |         | <b>0.0</b>       | <b>(10,000.0)</b> | <b>(20,000.0)</b> | <b>(20,000.0)</b> |
| <b>SALES AND USE</b>  |         |                  |                   |                   |                   |
| TPT Increase - May Election<br>6th SS, SCR 1001 (May 2010 Election, Prop 100) <sup>4/</sup> |         | 918,000.0        | 918,000.0         | 918,000.0         | 0.0               |
| Estimated Payment Threshold<br>7th SS, Ch. 12 <sup>5/</sup>                                 |         |                  |                   |                   |                   |
| <b>TOTAL SALES AND USE</b>  |         | <b>918,000.0</b> | <b>918,000.0</b>  | <b>918,000.0</b>  | <b>0.0</b>        |
| <b>PROPERTY</b>   |         |                  |                   |                   |                   |
| None  |         |                  |                   |                   |                   |
| <b>TOTAL PROPERTY</b>   |         |                  |                   |                   |                   |
| <b>OTHER</b>  |         |                  |                   |                   |                   |
| None  |         |                  |                   |                   |                   |
| <b>TOTAL OTHER</b>  |         |                  |                   |                   |                   |
| <b>TOTAL</b>  |         | <b>931,900.0</b> | <b>921,900.0</b>  | <b>911,900.0</b>  | <b>(6,100.0)</b>  |

## Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.

- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

<sup>1/</sup> These adjustments may have a minimal revenue impact not reflected in this chart.

<sup>2/</sup> The refundable credit provisions of Chapter 312 impact both individual and corporate income tax. The cumulative \$(5) million reduction is shown as an individual income tax reduction for display purposes.

<sup>3/</sup> The renewable energy production provisions of Chapter 312 impact both individual and corporate income tax. The cumulative \$(10) million reduction is shown as a corporate income tax reduction for display purposes.

<sup>4/</sup> The original ballot proposition estimated collections of \$918 million, \$968 million, and \$1.06 billion respectively for the three years of collection.

<sup>5/</sup> The threshold for the June estimated TPT payment was lowered from \$1.0 million in TPT tax liability to \$100,000 for FY 2010 through FY 2012.

This change was estimated to generate \$48 million in FY 2010, and reduce revenues by \$(52) million in FY 2013. These changes do not impact a taxpayer's tax liability, but do impact the timing of payments. The impacts are considered one-time, and are not included in the above chart.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2011**

(\$ in Thousands)

