

Andy Biggs
President



Andy Tobin
Speaker

Fifty-first Legislature

Arizona House of Representatives
Phoenix, Arizona 85007

August 15, 2013

Representative Debbie Lesko
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007

Dear Representative Lesko:

We are pleased to inform you that we are appointing you to serve as a member of the Joint Task Force on Income Tax Reform.

The purpose of the Joint Task Force is to enhance Arizona's business friendly profile and to make our tax system fairer for the average taxpayer. The Task Force will explore ways of reforming Arizona's existing personal income tax system in order to create a simple, predictable and transparent system for all Arizona taxpayers. The Task Force shall submit a report to the President of the Senate and the Speaker of the House of Representatives on or before December 31, 2013.

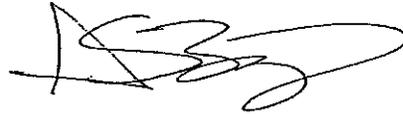
The members of the Committee are:

Senator Yarbrough, Co-Chair	Representative Mesnard, Co-Chair
Senator Ward	Representative Lesko
Senator Farley	Representative Wheeler
Mr. Kevin McCarthy, President, Arizona Tax Research Association	
Mr. Farrell Quinlan, Arizona State Director, National Federation of Independent Business	
Ms. Aimee Rigler, Executive Director, Small Business Alliance	
Mr. Barry Broome, President and CEO, Greater Phoenix Economic Council	
Mr. Stephen Slivinski, Senior Economist, Goldwater Institute	
Ms. Peggy Ullmann, CPA, Ullmann and Company, P.C.	
Mr. Jim Rounds, Economist, Senior Vice President, Elliott D. Pollack and Company	

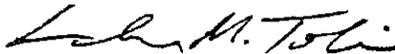
Representative Debbie Lesko
Joint Task Force on Income Tax Reform
Page 2

Thank you for your willingness to serve on this Committee.

Sincerely,



Andy Biggs
President of the Senate



Andy Tobin
Speaker of the House

AT:jh

cc: Andy Biggs, President of the Senate
Chad Campbell, House Democratic Leader
Senate Research Staff
House Research Staff

Andy Biggs
President



Andy Tobin
Speaker

Fifty-first Legislature

Arizona House of Representatives
Phoenix, Arizona 85007

August 15, 2013

Representative Bruce Wheeler
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007

Dear Representative Wheeler:

We are pleased to inform you that we are appointing you to serve as a member of the Joint Task Force on Income Tax Reform.

The purpose of the Joint Task Force is to enhance Arizona's business friendly profile and to make our tax system fairer for the average taxpayer. The Task Force will explore ways of reforming Arizona's existing personal income tax system in order to create a simple, predictable and transparent system for all Arizona taxpayers. The Task Force shall submit a report to the President of the Senate and the Speaker of the House of Representatives on or before December 31, 2013.

The members of the Committee are:

Senator Yarbrough, Co-Chair

Senator Ward

Senator Farley

Mr. Kevin McCarthy, President, Arizona Tax Research Association

Mr. Farrell Quinlan, Arizona State Director, National Federation of Independent Business

Ms. Aimee Rigler, Executive Director, Small Business Alliance

Mr. Barry Broome, President and CEO, Greater Phoenix Economic Council

Mr. Stephen Slivinski, Senior Economist, Goldwater Institute

Ms. Peggy Ullmann, CPA, Ullmann and Company, P.C.

Mr. Jim Rounds, Economist, Senior Vice President, Elliott D. Pollack and Company

Representative Mesnard, Co-Chair

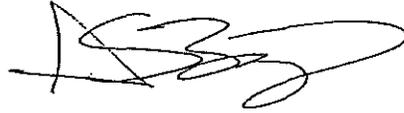
Representative Lesko

Representative Wheeler

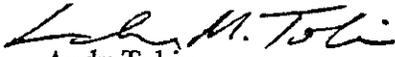
Representative Wheeler
Joint Task Force on Income Tax Reform
Page 2

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Andy Biggs
President of the Senate



Andy Tobin
Speaker of the House

AT:jh

cc: Andy Biggs, President of the Senate
Chad Campbell, House Democratic Leader
Senate Research Staff
House Research Staff

Andy Biggs
President



Andy Tobin
Speaker

Fifty-first Legislature

Arizona House of Representatives
Phoenix, Arizona 85007

August 15, 2013

Representative Javan Mesnard
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007

Dear Representative Mesnard:

We are pleased to inform you that we are appointing you to serve as co-chair of the Joint Task Force on Income Tax Reform.

The purpose of the Joint Task Force is to enhance Arizona's business friendly profile and to make our tax system fairer for the average taxpayer. The Task Force will explore ways of reforming Arizona's existing personal income tax system in order to create a simple, predictable and transparent system for all Arizona taxpayers. The Task Force shall submit a report to the President of the Senate and the Speaker of the House of Representatives on or before December 31, 2013.

The members of the Committee are:

Senator Yarbrough, Co-Chair	Representative Mesnard, Co-Chair
Senator Ward	Representative Lesko
Senator Farley	Representative Wheeler
Mr. Kevin McCarthy, President, Arizona Tax Research Association	
Mr. Farrell Quinlan, Arizona State Director, National Federation of Independent Business	
Ms. Aimee Rigler, Executive Director, Small Business Alliance	
Mr. Barry Broome, President and CEO, Greater Phoenix Economic Council	
Mr. Stephen Slivinski, Senior Economist, Goldwater Institute	
Ms. Peggy Ullmann, CPA, Ullmann and Company, P.C.	
Mr. Jim Rounds, Economist, Senior Vice President, Elliott D. Pollack and Company	

Representative Mesnard
Joint Task Force on Income Tax Reform
Page 2

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Sincerely,



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Speaker of the House



Andy Biggs
President of the Senate

AT:jh

cc: Andy Biggs, President of the Senate
Chad Campbell, House Democratic Leader
Senate Research Staff
House Research Staff

Andy Biggs
President



Andy Tobin
Speaker

Fifty-first Legislature

Arizona House of Representatives
Phoenix, Arizona 85007

November 7, 2013

Representative Eric Meyer
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007

Dear Representative Meyer:

We are pleased to inform you that we are appointing you to serve as a member of the Joint Task Force on Income Tax Reform.

The purpose of the Joint Task Force is to enhance Arizona's business friendly profile and to make our tax system fairer for the average taxpayer. The Task Force will explore ways of reforming Arizona's existing personal income tax system in order to create a simple, predictable and transparent system for all Arizona taxpayers. The Task Force shall submit a report to the President of the Senate and the Speaker of the House of Representatives on or before December 31, 2013.

The members of the Committee are:

Senator Yarbrough, Co-Chair	Representative Mesnard, Co-Chair
Senator Ward	Representative Lesko
Senator Farley	Representative Meyer
Mr. Kevin McCarthy, President, Arizona Tax Research Association	
Mr. Farrell Quinlan, Arizona State Director, National Federation of Independent Business	
Ms. Aimee Rigler, Executive Director, Small Business Alliance	
Mr. Barry Broome, President and CEO, Greater Phoenix Economic Council	
Mr. Stephen Slivinski, Senior Economist, Goldwater Institute	
Ms. Peggy Ullmann, CPA, Ullmann and Company, P.C.	
Mr. Jim Rounds, Economist, Senior Vice President, Elliott D. Pollack and Company	

Representative Meyer
Joint Task Force on Income Tax Reform
Page 2

Thank you for your willingness to serve on this Committee.

Sincerely,



Andy Tobin
Speaker of the House



Andy Biggs
President of the Senate

AT:jh

cc: Andy Biggs, President of the Senate
Chad Campbell, House Democratic Leader
Senate Research Staff
House Research Staff

ARIZONA STATE LEGISLATURE

INTERIM MEETING NOTICE OPEN TO THE PUBLIC

JOINT TASK FORCE ON INCOME TAX REFORM

Date: Wednesday, August 21, 2013

Time: 1:30 P.M.

Place: HHR 1

AGENDA

1. Call to Order
2. Introduction of Members
3. Explanation of Committee Charge
4. Presentations:
 - Joint Legislative Budget Committee - Arizona's Personal Income Tax System
 - Arizona Department of Revenue - Personal Income Tax Administration and Research and Analysis
 - Peggy Ullmann, CPA, Ullmann & Company, P.C. - The Process of Filing Your Personal Income Taxes in Arizona
 - Stephen Slivinski, Senior Economist, Goldwater Institute - Benchmarking Arizona's Personal Income Tax System
5. Public Testimony
6. Adjourn

Members:

Senator Steve Yarbrough, Co-Chair
Senator Steve Farley
Senator Kelli Ward
Barry Broome
Kevin McCarthy
Farrell Quinlan
Aimee Rigler

Representative Javan D. Mesnard, Co-Chair
Representative Debbie Lesko
Representative Bruce Wheeler
Jim Rounds
Stephen Slivinski
Peggy Ullmann

8/16/13
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People with disabilities may request reasonable accommodations such as interpreters, alternative formats, or assistance with physical accessibility. If you require accommodations, please contact the Chief Clerk's Office at (602) 926-3032, TDD (602) 926-3241.

ARIZONA STATE LEGISLATURE
Fifty-first Legislature – First Regular Session

JOINT TASK FORCE ON INCOME TAX REFORM

Minutes of Interim Meeting
Wednesday, August 21, 2013
House Hearing Room 1 – 1:30 p.m.

Co-Chairman Mesnard called the meeting to order at 1:39 p.m. and attendance was noted by the secretary.

Members Present

Senator Steve Yarbrough, Co-Chairman
Senator Kelli Ward (by phone)
Barry Broome
Kevin McCarthy
Farrell Quinlin
Aimee Rigler

Representative Javan D. Mesnard, Co-Chairman
Representative Debbie Lesko
Representative Bruce Wheeler
Jim Rounds
Steven Slivinski
Peggy Ullmann

Members Absent

Senator Steve Farley (excused)

Co-Chairman Mesnard stated that Arizona has made a lot of changes over the last few years regarding tax reform. The scope of changes included transaction privilege tax (TPT), capital gains, corporate income taxes and property taxes. In order to make Arizona as “business friendly” as possible, the goal of the Committee is to review the personal income tax system, under which most small business owners file. The Committee is made up of small business owners, economists, tax experts and elected officials. Co-Chairman Mesnard cited that other states have changed their personal income tax systems to make them simple, more transparent, consistent and predictable. The Committee will meet every other week through December 2013 with public testimony taken at the end of every meeting.

Co-Chairman Yarbrough explained that he has been in office for 11 years and has seen many accomplishments in the advancement of Arizona’s business climate. He highlighted major changes in the Arizona tax system and stated that to reform the personal income tax system and still create appropriate revenue for the legitimate role of government without sacrificing other goals, will be a challenge.

INTRODUCTION OF MEMBERS

Representative Debbie Lesko, Chairman, Ways and Means Committee, stated that she is interested in hearing the pros and cons of this issue.

Representative Bruce Wheeler, representing District 10 in Tucson, expressed the intent to develop a fair outcome that will not result in tax increases.

Jim Rounds, Senior Vice President, Elliott D. Pollack and Company, communicated that he has been working with different groups on economic development and reform, including tax policy, and he is looking forward to working on final tax issues that have not yet been addressed, like the individual income tax.

Stephen Slivinski, Senior Economist, Goldwater Institute, stated he is looking forward to working on this last piece of the tax puzzle.

Kevin McCarthy, President, Arizona Tax Research Association (ATRA), commented that he has been involved in many of the previous tax reforms and looks forward to working on this issue.

Aimee Rigler, Executive Director, Small Business Alliance AZ, stated her organization represents over 600 members.

Peggy Ullmann, Arizona Society of Certified Public Accountants (CPAs), stated that she represents CPAs who assist businesses and individuals in filing returns. She added that CPAs promote tax simplification and good tax policy.

Farrell Quinlan, State Director, National Federation of Independent Business, noted that there are 7,500 small business members in the state, the vast majority of which file as individuals, partnerships, limited liability companies (LLC) and S Corporations, so this is an important topic.

Barry Broome, President and CEO, Greater Phoenix Economic Council, stated that he worked on two major jobs packages with the Governor and Legislature and he is interested in improving Arizona's competitive position.

Senator Kelli Ward (appearing by phone) stated she looks forward to working on the Committee.

PRESENTATIONS

History of Arizona's Individual Income Tax System

Jon Stall, Joint Legislative Budget Committee (JLBC), explained that the individual income tax (IIT) is a substantial source of income to the General Fund (GF). It provided over \$3.4 billion in Fiscal Year (FY) 2013, which made up over one-third of the total amount of the GF's base revenue. He defined who pays the taxes: individuals, fiduciaries of estates, trusts, owners of pass-through entities, sole proprietorships, partnerships, LLCs and S Corporations (Attachment 1). Mr. Stall continued with the overview relating to calculating Arizona's IIT, legislative milestones, history of the IIT system and IIT revenue reliability.

Mr. Broome asked the definition of a capital gains tax. Mr. Stall answered that it is the sale of an asset and any gain over the original purchase price of that asset is subject to a capital gains tax. Beginning in 2013, it only applies to assets purchased after 2011, such as securities, real estate and a personal home. Mr. Broome then stated that there seems to be a lot of volatility in tax income and questioned if it is tied to the type of tax or the type of economy and whether tax trends in other states are as volatile as in Arizona. Mr. Stall responded that he has not conducted a state-by-state analysis, which can be done.

Co-Chairman Mesnard indicated that Mr. Broome's query as to whether volatility in tax income is tied to the type of tax or the type of economy can possibly be reviewed in a future meeting.

Sean Laux, Chief Liaison and Public Information Officer, Arizona Department of Revenue (ADOR), clarified that the sale of a personal home is not a capital gain, it is treated as a gain. Capital gain is income derived from the sale of a non-depreciable asset, with some exceptions.

Arizona Individual Income Tax Returns

Sean Laux, Chief Liaison and Public Information Officer, Arizona Department of Revenue (ADOR), reviewed Arizona IIT returns (over 2.5 million filed per year) and IIT enforcement efforts, which in FY 2013 involved 65,000 audits and \$30 million in audit assessments, and resulted in \$21 million in collections (Attachment 2, Pages 1-2).

Karen Jacobs, Economist, Arizona Department of Revenue (ADOR), gave an overview of state and federal data obtained from IIT tax returns (Attachment 2, Pages 3-4).

Ms. Jacobs answered Co-Chairman Mesnard's questions relating to the use of federal data by stating that state and federal data is used to simulate changes in state tax law, state tax liability and federal tax law and for providing a total overall impact for Arizona taxpayers and the Federal Adjusted Gross Income (FAGI) bracket impact level. If something other than FAGI is used as a starting point to define income, she said she does not know what kind of data could be obtained from the Internal Revenue Service (IRS). An advantage of having FAGI as a starting point is that an additional data set can be used to deal with compliance for the Arizona state tax.

Mr. Laux added that even if ADOR did not use FAGI as the starting point, taxpayers would still have to calculate that number, so decoupling would have that disadvantage. Also, Title 43, Arizona Revised Statutes, would have to be rewritten to provide definitions.

Ms. Jacobs continued with the overview relating to the IIT model, noting that tax credits are not included, and a summary of state and federal IIT data and sources (Attachment 2, Page 6).

Mr. Rounds questioned, if Arizona is looking at other states and competitors, whether only nominal rates can be obtained or if effective rates can also be obtained. He said every state is different and wondered if it is possible to develop effective rates and whether documents are available to compare apples to apples. Mr. Rounds added that, given the limited data that is available due to the different tax laws, it may be helpful to develop a checklist of what would be optimal and check off what ADOR has and does not have. Ms. Jacobs replied that ADOR has a few reports from which she can provide summary information on effective tax rates, whether it is based off the FAGI or taxable income.

Mr. McCarthy advised the Committee of a national study composed by the Minnesota Center for Fiscal Excellence that addresses various income levels and filers with effective tax rates that he can provide. When asked if the study delineated individual components versus small business, Mr. McCarthy responded that he does not believe it did.

Ms. Jacobs completed the overview relating to federal source of income (SOI) data and ADOR reports (Attachment 2, Pages 6-8). She referenced a handout that summarizes the types of information collected by ADOR from IIT tax statistics from Arizona residents in Tax Year 2011, and information from ADOR's Tax Expenditure Report, including tax credits for Tax Year 2010 (Attachment 3). She added that ADOR also compiles a more detailed tax credit report.

Co-Chairman Mesnard stated, after reviewing the first page of the handout (Attachment 3), that the information pertaining to income level could be useful in deciding how any changes that are contemplated may impact the first few categories.

Co-Chairman Mesnard recognized Secretary of State Ken Bennett in the audience.

The Process of Filing Your Personal Income Taxes in Arizona

Peggy Ullmann, CPA, Ullmann & Company, commented that while a flat tax is simplistic, it often creates economic results that could be less than desirable. Compared to other states, Arizona's IIT collections are pretty favorable; corporate rates are average, IIT rates are a bit lower and the sales tax is higher. Ms. Ullmann gave an overview of a federal Form 1040 with six common types of income and typical itemized deductions (Attachment 4).

Ms. Ullmann reviewed income tax returns from four states; Arizona, Utah, North Carolina and California using an income figure of \$77,000 (Attachment 5). She mentioned the recent change North Carolina made by reducing its state income tax rate to a flat rate of 5.8 percent in 2014 and 5.75 percent in 2015; however, that flat rate is higher than Arizona's highest graduated rate that affects only income over \$300,000. She continued with a review of IIT Common Arizona Adjustments (Attachment 6) and calculation of the numbers in the income tax forms for the four states (Attachment 7). She discussed the fact that North Carolina allows a deduction for business income up to \$50,000, which is favorable to business and distinguishes a wage earner from a self-employed individual.

Discussion ensued on the health of Utah's economy based on its flat tax rate. Co-Chairman Mesnard clarified points of discussion that Utah is wealthier overall and the economy is doing better, while Representative Wheeler's concern is not to use that as an excuse to raise taxes on lower-income individuals in Arizona. Mr. Broome maintained that a flat tax creates consistency.

Co-Chairman Mesnard questioned Mr. Laux about auditing and whether making Arizona's tax code simpler will result in fewer audits and more compliance. Mr. Laux responded that audits are performed for many reasons, some of which are minor. He surmised that the complexity lies with federal versus state compliance since FAGI is the starting point and there are not a significant number of additions and subtractions in Arizona code to get to the state taxable income. There is some complexity with passed rules on special bonus depreciation and other expenses but, by and large, complying with Arizona's income tax system is not more difficult than complying federally.

Tax Policy and Competitiveness

Stephen Slivinski, Senior Economist, Goldwater Institute, discussed Arizona's economic growth potential of varying tax regimes and potential policy outcomes and routes in relation to other states (Attachment 8). He questioned whether to tax consumption or savings/investments, if the rate structure should be a flat or graduated tax and principles of tax policy (simplicity, fairness, neutrality and competitiveness). He said Arizona is in competition with Hong Kong, western states, Kansas and North Carolina. He continued with an overview of conclusions of economic literature, related studies and tax data for Arizona and other states. In conclusion, he communicated that income taxes inhibit economic growth and potential. Flat taxes are preferable to graduated-rate income taxes, but absence of an income tax is preferable to either. He added that other states are beginning to move faster on tax reform than Arizona.

COMMITTEE DISCUSSION

Mr. Rounds commented that the presentations touched on his questions about effective rates. For future meetings, he asked if documentation is available showing the impact of IIT rates on a small business, suggested a review of the current high consumption tax, discussion of the appropriate way of taxing, how to build the economy in terms of business development, what it is going to cost and what can be passed in the Legislature.

Co-Chairman Mesnard stated that the Members should have at least one more informational meeting before discussing goals.

Ms. Ullmann provided a handout for reference, *State Business Tax Climate Index 2013*, which lists ranking, by state, of five component taxes (Attachment 9).

Mr. McCarthy stated that much time could be spent comparing Arizona to other states but cautioned the Members about the information that is used. He indicated that he prefers the study on income taxes he mentioned earlier because it addresses effective tax rates.

Further ideas were discussed to address in future meetings such as tax volatility in relation to sustainability issues in the economy, like dependency on housing and construction, data on reducing the IIT for S Corporations, the role of the Marketplace Fairness Act, if passed, philosophy, implementation, definitional clarity, and the importance of IIT when attempting to attract businesses.

Co-Chairman Mesnard thanked the Committee Members for their time and stated his goal is to be revenue neutral. He said he is looking for practical, incremental ways to improve the income tax system. Co-Chairman Mesnard advocated not basing Committee decisions on whether the Marketplace Fairness Act is passed by Congress, although the Committee can evaluate its utility. He mentioned a position statement from Children's Action Alliance (Attachment 10), noting that if the concern is that taxes will be increased for the poor, that is not the intent. He added that the next meeting is set for Wednesday, September 4, 2013, at which a guest from Utah will speak.

Without objection, the meeting was adjourned at 3:45 p.m.

Tracey Gardner, Committee Secretary
August 28, 2013

(Original minutes, attachments and audio on file in the Office of the Chief Clerk; video archives available at <http://www.azleg.gov>)

JOINT TASK FORCE ON INCOME TAX REFORM

August 21, 2013

History of Arizona's Individual Income Tax System

**Presentation to the
Joint Task Force on Income Tax Reform**

August 21, 2013

JLBC

Individual Income Tax (IIT) System Today

- Overview

- ❑ GF Revenue – Source of \$3.4 billion in '13. Made up 35% of Base Revenue
- ❑ Urban Revenue Sharing – 15% of collections from 2 years prior are distributed to cities and towns (\$430 M in '13).
- ❑ Who pays – In addition to individuals, IIT is collected from estates, trusts, and owners of pass-through entities
 - Pass-through entities include sole proprietorships, partnerships, limited liability companies, and S corporations

IIT System Today

- Calculating AZ IIT (TY 2011 Tax Abstract)

Federal Adjusted Gross Income (AGI) — \$135 billion

- Gross income less federal subtractions

Less: Sum of State-level Additions, Subtractions and Exemptions — \$(18) billion

Equals: Arizona AGI — \$117 billion

Less: Standard/Itemized Deductions and Personal Exemptions — \$(27) billion

Equals: Taxable Income — \$90 billion

IIT System Today

- Calculating AZ IIT (TY 2011 Tax Abstract)

*Multiply: Taxable income
by progressive rate schedule*

- (25)% rate reduction on long-term capital gains phased in 2013 to 2015

Equals: Tax Liability
– \$3 billion

Less: Tax Credits

Equals: Tax Due

(\$ in thousands)

<u>Single</u>	<u>Married</u>	<u>Rate</u>
\$0 to \$10	\$0 to \$20	2.59%
\$10 to \$25	\$20 to \$50	2.88%
\$25 to \$50	\$50 to \$100	3.36%
\$50 to \$150	\$100 to \$300	4.24%
\$150 and over	\$300 and over	4.54%

