

COMMITTEE ON WAYS AND MEANS

Representative Rick Murphy, Chairman
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* Strike-Everything Amendment
 [E] Emergency Clause
 [P 105] Proposition 105 Clause
 [P 108] Proposition 108 Clause
 [LIV] Line Item Veto

Bill	Chapter	Short Title	Page
HB 2081	32	income tax credit review schedule	67
HB 2083	33	2009 tax corrections act.....	67
HB 2285	100	*merger; fire district assistance tax.....	67
HB 2286	80	tax credit; charitable organizations	67
HB 2287	167	tax credits; withholding tax reduction.....	67-68
HB 2288	168	premium tax credit; STO contribution	68
HB 2312	18	small special districts; financial review	68
HB 2314	169	property valuation; telecommunications companies.....	68
HB 2346	87	charter schools; leased property.....	68
HB 2360	140	general obligation bond requirements	69
HB 2371	103	*utilities; confidential information.....	69
HB 2572	122	*sports authority districts..... (See Committee on Commerce)	14-15
SB 1182	94	state treasurer; warrant notes	69
SB 1185	2 [E]	*conformity; internal revenue code	69-70
SB 1373	114	income tax returns; penalties	70
SB 1403	96	renewable, high-wage industries incentives	70-72
SB 1421	118	special districts; secondary levy limits	72

HB 2081 – Chapter 32 – income tax credit review schedule

Provides the following changes to the Income Tax Credit Review Schedule:

- Repeals the current Schedule and establishes a new Schedule so income tax credits will automatically be reviewed in five-year intervals. The income tax credits will be reviewed in years ending in 0 and 5; 1 and 6; 2 and 7; 3 and 8; and 4 and 9, instead of a specific year.
- Retains the credits on the Schedule that were reviewed the previous year; these include the individual and corporate income tax credits for R&D and pollution control equipment and the corporate income tax credit for taxes paid for coal consumed in generating electrical power.

HB 2083 – Chapter 33 – 2009 tax corrections act

The annual tax correction act that corrects errors and obsolete language in the tax statutes.

HB 2285 – Chapter 100 - *merger; fire district assistance tax

Modifies, retroactive to January 1, 2008, the amount of fire district assistance tax revenues a consolidated fire district can receive. Instead of receiving the total of the amounts that each district received in the year prior to the merger, the consolidated district will receive the sum of the average of the last three years of fire district assistance tax received by each fire district.

HB 2286 – Chapter 80 – tax credit; charitable organizations

Modifies the eligibility for the individual income tax credit for donations to charitable organizations for the working poor, beginning January 1, 2009. Specifically:

- Expands the income tax credit to charitable organizations that provide services to chronically ill or disabled children. Defines *chronically ill or physically disabled children* to mean children under 21 whose primary diagnosis is a severe physical condition which may require ongoing, medical or surgical intervention.
- Restricts the credit to only those taxpayers that itemize deductions.
- Removes requirement for taxpayers to establish a baseline year before they can get credit.
- Requires the organization's written certification to be signed by an officer of the organization under penalty of perjury and include verification of nonprofit status and financial data.
- Establishes a recertification process for DOR to review each written certification and make a determination based on the required criteria. If an organization is removed from the list, DOR may reinstate the organization at a later date if proper certification is resubmitted.

HB 2287 – Chapter 167 – tax credits; withholding tax reduction

Beginning January 1, 2010, allows employers the option to reduce withholding tax amounts for employees who plan to make contributions for individual income tax credits for public schools, STOs or charitable organizations. Specifically:

- Expands the definition of *confidential information* to include information supplied by an employee to an employer regarding the amount to be withheld for contributions.
- Requires the employee to request, in writing, the employer to reduce their withholding amount and submit the name and address of the donation recipient.
- Stipulates that the withholding amount may not go below zero and will be prorated for the number of pay periods remaining in the taxable year. The employee is responsible for the accuracy of the amount of reduction.

- Provides that the employer is responsible for making the payments to the charitable organization, STO, or public school each calendar quarter and requires the employer, within 30 days of the end of each calendar year or within 15 days of termination, to give the employee and DOR a statement of the amount withheld and paid on behalf of the employee.

