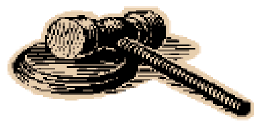
SPECIAL SESSIONS



*	Strike-Everything Amendment
[E]	Emergency Clause
[P 105]	Proposition 105 Clause
[P 108]	Proposition 108 Clause
[LIV]	Line Item Veto

Fiftieth Legislature, Second Special Session

<u>HB 2001 – Chapter 1 – Arizona commerce authority; business incentives</u>

HB 2001 establishes the ACA and makes several changes to individual, corporate and property taxes.

Arizona Commerce Authority

- Establishes the ACA, prescribes its composition, and outlines its mission, operating procedures, and powers and duties.
- Eliminates ADOC, repeals various programs, services, committees, commissions and funds, and transfers certain programs, statutory powers, mandates, revenues and administrative duties from ADOC to the ACA, the Governor's Energy Office, the Water Infrastructure Finance Authority of Arizona and the Arizona Competes Fund.
- Establishes the Rural Business Development Advisory Council, and prescribes its mission, membership, duties and priorities.
- Establishes the Job Creation Withholdings Clearing Account, consisting of $31,500,000 of annual withholding tax revenues, and directs the State Treasurer to monthly credit 1/12 of the annual sum of $10,000,000 to the ACA Fund and 1/12 of the annual sum of $21,500,000 to the Arizona Competes Fund in FY 2011-12.
- Establishes the ACA Fund, consisting of withholding tax revenues allocated to the Fund from the Job Creation Withholdings Clearing Account.
- Establishes the Arizona Competes Fund, consisting of withholding tax revenues allocated to the Fund from the Job Creation Withholdings Clearing Account, dedicated funds, gifts, grants or other donations, monies received from the ARRA and an annual transfer of $3,500,000 from the State Lottery Commission.
- Allows the CEO of the ACA to negotiate the award of deal closing grants from the Arizona Competes Fund to Arizona basic enterprises for the purposes of attracting, expanding or retaining Arizona basic enterprises, or for supporting, and advancing programs and projects for rural and small businesses and business development that enhance economic development.

Arizona Quality Jobs Incentives – Tax Credit for New Employment

- Allows the owner of a business or an insurer located in Arizona prior to July 1, 2017 to claim a tax credit for net increases in full-time employees hired in qualified employment positions.
- Sets the amount of the credit at $3,000 for each newly hired full-time employee in each of the first three years of employment.
- Clarifies that the credit is only allowed in the second and third years of employment for qualified positions for which the credit was claimed and allowed in the first year.
- Prescribes the method for computing the net increase in the number of qualified employment positions.
  - States that the net increase of qualified positions may not exceed 400 employees for any taxable year.
- To qualify for the credit, the owner must complete the following in the first taxable year:
  - Invest at least $5,000,000 of capital investment and create at least 25 new qualified employment positions within a city or town that has a population of at least 50,000 and that is located in a county that has a population of at least 800,000.

- Invest at least $1,000,000 of capital investment and create at least 5 qualified employee positions in any other location.

- Specifies that the employer pay compensation at least equal to the county median wage and offer health insurance for the employee, of which the employer pays at least 65 percent of the premium membership cost.
- Stipulates that a taxpayer who claims a premium tax credit for increased employment in a military reuse zone cannot claim the credit for the same employment positions.
- Allows excess credits to be carried forward for up to five taxable years.
- Specifies that insurers claiming the credit are not required to pay any additional retaliatory tax as a result of claiming that tax credit.
- States that a failure to timely report and certify to the ACA disqualifies the taxpayer from the credit and subjects the credit to recovery for prescribed violations.
- Allows for the adoption of rules for the administration of the credit.
- Prescribes reporting and certification requirements.
- Defines *Capital investment*, *primarily* and *qualified employment position*.

Credit for Increased Research Activities – R&D Tax Credit

- Allows an additional individual and corporate tax credit for payments made for university related research, from and after December 31, 2017.
- Sets the credit at an amount equal to 10 percent of the basic research payments that constitute excess expenses over the base amount.
- Limits the aggregate annual amount of the additional credit to $10,000,000.
- Allows excess credits to be carried forward for up to five taxable years.

Capital Investment Incentives – Angel Investment Credit

- Expands and continues the Angel Investment program through June 30, 2016 and increases the cap on total allowable assets for a *qualified small business* from $2,000,000 to $10,000,000, beginning in 2012.
- Expands the definition of *qualified small business*, to include a principal business that engages in retail, real estate, professional services health care services to patients, financial and investment services, personal services, mining, forestry and natural resource exploitation or other resource extraction businesses, agricultural operations, and operating an investment company or fund.
- Specifies that a *qualified small business* does include those businesses that have a principal business involving activities excluded by the ACA.
- Modifies the definition of *rural county* by increasing the population designation from 400,000 to 750,000 or fewer persons.

General Business Incentives

- Replaces the Gross Domestic Product Cost Deflator with the Employment Cost Index for the purposes of calculating the inflation adjusted exemption amount for business personal property, beginning in 2012.
- Increases the depreciation schedule for business personal property as follows:
  - 25 percent of the scheduled depreciation value for the first year of assessment.
  - 41 percent of the scheduled depreciation value for the second year of assessment.

  - 57 percent of the scheduled depreciation value for the third year of assessment.
  - 73 percent of the scheduled depreciation value for the fourth year of assessment.
  - 89 percent of the scheduled depreciation value for the fifth year of assessment.
  - States that the assessor shall use the scheduled depreciation value prescribed by DOR for the sixth and subsequent years of assessment.

- Phases down the Class 1 property (commercial) assessment ratio as follows:
  - 19.5 percent in Tax Year (TY) 2013.
  - 19.0 percent in TY 2014.
  - 18.5 percent in TY 2015.
  - 18.0 percent in TY 2016 and beyond.

- Reduces the Class 2 property (agricultural) assessment ratio to 15 percent, beginning in TY 2016 (real and personal).

- Eliminates capital gains on income derived from investments in small businesses with assets up to $10,000,000, beginning in TY 2014.

- Extends the sunset date for the credit for investment in qualified small businesses from 2015 to 2019.

- Phases down the corporate income tax rate as follows:
  - 6.5 percent of net income in TY2014.
  - 6.0 percent of net income in TY 2015.
  - 5.5 percent of net income in TY 2016
  - 4.9 percent of net income in TY 2017 and beyond.

- Incrementally increases the optional enhanced sales factor formula available to multistate corporations as follows:
  - 85 percent of sales in TY 2014.
  - 90 percent of sales in TY 2015.
  - 95 percent of sales in TY 2016.
  - 100 percent of sales in TY 2017.

- Reduces eligibility for the Homeowner's Rebate by classifying only owner-occupied residential properties used as a primary residence by either the owner or the owner's relative as Class 3 property and includes the following provisions:
  - Requires homeowners to submit an affidavit to the county assessor indicating that the home represents their primary residence.
  - Prescribes the contents of the affidavit.
  - Outlines criteria for determining whether the property is considered to be the owner's primary residence.
  - Reclassifies all other residential property not used as a primary residence as Class 4 (lease or rented residential property).
  - Requires the Legislature to reimburse counties in FY 2013 for the costs of administering the Homeowner's Rebate affidavit process.
  - Increases the Homeowner's Rebate for FY 2014 through FY 2018 by an amount determined by DOR.