IIT System History

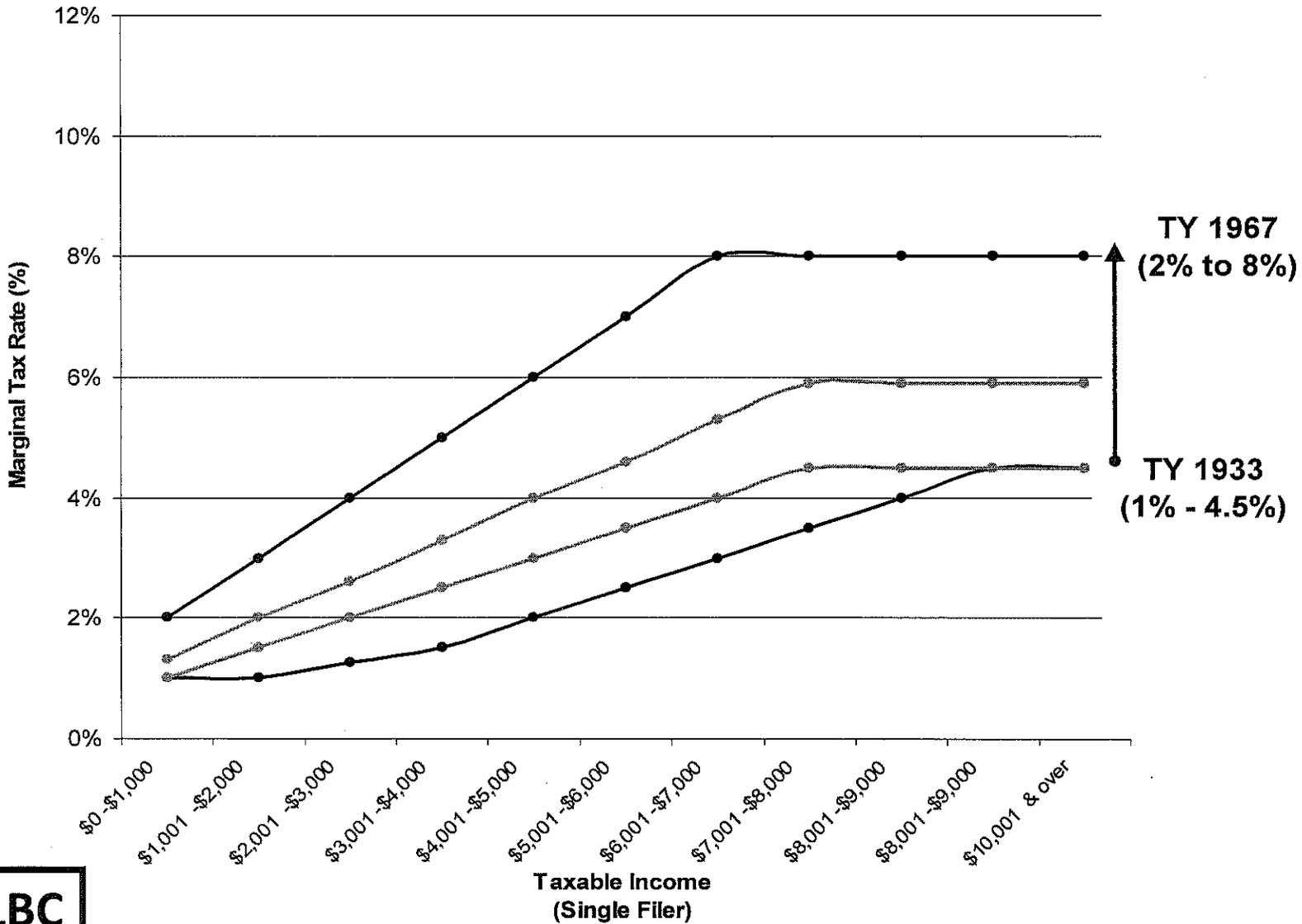
- Legislative Milestones

- ❑ 1933 – Established IIT
 - Property taxes insufficient in the Depression
 - AZ assessments fell 50% from 1929 to 1936
 - One of 18 states to enact IIT in response
 - Progressive rates (1% to 4.5%)
 - Net Taxable Income

- ❑ 1954 – Patterned state's system more closely with federal system
 - Added standard and itemized deductions and personal exemptions
 - Established a withholding payment system

IIT System History

- 3 Rate Increases from 1933 to 1967



IIT System History

- Legislative Milestones

- 1972 – Voter initiative established Urban Revenue Sharing for cities and towns
- 1973 – Creation of Arizona Department of Revenue; consolidated different agency tax functions
- 1978 – Furthers ties to federal system
 - New tax code
 - Federal AGI is starting point for AZ Gross Income
- 1979 – Taxation of S Corporations

IIT System History

- Legislative Milestones

- 1983 – Required estimated payments

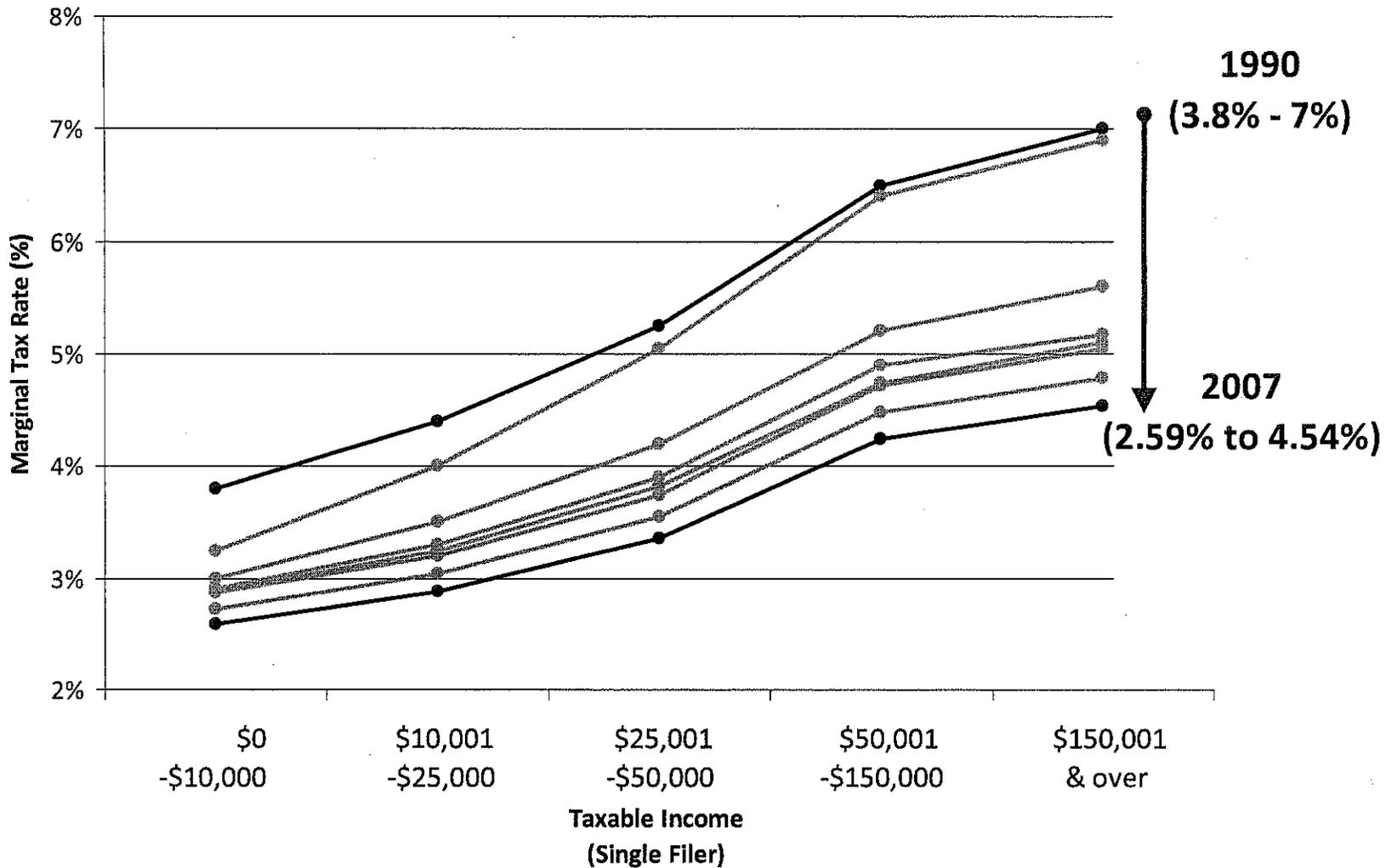
- 1990
 - Conformed to federal itemized deductions
 - Adjusted tax brackets to current levels

- 1992 – Established and taxed Limited Liability Companies

- 2012 – (25)% rate reduction for long-term capital gains

IIT System History

- 7 Rate Reductions from 1990 to 2007



IIT System History

- Tax Expenditures Overview

- ❑ Foregone revenues to the General Fund, cities, and towns
 - Federal and state subtractions
 - Exemptions
 - Standard and itemized deductions
 - Tax credits
- ❑ These items grew 7% annually from 1991 to 2006
 - Itemized deductions and tax credits made up 2/3 of the growth
 - Number of credits offered grew from 4 in 1991 to 24 in 2006 (30 offered in 2013)

IIT System History

- Largest Tax Expenditures in TY 2006

	TY 2006 (\$ millions)	Cumulative Percent
Home and Mortgage Interest	\$ 320.6	17%
Medical and Dental Expenses	\$ 197.9	28%
Standard Deduction	\$ 176.8	37%
State and Local Income Tax	\$ 153.6	45%
Charitable Contributions	\$ 116.0	51%
Personal Exemptions	\$ 351.3	70%
Other	\$ 563.8	100%
Total Tax Expenditures *	\$ 1,880.0	

*Does not include tax credits. More recent credit data is available on the next slide.

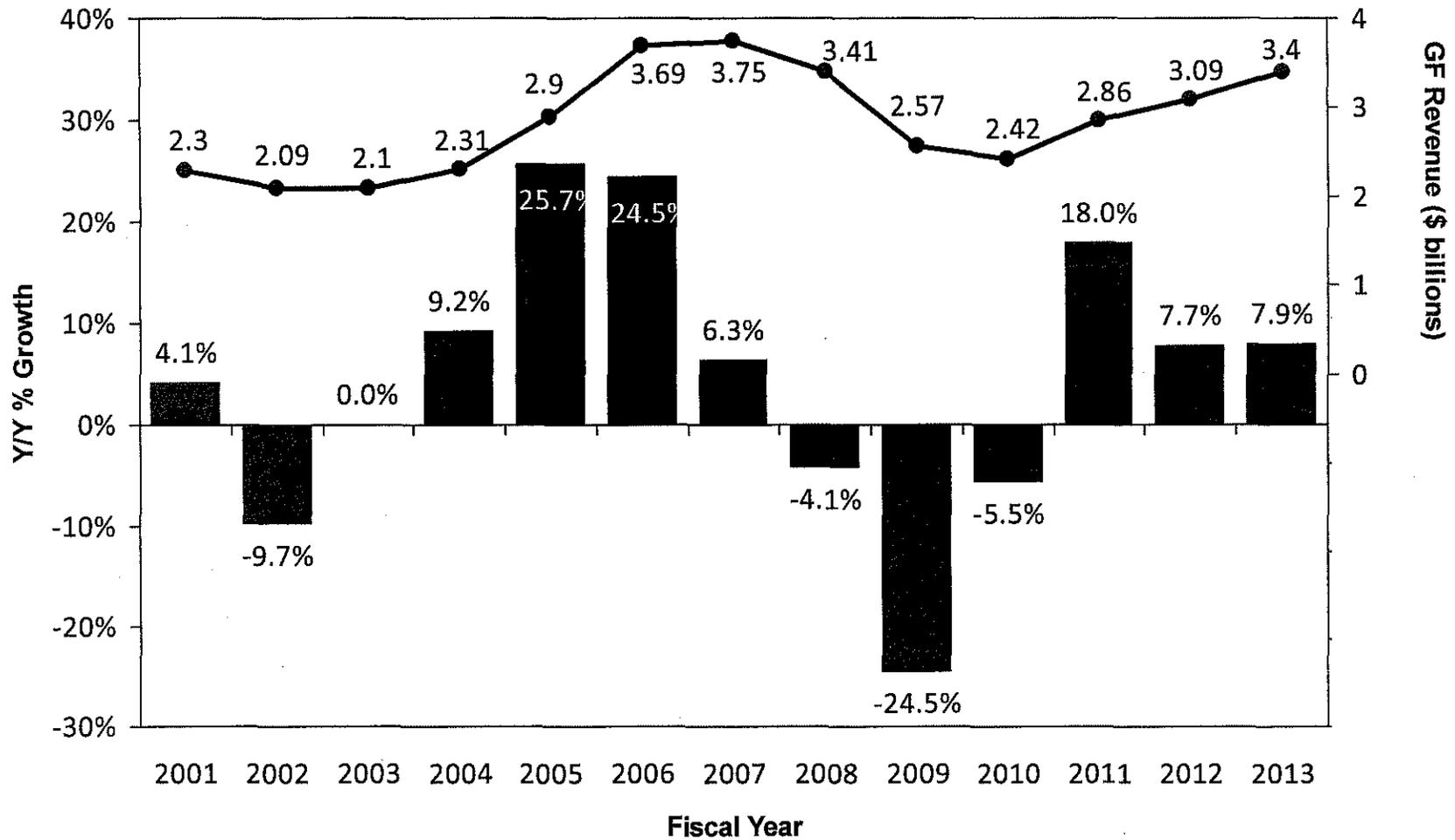
IIT System History

- Largest Tax Credit Expenditures in TY 2010

	TY 2010 (\$ in millions)	Cumulative Percent
Taxes to Other States/Countries	\$ 84.1	30%
Public School Extracurricular's	\$ 43.7	46%
Private School Tuition	\$ 43.2	61%
Low-income Credit (Prop 301)	\$ 35.3	74%
Charitable Org. Contributions	\$ 16.2	80%
Other Credits	\$ 56.0	100%
Total Tax Credits	\$ 278.5	

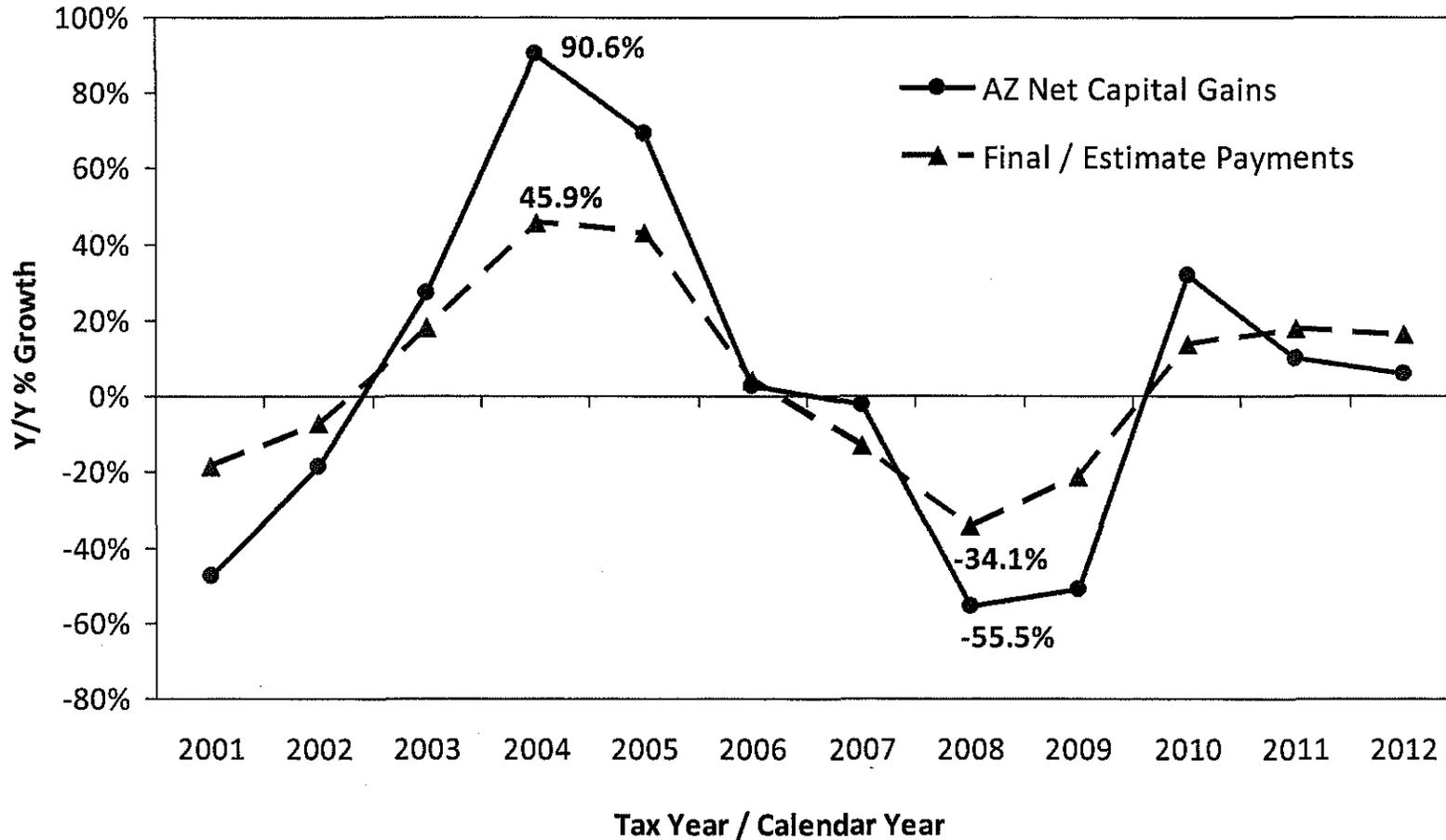
IIT Revenue Reliability

- Annual Growth of IIT GF Revenue



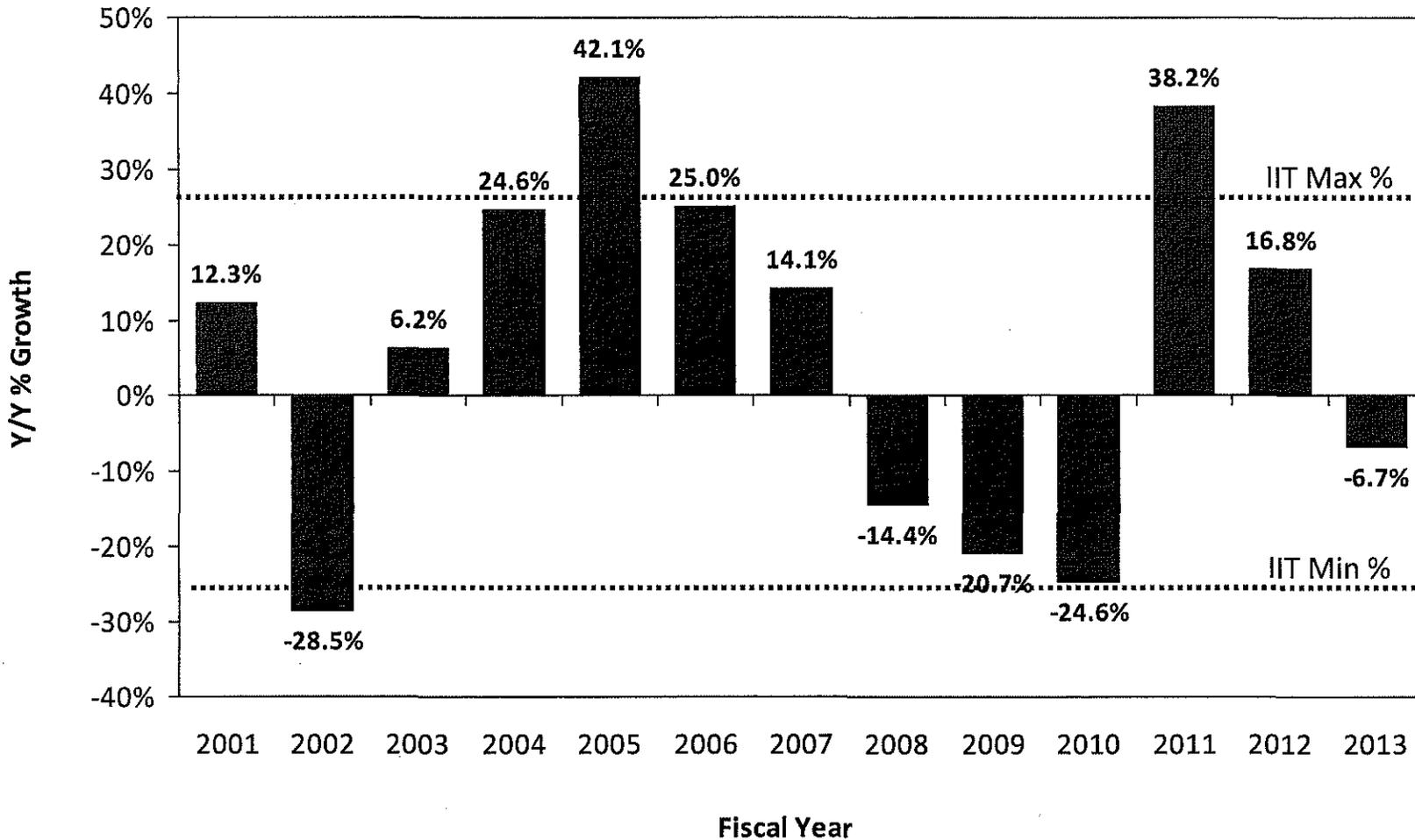
IIT Revenue Reliability

- Capital Gains is a Volatile Component of IIT



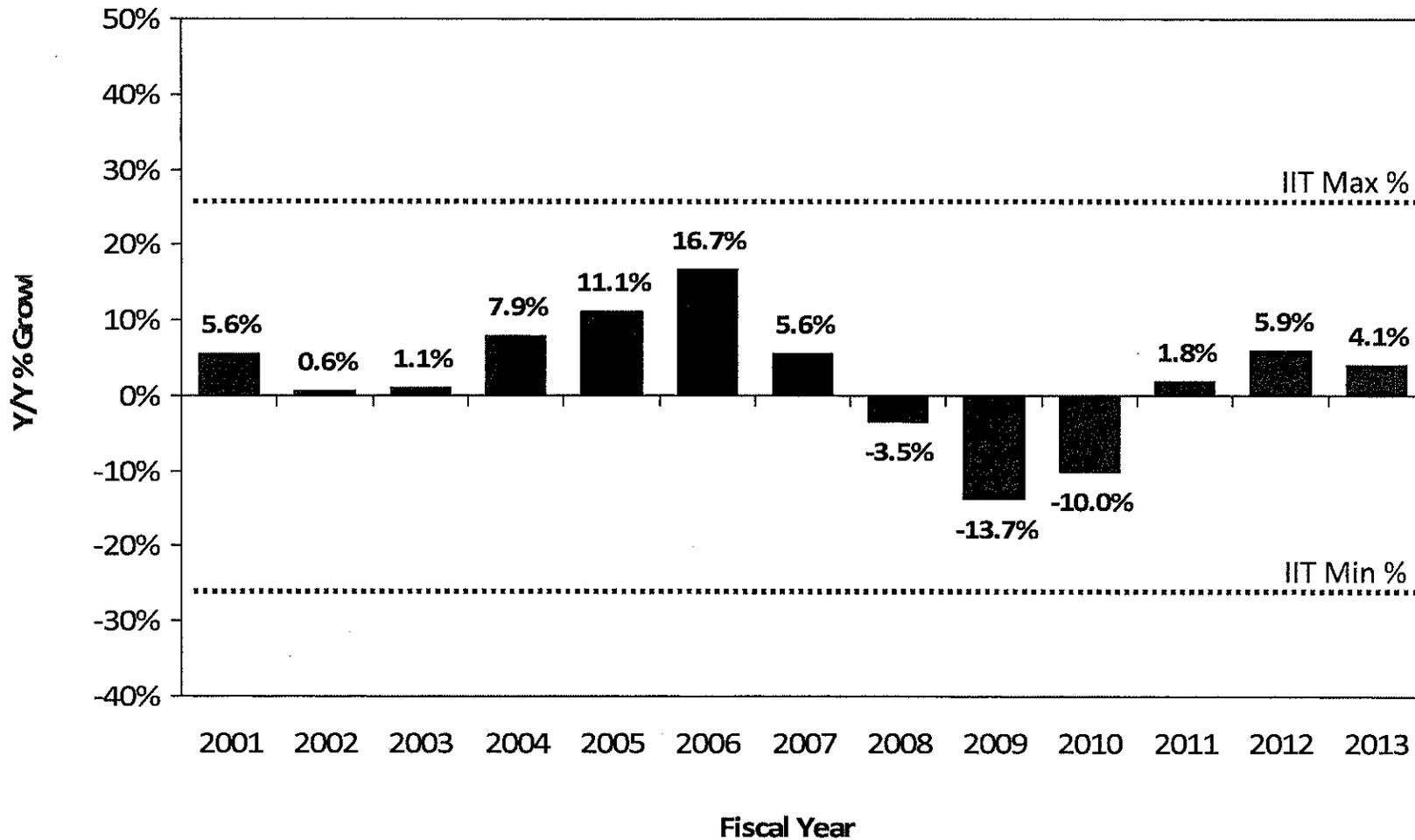
IIT Revenue Reliability

- Corporate Income Tax is More Volatile



IIT Revenue Reliability

- Transaction Privilege Tax is Less Volatile



JLBC Tax Handbook

<http://www.azleg.gov/jlbc/12taxbook/12taxbk.pdf>

Arizona Individual Income Tax Returns

- More than 2.6 million individual income tax returns received by ADOR for a tax year
 - Paper , e-file and 2D bar code
 - Resident (140, 140a, 140ez), non-resident returns (140nr) and part-year returns (140py)
- Growth in e-filed returns
 - Approximately 70% of individual income tax returns were e-filed for tax year 2012
 - E-file just over 50% of all returns in tax year 2007

ADOR IIT Enforcement Efforts

- Over 95% of Individual Income Tax Audits are directly linked to information received from the IRS.
 - Identify Non-filers
 - Compare differences between state and federal returns
 - Other Audit leads
- FY 13 – approx. 65,000 IIT audits
- FY 13 – approx. \$30M in Audit Assessments
- FY 13 – approx. \$21M in Collections

Individual Income Tax Data

- Arizona individual income tax data
 - E-file and 2D bar code returns – capture primary fields plus
 - Detail on additions to income, subtractions from income, exemptions, adjustments to itemized deductions (Arizona schedule A) and credits
 - Paper returns – capture primary fields
- Limitations of Arizona data
 - Data is limited depending on how return was filed (paper vs. e-file/2D)
 - Additional data available from e-file/2D bar code returns