HB 2288 – Chapter 168 - premium tax credit; STO contribution

Allows insurers to take a credit against their insurance premium tax liability for donations to a STO and repeals the sunset date for the corporate credit for donations to STOs.

- Stipulates the same guidelines for insurers that are required for STO contributions made by corporate taxpayers and restricts the credit from being claimed if the contribution is designated to a specific student.
- Permits the Department of Insurance to adopt rules and procedures in conjunction with DOR to administer the credit.
- Eliminates the sunset date of June 30, 2011 for the corporate income tax credit for contributions to STOs.

HB 2312 – Chapter 18 - small special districts; financial review

Removes the requirement of a biennial financial review for a special taxing district with a budget of less than \$50,000.

- Stipulates that a financial review will only be conducted by request of the county BOS or 10 or more residents.
- Directs each district with a budget of \$50,000 or less, to submit a financial review to the county Treasurer and BOS within 180 days after the request.

HB 2314 – Chapter 169 – property valuation; telecommunications companies

Retroactive to valuation years beginning in 2009, eliminates the requirement for DOR to use 1993 depreciation schedules for telecommunications property and requires this property to be depreciated using a straight line basis. The bill specifically:

- Provides that the depreciation computation for telecommunications property to have a minimum value of:
 - 20 percent of original cost for buildings with a 25-year life.
 - 10 percent of original cost for cable with a 15-year life; equipment with a 5-year life and other telecommunications property with a 7-year life.
- Replaces *historical cost* with *cost*, defined as the original cost reported by the company.

HB 2346 – Chapter 87 – charter schools; leased property

Allows property leased to any non-profit charter school to be classified for property tax purposes as class nine, with an assessment ratio of one percent of assessed value. The bill also:

- Requires owners of property who lease to a non-profit charter school to file an affidavit with the county assessor stating that the charter school will be the sole beneficiary of the change in property classification and that the lease rate is comparable to other tenants.
- Clarifies that property owned by a non-profit charter school used for educational purposes is exempt from property tax.

HB 2360 – Chapter 140 – general obligation bond requirements

Updates information that must be provided in the publicity pamphlet and on the ballot related to government general obligation bonds and modifies the refinancing requirements.

- If a political subdivision is asking for voter approval of a bond issue and it will exceed the political subdivision's constitutional debt limit, then a statement in bold faced type must be placed in the publicity pamphlet to that effect.
- Requires the examples in the publicity pamphlet that show the estimated impact of the bonds on the average residential and commercial properties use a valuation growth factor that is fifty percent of the rate used for the growth of aggregate secondary assessed value instead of a constant value.
- The political subdivision must state the maximum number of years the bond issue may run and the *minimum* number of years the bond issue may run from their issuance date.
- Requires the ballot for any authorization for government obligation bonds to contain a statement that the bonds will result in an increase of property taxes in an amount sufficient to pay the annual debt service of the bonds.
- Current statute does not require an election for refinancing bonds that have already been approved by the voters. This bill will modify the requirement that no election is required if the weighted average maturity of the refunding bonds are at least 75 percent of the weighted average maturity of the all the bonds being refinanced.

HB 2371 – Chapter 103 - *utilities; confidential information

Allows DOR to provide utility companies the names and addresses of qualifying hospitals and healthcare organizations exempt from paying the transaction privilege tax on their utility bills.

SB 1182 – Chapter 94 –state treasurer; warrant notes

Modifies the statutes relating to the issuance of warrant notes by:

- Stipulating that before issuing warrant notes, the State Treasurer is not required to divest from funding obligations issued relating to the Highway Expansion and Extension Loan Program, monies in the Budget Stabilization Fund or operating monies invested in securities that are earning a rate of interest greater than the cost of issuing warrant notes.
- Allows the Director of ADOA to have a designated agent as a person to countersign the State Treasurer's warrant notes.
- Updates statutes by allowing State Treasurer warrant notes to be issued or canceled electronically.