|   | FY 2011 | FY 2012        | FY 2013          | FY 2014           | FY 2015            | FY 2016            | FY 2017            | FY 2018            |
|---|---------|----------------|------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
| <b>INDIVIDUAL INCOME <sup>1/</sup></b>                            |         |                |                  |                   |                    |                    |                    |                    |
| IRS Conformity<br>Ch. 4   |         | 3,100.0        | 3,100.0          | 3,100.0           | 3,100.0            | 3,100.0            | 3,100.0            | 3,100.0            |
| "Angel" Investment Credit Increase <sup>2/</sup><br>2nd SS, Ch. 1 |         | (4,000.0)      | (4,000.0)        | (4,000.0)         | (4,500.0)          | 0.0                | 0.0                | 0.0                |
| Eliminate Small Business-Generated Cap. Gains<br>2nd SS, Ch. 1    |         |                |                  |                   | (11,600.0)         | (12,300.0)         | (12,900.0)         | (13,600.0)         |
| New Employment Credit<br>2nd SS, Ch. 1                            |         |                |                  |                   |                    |                    |                    |                    |
| University R&D Credit Increase<br>2nd SS, Ch. 1 <sup>3/</sup>     |         |                |                  |                   |                    |                    |                    |                    |
| Eliminate Enterprise Zones<br>2nd SS, Ch. 1 <sup>4/</sup>         |         |                |                  |                   |                    |                    |                    |                    |
| <b>TOTAL INDIVIDUAL INCOME</b>                                    |         | <b>(900.0)</b> | <b>(900.0)</b>   | <b>(900.0)</b>    | <b>(13,000.0)</b>  | <b>(9,200.0)</b>   | <b>(9,800.0)</b>   | <b>(10,500.0)</b>  |
| <b>CORPORATE INCOME <sup>1/</sup></b>                             |         |                |                  |                   |                    |                    |                    |                    |
| IRS Conformity<br>Ch. 4   |         | 6,100.0        | 6,100.0          | 6,100.0           | 6,100.0            | 6,100.0            | 6,100.0            | 6,100.0            |
| Corporate Rate Reduction<br>2nd SS, Ch. 1 <sup>5/</sup>           |         |                |                  |                   | (53,800.0)         | (116,000.0)        | (183,500.0)        | (269,600.0)        |
| 100% Sales Factor<br>2nd SS, Ch. 1 <sup>6/</sup>                  |         |                |                  |                   | (24,600.0)         | (47,300.0)         | (67,800.0)         | (84,000.0)         |
| New Employment Credit<br>2nd SS, Ch. 1                            |         | (6,700.0)      | (13,400.0)       | (29,800.0)        | (47,700.0)         | (52,700.0)         | (53,700.0)         | (50,900.0)         |
| University R&D Credit Increase<br>2nd SS, Ch. 1 <sup>3/</sup>     |         |                | (4,000.0)        | (4,000.0)         | (4,000.0)          | (4,000.0)          | (4,000.0)          | (4,000.0)          |
| Eliminate Enterprise Zones<br>2nd SS, Ch. 1 <sup>4/</sup>         |         | 4,000.0        | 4,000.0          | 4,000.0           | 4,000.0            | 4,000.0            | 4,000.0            | 4,000.0            |
| <b>TOTAL CORPORATE INCOME</b>                                     |         | <b>3,400.0</b> | <b>(7,300.0)</b> | <b>(23,700.0)</b> | <b>(120,000.0)</b> | <b>(209,900.0)</b> | <b>(298,900.0)</b> | <b>(398,400.0)</b> |
| <b>SALES AND USE</b>  |         |                |                  |                   |                    |                    |                    |                    |
| None  |         |                |                  |                   |                    |                    |                    |                    |
| <b>TOTAL SALES AND USE</b>  |         |                |                  |                   |                    |                    |                    |                    |
| <b>PROPERTY</b>   |         |                |                  |                   |                    |                    |                    |                    |
| None  |         |                |                  |                   |                    |                    |                    |                    |
| <b>TOTAL PROPERTY</b>   |         |                |                  |                   |                    |                    |                    |                    |
| <b>OTHER</b>  |         |                |                  |                   |                    |                    |                    |                    |
| None  |         |                |                  |                   |                    |                    |                    |                    |
| <b>TOTAL OTHER</b>  |         |                |                  |                   |                    |                    |                    |                    |
| <b>TOTAL</b>  |         | <b>2,500.0</b> | <b>(8,200.0)</b> | <b>(24,600.0)</b> | <b>(133,000.0)</b> | <b>(219,100.0)</b> | <b>(308,700.0)</b> | <b>(408,900.0)</b> |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.

- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

<sup>1/</sup> The Chapter 1 "Jobs Bill" provisions are fully phased in by 2018. See the Corporate Income Tax section for additional information.

<sup>2/</sup> Revised since 2013 Tax Handbook to correct an error.

<sup>3/</sup> The university R&D credit impacts both individual and corporate income tax. The cumulative reduction is shown as a corporate income tax reduction for display purposes.

<sup>4/</sup> The elimination of enterprise zones impacts both individual and corporate income tax. The cumulative reduction is shown as a corporate income tax reduction for display purposes.

<sup>5/</sup> The impact of the corporate income tax rate reduction is estimated at \$(116.0) million in FY 2016, \$(183.5) million in FY 2017, and \$(269.6) million in FY 2018. These reflect estimates at the time of enactment and have changed since that time.

<sup>6/</sup> The impact of the 100% sales factor phase-in is estimated at \$(47.3) million in FY 2016, \$(67.8) million in FY 2017, and \$(84.0) million in FY 2018. These reflect estimates at the time of enactment and have changed since that time.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2012**

(\$ in Thousands)