Individual Income Tax Data

- Federal individual income tax data for Arizona filers
 - ▣ IRS federal information sharing program – strict limitations on federal data
 - ▣ IRS Statistics of Income (SOI) – summary of various federal income tax return data; also provided at the state level
- Limitations of Federal data
 - ▣ Lag in data availability – first look at tax year 2012 would be fall 2013, but does not contain a full tax year at that point – available following fall 2014
 - ▣ First look at IRS SOI data by state – tax year 2012 released spring 2014; estimates based on samples

Individual Income Tax Data and Sources

- Primary return data – Individual Income Tax Statistics (summary of return data)
- Federal subtractions from income – Tax Expenditure Report (model)
- Arizona exemptions – Tax Expenditure Report (model)
- Arizona subtractions from income – Tax Expenditure Report (model)
- Standard and Itemized Deductions - Tax Expenditure Report (model)
- Credits – Tax Expenditure Report & Income Tax Credit Report, (return research, reports from outside sources)

ADOR Reports

- ADOR Annual Report – provides summary data on all tax types administered by the Department
- Tax Expenditure Report – summary of state tax expenditures (exemptions, deductions, exclusions and credits) and estimated costs where available
- Individual Income Tax Statistics – individual income tax data compiled by state, county and city levels
- Arizona Income Tax Credits – summary of individual and corporate income tax credits
- Tax Facts – summary of monthly tax revenue data

Summary of Individual Income Tax Data

- Arizona data
 - ▣ Primary fields – summary of all return data
 - ▣ Detail on additions/subtractions/adjustments to itemized deductions – from model
 - ▣ Credits
 - Pull returns to capture data; process to compile data from e-file/2D has improved
 - Larger volume credits – use reports from outside sources (Public School extracurricular report/STO annual report)
- Federal data for Arizona filers
 - ▣ Components of income/additions/subtractions/exemptions/itemized deductions
 - Federal SOI or from model

Individual Income Tax Model

- Individual income tax model simulates the state tax for the total return population given:
 - Changes in federal law
 - Changes in state data due to federal law
 - And/or proposed state changes
- Returns in the sample contain federal information from IRS and data provided on Arizona returns
- Model output provide values for additions, subtractions, exemptions, and deductions for a tax year
- The impact of credits are not included in the model due to the unpredictability of taxpayer behavior
- Current model contains tax year 2006 data grown to represent tax year 2013

ARIZONA RESIDENTS - TAX YEAR 2011

FEDERAL ADJUSTED GROSS INCOME BRACKET	# OF RETURNS	NUMBER OF EXEMPTIONS:				FEDERAL ADJUSTED GROSS INC.	ARIZONA ADJUSTED GROSS INC.	ITEMIZED DEDUCTIONS	TAXABLE INCOME	TAX LIABILITY
		PERSONAL	AGE 65	BLIND	DEPEND.					
Negative to \$9,999	370,258	468,512	86,119	1,206	124,575	(\$3,143,680,216)	(\$3,695,423,447)	\$1,200,211,729	\$129,854,377	\$3,616,552
# of returns			68,161	1,187	76,584	370,258	236,323	46,554	69,595	69,165
average per return			1.3	1.0	1.6	(\$8,491)	(\$15,637)	\$25,781	\$1,866	\$52
\$10,000 to \$19,999	432,380	635,310	92,215	1,357	348,685	\$6,456,893,142	\$3,988,418,025	\$1,858,287,534	\$1,498,605,293	\$39,019,149
# of returns			71,773	1,320	182,355	432,380	339,096	57,313	245,426	245,063
average per return			1.3	1.0	1.9	\$14,933	\$11,762	\$32,423	\$6,106	\$159
\$20,000 to \$29,999	345,011	532,714	67,082	965	335,531	\$8,537,265,780	\$5,777,506,777	\$1,247,614,184	\$3,301,566,458	\$88,221,014
# of returns			49,050	950	157,715	345,011	280,751	69,989	303,517	303,331
average per return			1.4	1.0	2.1	\$24,745	\$20,579	\$17,826	\$10,878	\$291
\$30,000 to \$49,999	451,322	696,837	91,698	1,376	376,165	\$17,575,752,186	\$13,165,099,396	\$4,601,751,006	\$9,420,530,350	\$259,687,259
# of returns			66,214	1,323	181,170	451,322	384,448	174,248	427,373	427,322
average per return			1.4	1.0	2.1	\$38,943	\$34,244	\$26,409	\$22,043	\$608
\$50,000 to \$74,999	322,102	534,348	86,416	1,064	253,977	\$19,805,940,306	\$17,089,771,548	\$3,853,741,336	\$11,761,102,255	\$336,077,997
# of returns			62,093	1,050	128,256	322,102	309,869	205,019	313,107	313,091
average per return			1.4	1.0	2.0	\$61,490	\$55,152	\$18,797	\$37,563	\$1,073
\$75,000 to \$99,999	200,851	360,476	62,098	608	168,488	\$17,357,502,312	\$15,729,941,764	\$3,513,719,140	\$11,035,190,493	\$327,267,072
# of returns			41,326	597	86,573	200,851	200,323	159,923	197,686	197,684
average per return			1.5	1.0	1.9	\$86,420	\$78,523	\$21,971	\$55,822	\$1,656
\$100,000 to \$199,999	235,305	440,587	68,338	566	213,723	\$31,263,930,725	\$28,869,471,812	\$6,785,059,349	\$22,030,567,783	\$705,301,912
# of returns			44,877	556	110,535	235,305	235,033	215,250	233,566	233,563
average per return			1.5	1.0	1.9	\$132,866	\$122,832	\$31,522	\$94,323	\$3,020
\$200,000 to \$499,999	53,991	101,893	14,983	96	54,794	\$15,236,201,839	\$14,889,616,784	\$2,583,999,177	\$12,063,293,153	\$454,851,095
# of returns			9,929	96	27,481	53,991	53,985	53,070	53,781	53,781
average per return			1.5	1.0	2.0	\$282,199	\$275,810	\$48,690	\$224,304	\$8,457
\$500,000 to \$999,999	7,608	14,325	2,327	17	8,530	\$5,109,888,144	\$5,089,258,326	\$740,934,637	\$4,320,337,819	\$181,401,344
# of returns			1,538	17	4,011	7,608	7,608	7,560	7,575	7,575
average per return			1.5	1.0	2.1	\$671,647	\$668,935	\$98,007	\$570,342	\$23,947
\$1,000,000 to \$4,999,999	3,129	5,774	1,202	4	3,078	\$5,722,931,875	\$5,738,468,152	\$785,488,097	\$4,960,417,381	\$219,257,167
# of returns			776	4	1,439	3,129	3,128	3,107	3,110	3,110
average per return			1.5	1.0	2.1	\$1,828,997	\$1,834,549	\$252,812	\$1,594,990	\$70,501
\$5,000,000 to \$9,999,999	204	364	91	1	196	\$1,401,292,250	\$1,415,814,589	\$197,068,284	\$1,217,869,599	\$54,916,956
# of returns			63	1	88	204	204	204	202	202
average per return			1.4	1.0	2.2	\$6,869,080	\$6,940,268	\$966,021	\$6,029,057	\$271,866
\$10,000,000 and over	94	166	45	0	78	\$3,845,992,166	\$3,875,944,380	\$284,069,268	\$3,593,114,904	\$162,955,978
# of returns			28	0	36	94	94	93	93	93
average per return			1.6	0.0	2.2	\$40,914,810	\$41,233,451	\$3,054,508	\$38,635,644	\$1,752,215
GRAND TOTAL	2,422,255	3,791,306	572,614	7,260	1,887,820	\$129,169,910,509	\$111,933,888,106	\$27,651,943,741	\$85,332,449,865	\$2,832,573,495
# of returns			415,828	7,101	956,243	2,422,255	2,050,862	992,330	1,855,031	1,853,980
average per return			1.4	1.0	2.0	\$53,326	\$54,579	\$27,866	\$46,001	\$1,528

SUMMARY OF INDIVIDUAL INCOME TAX EXPENDITURES

Tax Year 2006

FEDERAL SUBTRACTIONS FROM INCOME:

Archer MSA.....	\$29,000
Certain business expenses of reservists, performing artists, etc.	323,000
Health savings account deduction.....	634,000
Moving expenses	1,266,000
One-half of self-employment tax	9,729,000
Self-employed SEP, SIMPLE deduction	10,864,000
Self-employed health insurance deduction	8,589,000
Penalty on early withdrawal of savings.....	155,000
Alimony paid	6,516,000
Individual Retirement Account for qualifying individuals.....	7,373,000
Student Loan Interest deduction.....	3,164,000
Jury duty pay.....	17,000
Domestic production activities	4,240.00
Other adjustments	1,899,000
Educator expenses.....	537,000
Tuition and fees	24,000
TOTAL VALUE OF FEDERAL SUBTRACTIONS FROM INCOME	\$55,883,000

EXEMPTIONS:

Personal exemptions	\$221,678,000
Preferential personal exemption for unmarried head of household	13,094,000
Preferential personal exemption for married filers with dependents.....	27,800,000
Age 65 or over exemptions	34,241,000
Dependent exemptions.....	92,747,000
Blind exemptions	222,000
Qualifying parent or ancestor exemption.....	1,754,000
TOTAL VALUE OF EXEMPTIONS.....	\$351,322,000

SUBTRACTIONS FROM INCOME:

Interest on US obligations.....	\$10,166,000
Exclusion for federal, Arizona state or local pensions.....	8,170,000
Exempt Arizona state lottery winnings	298,000
Social Security or Railroad Retirement benefits included on federal 1040	87,027,000
Bonus depreciation adjustment	43,652,000
Certain wages of Native Americans	18,343,000
Income tax refunds from other states	533,000
Deposits and employee contributions into medical savings accounts	29,000
Constructing energy efficient residences.....	3,141,000
Active duty military pay	381,000
Other subtractions.....	13,125,000
TOTAL VALUE OF SUBTRACTIONS.....	\$187,242,000

DEDUCTIONS:

Standard deduction.....	\$158,469,000
Preferential standard deduction for unmarried head of household.....	18,281,000
<i>Itemized deductions:</i>	
Medical & dental expenses.....	115,785,000
Additional medical allowed on Arizona return.....	82,090,000
Taxes paid:	
State and local income taxes.....	153,644,000
Real estate taxes.....	55,307,000
Personal property and Other Taxes.....	<u>14,097,000</u>
Total value of taxes paid deduction.....	\$219,941,000
Interest Expense:	
Home Mortgage Interest and Points.....	\$320,648,000
Mortgage Interest not on Form 1098.....	2,794,000
Points not on Form 1098.....	1,878,000
Investment Interest.....	<u>16,712,000</u>
Total Value of Interest Expense.....	\$341,626,000
Charitable Contributions:	
Cash Contribution.....	83,872,000
Contributions Other Than Cash.....	26,890,000
Carryover From Prior Year.....	<u>5,397,000</u>
Total Value of Charitable Contributions.....	\$115,988,000
Casualty & Theft Losses.....	664,000
Job Expenses and Most Other Miscellaneous Deductions.....	44,954,000
Nonlimited Miscellaneous Deductions.....	<u>23,056,000</u>
Total Value of Itemized Deductions.....	<u>\$674,974,000</u>
TOTAL VALUE OF STANDARD AND ITEMIZED DEDUCTIONS.....	\$1,103,805,000

TYPE OF CREDIT	# of claimants	2010 (Millions)
Property tax credit	17,526	\$6.75
Credit for increased excise taxes paid	656,524	35.28
Family tax credit	516,513	5.59
Clean elections credit	24,908	0.64
Credit for taxes paid to other states or countries	36,535	84.09
Enterprise zone credit	DNA ¹¹	DNA
Credit for increased research activities	451	6.46
Credit for investment in qualified small business	203	0.79
Motion picture production and infrastructure credit	NR ¹²	NR
Recycling equipment credit	0	0.00
Credit for employment by a healthy forest enterprise	DNA	DNA
Defense contracting credit	0	0.00
Military reuse zone credit	0	0.00
Employing National Guard members credit	NR	NR
Environmental technology credit	NR	NR
Pollution control device credit	NR	NR
Agricultural pollution control equipment credit	NR	NR
Solar energy device credit	DNA	DNA
Renewable energy industry credit	0	0.00
Agricultural water conservation system credit	DNA	DNA
Commercial and industrial solar energy credit	46	0.26
Credit for donations to the Military Family Relief fund	3,052	1.00
Employment of TANF recipients credit	3	0.02
Contributions to charities that provide assistance to the working poor credit	61,602	16.68
Private school tuition organization credit	62,940	43.18
Public school extra curricular activity credit	250,004	43.72
School site donation credit	DNA	DNA
Solar hot water heater plumbing stub outs and electric vehicle recharge outlets credit	DNA	DNA
Water conservation systems credit	230	0.10
TOTAL VALUE OF ALL CREDITS ¹³	1,630,547	\$244.66

¹¹ Data was not available for this credit at the time of publication.

¹² Too few taxpayers have claimed this credit to allow for a release of the cost without violating confidentiality laws.

¹³ Figures for all credits shown here are subject to change due to the verification process.

Presentation to:

Joint Task Force
On Arizona Income Tax Reform

August 21, 2013

By:
Peggy Ullmann
Ullmann & Company, CPA's

- **Very brief review of a Federal Form 1040 with 6 common types of income and typical itemized deductions.**
- **What adjustments does Arizona Form 140 require? Simplicity vs Economic Result?**
- **Common Arizona Adjustments**
- **How does AZ compare to Utah, NC & CA in our example?**

(Note, changes to level and type of income may vary the state by state results dramatically.)

INDIVIDUAL INCOME TAX
COMMON ARIZONA ADJUSTMENTS

Additions to Arizona Income:

- Non-Arizona municipal bond interest

The amount of federally tax exempt municipal bond interest received in the taxable year from sources other than Arizona.

- Federal depreciation

The total amount of depreciation deducted on federal return in the taxable year. See subtractions below.

- Excess IRC Section 179 depreciation

The amount of Section 179 depreciation expense deducted on federal return in excess of \$25,000. *Effective January 1, 2013, Arizona has conformed with IRC Section 179 removing the Arizona \$25,000 cap.*

Subtractions from Arizona Income:

- Additional personal exemptions for individuals 65 and over, the blind, dependents, and qualifying parents or grandparents.

An additional Arizona personal exemption deduction for each of the following instances multiplied by the number of qualifying individuals:

<u>Qualifying Individuals:</u>	<u>Additional Exemption Amount:</u>
Individuals 65 and over	\$ 2,100
Blind	\$ 1,500
Dependents	\$ 2,300
Qualifying parents and grandparents	\$ 10,000

- Interest on US Savings Bonds

A state deduction equal to the federal taxable amount of interest earned on United States savings bonds.

- State and/or local government pension

A state deduction for pension income received from the United States Government Retirement Disability Fund, Arizona State Retirement System, and other federal and Arizona retirement systems and/or funds. The deduction is equal to amount received or \$2,500, whichever is less.

- Social security and railroad retirement benefits

A state deduction equal to the total amount of federally taxable social security or railroad retirement benefits received.

INDIVIDUAL INCOME TAX
COMMON ARIZONA ADJUSTMENTS

Subtractions (continued):

- Recalculated Arizona depreciation

The total amount of federal depreciation allowable pursuant to IRC 167(a) for the taxable year minus any amount federal bonus depreciation for eligible property.

- Prior IRC Section 179 depreciation not allowed

20% of current Section 179 depreciation added to Arizona income and previously non-deductible Section 179 depreciation. Adjustment effectively amortizes federally deductible Section 179 depreciation over five years. *Please see note above.*

- Net operating loss adjustment

Arizona re-calculated net operating losses deductible in the current taxable year when carried forward from prior taxable year (maximum of 20 years) or carried back from subsequent taxable years (maximum of 2 year).

- 529 (Education Savings Account) contributions

A state deduction for contributions to a 529 college saving account during the taxable year. The deduction is equal to the amount contributed, up to a maximum of \$2,000 (single) or \$4,000 (married filing joint) – effective January 1, 2013. Prior to 2013, deductible amounts were limited to \$750 (single) and \$1,500 (married filing joint).

- Adoption expenses

Arizona state deduction for adoption expenses (e.g. adoption counseling, legal and agency fees, other nonrecurring costs of adoption) paid in the taxable year the adoption order is granted. Deduction is equal to amount paid or \$3,000, whichever is less.

Itemized Deductions:

- Medical expenses in excess of federal deductible amount
- Charitable contributions deducted federally which are treated as a credit to Arizona tax (Form 301)

**2013 Individual Income Tax Brackets
Arizona and Selected States**

	Individual Income Levels		Rate
	Single	MFJ	
ARIZONA	0+	0+	2.59%
	10,000+	20,000+	2.88%
	25,000+	50,000+	3.36%
	50,000+	100,000+	4.24%
	150,000+	300,000+	4.54%
CALIFORNIA	0+	0+	1.0%
	7,124+	14,248+	2.0%
	16,890+	33,780+	4.0%
	26,657+	53,314+	6.0%
	37,005+	74,010+	8.0%
	46,766+	93,532+	9.3%
	1,000,000+	2,000,000+	10.3%
UTAH	0+	0+	5.0%
NORTH CAROLINA	0+	0+	6.0%
	12,750+	21,250+	7.0%
	60,000+	100,000+	7.75%

Source: Tax-rates.org

BENNY AND PENNY BANKS
INDIVIDUAL STATE INCOME TAX COMPARISON EXAMPLE

	<u>Arizona</u>	<u>Utah</u>	<u>North Carolina</u>	<u>California</u>
Federal Adjusted Gross Income	77,000	77,000	77,000	77,000
Additions to Income				
Federal Depreciation Adjustment	3,000		2,125	2,000
Non-State Municipal Bond Interest	1,000	1,000	1,000	1,000
Total Additions	<u>4,000</u>	<u>1,000</u>	<u>3,125</u>	<u>3,000</u>
Subtractions from Income				
Arizona 529 Education Savings Account Contribution	(500)			
Arizona Depreciation Adjustment	(1,000)			
California Adjustment for Self Employment Tax				138
Interest on US Savings Bonds	(500)	(500)	(500)	(500)
North Carolina Adjustment for Net Business Income			(15,000) ⁻⁴	
Social Security and Railroad Retirement Benefits	(12,000)		(12,000)	(12,000)
Total Subtractions from Income	<u>(14,000)</u>	<u>(500)</u>	<u>(27,500)</u>	<u>(12,362)</u>
Standard or Itemized Deductions	(23,275) ⁻¹	N/A	(16,900)	(16,900)
Personal Exemptions	<u>(4,200)</u>	N/A	<u>(5,000)</u>	N/A
State Taxable Income	<u>39,525</u>	<u>77,500</u>	<u>30,725</u>	<u>50,738</u>
State Income Tax Before Credits	1,080	3,875	1,938	1,172
Credits				
Arizona Working Poor Credit	(400) ⁻²			
Utah Taxpayer Tax Credit		(687) ⁻³		
California Personal Exemption Credit				(208) ⁻⁵
State Income Tax	<u>680</u>	<u>3,188</u>	<u>1,938</u>	<u>964</u>

-1- Arizona itemized deductions includes a deduction for all medical expenses paid in a taxable year.

-2- Arizona nonrefundable tax credits allow taxpayers to reduce individual income tax significantly if eligible.

-3- Utah Taxpayer Tax Credit provides taxpayers a computed credit for personal exemptions and standard or itemized deductions which phases out as an individual's income exceeds a preset limit based on filing status.

-4- North Carolina Adjustment for Net Business Income provides the taxpayer a state deduction up to \$50,000 of non-passive business income (net of expenses)

-5- California Personal Exemption Credit provides taxpayers a credit for personal exemptions instead of a deduction.

(Note, changes to level and type of income may vary the state by state results dramatically)

For the year Jan 1 - Dec 31, 2012, or other tax year beginning , 2012, ending , 20

Your first name and initial **BENNY BANKS** Last name **BANKS** Your social security number **012-34-5678**

If a joint return, spouse's first name and initial **PENNY BANKS** Last name **BANKS** Spouse's social security number **123-45-6789**

Home address (number and street). If you have a P.O. box, see instructions. **1700 W WASHINGTON ST** Apartment no. **▲** Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). **PHOENIX, AZ 85007**

Foreign country name Foreign province/state/county Foreign postal code

Presidential Election Campaign
Check here if you, or your spouse if filing jointly, want \$3 to go to this fund? Checking a box below will not change your tax or refund. You Spouse

Filing Status

1 Single

2 Married filing jointly (even if only one had income)

3 Married filing separately. Enter spouse's SSN above & full name here

4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here

5 Qualifying widow(er) with dependent child

Check only one box.

Exemptions

6a Yourself. If someone can claim you as a dependent, do not check box 6a

b Spouse

c Dependents:

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax cr (see instrs)

If more than four dependents, see instructions and check here

d Total number of exemptions claimed **2**

Boxes checked on 6a and 6b **2**
No. of children on 6c who:
• lived with you
• did not live with you due to divorce or separation (see instrs)
Dependents on 6c not entered above
Add numbers on lines above **2**

Income

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	40,559
8a	Taxable interest. Attach Schedule B if required	8a	500
8b	Tax-exempt interest. Do not include on line 8a . . STMT. 2	8b	1,000
9a	Ordinary dividends. Attach Schedule B if required	9a	
9b	Qualified dividends	9b	
10	Taxable refunds, credits, or offsets of state and local income taxes	10	
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ	12	15,000
13	Capital gain or (loss). Att Sch D if reqd. If not reqd, ck here	13	
14	Other gains or (losses). Attach Form 4797	14	
15a	IRA distributions	15a	
15b	Taxable amount	15b	
16a	Pensions and annuities	16a	
16b	Taxable amount	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	10,000
18	Farm income or (loss). Attach Schedule F	18	
19	Unemployment compensation	19	
20a	Social security benefits	20a	14,118
20b	Taxable amount	20b	12,000
21	Other income	21	
22	Combine the amounts in the far right column for lines 7 through 21. This is your total income	22	78,059

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

Enclose, but do not attach, any payment. Also, please use Form 1040-V.

Adjusted Gross Income

23	Educator expenses	23	
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	
25	Health savings account deduction. Attach Form 8889	25	
26	Moving expenses. Attach Form 3903	26	
27	Deductible part of self-employment tax. Attach Schedule SE	27	1,059
28	Self-employed SEP, SIMPLE, and qualified plans	28	
29	Self-employed health insurance deduction	29	
30	Penalty on early withdrawal of savings	30	
31a	Alimony paid b Recipient's SSN	31a	
32	IRA deduction	32	
33	Student loan interest deduction	33	
34	Tuition and fees. Attach Form 8917	34	
35	Domestic production activities deduction. Attach Form 8903	35	
36	Add lines 23 through 35	36	1,059
37	Subtract line 36 from line 22. This is your adjusted gross income	37	77,000

Tax and Credits	38	Amount from line 37 (adjusted gross income).....	38	77,000.
	39a	Check <input type="checkbox"/> You were born before January 2, 1948, <input type="checkbox"/> Blind. Total boxes checked ▶ 39a <input type="checkbox"/> if: <input type="checkbox"/> Spouse was born before January 2, 1948, <input type="checkbox"/> Blind.		
Standard Deduction for - • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$5,950 Married filing jointly or Qualifying widow(er), \$11,900 Head of household, \$8,700	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here..... ▶ 39b <input type="checkbox"/>		
	40	Itemized deductions (from Schedule A) or your standard deduction (see left margin).....	40	17,900.
	41	Subtract line 40 from line 38.....	41	59,100.
	42	Exemptions. Multiply \$3,800 by the number on line 6d.....	42	7,600.
	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-.....	43	51,500.
	44	Tax (see instrs). Check if any from: a <input type="checkbox"/> Form(s) 8814 c <input type="checkbox"/> 962 election b <input type="checkbox"/> Form 4972.....	44	6,859.
	45	Alternative minimum tax (see instructions). Attach Form 6251.....	45	0.
	46	Add lines 44 and 45..... ▶	46	6,859.
	47	Foreign tax credit. Attach Form 1116 if required.....	47	
	48	Credit for child and dependent care expenses. Attach Form 2441.....	48	
	49	Education credits from Form 8863, line 19.....	49	
	50	Retirement savings contributions credit. Attach Form 8880.....	50	
	51	Child tax credit. Attach Schedule 8812, if required.....	51	
	52	Residential energy credits. Attach Form 5695.....	52	
	53	Other crs from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	53	
54	Add lines 47 through 53. These are your total credits	54		
55	Subtract line 54 from line 46. If line 54 is more than line 46, enter -0-..... ▶	55	6,859.	
Other Taxes	56	Self-employment tax. Attach Schedule SE.....	56	1,842.
	57	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919.....	57	
	58	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required.....	58	
	59a	Household employment taxes from Schedule H.....	59a	
	b	First-time homebuyer credit repayment. Attach Form 5405 if required.....	59b	
	60	Other taxes. Enter code(s) from instructions.....	60	
61	Add lines 55-60. This is your total tax ▶	61	8,701.	
Payments If you have a qualifying child, attach Schedule EIC.	62	Federal income tax withheld from Forms W-2 and 1099.....	62	5,500.
	63	2012 estimated tax payments and amount applied from 2011 return.....	63	2,500.
	64a	Earned income credit (EIC)	64a	
	b	Nontaxable combat pay election..... ▶ 64b <input type="checkbox"/>		
	65	Additional child tax credit. Attach Schedule 8812.....	65	
	66	American opportunity credit from Form 8863, line 8.....	66	
	67	Reserved.....	67	
	68	Amount paid with request for extension to file.....	68	
	69	Excess social security and tier 1 RRTA tax withheld.....	69	
	70	Credit for federal tax on fuels. Attach Form 4136.....	70	
71	Credits from Form: a <input type="checkbox"/> 2439 b <input checked="" type="checkbox"/> Reserved c <input type="checkbox"/> 8801 d <input type="checkbox"/> 8885.....	71		
72	Add lns 62, 63, 64a, & 65-71. These are your total pmts ▶	72	8,000.	
Refund	73	If line 72 is more than line 61, subtract line 61 from line 72. This is the amount you overpaid	73	
	74a	Amount of line 73 you want refunded to you . If Form 8888 is attached, check here.. ▶ <input type="checkbox"/> ▶ b Routing number..... ▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings ▶ d Account number.....	74a	
75	Amount of line 73 you want applied to your 2013 estimated tax ▶	75		
Amount You Owe	76	Amount you owe. Subtract line 72 from line 61. For details on how to pay see instructions..... ▶	76	701.
	77	Estimated tax penalty (see instructions).....	77	

Third Party Designee Do you want to allow another person to discuss this return with the IRS (see instructions)?..... Yes. Complete below. No

Designee's name _____ Phone no. _____ Personal identification number (PIN) _____

Sign Here Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature _____ Date _____ Your occupation **THE SAVER** Daytime phone number _____

Spouse's signature. If a joint return, **both** must sign. _____ Date _____ Spouse's occupation **THE SUPER SAVER** If the IRS sent you an Identity Protection PIN, enter it here (see instrs) _____

Print/Type preparer's name _____ Preparer's signature **SELF-PREPARED** Date _____ Check if self-employed PTIN _____

Firm's name _____ Firm's address _____ Firm's EIN _____ Phone no. _____

Paid Preparer Use Only

SCHEDULE A
(Form 1040)

Itemized Deductions

OMB No. 1545-0074

2012

Department of the Treasury
Internal Revenue Service (99)

► Information about Schedule A and its separate instructions is at www.irs.gov/form1040.
► Attach to Form 1040.