SB 1185 – Chapter 2 [E] - *conformity; internal revenue code

Conforms Arizona tax statutes to the IRC, makes temporary adjustments to the state withholding tax rates and decouples the state withholding rates from the federal withholding rates beginning in FY 2010-11 as follows:

- Updates the definition of IRC to include all provisions that were in effect as of January 1, 2009.
- Adjusts the state withholding percentages for the current year (see chart below) to offset the effects of federal withholding changes and for FY 2010-11 and beyond, decouples the state withholding from the federal withholding rates and requires new withholding tables to be developed by DOR, reported to JLBC and adopted by the Legislature.

Current Rates: % of federal withholding	May – December 2009	January – June 2010	July 1, 2010 and beyond
0	0	0	To Be Determined -
10	11.5	10.7	Decouple from Federal
19	21.9	20.3	Withholding
23	26.5	24.5	
25	28.8	26.7	
31	35.7	33.1	
37	42.6	39.5	

Note: 0% can only be applied if the filer has no state income tax liability in the previous year and expects no state tax liability in the current year. The current 10% rate is only for employees that earn \$15,000 or less annually.

SB 1373 – Chapter 114 – income tax returns; penalties

Provides that a taxpayer who is subject to penalties for filing an extension with less than 90 percent of the taxes paid is not also subject to the penalties for failing to pay 100 percent of the amount of tax that is due.

SB 1403 – Chapter 96 – renewable, high-wage industries incentives

Beginning January 1, 2010, establishes a renewable energy business tax incentive program within the ADOC for expanding or locating qualified renewable energy manufacturing or headquarters in Arizona. The program terminates on January 1, 2016.

Criteria/Application

- Requires a renewable energy business to submit an application to ADOC to be certified as a qualifying business to participate in the tax incentive program. The application requirements are set forth in the bill and include information related to the business, facility, estimates of the capital investments and employment positions.
- The application must also include letters of good standing from DOR and the county assessor of the county where the project is located stating that the applicant is not delinquent in the payment of taxes.
- Requires the applicant to provide records of expenditures for qualifying investments and to provide information regarding the amount of tax benefits claimed each year to ADOC.
- Requires the applicant to allow site visits by ADOC and audits to verify the applicant's continuing compliance with tax incentive requirements and authorizes the DOR to furnish tax information to ADOC for verification purposes.
- Requires DOR to notify ADOC if the applicant fails to qualify for the incentive program.
- Allow ADOC to disclose general tax benefit information without identifying the taxpayer(s).
- Allows tax credit incentives for separate facilities or expansions in separate facilities.
- Establishes that ADOC has 30 days to review a completed application and either certify the applicant as qualifying for the tax incentive program or give reasons for its denial.

Income Tax Credits

- To qualify for the individual and corporate income tax credit, the renewable energy business is required to make a new capital investment in manufacturing or in regional, national or global business headquarters as follows:
 - 51 percent or more of new FTEs at the qualifying facility are paid a wage that equals or exceeds 125 percent of the median annual wage in this state.

- The employer pays 80 percent or more of the premium for all FTE's health insurance coverage (or an equivalent percentage of the cost for alternative models that offer standard comprehensive coverage).
- The amount of the income tax credit is up to 10 percent of the taxpayer's total capital investment if the following employment to capital investment ratio is met:
 - A manufacturing facility creates at least 1.5 FTE positions for each \$500,000 increment.
 - A headquarters creates at least 1 FTE position for each \$200,000 increment.
- If the qualifying project does not meet the employment to capital investment ratio, then the credit is 10 percent of:
 - \$500,000 per 1.5 new FTE positions in manufacturing facilities.
 - \$200,000 per 1 new FTE positions in headquarters.
- The tax credits are refundable and the taxpayer is required to claim the credit in five equal installments over five consecutive taxable years.
- The aggregate amount of income tax credits that can be approved is \$70 million per taxable year and unclaimed tax credit amounts are allowed to carry over to the next tax year.
- Prohibits taxpayers who utilize these credits from claiming credit under enterprise zones, military reuse zones or qualified defense contractors for the same employment positions.
- Allows the state to claim the position of a secured creditor in the amount of the income tax credits the renewable energy business received for any action involving the liquidation of the business' assets or facility relocation out of state for five years after qualification.