|  | <u>FY 2012</u> | <u>FY 2013</u> | <u>FY 2014</u>    | <u>FY 2015</u>    | <u>FY 2016</u>    | <u>FY 2017</u>    | <u>FY 2018</u>    | <u>FY 2019</u>     |
|--|----------------|----------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| <b>INDIVIDUAL INCOME</b>                                       |                |                |                   |                   |                   |                   |                   |                    |
| STO Tax Credit<br>Ch. 4  |                | (4,000.0)      | (4,000.0)         | (4,000.0)         | (4,000.0)         | (4,000.0)         | (4,000.0)         | (4,000.0)          |
| Eliminate Clean Election Tax Credit<br>Ch. 257                 |                | 12,800.0       | 12,800.0          | 12,800.0          | 12,800.0          | 12,800.0          | 12,800.0          | 12,800.0           |
| Healthy Forest Restoration<br>Ch. 331                          |                | (110.0)        | (110.0)           | (110.0)           | (110.0)           | (110.0)           | (110.0)           | (110.0)            |
| Long-Term Capital Gains Reduction<br>Ch. 343                   |                |                | (17,500.0)        | (40,500.0)        | (56,500.0)        | (61,400.0)        | (65,600.0)        | (69,300.0)         |
| Federal Bonus Depreciation Deduction <sup>1/</sup><br>Ch. 343  |                |                |                   | (4,200.0)         | 0.0               | 0.0               | 0.0               | 0.0                |
| Eliminate Cap-New Employment <sup>2/</sup><br>Ch. 343          |                |                |                   |                   |                   |                   |                   |                    |
| Qualified Facility Credit <sup>3/</sup><br>Ch. 343             |                |                |                   |                   |                   |                   |                   |                    |
| Long Term Care Premium Subtraction<br>Ch. 351                  |                | (4,100.0)      | (4,100.0)         | (4,100.0)         | (4,100.0)         | (4,100.0)         | (4,100.0)         | (4,100.0)          |
| <b>TOTAL INDIVIDUAL INCOME</b>                                 |                | <b>4,590.0</b> | <b>(12,910.0)</b> | <b>(40,110.0)</b> | <b>(51,910.0)</b> | <b>(56,810.0)</b> | <b>(61,010.0)</b> | <b>(64,710.0)</b>  |
| <b>CORPORATE INCOME</b>  |                |                |                   |                   |                   |                   |                   |                    |
| Service Provider Corporate Sales Factor <sup>1/</sup><br>Ch. 2 |                |                |                   | (3,000.0)         | (3,500.0)         | (3,900.0)         | (4,400.0)         | (4,400.0)          |
| Eliminate Cap-New Employment <sup>2/</sup><br>Ch. 343          |                |                | (1,800.0)         | (3,600.0)         | (5,400.0)         | (5,400.0)         | (5,400.0)         | (5,400.0)          |
| Qualified Facility Credit <sup>3/</sup><br>Ch. 343             |                |                | (4,000.0)         | (8,000.0)         | (12,000.0)        | (16,000.0)        | (20,000.0)        | (20,000.0)         |
| Extend Net Operating Loss Carry Forward<br>Ch. 343             |                |                |                   |                   |                   |                   |                   | (12,200.0)         |
| <b>TOTAL CORPORATE INCOME</b>                                  |                | <b>0.0</b>     | <b>(5,800.0)</b>  | <b>(14,600.0)</b> | <b>(20,900.0)</b> | <b>(25,300.0)</b> | <b>(29,800.0)</b> | <b>(42,000.0)</b>  |
| <b>SALES AND USE</b>   |                |                |                   |                   |                   |                   |                   |                    |
| Public Infrastructure Improvements <sup>4/</sup><br>Ch. 328    |                |                |                   |                   |                   |                   |                   |                    |
| <b>TOTAL SALES AND USE</b>                                     |                |                |                   |                   |                   |                   |                   |                    |
| <b>PROPERTY</b>  |                |                |                   |                   |                   |                   |                   |                    |
| None   |                |                |                   |                   |                   |                   |                   |                    |
| <b>TOTAL PROPERTY</b>  |                |                |                   |                   |                   |                   |                   |                    |
| <b>OTHER</b>   |                |                |                   |                   |                   |                   |                   |                    |
| None   |                |                |                   |                   |                   |                   |                   |                    |
| <b>TOTAL OTHER</b>   |                |                |                   |                   |                   |                   |                   |                    |
| <b>TOTAL</b>   |                | <b>4,590.0</b> | <b>(18,710.0)</b> | <b>(54,710.0)</b> | <b>(72,810.0)</b> | <b>(82,110.0)</b> | <b>(90,810.0)</b> | <b>(106,710.0)</b> |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.

- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

<sup>1/</sup> Revised since 2013 Tax Handbook to correct an error.

<sup>2/</sup> Impact is estimated at \$(1.8) million between corporate and individual income taxpayers beginning in FY 2014. Impact grows by another \$(1.8) million each year through FY 2016. The impact of the credit is shown in the Corporate Income Tax section for display purposes.

<sup>3/</sup> Impact is estimated at \$(4.0) million between corporate and individual income taxpayers, beginning in FY 2014. Impact grows by another \$(4.0) million each year through FY 2018. The impact of the credit is shown in the Corporate Income Tax section for display purposes.

<sup>4/</sup> Fiscal impact could not be determined at the time of enactment but statute caps the loss to more than \$50 million over the life of the program.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2013**

(\$ in Thousands)

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

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.

- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

<sup>1/</sup> Removed the state's \$25,000 business expensing cap, beginning in TY 2013. As a result, the state effectively conformed its business expensing level to the amounts permitted by federal law. At the time of enactment, Chapter 256 was expected to have a one-time revenue impact of \$(24.8) million in FY 2014. While Chapter 256 reduces both individual and corporate income tax, the entire impact is shown as an individual income tax reduction for display purposes. Laws 2015, Chapter 227 extends this provision.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2014**

(\$ in Thousands)

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

## Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

<sup>1/</sup> Chapter 10 provided a one-time inflation adjustment of the income tax rate brackets for TY 2015. Laws 2015, Chapter 91 (see following page) made the inflation adjustment of the tax brackets permanent, beginning in TY 2016.

# TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2015

(\$ in Thousands)

|   | FY 2015           | FY 2016           | FY 2017           | FY 2018           |
|---|-------------------|-------------------|-------------------|-------------------|
| <b>INDIVIDUAL INCOME</b>                                      |                   |                   |                   |                   |
| Tax Bracket Inflation Adjustment <sup>1/</sup><br>Ch. 91      |                   |                   | (15,400.0)        | (24,700.0)        |
| Internal Revenue Code Conformity<br>Ch. 227                   | (30,800.0)        | (30,800.0)        | (30,800.0)        | (30,800.0)        |
| <b>TOTAL INDIVIDUAL INCOME</b>                                | <b>(30,800.0)</b> | <b>(30,800.0)</b> | <b>(46,200.0)</b> | <b>(55,500.0)</b> |
| <b>CORPORATE INCOME</b>                                       |                   |                   |                   |                   |
| Renewable Energy Facility Credit <sup>2/</sup><br>Ch. 6       |                   |                   |                   |                   |
| <b>TOTAL CORPORATE INCOME</b>                                 | <b>0.0</b>        | <b>0.0</b>        | <b>0.0</b>        | <b>0.0</b>        |
| <b>SALES AND USE</b>  |                   |                   |                   |                   |
| Electricity/Natural Gas Exemption <sup>3/</sup><br>Ch. 6      |                   |                   | (1,300.0)         | (1,300.0)         |
| <b>TOTAL SALES AND USE</b>                                    | <b>0.0</b>        | <b>0.0</b>        | <b>(1,300.0)</b>  | <b>(1,300.0)</b>  |
| <b>PROPERTY</b>   |                   |                   |                   |                   |
| Religious Institution Exemption <sup>4/</sup><br>Ch. 49       |                   |                   |                   |                   |
| <b>TOTAL PROPERTY</b>   |                   |                   |                   |                   |
| <b>OTHER</b>  |                   |                   |                   |                   |
| Insurance Fraud Assessment<br>Ch. 10                          |                   | 516.6             | 516.6             | 516.6             |
| Retaliatory Insurance Premium Tax Exemption<br>Ch. 184        |                   | (1,500.0)         | (1,500.0)         | (1,500.0)         |
| Insurance Premium Tax Rate Reduction <sup>5/</sup><br>Ch. 220 |                   |                   | (1,300.0)         | (1,500.0)         |
| <b>TOTAL OTHER</b>  | <b>0.0</b>        | <b>(983.4)</b>    | <b>(2,283.4)</b>  | <b>(2,483.4)</b>  |
| <b>TOTAL</b>  | <b>(30,800.0)</b> | <b>(31,783.4)</b> | <b>(49,783.4)</b> | <b>(59,283.4)</b> |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.

- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

<sup>1/</sup> Chapter 91 made the one-time tax bracket inflation adjustment enacted by Laws 2014, Chapter 10 permanent, beginning in TY 2016.

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

<sup>3/</sup> Laws 2014, Chapter 7 established an electricity and natural gas sales tax exemption for manufacturers. Laws 2015, Chapter 6 expanded the exemption to include "International Operations Centers" (IOC). The numbers as displayed reflect the marginal impact of Laws 2015, Chapter 6.

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

<sup>5/</sup> The numbers as displayed reflect the scheduled insurance premium tax rate reduction provided by Laws 2015, Chapter 220. See Laws 2016, Chapter 358 for further changes.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2016**