Attachment
Sequence No. **07**

Name(s) shown on Form 1040

Your social security number

BENNY AND PENNY BANKS

012-34-5678

Medical and Dental Expenses	Caution. Do not include expenses reimbursed or paid by others.				
	1 Medical and dental expenses (see instructions)	STATEMENT 3	1	7,275.	
	2 Enter amount from Form 1040, line 38	2	77,000.		
	3 Multiply line 2 by 7.5% (.075)	3	5,775.		
4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4	1,500.	
Taxes You Paid	5 State and local (check only one box):				
	a <input checked="" type="checkbox"/> Income taxes, or		5	1,000.	
	b <input type="checkbox"/> General sales taxes				
	6 Real estate taxes (see instructions)	SEE STATEMENT 4	6	2,000.	
	7 Personal property taxes		7		
	8 Other taxes. List type and amount ►		8		
	9 Add lines 5 through 8			9	3,000.
	Interest You Paid	10 Home mtg interest and points reported to you on Form 1098	SEE ST. 5	10	13,000.
11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying number, and address ►					
Note. Your mortgage interest deduction may be limited (see instructions).					
12 Points not reported to you on Form 1098. See instrs for spcl rules			12		
13 Mortgage insurance premiums (see instructions)			13		
14 Investment interest. Attach Form 4952 if required. (See instrs.)			14		
15 Add lines 10 through 14				15	13,000.
Gifts to Charity		16 Gifts by cash or check. If you made any gift of \$250 or more, see instrs	SEE STATEMENT 6	16	400.
		17 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500		17	
		18 Carryover from prior year		18	
		19 Add lines 16 through 18			19
Casualty and Theft Losses		20 Casualty or theft loss(es). Attach Form 4684. (See instructions.)		20	0.
Job Expenses and Certain Miscellaneous Deductions		21 Unreimbursed employee expenses — job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ►		21	
		22 Tax preparation fees		22	
		23 Other expenses — investment, safe deposit box, etc. List type and amount ►		23	
	24 Add lines 21 through 23		24		
	25 Enter amount from Form 1040, line 38	25			
	26 Multiply line 25 by 2% (.02)		26		
	27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-			27	0.
Other Miscellaneous Deductions	28 Other — from list in instructions. List type and amount ►		28	0.	
Total Itemized Deductions	29 Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40		29	17,900.	
	30 If you elect to itemize deductions even though they are less than your standard deduction, check here			<input type="checkbox"/>	

**SCHEDULE C
(Form 1040)**

**Profit or Loss From Business
(Sole Proprietorship)**

OMB No. 1545-0074

2012

Attachment
Sequence No. **09**

Department of the Treasury
Internal Revenue Service (99)

► For information on Schedule C and its instructions, go to www.irs.gov/schedulec.
► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

Name of proprietor BENNY BANKS		Social security number (SSN) 012-34-5678
A Principal business or profession, including product or service (see instructions) SOLE PROPRIETORSHIP		B Enter code from instructions ► 999999
C Business name. If no separate business name, leave blank. MR. MONEY BAGS CONSULTING		D Employer ID number (EIN), (see instrs)
E Business address (including suite or room no.) ► City, town or post office, state, and ZIP code		
F Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ►		
G Did you 'materially participate' in the operation of this business during 2012? If 'No,' see instructions for limit on losses... <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
H If you started or acquired this business during 2012, check here. <input type="checkbox"/>		
I Did you make any payments in 2012 that would require you to file Form(s) 1099? (see instructions) <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
J If 'Yes,' did you or will you file all required Forms 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No		

Part I Income

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the 'Statutory employee' box on that form was checked. <input type="checkbox"/>	1	21,000.
2 Returns and allowances (see instructions)	2	
3 Subtract line 2 from line 1.	3	21,000.
4 Cost of goods sold (from line 42)	4	
5 Gross profit. Subtract line 4 from line 3	5	21,000.
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7 Gross income. Add lines 5 and 6	7	21,000.

Part II Expenses. Enter expenses for business use of your home only on line 30.

8 Advertising.	8		18 Office expense (see instructions)	18	1,000.
9 Car and truck expenses (see instructions)	9		19 Pension and profit-sharing plans	19	
10 Commissions and fees	10		20 Rent or lease (see instructions):		
11 Contract labor (see instructions)	11		a Vehicles, machinery, and equipment	20 a	
12 Depletion	12		b Other business property	20 b	1,000.
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	3,000.	21 Repairs and maintenance	21	
14 Employee benefit programs (other than on line 19)	14		22 Supplies (not included in Part III)	22	
15 Insurance (other than health)	15		23 Taxes and licenses	23	
16 Interest:			24 Travel, meals, and entertainment:		
a Mortgage (paid to banks, etc)	16 a		a Travel	24 a	
b Other	16 b		b Deductible meals and entertainment (see instructions)	24 b	
17 Legal & professional services	17	1,000.	25 Utilities	25	
28 Total expenses before expenses for business use of home. Add lines 8 through 27a	28		26 Wages (less employment credits)	26	
29 Tentative profit or (loss). Subtract line 28 from line 7	29	6,000.	27a Other expenses (from line 48)	27 a	
30 Expenses for business use of your home. Attach Form 8829. Do not report such expenses elsewhere	30	15,000.	b Reserved for future use	27 b	
31 Net profit or (loss). Subtract line 30 from line 29.					
• If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2. If you checked the box on line 1, see instructions. Estates and trusts, enter on Form 1041, line 3.				31	15,000.
• If a loss, you must go to line 32.					
32 If you have a loss, check the box that describes your investment in this activity (see instructions).					
• If you checked 32a, enter the loss on both Form 1040, line 12, (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see the instructions for line 31). Estates and trusts, enter on Form 1041, line 3.				32 a	<input type="checkbox"/> All investment is at risk.
• If you checked 32b, you must attach Form 6198. Your loss may be limited.				32 b	<input type="checkbox"/> Some investment is not at risk.

BAA For Paperwork Reduction Act Notice, see your tax return instructions.

Schedule C (Form 1040) 2012

Resident Personal Income Tax Return

140

OR FISCAL YEAR BEGINNING

AND ENDING

(66)

2012

(89) (X)

82F

Check box 82F if filing under extension

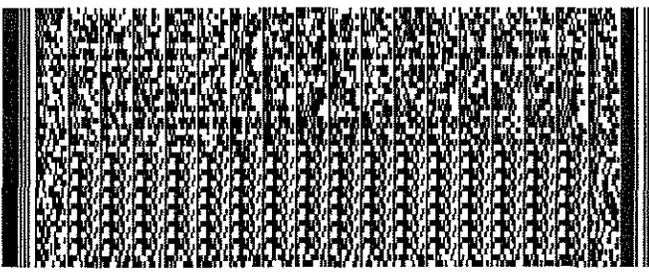
ONE STAPLE. NO TAPE.

Place any required federal and AZ schedules or other documents after Form 140 page 2; staple to upper left corner.

USE PREVIOUS EDITIONS

Your First Name and Middle Initial 1 BENNY		Last Name BANKS		Enter your SSN(S) Your Social Security No. 012-34-5678 Spouse's Social Security No. 123-45-6789
Spouse's First Name and Middle Initial (if box 4 or 6 checked) 1 PENNY		Last Name BANKS		
Current Home Address - number and street, rural route Apt No. 2 1700 W WASHINGTON ST			Daytime Phone (with area code)	
City, Town or Post Office 3 PHOENIX			State Zip Code AZ 85007	
Home Phone (with area code) (94)				

Filing Status	4 <input checked="" type="checkbox"/> Married filing joint return	NAME OF QUALIFYING CHILD OR DEPENDENT	REVENUE USE ONLY. DO NOT MARK IN THIS
	5 <input type="checkbox"/> Head of household		
	6 <input type="checkbox"/> Married filing separate return. Enter spouse's name and Social Security No. above.		
	7 <input type="checkbox"/> Single		
Exemptions	Enter the number claimed. Do not put a check mark.		
	8 <input type="checkbox"/> Age 65 or over (you and/or spouse)		(88)
	9 <input type="checkbox"/> Blind (you and/or spouse)		
	10 <input type="checkbox"/> Dependents. From page 2, line A2 - do not include self or spouse.		(81)
11 <input type="checkbox"/> Qualifying parents and grandparents. From page 2, line A5.		(80)	

This box may be blank or may contain a printed barcode of data from your return.		12 Federal adjusted gross income	12	77,000
		13 Additions to income (from page 2, line B12)	13	300
		14 Subtractions (from page 2, line C17 or C30)	14	10,000
		15 Arizona AGI: Lines (12 + 13) - line 14	15	67,000
		16 <input checked="" type="checkbox"/> ITEMIZED <input type="checkbox"/> STANDARD	16	2,200
		17 Personal exemptions	17	2,200
		18 AZ taxable income: Line 15 - lines (16 + 17)	18	39,525
		19 Compute tax: use line 18 & proper Tax Table	19	1,080
		20 Tax from recapture of credits	20	
		21 Subtract tax Add lines 19 and 20	21	
		22 Family income tax credit (see instr.)	22	
		23 Credits (Forms 301, 310, 321, 322, and 323)	23	400
		24 Cr Type (24) 3 2 1 3 3 3		
		25 Clean Elections Fund Tax Cr (prior 8/2/2012)	25	
		26 Balance of tax. Subtract lines 22, 23 and 25 from line 21. If the sum of lines 22, 23 and 25 is more than line 21, enter zero	26	320
		27 Arizona income tax withheld during 2012	27	1,000
		28 Arizona estimated tax payments for 2012	28	
		29 2012 Arizona extension payment (Form 204)	29	
		30 Increased Excise Tax Credit (from Form 140PTC or worksheet in the instructions)	30	
		31 Property Tax Credit from Form 140PTC	31	
		32 Other refundable credits: Check the box(es) and enter the amount. 32 1 <input type="checkbox"/> Form 308-I 32 2 <input type="checkbox"/> Form 342	32	
		33 Total payments/refundable credits: Add lines 27 through 32	33	1,000
		34 TAX DUE: If line 26 is larger than line 33, subtract line 33 from line 26 and enter amount of tax due. Skip lines 35, 36 and 37.	34	
		35 OVERPAYMENT: If line 33 is larger than line 26, subtract line 26 from line 33 and enter amount of overpayment	35	320
		36 Amount of line 35 to be applied to 2013 estimated tax	36	
		37 Balance of overpayment: Subtract line 36 from line 35	37	320

38-47 Voluntary Gifts to:

Aid to Education	38		Arizona Wildlife	39	
Child Abuse Prevention	40		Domestic Violence Shelter	41	
I Didn't Pay Enough Fund	42		National Guard Relief Fund	43	
Neighbors Helping Neighbors	44		Special Olympics	45	
Veterans' Donations Fund	46		Political Gift	47	

48 Voluntary Political gift (check only one): 48 1 Americans Elect 48 2 Democratic 48 3 Green 48 4 Libertarian 48 5 Republican

49 Estimated payment penalty and MSA withdrawal penalty

50 Check applicable boxes: 50 1 Annualized/Other 50 2 Farmer or Fisherman 50 3 Form 221 attached 50 4 MSA Penalty

51 Total of lines 38 through 47 and 49

52 REFUND: Subtract line 51 from line 37. If less than zero, enter amount owed on line 53

Direct Deposit of Refund: Check box 52A if your deposit will be ultimately placed in a foreign account; see instructions. 52 A

ROUTING NO. ACCOUNT NO. C Checking or S Savings

(98)

53 AMOUNT OWED: Add lines 34 and 51. Make check payable to Arizona Department of Revenue; include SSN on payment

Your Name (as shown on page 1)	Your Social Security No.
BENNY AND PENNY BANKS	012-34-5678

PART A: Dependents, Qualifying Parents and Grandparents – do not list yourself or spouse

If completing Part A, also complete Part C, lines C15 and/or C16 and C17.

A1 List children and other dependents. If more space is needed, attach a separate sheet.

FIRST AND LAST NAME	SOCIAL SECURITY NO.	RELATIONSHIP	NO. OF MONTHS LIVED IN YOUR HOME IN 2012

A2 Enter total number of persons listed in A1 here and on page 1 of this form, box 10; also complete Part C below. . . . TOTAL **A2**

A3 a Enter the names of the dependents listed above who do not qualify as your dependent on your federal return:

b Enter dependents listed above who were not claimed on your federal return due to education credits:

A4 List qualifying parents and grandparents. If more space is needed, attach a separate sheet. You cannot list the same person here and also on line A1. For information on who is a qualifying parent or grandparent, see instructions.

FIRST AND LAST NAME	SOCIAL SECURITY NO.	RELATIONSHIP	NO. OF MONTHS LIVED IN YOUR HOME IN 2012

A5 Enter total number of persons listed in A4 here and on page 1 of this form, box 11. TOTAL **A5**

PART B: Additions to Income

B6 Non-Arizona municipal interest SEE STATEMENT 1	B6	1,000.
B7 Ordinary income portion of lump-sum distributions excluded on your federal return	B7	
B8 Total federal depreciation. Also see instructions for line C22	B8	3,000.
B9 Medical savings account (MSA) distributions. See instructions.	B9	
B10 IRC Section 179 expense in excess of allowable amount. Also see instructions for line C26	B10	
B11 Other additions to income. See instructions and attach your own schedule.	B11	
B12 Total. Add lines B6 through B11. Enter here and on page 1 of this form, line 13	B12	4,000.

PART C: Subtractions from Income

C13 Exemption: Age 65 or over. Multiply the number in box 8, page 1, by \$2,100	C13	
C14 Exemption: Blind. Multiply the number in box 9, page 1, by \$1,500	C14	
C15 Exemption: Dependents. Multiply the number in box 10, page 1, by \$2,300.	C15	
C16 Exemption: Qualifying parents and grandparents. Multiply the number in box 11, page 1, by \$10,000.	C16	
C17 Total exemptions. Add lines C13 through C16. If you have no other subtractions from income, skip lines C18 through C30 and enter the amount on line C17 on Form 140, page 1, line 14	C17	
C18 Interest on U.S. obligations such as U.S. savings bonds and treasury bills SEE STATEMENT 2	C18	500.
C19 Exclusion for federal, Arizona state or local government pensions (up to \$2,500 per taxpayer)	C19	
C20 Arizona state lottery winnings included as income on your federal return (up to \$5,000 only)	C20	
C21 U.S. Social Security or Railroad Retirement Act benefits included as income on your federal return (the taxable amount)	C21	12,000.
C22 Recalculated Arizona depreciation.	C22	1,000.
C23 Certain wages of American Indians.	C23	
C24 Income tax refund from other states. See instructions	C24	
C25 Deposits and employer contributions into MSAs. See instructions.	C25	
C26 Adjustment for I.R.C. Section 179 expense not allowed.	C26	
C27 Pay received for active service as a member of the reserves, national guard or the U.S. armed forces.	C27	
C28 Net operating loss adjustment. See instructions before you enter any amount here.	C28	
C29 Other subtractions from income. See instructions and attach your own schedule. STMT. 3	C29	500.
C30 Total: Add lines C17 through C29. Enter here and on page 1 of this form, line 14	C30	14,000.

PART D: Last Name(s) Used in Prior Years – if different from name(s) used in current year

D31

I have read this return and any attachments with it. Under penalties of perjury, I declare that to the best of my knowledge and belief, they are true, correct and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

PLEASE SIGN HERE	YOUR SIGNATURE _____	DATE _____	THE SAVER OCCUPATION _____
	SPOUSE'S SIGNATURE _____	DATE _____	THE SUPER SAVER SPOUSE'S OCCUPATION _____
	SELF-PREPARED PAID PREPARER'S SIGNATURE _____	DATE _____	FIRM'S NAME (PREPARER'S IF SELF-EMPLOYED) _____
	PAID PREPARER'S TIN _____	PAID PREPARER'S ADDRESS _____	PAID PREPARER'S PHONE NO. _____

If you are also sending a payment, mail to Arizona Department of Revenue, PO Box 52016, Phoenix, AZ, 85072-2016 (PO Box 29204, Phoenix, AZ 85038-9204 if your return has a barcode). If you are not sending a payment, mail to Arizona Department of Revenue, PO Box 52138, Phoenix, AZ, 85072-2138. (PO Box 29205, Phoenix, AZ 85038-9205 if your return has a barcode).

Itemized Deduction Adjustments

For Full-Year Residents Filing Form 140

Attach to your return.

Your Name as shown on Form 140 BENNY BANKS	Your Social Security Number 012-34-5678
Spouse's Name as shown on Form 140 PENNY BANKS	Spouse's Social Security Number 123-45-6789

To itemize on your Arizona return, you must first complete a federal Schedule A. Use Form 140, Schedule A, to adjust the amount shown on the federal Schedule A. Complete Form 140, Schedule A, **only if you are making changes** to the amount shown on the federal Schedule A. See instructions for details.

Adjustment to Medical and Dental Expenses

1 Medical and dental expenses	1	7,275.	
2 Amount of medical savings account (MSA) distributions used to pay qualified medical expenses included on line 1	2		
3 Medical expenses allowed to be taken as a federal itemized deduction	3	1,500.	
4 Add line 2 and line 3, and enter the result	4	1,500.	
5 If line 1 is the same as or more than line 4, subtract line 4 from line 1; otherwise, go to line 6	5		5,775.
6 If line 4 is more than line 1, subtract line 1 from line 4	6		

Adjustment to Interest Deduction

7 If you received a federal credit for interest paid on mortgage credit certificates (from federal Form 8396), enter the amount of mortgage interest you paid for 2012 that is equal to the amount of your 2012 federal credit	7		
--	---	--	--

Adjustment to Gambling Losses

8 Wagering losses allowed as a federal itemized deduction	8		
9 Total gambling winnings included in your federal adjusted gross income	9		
10 Arizona lottery subtraction from Form 140, page 2, line C20	10		
11 Maximum allowable gambling loss deduction: Subtract line 10 from line 9	11		
12 If line 11 is less than line 8, subtract line 11 from line 8; otherwise enter 'zero'	12		

Adjustment to Charitable Contributions

13 Amount of charitable contributions for which you are taking a credit under Arizona law	13		400.
---	----	--	------

Other Adjustments

14 Amount allowed as a federal itemized deduction that relates to income not subject to Arizona tax	14		
---	----	--	--

Adjusted Itemized Deductions

15 Add the amounts on lines 5 and 7	15	5,775.	
16 Add the amounts on lines 6, 12, 13, and 14	16	400.	
17 Total federal itemized deductions allowed to be taken on federal return	17	17,900.	
18 Enter the amount from line 15 above	18	5,775.	
19 Add lines 17 and 18	19	23,675.	
20 Enter the amount from line 16 above	20	400.	
21 Arizona itemized deductions: Subtract line 20 from line 19. Enter the result here and on Form 140, page 1, line 16	21		23,275.

IMPORTANT: You must attach a copy of federal Form 1040, Schedule A to your return if you itemize your deductions.

Nonrefundable Individual Tax Credits and Recapture

For the calendar year 2012, or
fiscal year beginning _____ and ending _____

Attach to your return.

Your Name as shown on Form 140, 140PY, 140NR or 140X BENNY BANKS	Your Social Security Number 012-34-5678
Spouse's Name as shown on Form 140, 140PY, 140NR or 140X (if a joint return) PENNY BANKS	Spouse's Social Security Number 123-45-6789

Part I Nonrefundable Individual Tax Credits

Enter total available tax credits.

1	Enterprise Zone Credit.....	from Form 304 ▶	1	
2	Environmental Technology Facility Credit.....	from Form 305 ▶	2	
3	Military Reuse Zone Credit.....	from Form 306 ▶	3	
4	Recycling Equipment Credit.....	from Form 307 ▶	4	
5	Credit for Increased Research Activities — Individuals.....	from Form 308-1 ▶	5	
6	Credit for Taxes Paid to Another State or Country.....	from Form 309 ▶	6	
7	Credit for Solar Energy Devices.....	from Form 310 ▶	7	
8	Agricultural Water Conservation System Credit.....	from Form 312 ▶	8	
9	Pollution Control Credit.....	from Form 315 ▶	9	
10	Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets.....	from Form 319 ▶	10	
11	Credit for Employment of TANF Recipients.....	from Form 320 ▶	11	
12	Credit for Contributions to Charities That Provide Assistance to the Working Poor.....	from Form 321 ▶	12	400.
13	Credit for Contributions Made or Fees Paid to Public Schools.....	from Form 322 ▶	13	
14	Credit for Contributions to Private School Tuition Organizations.....	from Form 323 ▶	14	
15	Agricultural Pollution Control Equipment Credit.....	from Form 325 ▶	15	
16	Credit for Donation of School Site.....	from Form 331 ▶	16	
17	Credits for Healthy Forest Enterprises.....	from Form 332 ▶	17	
18	Credit for Employing National Guard Members.....	from Form 333 ▶	18	
19	Motion Picture Credits.....	from Form 334 ▶	19	
20	Credit for Solar Energy Devices — Commercial and Industrial Applications.....	from Form 336 ▶	20	
21	Credit for Investment in Qualified Small Businesses.....	from Form 338 ▶	21	
22	Credit for Water Conservation Systems.....	from Form 339 ▶	22	
23	Credit for Donations to the Military Family Relief Fund.....	from Form 340 ▶	23	
24	Renewable Energy Production Tax Credit.....	from Form 343 ▶	24	
25	Solar Liquid Fuel Credit.....	from Form 344 ▶	25	
26	Credit for New Employment.....	from Form 345 ▶	26	
27	Additional Credit for increased Research Activities for Basic Research Payments.....	from Form 346 ▶	27	
28	Credit for Qualified Health Insurance Plans.....	from Form 347 ▶	28	
29	Credit for Contributions to Certified School Tuition Organizations.....	from Form 348 ▶	29	
30	Total Available Tax Credits: Add lines 1 through 29.....		30	400.

Continued on page 2 ➡

IMPORTANT: You must attach Form 301 and the corresponding credit forms on which you computed your credit(s) to your individual income tax return.

Your Name (as shown on page 1)

BENNY AND PENNY BANKS

Your Social Security No.

012-34-5678

Part II Application of Tax Credits and Recapture

Enter tax, recapture tax, and tax credits claimed this taxable year.