Property Tax Incentives

- Requires a capital investment of \$25 million or more in facilities, equipment, land and infrastructure to qualify for property tax incentives.
- The renewable energy operation must be certified by ADOC as a qualifying manufacturing facility or headquarters to obtain a class 6 property designation (5 percent assessment ratio instead of 22 percent, declining to 20 percent over the next two years). A qualifying headquarters or manufacturing facility is classified as class 6 property for:
 - 10 years if 51 percent or more of the FTEs are paid 125 percent to 199 percent of the annual median wage of this state.
 - 15 years if 51 percent or more of FTEs are paid 200 percent or more of the annual median wage of this state.
- Renewable energy businesses must provide annual documentation to the county assessor that the facility is engaged in renewable energy manufacturing or is a regional, national or global headquarters.
- Allows for up to 10 percent of the aggregate full cash value of the property to be used for ancillary uses associated with the manufacturing process or headquarters operation.

ADOC / DOR

- Requires the qualifying renewable energy business to provide ADOC with an annual report containing information regarding the amount of tax benefits received each year and authorizes DOR to furnish tax information to ADOC for verification purposes.
- ADOC will annually monitor participating renewable energy businesses for compliance. If a business is deemed noncompliant, DOR must recapture income tax credits already taken.

- Allows ADOC to revoke the certification if the terms and conditions required for the tax incentive program are no longer met. If ADOC revokes or terminates a certificate of qualification for noncompliance, a business is disqualified from using any future tax credits. ADOC must notify DOR and the appropriate county assessor of the revoked certification.
- If a qualifying renewable energy business moves the facility out of state within a five-year period, tax credits taken during that time are subject to recapture by DOR.
- If the jobs and/or wage levels at the facility become noncompliant, future tax benefits cease.

Miscellaneous

- Defines *capital investment, headquarters, manufacturing, qualifying investment and renewable energy operations*
- Contains a purpose clause for income tax credits and puts the credits on the Income Tax Credit Review Schedule for 2014.

SB 1421 – Chapter 118 – special districts: secondary levy limits

- Imposes a statutory secondary property tax levy limit for fire districts that is the lesser of:
 - 8 percent greater than the amount of the levy in the preceding tax year.
 - \$3.25 per \$100 of assessed value.
- Sets forth requirements for determining a fire district's levy limit if the district annexes additional territory or if districts merge or consolidate.
- Requires a fire district to hold any property tax revenues in excess of the maximum allowable levy in a separate fund to reduce the property tax levy in the following year.
- Allows the levy limit for county fire districts to increase to the maximum limit each year regardless of whether the district actually levies taxes up to the maximum limit.
- Allows the qualified electors of the fire district to authorize property tax levies in excess of the limit. The voters may approve one, but not both, of the following options:
 - A permanent override allowing annual levies without reference to the previous year's levy but still subject to the \$3.25 maximum rate cap.
 - If the net assessed valuation declines by 20 percent or more over two consecutive valuation years, a five-year override that allows annual levies to increase by 5 percent and are exempt from the \$3.25 maximum rate cap. After the fifth year, the district returns to the 8 percent levy limit, computed from the year preceding the override.
- Requires any override election to be held at a regularly scheduled November General Election. The call of the override election must state:
 - The purpose for requesting additional secondary property tax revenue for the district.
 - The maximum dollar amount of additional secondary property tax that would be collected in the first year compared to the existing maximum secondary property tax levy and the estimated secondary property tax rate that will fund the proposed levy in the first tax year compared to the secondary property tax rate levied in the previous year.
- Requires the PTOC to review the secondary levies of fire districts to determine compliance. Fire districts may appeal PTOC decisions.
- Requires a fire district to report the total assessed value of all property annexed in the previous year to the PTOC by February 10 of each year.
- For Tax Year 2010, allows a fire district to levy secondary property taxes that are 16 percent greater than the amount levied in Tax Year 2008.