(\$ in Thousands)

|   | FY 2016 | FY 2017           | FY 2018           | FY 2019           | FY 2020           | FY 2021           |
|---|---------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>INDIVIDUAL INCOME</b>                                      |         |                   |                   |                   |                   |                   |
| Charitable Tax Credit Cap Increase <sup>1/</sup><br>Ch. 109   |         | (11,000.0)        | (11,000.0)        | (11,000.0)        | (11,000.0)        | (11,000.0)        |
| Federal Bonus Depreciation Deduction <sup>2/</sup><br>Ch. 118 |         | (8,000.0)         | (16,000.0)        | (16,000.0)        | (16,000.0)        | (16,000.0)        |
| Extended Due Date for Charitable Tax Credit<br>Ch. 309        |         | (1,700.0)         | (1,700.0)         | (1,700.0)         | (1,700.0)         | (1,700.0)         |
| <b>TOTAL INDIVIDUAL INCOME</b>                                |         | <b>(20,700.0)</b> | <b>(28,700.0)</b> | <b>(28,700.0)</b> | <b>(28,700.0)</b> | <b>(28,700.0)</b> |
| <b>CORPORATE INCOME</b>                                       |         |                   |                   |                   |                   |                   |
| None  |         |                   |                   |                   |                   |                   |
| <b>SALES AND USE</b>  |         |                   |                   |                   |                   |                   |
| Natural Gas Transportation Exemption<br>Ch. 357               |         | (870.0)           | (870.0)           | (870.0)           | (870.0)           | (870.0)           |
| Agricultural Feed Exemption<br>Ch. 361                        |         | (1,000.0)         | (1,000.0)         | (1,000.0)         | (1,000.0)         | (1,000.0)         |
| Charter Airline Exemption<br>Ch. 367                          |         | 0.0               | (2,300.0)         | (2,300.0)         | (2,300.0)         | (2,300.0)         |
| Fine Art Exemption<br>Ch. 368                                 |         | (1,300.0)         | (1,300.0)         | (1,300.0)         | (1,300.0)         | (1,300.0)         |
| Electricity/Natural Gas Exemption <sup>3/ 4/</sup><br>Ch. 374 |         | (8,700.0)         | (20,900.0)        | (20,900.0)        | (20,900.0)        | (20,900.0)        |
| <b>TOTAL SALES AND USE</b>                                    |         | <b>(11,870.0)</b> | <b>(26,370.0)</b> | <b>(26,370.0)</b> | <b>(26,370.0)</b> | <b>(26,370.0)</b> |
| <b>PROPERTY</b>   |         |                   |                   |                   |                   |                   |
| None  |         |                   |                   |                   |                   |                   |
| <b>OTHER</b>  |         |                   |                   |                   |                   |                   |
| Insurance Premium Tax Rate Reduction <sup>5/</sup><br>Ch. 358 |         | (3,000.0)         | (7,100.0)         | (11,400.0)        | (16,100.0)        | (21,100.0)        |
| <b>TOTAL OTHER</b>  |         | <b>(3,000.0)</b>  | <b>(7,100.0)</b>  | <b>(11,400.0)</b> | <b>(16,100.0)</b> | <b>(21,100.0)</b> |
| <b>TOTAL</b>  |         | <b>(35,570.0)</b> | <b>(62,170.0)</b> | <b>(66,470.0)</b> | <b>(71,170.0)</b> | <b>(76,170.0)</b> |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

<sup>1/</sup> Chapter 109 increases the maximum amount that an individual income taxpayer is allowed to claim for cash contributions to charitable organizations and foster care charitable organizations, beginning in TY 2016. Based on JLBC Staff's original estimate, the May 2016 budget agreement assumed an annual impact of \$(2.6) million, beginning in FY 2017. The current numbers reflect JLBC Staff's revised estimates based on additional research.

<sup>2/</sup> Laws 2012, Chapter 343 provided an individual income tax deduction equal to 10% of the federal bonus depreciation allowance. The current numbers reflect Laws 2016, Chapter 118, which increases the deduction to 55% of federal bonus depreciation in TY 2016 and 100% in TY 2017 and subsequent years.

<sup>3/</sup> Laws 2014, Chapter 7 established an electricity and natural gas sales tax exemption for manufacturers while Laws 2015, Chapter 6 expanded the exemption to "International Operation Centers" (IOC). Laws 2016, Chapter 374 further modified the requirements to qualify for the exemption. The numbers as displayed reflect the marginal impact of Laws 2016, Chapter 374.

<sup>4/</sup> Chapter 374 modifies requirements to qualify for the electricity sales tax exemption, beginning in CY 2017. Based on Department of Revenue's original estimate, the May 2016 budget agreement assumed a revenue impact of \$(7.0) million in FY 2017 and \$(14.0) million, beginning in FY 2018. The current number reflects JLBC Staff's revised estimate based on additional research.