31	Tax from Form 140, line 19; or Form 140PY, line 22; or Form 140NR, line 22; or Form 140X, line 26.....	31	1,080.
32	Tax from recapture of Environmental Technology Facility Credit from Form 305, Part V, line 23.....	32	
33	Tax from recapture of Credit for Healthy Forest Enterprises from Form 332, Part XI, line 53, and Part XII, line 59.....	33	
34	Tax from recapture of Credit for Renewable Energy Industry from Form 342, Part V, line 17.....	34	
35	Recapture Total: Add lines 32, 33 and 34. Enter here and on Form 140, line 20; or Form 140PY, line 23; or Form 140NR, line 23; or Form 140X, line 27.....	35	
36	Subtotal: Add lines 31 and 35.....	36	1,080.
37	Family Income Tax Credit from Form 140, line 22; or Form 140PY, line 25; or Form 140X, line 29.....	37	
38	Subtract line 37 from line 36.....	38	1,080.

Nonrefundable Tax Credits Claimed

Enter amount of credits actually claimed from Part I.

39	Enterprise Zone Credit.....	Form 304 ▶	39	
40	Environmental Technology Facility Credit (not to exceed 75% of line 36).....	Form 305 ▶	40	
41	Military Reuse Zone Credit.....	Form 306 ▶	41	
42	Recycling Equipment Credit (not to exceed the lesser of 25% of line 36 or \$5,000).....	Form 307 ▶	42	
43	Credit for Increased Research Activities — Individuals.....	Form 308-1 ▶	43	
44	Credit for Taxes Paid to Another State or Country.....	Form 309 ▶	44	
45	Credit for Solar Energy Devices.....	Form 310 ▶	45	
46	Agricultural Water Conservation System Credit.....	Form 312 ▶	46	
47	Pollution Control Credit.....	Form 315 ▶	47	
48	Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets.....	Form 319 ▶	48	
49	Credit for Employment of TANF Recipients.....	Form 320 ▶	49	
50	Credit for Contributions to Charities That Provide Assistance to the Working Poor.....	Form 321 ▶	50	400.
51	Credit for Contributions Made or Fees Paid to Public Schools.....	Form 322 ▶	51	
52	Credit for Contributions to Private School Tuition Organizations.....	Form 323 ▶	52	
53	Agricultural Pollution Control Equipment Credit.....	Form 325 ▶	53	
54	Credit for Donation of School Site.....	Form 331 ▶	54	
55	Credits for Healthy Forest Enterprises.....	Form 332 ▶	55	
56	Credit for Employing National Guard Members.....	Form 333 ▶	56	
57	Motion Picture Credits.....	Form 334 ▶	57	
58	Credit for Solar Energy Devices — Commercial and Industrial Applications.....	Form 336 ▶	58	
59	Credit for Investment in Qualified Small Businesses.....	Form 338 ▶	59	
60	Credit for Water Conservation Systems.....	Form 339 ▶	60	
61	Credit for Donations to the Military Family Relief Fund: Enter the smaller of the amount entered on line 23 or line 36.....	Form 340 ▶	61	
62	Renewable Energy Production Tax Credit.....	Form 343 ▶	62	
63	Solar Liquid Fuel Credit.....	Form 344 ▶	63	
64	Credit for New Employment.....	Form 345 ▶	64	
65	Additional Credit for Increased Research Activities for Basic Research Payments.....	Form 346 ▶	65	
66	Credit for Qualified Health Insurance Plans.....	Form 347 ▶	66	
67	Credit for Contributions to Certified School Tuition Organization.....	Form 348 ▶	67	
68	Total Tax Credits Claimed: Add lines 39 through 67. Total cannot be more than line 38. Enter this amount on Form 140, line 23; or Form 140PY, line 26; or Form 140NR, line 25; or Form 140X, line 30.....		68	1,080.

40201

1032

Utah Individual Income Tax Return

All State Income Tax Dollars Fund Education

2012

TC-40

Intuit

• Amended Return - enter code

Your Social Security No.

012345678

BENNY

BANKS

Spouse's SSN

123456789

PENNY

BANKS

320 STATE CAPITOL

SALT LAKE CITY

UT 84114

If deceased in 2012 or 2013, complete pg. 3, Part 1

UTIA0112L 11/28/12

1 Filing Status – enter code	• 2 Exemptions – enter number	3 Election Campaign Fund – enter code
1 = Single	a 1 Yourself	A = Americans Elect Yourself Spouse
• 2 = Married filing jointly	b 1 Spouse } from federal return	C = Constitution • N • N
3 = Married filing separately	c 0 Dependents	D = Democratic L = Libertarian
4 = Head of Household	d 0 Dependents with a disability (see instr.)	G = Green R = Republican
5 = Qualifying widow(er)	e 2 Total exemptions (add a through d)	J = Justice N = No contribution
4 Federal adjusted gross income from federal return		• 4 77000
5 Additions to income from TC-40A, Part 1 (attach TC-40A, page 1)		• 5 1000
6 Total income – add lines 4 and 5		6 78000
7 State tax refund included on federal form 1040, line 10, if any		• 7
8 Subtractions from income from TC-40A, Part 2 (attach TC-40A, page 1)		• 8 500
9 Utah taxable income (loss) -- subtract the total of lines 7 and 8 from line 6		• 9 77500
10 Utah tax – multiply line 9 by 5% (.05) (not less than zero)		• 10 3875
11 Exemption amount – multiply line 2e by \$2,850	• 11	5700
12 Standard or itemized deductions used on federal return	• 12	17900
13 Add line 11 and line 12	13	23600
14 State income tax deducted on federal Schedule A, line 5, if any (see instr.)	• 14	1000
15 Subtract line 14 from line 13	15	22600
16 Initial credit before phase-out – multiply line 15 by 6% (.06)	• 16	1356
17 Enter amount based on filing status: if line 1 equals 1 or 3, enter \$13,029; if line 1 equals 4, enter \$19,543; if line 1 equals 2 or 5, enter \$26,058	• 17	26058
18 Income subject to phase-out – subtract line 17 from line 9 (not less than zero)	18	51442
19 Phase-out amount – multiply line 18 by 1.3% (.013)	• 19	669
20 Taxpayer tax credit – subtract line 19 from line 16 (not less than zero)	• 20	687
21 If you are a qualified exempt taxpayer, enter 'X' (complete worksheet)	• 21	
22 Utah income tax – subtract line 20 from line 10 (not less than zero)	• 22	3138

Filing electronically is quick, easy and free, and will speed up your refund. To learn more, go to taxexpress.utah.gov

Utah Individual Income Tax Return (continued)

40202 SSN 012345678 BANKS

TC-40 Intuit Page 2
2012

23	Enter tax from TC-40, page 1, line 22	23	3188
24	Apportionable nonrefundable credits from TC-40A, Part 3 (attach TC-40A, page 1)	• 24	0
25	Full-year resident, subtract line 24 from line 23 (not less than zero) Non or part-year resident, enter tax from TC-40B line 37	• 25	3188
26	Nonapportionable nonrefundable credits from TC-40A, Part 4 (attach TC-40A, page 1)	• 26	
27	Subtract line 26 from line 25 (not less than zero)	27	3188
28	Voluntary contributions from TC-40, page 3 (attach TC-40, page 3)	• 28	
29	AMENDED RETURN ONLY – previous refund	• 29	
30	Recapture of low-income housing credit	• 30	
31	Utah use tax	• 31	
32	Total tax, use tax and additions to tax (add lines 27 through 31)	32	3188
33	Utah income tax withheld shown on TC-40W, Part 1 (attach TC-40W, page 1)	• 33	1000
34	Credit for Utah income taxes prepaid from TC-546 and 2011 refund applied to 2012	• 34	
35	Pass-through entity withholding tax shown on TC-40W, Part 3 (attach TC-40W, page 2)	• 35	
36	Mineral production withholding tax shown on TC-40W, Part 2 (attach TC-40W, page 2)	• 36	
37	AMENDED RETURN ONLY – previous payments	• 37	
38	Refundable credits from TC-40A, Part 5 (attach TC-40A, page 2)	• 38	
39	Total withholding and refundable credits -- add lines 33 through 38	39	1000
40	TAX DUE – subtract line 39 from line 32 (not less than zero)	• 40	2188
41	Penalty and interest		41
42	TOTAL DUE – PAY THIS AMOUNT -- add line 40 and line 41	• 42	2188
43	REFUND – subtract line 32 from line 39 (not less than zero)	• 43	
44	Enter the amount of refund from line 43 you want applied to your 2013 taxes	• 44	
45	DIRECT DEPOSIT YOUR REFUND – provide account information (see instructions for foreign accounts)		
	• Routing number	• Account number	Account type: • checking • savings

UTIA0112L 11/28/12

Under penalties of perjury, I declare to the best of my knowledge and belief, this return and accompanying schedules reflect my true tax status.

SIGN	Your signature	Date	Spouse's signature	Date
HERE				
Third Party Designee	Name of designee (if any) you authorize to discuss this return		Designee's telephone number	Designee PIN
Paid Preparer's Section	Preparer's signature	Date	Preparer's telephone number	Preparer's PTIN
	SELF - PREPARED		[REDACTED]	P00018034
	Firm's name and address	[REDACTED]		Preparer's EIN
	[REDACTED]	[REDACTED]		[REDACTED]

Attach TC-40 page 3 if you are filing for a deceased taxpayer, filing a fiscal year return, filed IRS form 8886, are making voluntary contributions, requesting a direct deposit to be sent to your Utah Educational Savings Plan, requesting a direct deposit to be sent to a foreign account, or are no longer entitled to a homeowner's exemption.

Part 1 -- Additions to Income (enter the code and amount of each addition to income)

Code		Code			
			SEE STMT 1	• 57	1000
51	Lump sum distribution	56	Child's income excluded from parent's return	•	
53	Medical Savings Account (MSA) addback*	57	Municipal bond interest	•	
54	Utah Educational Savings Plan (UESP) addback*	60	Untaxed income of a resident trust	•	
55	Reimbursed adoption expenses*	61	Untaxed income of a nonresident trust	•	
		69	Equitable adjustments	•	

*to the extent previously deducted or credited on Utah return

Total additions to income (add all additions to income and enter total here and on TC-40, line 5)

1000

Part 2 -- Subtractions from Income (enter the code and amount of each subtraction from income)

Code		Code			
				• 71	500
71	Interest from U.S. Government Obligations	78	Railroad retirement income	•	
77	Native American income:	79	Equitable adjustments	•	
	Enrollment Number Tribe	82	Nonresident active duty military pay	•	
	Code	85	State tax refund distributed to beneficiary	•	
	Your •	88	Nonresident military spouse income	•	
	Spouse's •			•	

Total subtractions from income (add all subtractions from income and enter total here and on TC-40, line 8)

500

Part 3 -- Apportionable Nonrefundable Credits (enter the code and amount of each credit)

Code		Code		
04	Capital gain transactions credit	22	Medical Care Savings Account (MSA) credit	•
18	Retirement tax credit (attach TC-40C)	23	Health benefit plan credit	•
20	Utah Educational Savings Plan (UESP) credit	24	Qualifying solar project credit	•
		26	Gold and silver coin sale credit	•

Total apportionable nonrefundable credits (add all Part 3 credits and enter total here and on TC-40, line 24)

Part 4 -- Nonapportionable Nonrefundable Credits (enter the code and amount of each credit)

Code		Code		
01	At-home parent credit	12	Research activities credit	•
02	Qualified sheltered workshop credit -- name:	13	Carryover of mach./equip. research credit	•
		17	Tax paid to another state (attach TC-40S)	•
05	Clean fuel vehicle credit	19	Live organ donation expenses credit	•
06	Historic preservation credit	21	Renewable residential energy systems credit	•
07	Enterprise zone credit	25	Combat related death credit	•
08	Low-income housing credit	27	Veteran employment tax credit	•
10	Recycling market development zone credit			•

Total nonapportionable nonrefundable credits (add all Part 4 credits and enter total here and on TC-40, line 26)

Individual Income Tax Return 2012

< Staple All Pages of Your Return and W-2s Here

North Carolina Department of Revenue

For calendar year 2012, or fiscal year beginning 12 and ending		NC Public Campaign Fund Select "Yes" if you want to designate \$3 of taxes to this special Fund for voter education materials and for candidates who accept spending limits. Selecting "Yes" does not change your tax or refund.	
BENNY BANKS & PENNY BANKS 16 W JONES STREET RALEIGH NC 27601		Your SSN: 012345678 Spouse's SSN: 123456789	You <input type="checkbox"/> Yes <input type="checkbox"/> No Your Spouse <input type="checkbox"/> Yes <input type="checkbox"/> No
Filing Status	Year spouse died:	Number of Exemptions Claimed: 02	NC Political Parties Financing Fund Select appropriate box if you want to designate \$3 to this fund. Your tax remains the same whether or not you make a designation.
<input type="checkbox"/> 1 Single	<input type="checkbox"/> Select box if you or your spouse were out of the country on April 15 and a U.S. citizen or resident.	<input type="checkbox"/> Return for deceased taxpayer Date of death:	You <input type="checkbox"/> Democratic <input type="checkbox"/> Republican <input type="checkbox"/> Libertarian <input type="checkbox"/> Unspecified
<input checked="" type="checkbox"/> 2 Married Filing Jointly	<input type="checkbox"/> Select box if return is filed and signed by Executor or Administrator.	<input type="checkbox"/> Return for deceased spouse Date of death:	Your Spouse <input type="checkbox"/> Democratic <input type="checkbox"/> Republican <input type="checkbox"/> Libertarian <input type="checkbox"/> Unspecified
<input type="checkbox"/> 3 Married Filing Separately	Select box if you or your spouse were a nonresident of NC for the entire year.		
<input type="checkbox"/> 4 Head of Household	Select box if you or your spouse moved into or out of NC during the year.		
<input type="checkbox"/> 5 Widow(er) with Dependent Child		You <input type="checkbox"/> Spouse <input type="checkbox"/>	

FS	2	EX	02	PP	N	DT	N	OC	N	NRT	N	PYT	N	PCT	PFT	0
BANK	16	W	27601	DS	N	EA	N	NRS	N	PYS	N	PCS	PFS	0		
BENNY				BANKS						012345678						
PENNY				BANKS						123456789		NC	27601			
16	W	JONES	STREET							RALEIGH						
06		77000	23A		1000	27D				0	39		500			
07		3125	23B		0	EU				40		12000				
09		27500	24A		0	28			938	41		0				
11	I	16900	24B		0	30			0	42		0				
13		5000	24C		0	31			0	43		0				
16		0.0000	24D		0	33			0	44A		0	46			0
17		30725	25		0	34		1000	44B		0	47				0
18		1938	27A		938	35		2125	44C		0	48		15000		
19		0	27B		0	36		0	44D		0	49				0
21		0	27C		0	38		0	45A		0	51				0
TN			PN			PP			45B		0	52				0



Sign Return Below	Refund Due	<input checked="" type="checkbox"/> Payment Due 938
<i>I certify that, to the best of my knowledge, this return is accurate and complete.</i>		<i>If prepared by a person other than taxpayer, this certification is based on all information of which the preparer has any knowledge.</i>
Your Signature _____ Date _____		SELF - PREPARED Paid Preparer's Signature _____ Date _____ Paid Preparer's FEIN, SSN, or PTIN _____ Paid Preparer's Telephone Number _____
Spouse's Signature (If filing joint return, both must sign.) _____ Date _____		
Home Telephone Number (Include area code) _____		
If you ARE NOT due a refund, mail return, any payment, and Form D-400V to: NCDOR, P.O. Box 25000, Raleigh, N.C. 27640-0640		
If REFUND mail to: NCDOR, P.O. Box R, Raleigh, N.C. 27634-0001		

D-400 Line-by-Line Information

6	Federal adjusted gross income	6.	77000
7	Additions to federal adjusted gross income	7.	3125
8	Add Lines 6 and 7	8.	80125
9	Deductions from federal adjusted gross income	9.	27500
10	Subtract Line 9 from Line 8	10.	52625
11	Deduction Type	11.	I
	N.C. standard deduction	11.	0
	N.C. itemized deduction	11.	16900
12	Subtract Line 11 from Line 10	12.	35725
13	N.C. personal exemption allowance	13.	5000
14	Subtract Line 13 from Line 12	14.	30725
15	Same as Line 14	15.	30725
16	Part-year residents and nonresidents	16.	0.0000
17	N.C. Taxable Income	17.	30725
18	Nonresident income	18.	0
19	Tax Credits	19.	0
20	Subtract Line 19 from Line 18	20.	1938
21	Consumer Use Tax	21.	0
22	Add Lines 20 and 21	22.	1938
North Carolina Income Tax Withheld			
23a	Your Income Tax Withheld	23a.	1000
23b	Spouse's Income Tax Withheld	23b.	0
Other Tax Payments			
24a	2012 Estimated Tax	24a.	0
24b	Paid with Extension	24b.	0
24c	Partnership	24c.	0
24d	S Corporation	24d.	0
25	North Carolina Earned Income Tax Credit	25.	0
26	Add Lines 23a through 25	26.	1000
27a	Tax Due — If Line 22 is more than Line 26, subtract and enter the result	27a.	938
27b	Penalties	27b.	0
27c	Interest	27c.	0
EU	Exception to underpayment of estimated tax	EU	
27d	Interest on the underpayment of estimated income tax	27d.	0
28	Pay this Amount	28.	938
29	Overpayment — If Line 22 is less than Line 26, subtract and enter the result	29.	0
Amount of Refund to Apply to:			
30	Amount of Line 29 to be applied to 2013 Estimated Income Tax	30.	0
31	N.C. Nongame and Endangered Wildlife Fund	31.	0
32	Add Lines 30 and 31	32.	0
33	Amount to be Refunded	33.	0

Additions to Federal Adjusted Gross Income			
34	Interest income from other states	34.	1000
35	Adjustment for bonus depreciation (See instructions)	35.	2125
36	Other federal adjusted gross income additions	36.	0
37	Total additions	37.	3125
Deductions from Federal Adjusted Gross Income			
38	State or local income tax refund	38.	0
39	Interest income from obligations of US or US' possessions	39.	500
40	Social Security and Railroad Retirement Benefits	40.	12000
41	Bailey settlement retirement benefits	41.	0
42	Other retirement benefits	42.	0
43	Severance wages	43.	0
44	Adjustment for bonus depreciation added back in 2008, 2009, 2010 and 2011		
44a	2008	44a.	0
44b	2009	44b.	0
44c	2010	44c.	0
44d	2011	44d.	0
44e	Add Lines 44a, 44b, 44c and 44d and enter on 44e	44e.	0
45	Adjustment for section 179 expense deduction added back in 2010 and 2011		
45a	2010	45a.	0
45b	2011	45b.	0
45c	Add Lines 45a, 45b and enter on 45c	45c.	0
46	Contributions to North Carolina's National College Savings Program (NC 529 Plan) (See instructions)	46.	0
47	Adjustment for absorbed NOL added back in 2003, 2004, 2005, and 2006	47.	0
48	Adjustment for net business income that is not considered passive income	48.	0
49	Other federal adjusted gross income deductions	49.	0
50	Total deductions	50.	27500
Part-Year Residents and Nonresidents			
51	All income while a part-year NC resident and NC source income while a nonresident	51.	0
52	Total income from all sources	52.	0
53	Divide Line 51 by Line 52	53.	0.0000

N.C. Residency Dates for Part-Year Residents

	Beginning	Ending
--	-----------	--------

Taxpayer:
Spouse:

BENNY AND PENNY BANKS

8/19/13

11:01AM

**DEDUCTION FOR NET BUSINESS INCOME
G.S. 105-134.6(B)(22)**

<u>FEDERAL NON-PASSIVE INCOME</u>	<u>SPOUSE</u>	<u>TAXPAYER</u>
SCHEDULE C INCOME.....	\$ 0	\$ 15,000
TOTAL INCOME.....	\$ 0	\$ 15,000
DEDUCTION FOR NET BUSINESS INCOME ALLOWED (\$50,000 MAX).	<u>\$ 0</u>	<u>\$ 15,000</u>

<u>NORTH CAROLINA NON-PASSIVE INCOME</u>	<u>SPOUSE</u>	<u>TAXPAYER</u>
SCHEDULE C INCOME.....	\$ 0	\$ 15,000
TOTAL INCOME.....	\$ 0	\$ 15,000
DEDUCTION FOR NET BUSINESS INCOME ALLOWED (\$50,000 MAX).	<u>\$ 0</u>	<u>\$ 15,000</u>

For Privacy Notice, get form FTB 1131.

California Resident Income Tax Return 2012

FORM

540 C1 Side 1

APE

ATTACH FEDERAL RETURN

012-34-5678	BANK	123-45-6789	12	PBA	999999		P
BENNY	BANKS						AC
PENNY	BANKS						A
							R
							RP
915 CAPITOL MALL 200							
SACRAMENTO	CA	95814					
			01-01-1950			01-01-1949	
01	2	45	0	404	0	APE	0
06	0	46	0	405	0	FS	0
09	00	47	0	406	0	3800	0
10	00	48	964	407	0	3803	0
11	208	61	0	408	0	SCHG1	0
12	40559	62	0	410	0	5870A	0
13	77000	63	0	412	0	5805 5805F	0
14	12362	64	964	413	0	DESIGNEE	0
16	3000	71	1000	414	0	TPID	
17	67638	72	0	419	0	FN	
18	16900	73	0	420	0	CCF	0
19	50738	74	0	421	0	3805P	0
31	1172	75	1000	422	0	NQDC	0
32	208	91	36	423	0	3540	0
33	964	92	0	110	0	3805Z	0
34	0	93	36	111	0	3807	0
35	964	94	0	112	0	3808	0
40	0	95	0	113	0	3809	0
41	0	400	0	115	36	3549A	0
42	0	401	0	116	0	IRC1341	0
43	0	402	0	117	0		0
44	0	403	0				

Under penalties of perjury, I declare that I have examined this tax return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature _____

Spouse's/RDP's signature (if a joint tax return, both must sign) _____

Sign Here

Daytime phone number (optional) _____

Date _____

Your email address (optional). Enter only one. _____

Paid preparer's signature (declaration of preparer is based on all information of which preparer has any knowledge)

• PTIN

It is unlawful to forge a spouse's/ RDP's signature.

SELF-PREPARED

Firm's name (or yours, if self-employed) _____

Firm's address _____

• FEIN

Joint tax return? (See instructions.)

Do you want to allow another person to discuss this tax return with us (see instructions)?

• Yes No

Print Third Party Designee's Name _____

Telephone Number _____

Your Name: BENNY BANKS

Your SSN or ITIN: 012-34-5678

Filing Status

1 Single

2 Married/RDP filing jointly (see instructions).

3 Married/RDP filing separately. Enter spouse's/RDP's SSN or ITIN above and full name here . . . _____

4 Head of household (with qualifying person) (see instructions)

5 Qualifying widow(er) with dependent child. Enter year spouse/RDP died . . . _____

If your California filing status is different from your federal filing status, check the box here

6 If someone can claim you (or your spouse/RDP) as a dependent, check the box here (see instructions) **6**

Exemptions

7 **Personal:** If you checked the box 1, 3, or 4 above, enter 1 in the box. If you checked box 2 or 5, enter 2 in the box. If you checked the box on line 6, see the instructions 7 2 x \$104 = \$ 208. **Whole dollars only**

8 **Blind:** If you (or your spouse/RDP) are visually impaired, enter 1; if both are visually impaired, enter 2 . . . 8 x \$104 = \$ _____

9 **Senior:** If you (or your spouse/RDP) are 65 or older, enter 1; if both are 65 or older, enter 2 9 x \$104 = \$ _____

10 **Dependents: Do not include yourself or your spouse/RDP.**

First name	Last name	Dependent's relationship to you

Total dependent exemptions 10 x \$321 = \$ _____

11 **Exemption amount:** Add line 7 through line 10. Transfer this amount to line 32. 11 \$ 208.