<sup>5/</sup> The scheduled insurance premium tax rate reduction provided by Laws 2015, Chapter 220 was accelerated by Laws 2016, Chapter 358. The numbers as displayed reflect the marginal impact of Laws 2016, Chapter 358.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2017**

(\$ in Thousands)

|   | <u>FY 2017</u> | <u>FY 2018</u>   | <u>FY 2019</u>    | <u>FY 2020</u>    |
|---|----------------|------------------|-------------------|-------------------|
| <b>INDIVIDUAL INCOME</b>                            |                |                  |                   |                   |
| Personal Exemption Increase<br>Ch. 299              |                | (6,800.0)        | (13,500.0)        | (16,400.0)        |
| "Angel" Investment Credit Increase<br>Ch. 319       |                | (833.3)          | (1,666.7)         | (2,500.0)         |
| <b>TOTAL INDIVIDUAL INCOME</b>                      |                | <u>(7,633.3)</u> | <u>(15,166.7)</u> | <u>(18,900.0)</u> |
| <b>CORPORATE INCOME</b>                             |                |                  |                   |                   |
| Income Tax Subtraction for ADA Retrofits<br>Ch. 278 |                |                  | (1,300.0)         | (1,300.0)         |
| New Requirements for Employment Credit<br>Ch. 340   |                |                  | (800.0)           | (1,700.0)         |
| <b>TOTAL CORPORATE INCOME</b>                       |                |                  | <u>(2,100.0)</u>  | <u>(3,000.0)</u>  |
| <b>SALES AND USE</b>                                |                |                  |                   |                   |
| None  |                |                  |                   |                   |
| <b>TOTAL SALES AND USE</b>                          |                |                  |                   |                   |
| <b>PROPERTY</b>                                     |                |                  |                   |                   |
| None  |                |                  |                   |                   |
| <b>TOTAL PROPERTY</b>                               |                |                  |                   |                   |
| <b>OTHER</b>  |                |                  |                   |                   |
| None  |                |                  |                   |                   |
| <b>TOTAL OTHER</b>                                  |                |                  |                   |                   |
| <b>TOTAL</b>  |                | <u>(7,633.3)</u> | <u>(17,266.7)</u> | <u>(21,900.0)</u> |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.



# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2018**

(\$ in Thousands)

|   | <u>FY 2018</u> | <u>FY 2019</u>  | <u>FY 2020</u>   | <u>FY 2021</u>   |
|---|----------------|-----------------|------------------|------------------|
| <b>INDIVIDUAL INCOME</b>                          |                |                 |                  |                  |
| Military Pension Exemption Increase<br>Ch. 283    |                |                 | (2,000.0)        | (2,000.0)        |
| <b>TOTAL INDIVIDUAL INCOME</b>                    |                |                 | <b>(2,000.0)</b> | <b>(2,000.0)</b> |
| <b>CORPORATE INCOME</b>                           |                |                 |                  |                  |
| None  |                |                 |                  |                  |
| <b>TOTAL CORPORATE INCOME</b>                     |                |                 |                  |                  |
| <b>SALES AND USE</b>                              |                |                 |                  |                  |
| Online Marketplace Lodging TPT Changes<br>Ch. 189 |                | 1/              | 1/               | 1/               |
| Sales Suppression Software Prohibition<br>Ch. 190 |                | 1/              | 1/               | 1/               |
| <b>TOTAL SALES AND USE</b>                        |                | <b>10,000.0</b> | <b>15,000.0</b>  | <b>15,000.0</b>  |
| <b>PROPERTY</b>                                   |                |                 |                  |                  |
| None  |                |                 |                  |                  |
| <b>TOTAL PROPERTY</b>                             |                |                 |                  |                  |
| <b>OTHER</b>                                      |                |                 |                  |                  |
| None  |                |                 |                  |                  |
| <b>TOTAL OTHER</b>                                |                |                 |                  |                  |
| <b>TOTAL</b>                                      |                | <b>10,000.0</b> | <b>13,000.0</b>  | <b>13,000.0</b>  |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Under the FY 2019 enacted budget, the revenue impacts of Chapter 189 and Chapter 190 were not separately delineated. Therefore, there are no separate estimates for Chapters 189 and 190.

**TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2019**

(\$ in Thousands)