Taxable Income

12 State wages from your Form(s) W-2, box 16. 12 40,559.

13 Enter ~~federal adjusted gross income~~ from Form 1040, line 37; Form 1040A, line 21; Form 1040EZ, line 4 13 77,000

14 California adjustments — ~~Subtraction~~ Enter the amount from Schedule CA (540), line 37, column B 14 2,362

15 Subtract line 14 from line 13. If less than zero, enter the result in parentheses (see instructions) 15 64,638.

16 California adjustments — ~~additions~~ Enter the amount from Schedule CA (540), line 37, column C 16 3,000

17 California adjusted gross income. Combine line 15 and line 16 17 67,638.

18 Enter the larger of your CA standard deduction OR your CA itemized deductions 18 16,900.

19 Subtract line 18 from line 17. This is your taxable income. If less than zero, enter -0- 19 50,738.

20 **Tax**

31 Tax. Check box if from: Tax Table Tax Rate Schedule FTB 3800 FTB 3803. 31 1,172.

32 Exemption credits. Enter the amount from line 11. If your federal AGI is more than \$169,730 (see instrs) 32 208.

33 Subtract line 32 from line 31. If less than zero, enter -0- 33 964.

34 Tax (see instructions). Check box if from: Schedule G-1 Form FTB 5870A 34

35 Add line 33 and line 34. 35

Special Credits

40 Nonrefundable Child and Dependent Care Expenses Credit, (see instructions). Attach form FTB 3506 40

41 New jobs credit, amount generated (see instructions) 41

42 New jobs credit, amount claimed (see instructions) 42

43 Credit Code _____ amount _____ ▶ 43

44 Credit Code _____ amount _____ ▶ 44

45 To claim more than two credits (see instructions) 45

46 Nonrefundable renter's credit (see instructions) 46

47 Add line 40 and line 42 through line 46. These are your total credits 47

48 Subtract line 47 from line 35. If less than zero, enter -0- 48 964.

Other Taxes

61 Alternative minimum tax. Attach Schedule P (540). 61

62 Mental Health Services Tax (see instructions) 62

63 Other taxes and credit recapture (see instructions) 63

64 Add line 48, line 61, line 62, and line 63. This is your total tax. 64 964.

Payments

71 California income tax withheld (see instructions) 71 1,000.

72 2012 CA estimated tax and other payments (see instructions) 72

73 Real estate and other withholding (see instructions) 73

74 Excess SDI (or VPD) withheld (see instructions) 74 0.

75 Add line 71, line 72, line 73, and line 74. These are your total payments (see instructions) 75 1,000.

Your Name: BENNY BANKS

Your SSN or ITIN: 012-34-5678

Overpaid Tax/ Tax Due	91 Overpaid tax. If line 75 is more than line 64, subtract line 64 from line 75.....	91	36.
	92 Amount of line 91 you want applied to your 2013 estimated tax.....	92	
	93 Overpaid tax available this year. Subtract line 92 from line 91.....	93	36.
	94 Tax due. If line 75 is less than line 64, subtract line 75 from line 64.....	94	

Use Tax	95 Use Tax. This is not a total line (see instructions).....	95	
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		Code	Amount
Contributions	California Seniors Special Fund (see instructions).....	400	
	Alzheimer's Disease/Related Disorders Fund.....	401	
	California Fund for Senior Citizens.....	402	
	Rare and Endangered Species Preservation Program.....	403	
	State Children's Trust Fund for the Prevention of Child Abuse.....	404	
	California Breast Cancer Research Fund.....	405	
	California Firefighters' Memorial Fund.....	406	
	Emergency Food For Families Fund.....	407	
	California Peace Officer Memorial Foundation Fund.....	408	
	California Sea Otter Fund.....	410	
	Municipal Shelter Spay-Neuter Fund.....	412	
	California Cancer Research Fund.....	413	
	ALS/Lou Gehrig's Disease Research Fund.....	414	
	Child Victims of Human Trafficking Fund.....	419	
	California YMCA Youth and Government Fund.....	420	
	California Youth Leadership Fund.....	421	
	School Supplies for Homeless Children Fund.....	422	
State Parks Protection Fund/Parks Pass Purchase.....	423		
110 Add code 400 through code 423. This is your total contribution.....	110		

Amount You Owe	111 AMOUNT YOU OWE. Add line 94, line 95, and line 110 (see instructions). Mail to: FRANCHISE TAX BOARD, PO BOX 942867, SACRAMENTO CA 94267-0009. Pay online - Go to ftb.ca.gov for more information.....	111	
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Interest and Penalties	112 Interest, late return penalties, and late payment penalties.....	112	
	113 Underpayment of estimated tax. Check box: <input type="checkbox"/> FTB 5805 attached <input type="checkbox"/> FTB 5805F attached.....	113	
	114 Total amount due (see instructions). Enclose, but do not staple, any payment.....	114	

Refund and Direct Deposit	115 REFUND OR NO AMOUNT DUE. Subtract line 95 and line 110 from line 93 (see instructions). Mail to: FRANCHISE TAX BOARD, PO BOX 942840, SACRAMENTO CA 94240-0009.	115	36.
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Fill in the information to authorize direct deposit of your refund into one or two accounts. **Do not** attach a voided check or a deposit slip (see instructions). **Have you verified the routing and account numbers?** Use whole dollars only.

All or the following amount of my refund (line 115) is authorized for direct deposit into the account shown below:

Checking Savings

● Routing number ● Type ● Account number ● **116** Direct deposit amount

The remaining amount of my refund (line 115) is authorized for direct deposit into the account shown below:

Checking Savings

● Routing number ● Type ● Account number ● **117** Direct deposit amount

2012 California Adjustments – Residents

CA (540)

Important: Attach this schedule behind Form 540, Side 3 as a supporting California schedule.

Name(s) as shown on tax return

SSN or ITIN

BENNY AND PENNY BANKS

012-34-5678

Part I Income Adjustment Schedule

Section A – Income

	A Federal Amounts (taxable amounts from your federal tax return)	B Subtractions See instructions	C Additions See instructions
7 Wages, salaries, tips, etc. See instructions before making an entry in column B or C.....	7 40,559.		
8 Taxable interest (b) 1,000.	8a 500.	500.	1,000.
9 Ordinary dividends. See instructions (b)	9a		
10 Taxable refunds, credits, offsets of state and local income taxes	10		
11 Alimony received	11		
12 Business income or (loss) . . . DEPRECIATION (388.5A)	12 15,000.		2,000.
13 Capital gain or (loss). See instructions	13		
14 Other gains or (losses)	14		
15 IRA distributions. See instructions . . (a)	15b		
16 Pensions and annuities. See instructions . . . (a)	16b		
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc	17 10,000.		
18 Farm income or (loss)	18		
19 Unemployment compensation	19		
20 Social security benefits (a) 14,118.	20b 12,000.	12,000.	
21 Other income.			
a California lottery winnings		a	
b Disaster loss carryover from FTB 3805V		b	
c Federal NOL (Form 1040, line 21)		c	
d NOL carryover from FTB 3805V		d	
e NOL from FTB 3805D, 3805Z, 3806, 3807, or 3809		e	
f Other (describe):		f	
22 Total. Combine line 7 through line 21 in column A. Add line 7 through line 21f in column B and column C. Go to Section B.	22 78,059.	12,500.	3,000.

Section B – Adjustments to Income

23 Educator expenses	23		
24 Certain business expenses of reservists, performing artists, and fee-basis government officials	24		
25 Health savings account deduction	25		
26 Moving expenses	26		
27 Deductible part of self-employment tax	27 1,059.	138.	
28 Self-employed SEP, SIMPLE, and qualified plans	28		
29 Self-employed health insurance deduction	29		
30 Penalty on early withdrawal of savings	30		
31a Alimony paid.			
b Recipient's: SSN			
Last name	31a		
32 IRA deduction	32		
33 Student loan interest deduction	33		
34 Tuition and fees	34		
35 Domestic production activities deduction	35		
36 Add line 23 through line 31a and line 32 through line 35 in columns A, B, and C. See instrs.	36 1,059.	138.	
37 Total. Subtract line 36 from line 22 in columns A, B, and C. See instructions.	37 77,000.	12,362.	3,000.

CAIA4012L 02/04/13

Part II Adjustments to Federal Itemized Deductions

38	Federal itemized deductions. Enter the amount from federal Schedule A (Form 1040), line 4, 9, 15, 19, 20, 27, and 28.	38	17,900.
39	Enter total of federal Schedule A (Form 1040), line 5 (State Disability Insurance, and state and local income tax, or General Sales Tax), and line 8 (foreign income taxes only). See instructions.	39	1,000.
40	Subtract line 39 from line 38.	40	16,900.
41	Other adjustments including California lottery losses. See instructions. Specify ...	41	
42	Combine line 40 and line 41.	42	16,900.
43	Is your federal AGI (Form 540, line 13) more than the amount shown below for your filing status?		
	Single or married/RDP filing separately.		\$169,730
	Head of household.		\$254,599
	Married/RDP filing jointly or qualifying widow(er).		\$339,464
No.	Transfer the amount on line 42 to line 43.		
Yes.	Complete the Itemized Deductions Worksheet in the instructions for Schedule CA (540), line 43.	43	16,900.
44	Enter the larger of the amount on line 43 or your standard deduction listed below		
	Single or married/RDP filing separately.		\$3,841
	Married/RDP filing jointly, head of household, or qualifying widow(er).		\$7,682
	Transfer the amount on line 44 to Form 540, line 18.	44	16,900.

Depreciation and Amortization Adjustments

Do not complete this form if your California depreciation amounts are the same as federal amounts.

Name(s) as shown on tax return: BENNY AND PENNY BANKS; SSN or ITIN: 012-34-5678

Part I Identify the Activity as Passive or Nonpassive. (See instructions.)

Business or activity to which form FTB 3885A relates

- 1 This form is being completed for a passive activity.
This form is being completed for a nonpassive activity.

SCHEDULE C

Part II Election to Expense Certain Tangible Property (IRC Section 179).

2 Enter the amount from line 12 of the Tangible Property Expense Worksheet in the instructions 12

Table with 6 columns: (a) Description of property placed in service, (b) Date placed in service, (c) California basis for depreciation, (d) Method, (e) Life or rate, (f) California depreciation deduction. Row 1: COMPUTERS, 1/01/12, 5,000, 200DB, 5.00000, 1,000.

- 4 Add the amounts on line 3, column (f) 4 1,000.
5 California depreciation for assets placed in service prior to 2012 5
6 Total California depreciation from this activity. Add the amounts on line 2, line 4, and line 5. 6 1,000.
7 Total federal depreciation from this activity. Enter depreciation from federal Form 4562, line 22. 7 3,000.
8a If line 6 is more than line 7, enter the difference here and see instructions. 8a
8b If line 6 is less than line 7, enter the difference here and see instructions. 8b 2,000.

Part IV Amortization

Table with 6 columns: (a) Description of cost, (b) Date amortization begins, (c) California basis for amortization, (d) Code section, (e) Period or percentage, (f) California amortization deduction.

- 10 Total California amortization from this activity. Add the amounts on line 9, column (f). 10
11 California amortization of costs that began before 2012. 11
12 Total California amortization from this activity. Add the amounts on line 10 and line 11. 12
13 Total federal amortization from this activity. Enter amortization from federal Form 4562, line 44. 13
14a If line 12 is more than line 13, enter the difference here and see instructions. 14a
14b If line 12 is less than line 13, enter the difference here and see instructions. 14b

Tax Policy and Competitiveness

A presentation to the Legislative Task Force on Income
Tax Reform
August 21, 2013

Stephen Sliwinski, Senior Economist
ssliwinski@goldwaterinstitute.org

GOLDWATER
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What Should be Taxed?

Consumption

or

Saving/Investment

What's the Rate Structure?

Flat rate

or

Graduated rates

Principles of Tax Policy

Simplicity

Fairness

Neutrality

Competitiveness

Who is our competition?

The World

Hong Kong

The Nation

States in our region

Kansas

North Carolina

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What Does the Economic Literature Conclude?

- ❑ General conclusion: “Taxes have quite large and significant effects on business activity.” (Ladd 1998)
- ❑ High marginal income tax rates negatively impact income growth and employment growth.
- ❑ States without income taxes (or with predominantly consumption-based taxes) grow faster than those with income taxes. Revenue volatility is also lower.
- ❑ States with less progressive rates structures grow faster than those with more steeply graduated rates.

Federal Reserve Bank of Minneapolis

Tax progressivity inhibits growth, and the “reform in the structure of taxes has more of an effect than reform in the *level* of taxes alone.”

Source: “Does the Progressivity of Taxes Matter for Economic Growth?” (2000)

Organization of Economic Cooperation and Development

“A revenue-neutral growth-oriented tax reform would be to shift part of the revenue base towards recurrent property and consumption taxes and away from income taxes, especially corporate taxes. There is also evidence of a negative relationship between the progressivity of personal income taxes and growth.”

Source: “Do tax structures affect aggregate economic growth? Empirical evidence from a panel of OECD countries.” (2008)

State Personal Income Tax Burden Rankings

<u>State</u>	<u>Per Capita Burden</u>	<u>Rank</u>
□ California	\$1,346	6 th
□ Colorado	\$893	20 th
□ Utah	\$822	23 rd
□ New Mexico	\$514	39 th
□ Arizona	\$444	41 st

Source: US Census Bureau; Tax Foundation

Income Tax and Percentage of Total Revenue

California	26.4%
Utah	25.3%
Colorado	20%
New Mexico	14.6%
Arizona	12.3%

Note: Total revenue as defined by the Census Bureau, which includes general fund revenue as well as all other state-generated revenue sources.

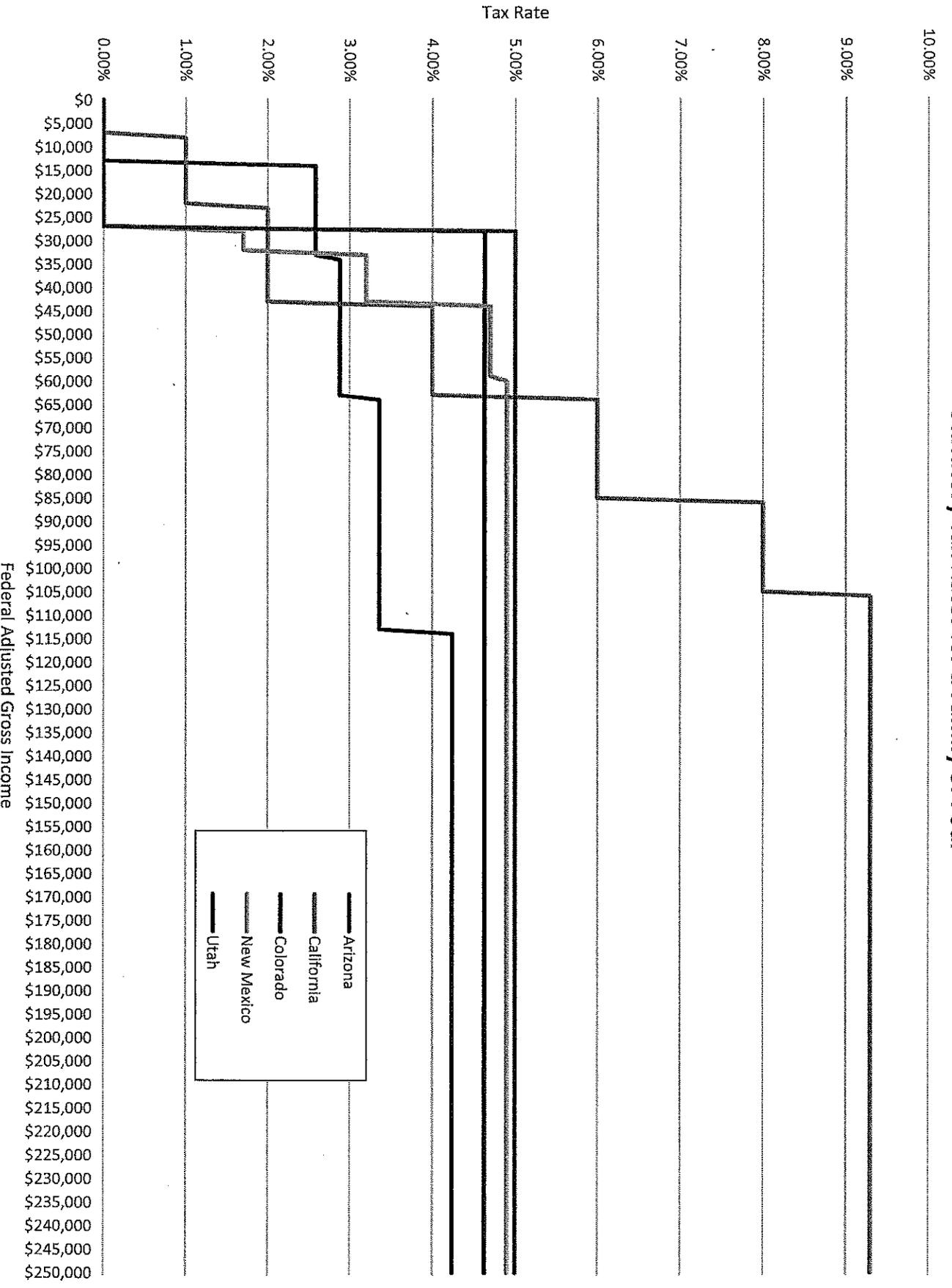
Source: US Census Bureau.

Tax Foundation Business Tax Climate Index

Personal Income Tax Ranking

Utah	14 th
Colorado	16 th
Arizona	17 th
New Mexico	34 th
California	49 th

Statutory Tax Rates for a Family of Four



Rates, Exemption, and Deductions

	Standard Deduction (joint)	Personal Exemption	# of Brackets	Top Income Tax Rate
Arizona	\$9,406	\$2,100	5	4.54%
California	\$7,682	\$102*	10	13.3%
Colorado	\$11,900	\$3,800	1	4.63%
New Mexico	\$11,900	\$3,800	4	4.9%
Utah	\$11,900	\$3,800	1	5%

Note: Number of brackets does not include "zero bracket."

* - Tax credit

Common Attributes

All states in the region:

- Use Federal Adjusted Gross Income as the starting point
- Tax S-corps and “pass through entities” via the personal income tax code

Capital Gains Tax Rate

Arizona	3.4%
California	13.3%
Colorado	4.6%
New Mexico	2.5%
Utah	5.0%

“Instant Expensing” (Section 179)

Arizona	Yes
California	No
Colorado	Yes
New Mexico	Yes
Utah	Yes

Inflation Indexing

	Brackets	Standard Deduction	Personal Exemption
Arizona	No	Yes	No
California	Yes	Yes	Yes
Colorado	n.a.	Yes	Yes
New Mexico	No	Yes	Yes
Utah	n.a.	Yes	Yes

Note: Number of brackets does not include "zero bracket."

* - Tax credit

Conclusions

- ❑ Income taxes, by nature, inhibit economic growth and potential.
- ❑ Flat income taxes are preferable to graduated-rate income taxes. Absence of an income tax is preferable to either.
- ❑ Other states are beginning to move faster on tax reform than Arizona.

ARIZONA STATE LEGISLATURE

INTERIM MEETING NOTICE OPEN TO THE PUBLIC

JOINT TASK FORCE ON INCOME TAX REFORM

Date: Wednesday, September 4, 2013

Time: 1:30 P.M.

Place: SHR 1

AGENDA

1. Call to Order
2. Presentations
 - Joint Legislative Budget Committee - Personal Income Tax Model Systems in the United States
 - David Stringfellow, Chief Economist, Office of the Utah State Auditor - Utah's Personal Income Tax Model and Recent Changes
 - Arizona Department of Revenue - How ADOR Models Personal Income Tax Changes
3. Public Testimony
4. Adjourn

Members:

Senator Steve Yarbrough, Co-Chair
Senator Steve Farley
Senator Kelli Ward
Barry Broome
Kevin McCarthy
Farrell Quinlan
Aimee Rigler

Representative Javan D. Mesnard, Co-Chair
Representative Debbie Lesko
Representative Bruce Wheeler
Jim Rounds
Stephen Slivinski
Peggy Ullmann

8/30/13
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People with disabilities may request reasonable accommodations such as interpreters, alternative formats, or assistance with physical accessibility. If you require accommodations, please contact the Chief Clerk's Office at (602) 926-3032, TDD (602) 926-3241.

ARIZONA STATE LEGISLATURE
Fifty-first Legislature – First Regular Session

JOINT TASK FORCE ON INCOME TAX REFORM

Minutes of Interim Meeting
Wednesday, September 4, 2013
Senate Hearing Room 1 -- 1:30 p.m.

Co-Chairman Yarbrough called the meeting to order at 1:35 p.m. and attendance was noted by the secretary.

Members Present

Senator Steve Yarbrough, Co-Chairman	Representative Javan D. Mesnard, Co-Chairman
Senator Steve Farley	Representative Debbie Lesko
Senator Kelli Ward (by phone)	Representative Bruce Wheeler
Barry Broome	Jim Rounds
Kevin McCarthy	Stephen Slivinski
Farrell Quinlan	Peggy Ullmann
Aimee Rigler	

Members Absent

None

PRESENTATIONS

Personal Income Tax Model Systems in the United States

Jon Stall, Joint Legislative Budget Committee, gave an overview of Personal Income Tax Systems in the United States (Attachment 1). He noted that with a pure flat tax rate system, everyone pays the same rate on taxable income, all deductions, exemptions and tax credits are eliminated and the tax is imposed on earned income only; investment income, such as net capital gains, dividends or interest, is excluded. A flat tax is not in practice in any state or nation but some states do practice a modified flat/single rate tax system whereby everyone pays the same tax rate on taxable income, certain deductions, exemptions and tax credits are retained and the tax base is narrower than under a pure flat tax.

Mr. Stall addressed nominal tax rates (rates applied to taxable income), which, in Arizona, range from 2.59 percent to 4.54 percent, versus effective tax rates (rates applied after deductions/exemptions), a broader measure of how much income is taxed. He continued with a summary of the types of tax rates in other states, eight different single rate tax systems imposed in other states, Colorado's transition to a single rate tax, Utah's single rate individual income tax, North Carolina's phasing in of a single tax rate in 2014 and revenue volatility.

Mr. Stall responded to questions about revenue volatility in relation to the type of tax. He indicated that he can provide graphs that track year-over-year growth in collections for individual, corporate and sales taxes.

Co-Chairman Yarbrough asked if any of the states that adopted the single tax rate eliminated the mortgage interest deduction and/or charitable deductions. Mr. Stall replied that Illinois and Michigan do not allow itemized deductions but he does not know the mix in other states.

Senator Farley noted that in the three states that transitioned to a single rate tax system (Colorado, Utah and North Carolina), it appears that the flat percentage charged on income tax is higher than Arizona's highest tax rate. Mr. Stall agreed.

Representative Lesko, referring to individual income tax (IIT) volatility, surmised that the capital gains portion is the most volatile. Mr. Stall replied that is the main driver of volatility, but he does not have a breakdown on how much each component of income contributes to volatility.

Mr. Broome submitted that without a state-by-state comparison so an overlay can be done over the mix and diversification of the economy, it is not possible to have a conversation on volatility because it is not due to the source of income as much as the peaks and valleys in housing and the export industry.

Utah's Personal Income Tax Model and Recent Changes

David Stringfellow, Chief Economist, Office of the Utah State Auditor, discussed Tax Reform in Utah, focusing on three main interacting components worked on during conversion to a single rate system: economic, political and technical (Attachment 2, Pages 1-5). He said Utah's tax reform spanned five years and was the major focus of two governors, Olene Walker and Jon Huntsman, Jr. The final bill passed unanimously in the Utah House and Senate. He discussed motivations for the reform (Pages 6-9). In response to questions, he related that the original intent was to be revenue neutral, which phased into giving residents a tax cut; the reform passed just before the recession. The sales tax was increased one-tenth of a percent, which was reserved for transportation projects.

He noted that he developed a simulation model that was used to show the cost, who would be impacted, etc., under various guises of reform. He addressed implementation of the reform, which was incremental and demand driven (Pages 10-13), and noted that in the final analysis, the reform was the most analytically intensive exercise of any legislation in Utah's history (Page 14). He continued with a detailed review of the simulation model (Pages 15-28).

In response to a question, Mr. Stringfellow clarified that the sales tax was an element of the model. At the time, discussion involved eliminating the sales tax on food for all taxpayers or creating a low-income food tax credit to offset the sales tax on food. Ultimately, the sales tax on food was eliminated for all taxpayers on the state level; however, local governments banded together and retained the ability to tax food. There is now a statewide uniform three percent tax rate on food at municipal and county levels.

Mr. Stringfellow reviewed a summary of the presentation and results of the reform, advising that the current analysis of the reform confirms the accuracy of the simulation model (Pages 29-30).

In response to questions, Mr. Stringfellow clarified the process in relation to credits. He said building the model cost a few thousand dollars. Much of the cost was borne by public bodies that met, but the only cost to the state was for staff resources already in place; although it was a reallocation of those resources from other duties.

When asked how the model performed or broke down and the percentage of wage earners who do not pay income tax, Mr. Stringfellow answered that the most difficult part of the model was determining assumptions about who will do what in the future relative to the existing tax system. He advised that Utah law states that if someone does not pay federal income tax, that person is not liable for the state income tax. The reform did not change the percentage of those individuals, which is about 20 to 30 percent, although it is difficult to know because if they do not file a return, they are not counted in the database.