|  | <u>FY 2019</u>    | <u>FY 2020</u>     | <u>FY 2021</u>     | <u>FY 2022</u>     |
|--|-------------------|--------------------|--------------------|--------------------|
| <b>INDIVIDUAL INCOME</b>   |                   |                    |                    |                    |
| IRS Conformity<br>Ch. 273  | 167,700.0         | 209,900.0          | 209,900.0          | 209,900.0          |
| <u>IRS Conformity Offset:</u>  |                   |                    |                    |                    |
| Eliminate Personal and Dependent<br>Exemptions<br>Ch. 273                              |                   | 353,900.0          | 353,900.0          | 353,900.0          |
| Eliminate Lottery Winning Subtraction<br>Ch. 273                                       |                   | 100.0              | 100.0              | 100.0              |
| Increase Standard Deduction<br>Ch. 273   |                   | (404,000.0)        | (404,000.0)        | (404,000.0)        |
| Dependent Credit<br>Ch. 273  |                   | (144,000.0)        | (144,000.0)        | (144,000.0)        |
| Reduce number of tax brackets and rates<br>Ch. 273                                     |                   | (108,000.0)        | (108,000.0)        | (108,000.0)        |
| Provide Additional Standard Deduction on<br>25% of Charitable Contributions<br>Ch. 273 |                   | (24,000.0)         | (24,000.0)         | (24,000.0)         |
| <b>IRS Conformity Offset: Sub-Total</b>  |                   | <b>(326,000.0)</b> | <b>(326,000.0)</b> | <b>(326,000.0)</b> |
| Reduce Annual Increase of STO Credit Cap<br>Ch. 281                                    |                   |                    | 300.0              | 1,200.0            |
| Expand Eligibility for Charitable Credit<br>Ch. 297                                    |                   | (1,200.0)          | (1,200.0)          | (1,200.0)          |
| <b>TOTAL INDIVIDUAL INCOME</b>   | <b>167,700.0</b>  | <b>(117,300.0)</b> | <b>(117,000.0)</b> | <b>(116,100.0)</b> |
| <b>CORPORATE INCOME</b>  |                   |                    |                    |                    |
| IRS Conformity<br>Ch. 273  | (12,700.0)        | 7,100.0            | 7,100.0            | 7,100.0            |
| Reduce Annual Increase of STO Credit Cap<br>Ch. 281                                    |                   |                    | 2,600.0            | 9,100.0            |
| <b>TOTAL CORPORATE INCOME</b>  | <b>(12,700.0)</b> | <b>7,100.0</b>     | <b>9,700.0</b>     | <b>16,200.0</b>    |
| <b>SALES AND USE</b>   |                   |                    |                    |                    |
| Enactment of "Wayfair" Legislation<br>Ch. 273  |                   | 57,000.0           | 85,000.0           | 85,000.0           |
| Expand Propagative Materials Exemption<br>Ch. 288                                      |                   | (7,300.0)          | (14,700.0)         | (14,700.0)         |
| <b>TOTAL SALES AND USE</b>   |                   | <b>49,700.0</b>    | <b>70,300.0</b>    | <b>70,300.0</b>    |
| <b>PROPERTY</b>  |                   |                    |                    |                    |
| None   |                   |                    |                    |                    |
| <b>TOTAL PROPERTY</b>  |                   |                    |                    |                    |
| <b>OTHER</b>   |                   |                    |                    |                    |
| Reduce Annual Increase of STO Credit Cap<br>(Insurance Premium Tax)<br>Ch. 281         |                   |                    | 2,500.0            | 8,400.0            |
| <b>TOTAL OTHER</b>   |                   |                    | <b>2,500.0</b>     | <b>8,400.0</b>     |
| <b>TOTAL</b>   | <b>155,000.0</b>  | <b>(60,500.0)</b>  | <b>(34,500.0)</b>  | <b>(21,200.0)</b>  |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2020 \***

(\$ in Thousands)

|                                | <u>FY 2020</u> | <u>FY 2021</u> | <u>FY 2022</u> | <u>FY 2023</u> |
|--------------------------------|----------------|----------------|----------------|----------------|
| <b>INDIVIDUAL INCOME</b>       |                |                |                |                |
| None                           |                |                |                |                |
| <b>TOTAL INDIVIDUAL INCOME</b> | <u>0.0</u>     | <u>0.0</u>     | <u>0.0</u>     | <u>0.0</u>     |
| <b>CORPORATE INCOME</b>        |                |                |                |                |
| None                           |                |                |                |                |
| <b>TOTAL CORPORATE INCOME</b>  | <u>0.0</u>     | <u>0.0</u>     | <u>0.0</u>     | <u>0.0</u>     |
| <b>SALES AND USE</b>           |                |                |                |                |
| None                           |                |                |                |                |
| <b>TOTAL SALES AND USE</b>     | <u>0.0</u>     | <u>0.0</u>     | <u>0.0</u>     | <u>0.0</u>     |
| <b>PROPERTY</b>                |                |                |                |                |
| None                           |                |                |                |                |
| <b>TOTAL PROPERTY</b>          | <u>0.0</u>     | <u>0.0</u>     | <u>0.0</u>     | <u>0.0</u>     |
| <b>OTHER</b>                   |                |                |                |                |
| None                           |                |                |                |                |
| <b>TOTAL OTHER</b>             | <u>0.0</u>     | <u>0.0</u>     | <u>0.0</u>     | <u>0.0</u>     |
| <b>TOTAL</b>                   | <u>0.0</u>     | <u>0.0</u>     | <u>0.0</u>     | <u>0.0</u>     |

Notes:

\* No legislation with revenue impact was enacted in 2020

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.

- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

# **TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2021**

(\$ in Thousands)

|   | <u>FY 2021</u> | <u>FY 2022</u>     | <u>FY 2023</u>       | <u>FY 2024</u>       |
|---|----------------|--------------------|----------------------|----------------------|
| <b>INDIVIDUAL INCOME</b>  |                |                    |                      |                      |
| IRC Conformity <sup>1/</sup><br>Ch. 232   |                | -                  | -                    | -                    |
| Maximum 4.5% Tax Rate <sup>2/</sup><br>Ch. 411  |                | (836,000.0)        | (487,800.0)          | (487,800.0)          |
| Reduce Tax Rates to 2.55%/2.98% <sup>2/</sup><br>Ch. 412                                  |                |                    | (1,016,600.0)        | (1,016,600.0)        |
| Full Exemption on Military Pension<br>Ch. 412   |                | (48,300.0)         | (37,900.0)           | (37,900.0)           |
| Increase Optional Standard Deduction for<br>Charitable Contributions<br>Ch. 412           |                |                    | (2,000.0)            | (3,900.0)            |
| Impose Alternative Income Tax (SB 1783) <sup>2/</sup><br>Ch. 436                          |                |                    | 173,400.0            | 173,400.0            |
| <b>TOTAL INDIVIDUAL INCOME</b>  | <b>0.0</b>     | <b>(884,300.0)</b> | <b>(1,370,900.0)</b> | <b>(1,372,800.0)</b> |
| <b>CORPORATE INCOME</b>   |                |                    |                      |                      |
| Increase STO Credit Cap for Displaced/Disabled<br>Students<br>Ch. 412                     |                | (1,000.0)          | (1,000.0)            | (1,000.0)            |
| Expand Eligibility for Students Receiving<br>Corporate Scholarships<br>Ch. 412            |                | (400.0)            | (400.0)              | (400.0)              |
| Deduction for "Contribution in Aid of<br>Construction"<br>Ch. 412                         |                | (400.0)            | (400.0)              | (400.0)              |
| Healthy Forest Production Credit<br>Ch. 412   |                | (395.8)            | (395.8)              | (395.8)              |
| Affordable Housing Credit<br>Ch. 430  |                |                    |                      | (4,000.0)            |
| <b>TOTAL CORPORATE INCOME</b>   | <b>0.0</b>     | <b>(2,195.8)</b>   | <b>(2,195.8)</b>     | <b>(6,195.8)</b>     |
| <b>SALES AND USE</b>  |                |                    |                      |                      |
| None  |                |                    |                      |                      |
| <b>TOTAL SALES AND USE</b>  |                |                    |                      |                      |
| <b>PROPERTY</b>   |                |                    |                      |                      |
| Class 1 Assessment Ratio Reduction <sup>3/</sup><br>Ch. 412                               |                |                    |                      |                      |
| Increase of Homeowner's Rebate <sup>4/</sup><br>Ch. 412                                   |                |                    |                      |                      |
| <b>TOTAL PROPERTY</b>   |                |                    |                      |                      |
| <b>OTHER</b>  |                |                    |                      |                      |
| Gaming - Keno/Mobile Draw Games, Fantasy<br>Sports Betting, and Event Wagering<br>Ch. 234 |                |                    | 200,000.0            | 300,000.0            |
| <b>TOTAL OTHER</b>  |                |                    | <b>200,000.0</b>     | <b>300,000.0</b>     |
| <b>TOTAL</b>  | <b>0.0</b>     | <b>(886,495.8)</b> | <b>(1,173,095.8)</b> | <b>(1,078,995.8)</b> |

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.

- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

<sup>1/</sup> Arizona conformed to the Internal Revenue Code in effect as of March 11, 2021. Conformity was estimated to cost \$(624.8) million, which would be offset by a deposit of federal funds to the General Fund.

<sup>2/</sup> Reflects impact prior to revenue triggers under A.R.S. § 43-243

<sup>3/</sup> Increases the General Fund formula cost for K-12 funding by \$4.4 million in FY 2023 and \$9.0 million in FY 2024.

<sup>4/</sup> Increases the General Fund formula cost for K-12 funding by \$30.0 million in FY 2023 and \$30.8 million in FY 2024.