Senator Farley commented that there are many differences with the tax systems, demographics, etc., between Arizona and Utah, and if the Joint Legislative Budget Committee (JLBC) could work on a similar model, it would

help to bring consensus among disparate political views. Since Utah was predominately a single tax rate state when the reforms were made, it does not mean that because a flat tax worked in Utah, it will work in Arizona. Mr. Stringfellow answered that it is not a flat tax, but a single tax rate. Exemptions and deductions were eliminated and now targeted tax credits are used to incentivize taxpayers. He opined that the single tax rate system is flexible enough to mimic most progressive rate systems; it is a question of tradeoffs.

Ms. Ullmann clarified that the credits are based on federal itemized deductions and federal personal exemptions, to which a rate (6.3 percent) is applied and the benefit of that is removed as the individual's income increases. Mr. Stringfellow agreed.

When asked about simplicity of the reform, Mr. Stringfellow replied that the process is as complex as before and administratively about the same. He surmised that the reform shows a promise of stable taxes, that the rich will not be soaked to balance budgets, broadens the tax base, lowers the rate and allows for a separation of the value of the exemptions and deductions from the wealthy and poor. He clarified that Utah uses Federal Adjusted Gross Income (FAGI) as a starting point, as well as constitutionally-mandated subtractions and additions to income for items such as municipal bond interest, etc.

How ADOR Models Personal Income Tax Changes

Karen Jacobs, Arizona Department of Revenue (ADOR), conveyed that ADOR's IIT model was originally created in 1986 in response to significant federal tax reform and to determine its impact on state IIT. It is now used for proposed changes in state tax law. Currently, the model is from tax year (TY) 2006 and contains approximately 60,000 IIT returns, a sample of the 2.5 million resident returns. The size of the model sample is determined using a formula and the goal is to select a sample size that is small enough to be workable but also maintain a high level of confidence in the data. ADOR staff review at least half of those returns to make sure the information is accurate and complete. The sample returns from TY 2006 are expanded to represent the universe of resident returns and grown to represent TY the 2013 tax law; ADOR recently updated to TY 2014. This data is grown based off the actual tax liability growth in the years in which ADOR has that data up to 2011. For TYs 2012, 2013, and 2014, ADOR is using estimated filer growth. She reviewed an example showing what is provided when someone asks for the impact of proposed changes (Attachment 3).

Ms. Jacobs related that there should be a two-year lag and TY 2010 would be the most recent data in a perfect world, but ADOR is still in the process of getting the TY 2007 model up and running. It is not possible to go directly to TY 2010 because of complications with the mainframe environment; the data is used for reporting purposes so continuity is important.

Georganna Meyer, Arizona Department of Revenue (ADOR), stated that she built the 1986 model. ADOR can do almost anything that was done in Utah but not on all 2.5 million tax returns because the data system cannot accommodate that size.

Ms. Jacobs continued with the presentation (Attachment 4).

Ms. Meyer explained that in 2006, ADOR went through the Business Reengineering/Integrated Tax System (BRITS) process and changed databases because staff was working on a mainframe. ADOR advised that it can no longer build a model in a mainframe that does not have the data and a brand new model needs to be built. ADOR received approximately \$1 million in funding in 2008, but about a year later the economy crashed. The new model was partially built and then ADOR lost the funding, which is why staff is still working on the TY 2007 model.

PUBLIC TESTIMONY

Clair Van Steenwyk, Arizona Fair Tax Committee, testified that a progressive, regressive flat tax has never and never will attract businesses into an economy or encourage job growth or economic growth. It hurts the poor who have little chance of becoming middle class and subsequently become more and more dependent on government. He suggested a meeting with members of the Arizona Fair Tax Committee to discuss consideration of eliminating the IIT in Arizona and replacing it with a fair tax system.

Co-Chairman Mesnard remarked that the Committee is looking for ways to improve the system and nothing has been proposed; the Members are currently assimilating information. The difficulty is the political dynamic, but perhaps some time can be allocated to discuss a fair tax.

Karen McLaughlin, Director of Budget & Research, Children's Action Alliance (CAA), stated she appreciates that several of the Members' expressed the intent not to increase taxes on individuals with low incomes but she is concerned about the consequences of potential proposals to flatten or shift the IIT. Flattening the rate in Arizona would reduce revenues and take resources away from critical services that are crucial to building the foundation for Arizona's economic growth. She added she is looking forward to working with the Committee to prevent harm to low-income and middle-income taxpayers.

Walter Dudley, representing self, said he approves of the idea of simplifying the tax code but he has a few issues with a bill introduced by Senator Farley last year. It has to do with items in the itemized deduction area of the return and Schedule A, when FAGI is used, that could negatively impact, for example, legislators who are more than 50 miles from home, a winning gambler, someone who has carrying charges on investment property or a taxpayer who receives an award from a lawsuit for lost wages.

Mr. Stringfellow, in response to a question, stated that in Utah, the itemized deductions on the front page were used for calculation of the credit, which was subsequently phased out as income increased.

Ms. Ullmann said she understands if someone's income is high enough, the taxpayer would run into the problems Mr. Dudley expressed because the benefit from the itemized deductions ceases as income rises.

Co-Chairman Mesnard announced that future meetings will be held on Thursday. He requested that anyone who has requests for models from ADOR funnel them through his office.

Co-Chairman Yarbrough clarified that the next meeting will be held on Thursday, September 19, 2013, at 1:30 p.m.

Without objection, the meeting adjourned at 4:06 p.m.

Linda Taylor, Committee Secretary
September 10, 2013

(Original minutes, attachments and audio on file in the Chief Clerk's Office; video archives available at <http://www.azleg.gov>)

JOINT TASK FORCE ON INCOME TAX REFORM
September 4, 2013

Personal Income Tax Systems in the United States

**Presentation to the
Joint Task Force on Income Tax Reform**

September 4, 2013



Pure Flat Tax vs. Single Rate Tax

Pure Flat Tax:

- Everyone pays the same tax rate on taxable income
- Eliminates all deductions, exemptions, and tax credits
- Imposed on earned income only. Investment income is excluded

Modified Flat/Single Rate Tax:

- Everyone pays the same tax rate on taxable income
- Retains certain deductions, exemptions, and tax credits
- Tax base is more narrow than under pure flat tax

Nominal vs. Effective Tax Rates

- Nominal Tax Rate – rate applied to taxable income
- Effective Tax Rate – after deductions/exemptions
 - Broader measure of how much income is taxed
- Excluding certain income from being taxed can create progressive (or regressive) effective tax rates, even if using a single nominal rate
 - Some deductions and exemptions reduce taxable income of filers with low income by a greater percent than for filers with higher income
- Rates in this presentation are nominal

Summary of State Rate Schedules

- Single Rate — 8 States
 - 2 of 12 western states (CO and UT)
 - No U.S. state, or foreign nation, currently administers a pure flat tax
- Progressive Rates — 35 states
 - 6 of 12 western states (AZ, CA, ID, MT, NM, OR)
- No Individual Income Tax — 7 states
 - 4 of 12 western states (NV, TX, WA, WY)

States Imposing a Single Rate Tax on Individual Income

State	Single Rate Established	Prior Rate System	Constitutional Requirement	Initial Rate	Current Rate	Federal Starting Point ^{1/}	Deductions	Personal Exemptions (TY 2013):			Local Income Tax Added
								Single	Married	Per Dependent	
Colorado	1987	Progressive	Yes ^{2/}	5.00%	4.63%	TI	Same as federal standard or itemized deductions	\$3,900	\$7,800	\$3,900 ^{8/}	No
Illinois	1969	None	Yes ^{3/}	2.50%	5.00%	AGI	None	\$2,000	\$4,000	\$2,000	No
Indiana	1963	Single Rate ^{4/}	No	2.00%	3.40% ^{4/}	AGI	No standard deduction. Specific state deductions exist	\$1,000	\$2,000	\$2,500	Yes. Avg. Rate = 1.16%
Massachusetts	1916	None	Yes	1.50%	5.25% ^{5/}	AGI	No standard deduction. Specific federal itemized deductions apply.	\$4,400	\$8,800	\$1,000	No
Michigan	1967	None	Yes	2.60%	4.25%	AGI	None	\$3,763	\$7,526	\$3,763	Yes. Avg. Rate = 0.44%
Pennsylvania	1971	None	Yes	2.30%	3.07%	N/A ^{6/}	No standard deduction. Specific state deductions exist.	None	None	None	Yes. Avg. Rate = 1.25%
North Carolina	2014	Progressive	No	5.80%	^{7/}	AGI	\$15,000 Married \$7,500 Single	None	None	Child Credit ^{9/}	No
Utah	2008	Progressive	No	5.00%	5.00%	AGI	Same as federal standard or itemized deductions	Credit equal to 6% of federal exemption amounts			No

Source: Federation of Tax Administrators, Wisconsin Department of Revenue's Survey of Flat Income Tax States, and Tax Foundation

Footnote:

1/ AGI = Federal Adjusted Gross Income; TI = Federal Taxable Income

2/ Single rate was first enacted by the Colorado Legislature in 1987. However, a single rate did not become required by the state constitution until the passage of TABOR in 1992.

3/ Single rate required by state constitution in 1970.

4/ Indiana's current state income tax was established in 1963. However, even under the prior state income tax established in 1932, the state always levied a single rate.

5/ Massachusetts levies a single tax rate of 5.25% on ordinary income, 12.0% on short-term capital gains, and 5.30% on long-term capital gains.

6/ Pennsylvania does not use a federal starting point for its state income tax.

7/ North Carolina's single tax rate is reduced to 5.75%, beginning in 2015.

8/ Colorado's personal exemption amounts are the same as the federal amounts.

9/ North Carolina provides a child tax credit rather than a dependent exemption.

Summary of Single Rate Tax States

- In the last 30 years, only 3 states have transitioned to a single rate tax system (CO, UT, and NC)
- Single tax rate required by the state constitution in 5 states (except IN, UT, and NC)
- All but 1 state (PA) use a federal starting point for the state income tax
- 6 states allow some form of standard or itemized deductions
- Only 1 state (PA) allows no personal exemptions
- 3 states (IN, MI and PA) impose local income tax

Colorado's Transition to a Single Rate Tax

- Full phase-in of 5% single rate in 1987
 - Replaced progressive rates
 - Used Federal Taxable Income as the starting point, maintaining federal deductions
 - Increased the standard deduction and exemptions
- Aim of the transition was simplification for taxpayers at time of 1986 federal tax reforms (*CO Legislative Council*)
- New rate reduced collections by \$(630) million from 1987 to 1990 (*CO Legislative Council*)
- 1992 Constitutional requirement of a single rate

Utah's Single Rate Individual Income Tax

- ❑ The single rate implemented in 2008 built on major tax changes in 2006 and 2007
 - Expanded tax brackets and slightly reduced top marginal rate (7% → 6.98%) in 2006.
 - Created a one-year dual track system (either graduated tax or single tax rate of 5.3%) in 2007
- ❑ Full phase-in of 5% single rate in 2008
 - Deductions and exemptions under old system largely replaced by a new standard credit
 - Standard credit is phased out as income increases
 - Refundable and nonrefundable credits under old system retained

North Carolina Will Phase in a Single Rate in 2014

- Recent legislation replaces progressive (6% to 7.75%) rates with a single rate of 5.8% in 2014 and 5.75% thereafter
- Aim: “Tax Simplification and Reduction Act”
- Personal exemptions are eliminated but standard deduction is increased
- Itemized deductions for mortgage interest and property tax capped at \$20,000
- Eliminates business income deduction and most tax credits

Analysis of North Carolina's Single Rate Tax

- The state's Fiscal Research Division estimates the new rate will reduce collections by about \$(690) million in '15
 - Sales taxes increased to partially offset the loss
- Income taxes will be reduced for most filers
- The state's income tax system remains progressive through standard deductions and caps on deductions

Note on Revenue Volatility

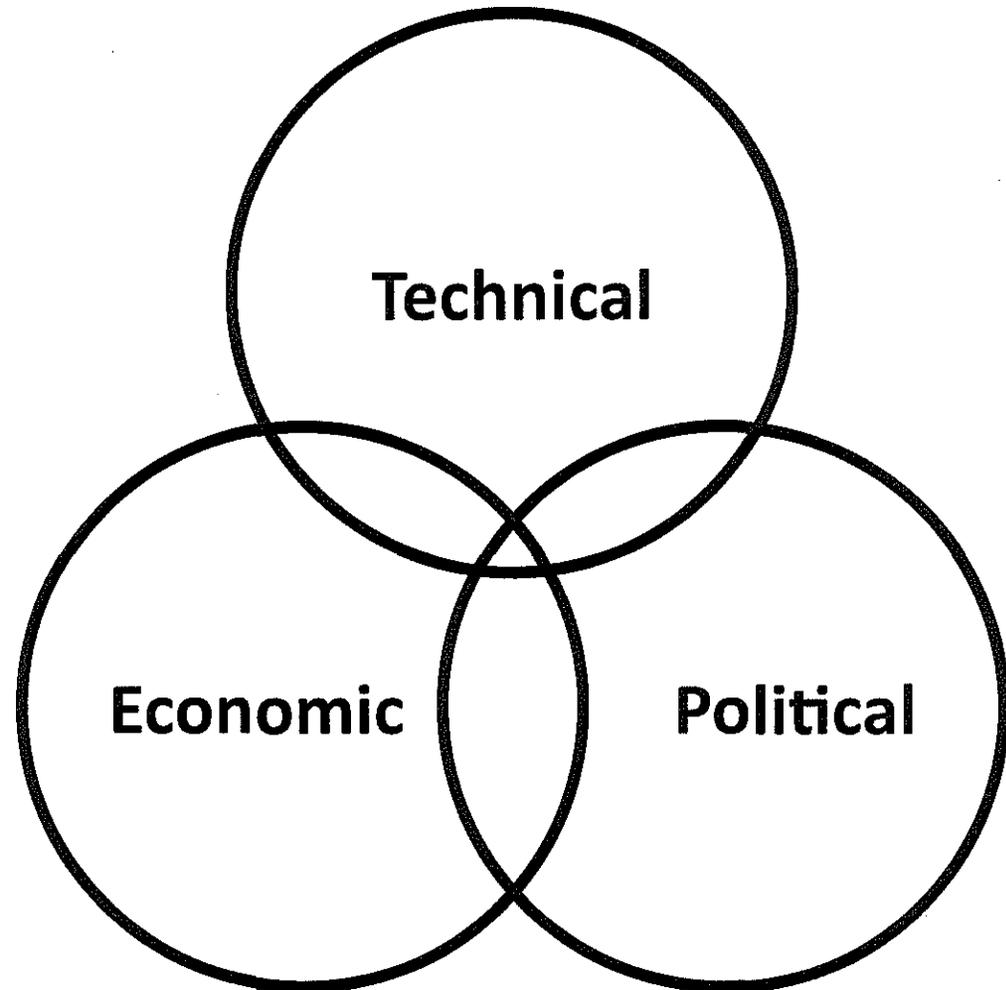
- ❑ Arizona's individual income tax revenue may not be uniquely volatile
- ❑ Most states' individual income taxes are also less stable than sales taxes, but more stable than corporate income tax
- ❑ One study finds a 1% change in AZ personal income led to a 1.55% change in collections (1967 to 2000). All states averaged 1.76%.
(Bruce, Fox, Tuttle 2007)

Tax Reform in Utah

**Arizona
Joint Task Force
on Income Tax Reform**

September 4, 2013

David Stringfellow
Chief Economist
State of Utah



Outline of this Presentation

History of Utah's Reform

- Timeline
- Motivation
- Implementation

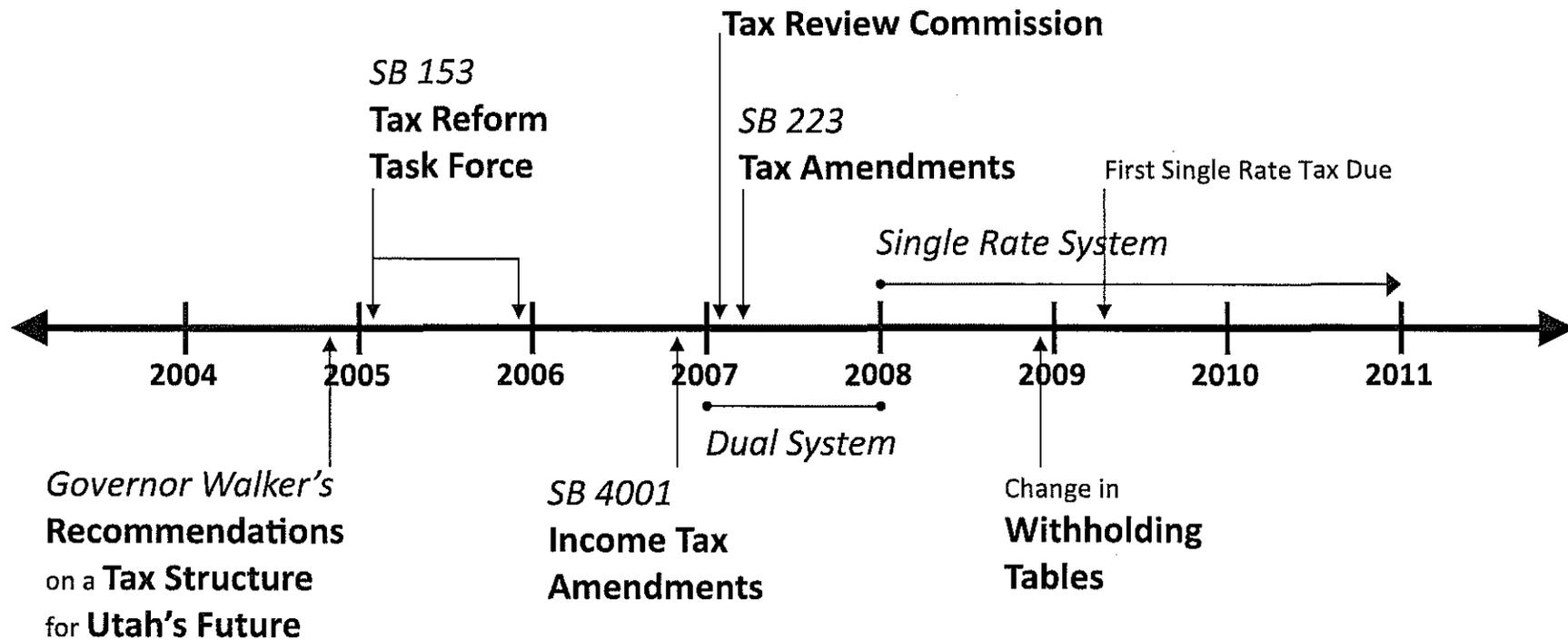
Analysis of Utah's Reform

- Theory
- Tax Model
- Information
- Retrospective



Timeline of Utah's Tax Reform

Income tax reform spanned nearly 5 years.



Debate in Utah's Tax Reform

Four public bodies extensively debated reform.

- **Tax Reform Task Force** - 4 Senate, 9 House, 2 Executive staff
- **Tax Review Commission** - 2 Senate, 2 House, ~10 tax experts
- **Interim Revenue and Taxation** - 5 Senate, 12 House
- **Legislature** - 29 Senate, 75 House

Tax Reform was a major focus of two Governor's.

- **Olene Walker**
- **Jon Huntsman Jr**



Accomplishing Utah's Tax Reform

The Income Tax Reform passed unanimously.

UTAH STATE SENATE
56th LEGISLATURE
2007 GENERAL SESSION

SEQUENCE #871

STATE OF UTAH
HOUSE OF REPRESENTATIVES
2007 General Session of the 57th Legislature
VOICE TABULATION

2SSB223
BY Niederhauser, N.

2SSB 223
CONCUR IN HOUSE AMENDMENT
Concurrence

RCS# 820
2/28/2007 4:55:08 PM

Tax Amendments

Tax Amendments

FEBRUARY 28, 2007
10:24:40 AM

Tax Amendments

Curtis
SPEAKER OF THE HOUSE

Niederhauser, N.

Amended

26 YEAS 0 NAYS 3 ABSENT

PASSED

YEAS - 75

YEAS 26

Bell	Fife	Killpack	Stephenson
Buttars	Goodfellow	Knudson	Stowell
Christensen	Greiner	Madsen	Van Tassell
Davis	Hickman	McCoy	Waddoups
Dayton	Hillyard	Niederhauser	Valentine
Dmitrich	Jenkins	Peterson	
Eastman	Jones	Romero	

NAYS 0

ABSENT 3

Bramble	Mayne	Walker
---------	-------	--------

Agard	Duckworth	Hunsaker	Oda
Allen	Dunnigan	Hutchings	Painter
Andersen	Ferry	Johnson	Ray
Barxus	Fisher, Janice	King	Riesen
Becker	Fisher, Julie	Kiser	Sandstrom
Bigelow	Fowlke	Last	Seelig
Bird	Frank	Litvack	Shurtliff
Biskupski	Froerer	Lockhart	Snow
Bowman	Garn	Mascaro	Sunsion
Brown	Gibson	Mathis	Tilton
Buxton	Gowans	McGee	Urquhart
Clark, D.	Grover	McIff	Walker
Clark, S.	Hansen	Menlove	Wheatley
Cosgrove	Harper	Morgan	Wheeler
Daw	Hemingway	Morley	Wiley
Dee	Hendrickson	Moss	Wimmer
Donnelson	Herrod	Neuenschwander	Wyatt
Dougall	Holdaway	Newbold	Curtis
Draxler	Hughes	Noel	

NAYS - 0

ABSENT OR NOT VOTING - 0



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Motivation for Utah's Tax Reform

The motivation was multifaceted.

Economic

- Optimal Taxation
 - Broad Base
 - Low Rate
- Tax Incidence
- Efficiency
 - Distortions
 - Incentives
- Equity
 - Benefits Received
 - Ability to Pay
 - Horizontal Equity
 - Vertical Equity
- Transparency

Political

- Comprehensive
- Revenue
 - Sufficiency
 - Diversity
 - Volatility
 - Tax Cuts / Tax Hikes
 - Winners and Losers
- Competitiveness
 - Business Friendly
 - Recruiting / Entrepreneurship
- Administration
 - Simplicity

Technical

- Modeling
 - Data
 - Calculations
 - Simulations
- Dynamic Effects
 - Increased Activity
 - Budget Impacts
- Revenue Forecasts
- Distributional Analysis
- Volatility
- Behavior
 - Compliance
 - Cliffs, Marginal Impacts



Economics of Tax Reform

Economists view the exercise of reform differently.

Theory

Standard Theory is that a tax system should be chosen to maximize a social welfare function subject to a set of constraints. Optimality is value laden.

Ramsey - Taxes inversely proportional to consumer's elasticity of demand.

Buchanan - Lump sum taxes.

Mirrlees - Taxing is a game of imperfect information surrounding revealed abilities.

Practice

Broad Base, Low Rate.

What are the Effective Marginal Tax Rates?

What identifiable characteristics can differentiate taxpayers?



Politics of Tax Reform

Politicians are concerned about the interests of people and groups of people. Are unwilling to act without trust in the answers to questions.

Funding - How will tax changes impact current and future budgets?

Constituents - Who wins and who loses?

Taxpayers - Will this make it easier for them to pay?

Business - Are people going to want to move here because of this?



Technicalities of Tax Reform

Data and technical expertise is often fractured, inconsistent, dilute, and incapable of answering relevant questions.

Data - Hard to obtain, guarded by laws to protect privacy

Models - Difficult to program, require a grasp of big data, statistics, tax law, programming, simulations, forecasting, economics, politics, accounting.

Communication - The model needs to produce charts, graphs, tables of the impacts from potential reform that are externally and internally consistent.



Implementation for Utah's Tax Reform

Implementation was incremental and demand driven.

Getting the **economic**, **political**, and **technical** spheres to interact productively was not trivial.

- Staff from the Legislature, Governor, Tax Commission worked collaboratively.
- Many models and systems for addressing questions were consolidated into a single simulation forecast model.
- Policy makers had broad access to the staff, the simulation model, official information came from a common source.
- The simulation model was used live, during meetings, to answer questions and explore alternatives.



Economic Implementation

Tax Experts had a forum to voice preferences and explore options.

- Tax Experts were a part of every public body.
- The Governor used a group of private tax experts in addition to staff economists to draft proposals.



Political Implementation

There were four different public bodies listening to tax reform proposals.

- Each body focused on different aspects of reform.
- Advocacy groups participated actively in the process.
- The various groups held meetings throughout the state to encourage feedback from taxpayers.
- Broad **Policy Principles** were narrowed to **Frameworks** which became **Legislation**.



Technical Implementation

Models and staff consolidated effort into a single model.

- A Standard Simulation Model was used to evaluate proposals comprehensively.
- Staff worked collaboratively, I was a dual employee of both the Governor's Office and Tax Commission.
- The law was modified to allow legislative staff to access de-identified tax data.



Analysis of Utah's Reform

Tax reform was the most analytically intensive exercise of any legislation in Utah's history.

- Standardize all of the data and calculations.
- Common tool to build trust in the analysis.
- Simulation model provided distributional effects of tax reform.
- Simulation model calculated the budgetary impact of reform.
- Simulation model forecast future revenue collections.
- Online Tax Calculators comparing reforms.



Tax Simulation Model

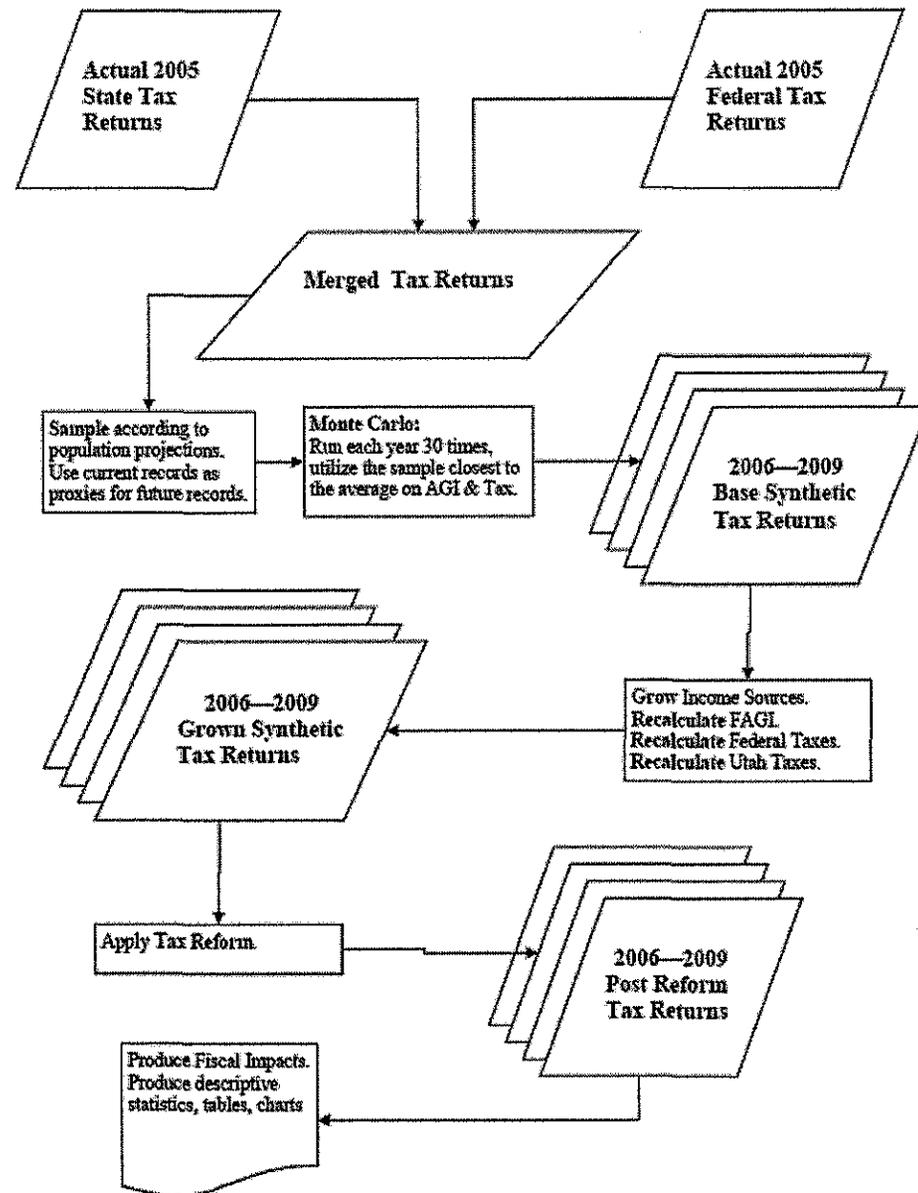
The model came from Utah and Federal Tax Information.

- Took ~1 million records from prior year's Utah tax filings.
- Merged with ~1 million records from Federal filings (IMF, IRTF).
- Produced synthetic datasets of future taxpayers controlled to population by age forecasts.
- Federal information contained detailed sources of income, these were grown stochastically according to Global Insights forecasts.
- A Monte Carlo sampling (30 full sets of taxpayer's) of each of 4 future years of returns was calculated and normalized to produce a representative sample of future returns.
- Federal and State Taxes were recalculated based on new income and were then compared with various systems of reform.
- Summary statistics, graphs, tables, charts, fiscal notes were generated.



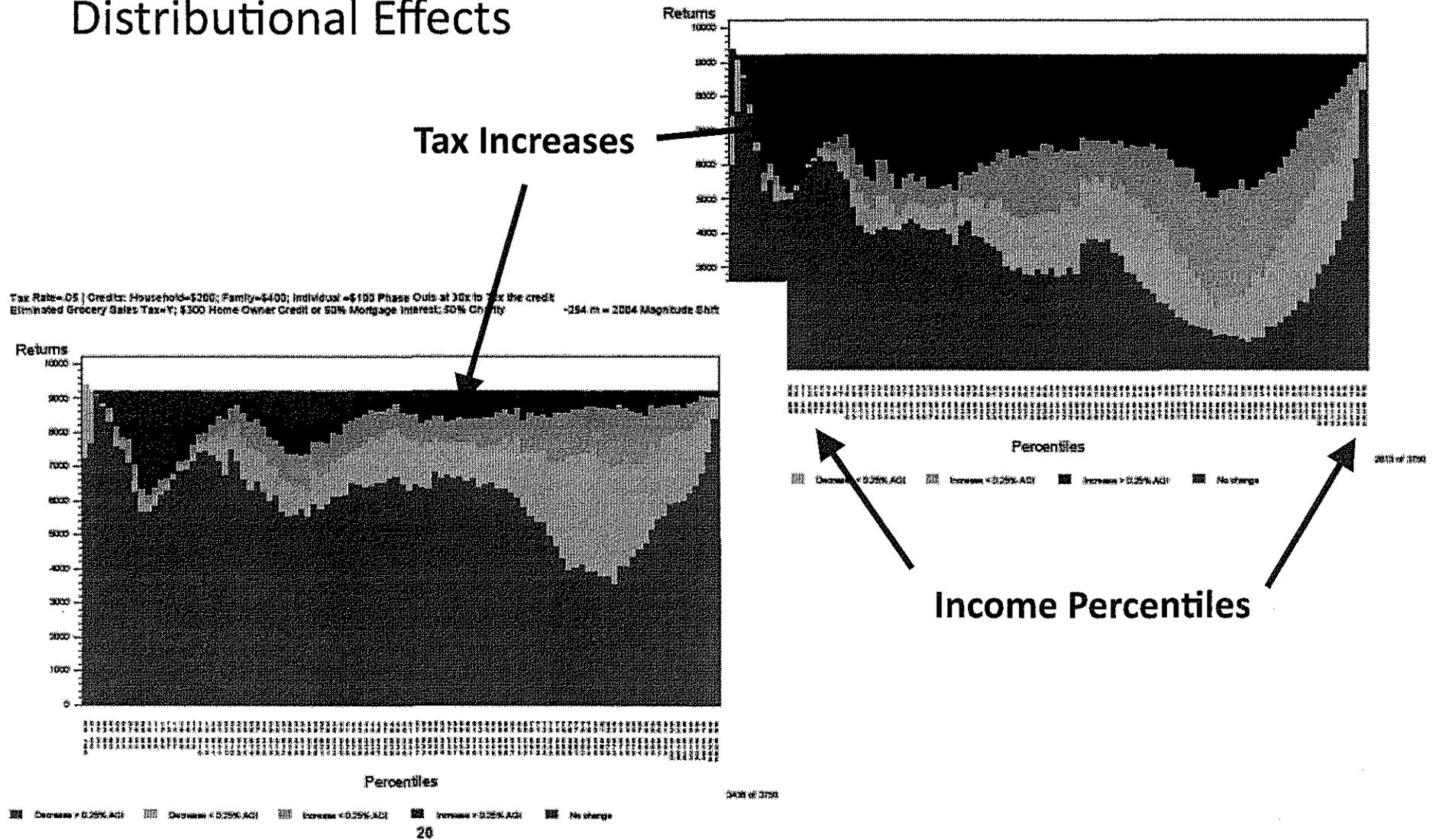
Tax Simulation Model

Diagram of the model.



Tax Simulation Model Information

Distributional Effects



Tax Simulation Model Information

Distributional Effects—Group Analysis

Governor's Office of Planning and Budget

Table 22
2008 Top 10 Groups with Tax Increases and Accompanying Cohorts

	Status	Filing Status	Exemptions	Standard Deduction	Retired	Income Group	Taxpayers	Group Share	Average Effective Rate	Average Current Tax	Average Income	Average Deduction	Median Change
1	Increase	Married Filing Joint	2	No	No	>\$100k	10,640	21%	4.1%	\$14,458	\$353,670	\$91,795	\$182
	Decrease	Married Filing Joint	2	No	No	>\$100k	39,176	79%	4.7%	\$12,469	\$258,622	\$32,918	-\$144
	Everyone	Married Filing Joint	2	No	No	>\$100k	49,816	100%	4.6%	\$12,894	\$278,923	\$45,493	-\$123
2	Increase	Single	0	Yes	No	>\$5k and <=\$15k	9,343	27%	1.4%	\$128	\$9,172	\$5,409	\$5
	Decrease	Single	0	Yes	No	>\$5k and <=\$15k	25,386	73%	1.4%	\$153	\$9,051	\$5,384	-\$14
	Everyone	Single	0	Yes	No	>\$5k and <=\$15k	34,729	100%	1.4%	\$146	\$9,084	\$5,391	-\$8
3	Increase	Married Filing Joint	2	No	No	>\$40k and <=\$70k	6,635	25%	2.6%	\$1,479	\$56,347	\$20,711	\$147
	Decrease	Married Filing Joint	2	No	No	>\$40k and <=\$70k	20,033	75%	3.5%	\$2,006	\$58,072	\$18,969	-\$96
	Everyone	Married Filing Joint	2	No	No	>\$40k and <=\$70k	26,668	100%	3.2%	\$1,875	\$57,643	\$19,402	-\$78
	Increase	Single	1	No	No	>\$70k and <=\$100k	5,770	45%	4.2%	\$3,538	\$84,978	\$23,330	\$25

Likelihood of Tax Increase within a group

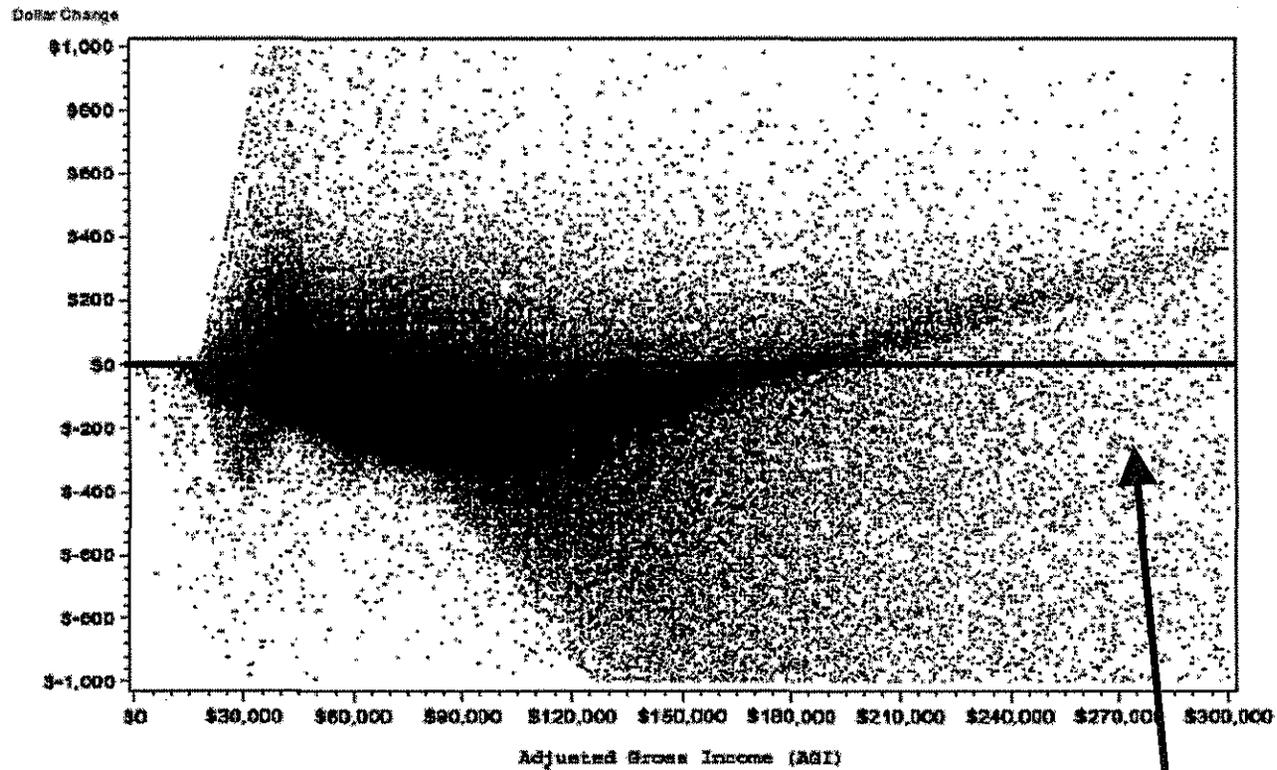


Tax Simulation Model Information

Distributional Effects—Group Analysis

Chart 4

Estimated Dollar Change in Income Tax - Married



8

Specific Tax Change of de-identified Taxpayer



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19

[History](#) · [Timeline](#) · [Motivation](#) · [Implementation](#) · [Analysis](#) · [Theory](#) · [Tax Model](#) · [Information](#) · [Retrospective](#)

Tax Simulation Model Information

Budgetary Effects

Fiscal Year	Fiscal Factor	Fiscal Year Baseline Tax	% Change	Fiscal Year Proposed Tax	Change in Tax
2006	82.0%	\$2,276,460,433			
2007	82.0%	\$2,569,686,400	12.9%	\$2,476,580,443	
2008	82.0%	\$2,717,986,742	8.5%	\$2,685,819,579	(\$25,541,791)
2009	82.0%	\$3,030,887,303	8.7%	\$2,921,865,227	(\$109,022,076)

In tax year 2008, 10.3% of taxpayers are projected to realize income tax increases.

Actual collections were \$2,561,383,572

forecast error was 0.37% with tax growing 12.5%

This was 18 months before fiscal year end.



Tax Simulation Model Information

Volatility Analysis

Slight improvements in volatility

Table 18
Comparing Income Tax Systems Volatility

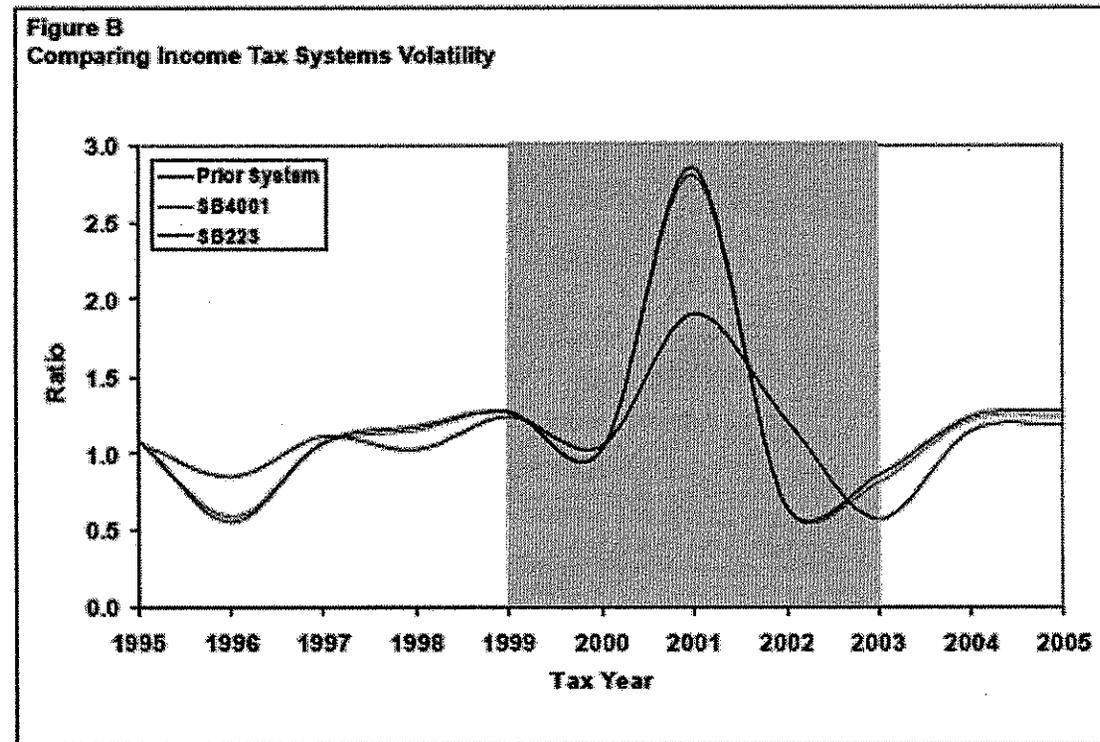
Year	Taxpayers	Utah AGI		Prior System			SB4001			SB223			Elasticity		
		millions	%chg	millions	chg	%chg	millions	chg	%chg	millions	chg	%chg	Prior	SB 4001	SB 223
1994	804,360	\$24,533		\$979			\$953			\$958			1.09	1.09	1.07
1995	843,610	\$27,178	10.8%	\$1,094	\$115	11.7%	\$1,065	\$112	11.7%	\$1,068	\$111	11.6%	0.56	0.59	0.84
1996	880,078	\$30,092	10.7%	\$1,159	\$65	6.0%	\$1,132	\$67	6.3%	\$1,165	\$96	9.0%	1.07	1.06	1.11
1997	914,419	\$33,259	10.5%	\$1,289	\$130	11.2%	\$1,258	\$126	11.1%	\$1,301	\$136	11.7%	1.17	1.16	1.02
1998	939,069	\$35,473	6.7%	\$1,390	\$100	7.8%	\$1,355	\$97	7.7%	\$1,389	\$89	6.8%	1.27	1.27	1.24
1999	963,512	\$38,469	8.4%	\$1,539	\$149	10.7%	\$1,500	\$145	10.7%	\$1,534	\$145	10.4%	1.02	1.02	1.06
2000	987,688	\$41,009	6.6%	\$1,642	\$103	6.7%	\$1,602	\$101	6.8%	\$1,641	\$106	6.9%	2.86	2.81	1.90
2001	997,749	\$40,249	-1.9%	\$1,555	-\$87	-5.3%	\$1,519	-\$83	-5.2%	\$1,583	-\$59	-3.5%	0.85	0.84	1.21
2002	1,002,124	\$39,578	-1.7%	\$1,538	-\$17	-1.1%	\$1,502	-\$16	-1.1%	\$1,551	-\$32	-2.0%	0.88	0.80	0.57
2003	997,347	\$41,471	4.8%	\$1,601	\$63	4.1%	\$1,560	\$58	3.8%	\$1,597	\$42	2.7%	1.24	1.22	1.14
2004	1,018,358	\$45,326	9.3%	\$1,785	\$184	11.5%	\$1,737	\$177	11.3%	\$1,772	\$189	10.8%	1.28	1.24	1.18
2005	1,084,995	\$54,009	19.2%	\$2,222	\$436	24.4%	\$2,148	\$411	23.7%	\$2,161	\$399	22.6%			

The Single Rate System would have lost less revenue than the other systems during the 2002 recession.



Tax Simulation Model Information

Volatility Analysis

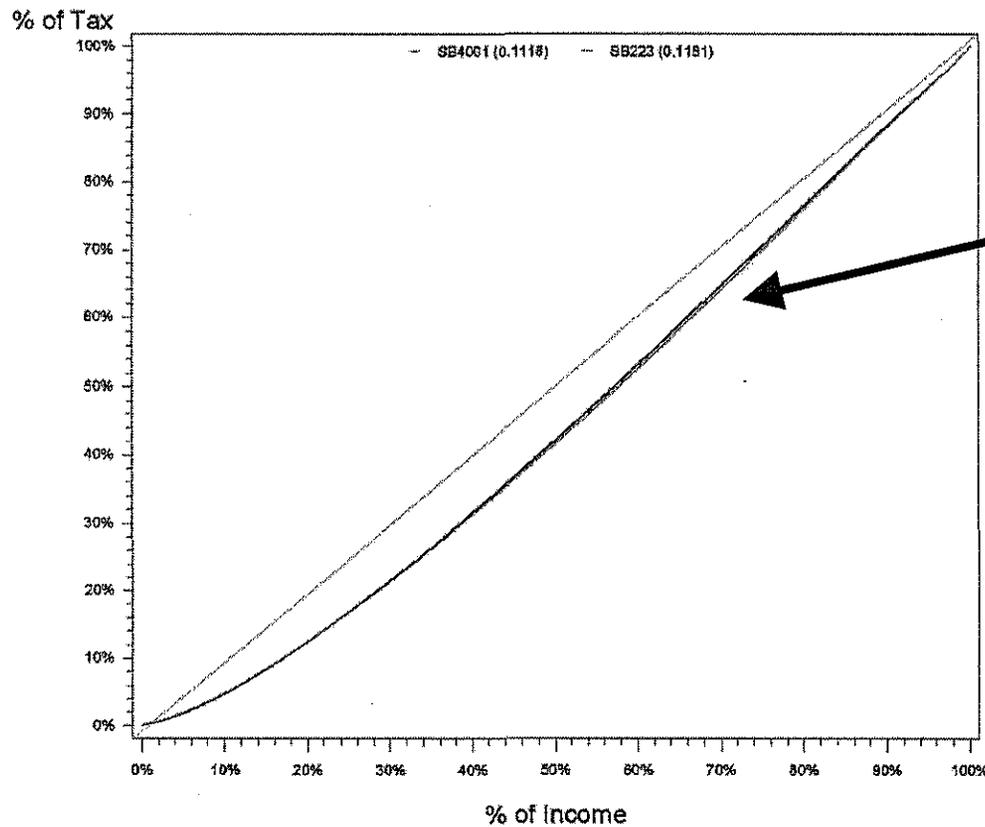


Underlying Volatility is mostly a function of economic activity, but the tax system can contribute by amplifying or dampening volatility.



Tax Simulation Model Information

Progressivity Analysis



Slightly more progressive
Lorenz Curves and Suits Index



Tax Simulation Model Information

Progressivity Analysis

Table 21
2008 Distributional Impacts of Senate Bill 223

Category	Mean Tax				Share of Tax Paid			% of Cut
	Current	Proposed	Change	% Change	Current	Proposed	Change	
<= \$50,000	\$495	\$473	-\$22	-4%	12.0%	12.0%	-0.1%	14%
> \$50,000	\$5,030	\$5,817	-\$213	-4%	88.0%	88.0%	0.1%	86%
<=\$5k	\$3	\$1	-\$2	-62%	0.0%	0.0%	0.0%	0%
\$5 - 15k	\$147	\$128	-\$19	-13%	0.6%	0.5%	-0.1%	2%
\$15 - 25k	\$477	\$448	-\$29	-6%	1.6%	1.8%	0.0%	3%
\$25 - 40k	\$1,298	\$1,252	-\$47	-4%	5.1%	5.1%	0.0%	5%
\$40 - 70k	\$3,742	\$3,576	-\$165	-4%	14.8%	14.7%	-0.1%	18%
\$70 - 100k	\$3,913	\$3,699	-\$214	-5%	15.5%	15.2%	-0.3%	23%
>\$100k	\$15,689	\$15,230	-\$439	-3%	62.1%	62.6%	0.5%	48%
Single	\$1,109	\$1,079	-\$30	-3%	16.8%	17.0%	0.2%	12%
Head of Household	\$256	\$249	-\$7	-3%	3.9%	3.9%	0.0%	3%
Married Filing Jointly	\$5,102	\$4,902	-\$200	-4%	77.3%	77.0%	-0.2%	84%
Married Filing Separately	\$135	\$133	-\$2	-2%	2.0%	2.1%	0.0%	1%
0	\$49	\$45	-\$4	-8%	0.7%	0.7%	0.0%	2%
1	\$1,145	\$1,119	-\$25	-2%	17.3%	17.6%	0.3%	11%
2	\$2,248	\$2,206	-\$40	-2%	34.0%	34.7%	0.7%	17%
3	\$907	\$870	-\$37	-4%	13.7%	13.7%	-0.1%	16%
4	\$995	\$939	-\$55	-6%	15.1%	14.8%	-0.3%	24%
5	\$649	\$609	-\$40	-6%	9.8%	9.8%	-0.3%	17%
>=6	\$612	\$575	-\$37	-6%	9.3%	9.0%	-0.2%	15%
All	\$2,588	\$2,475	-\$93	-4%	100.0%	100.0%	0.0%	100.0%

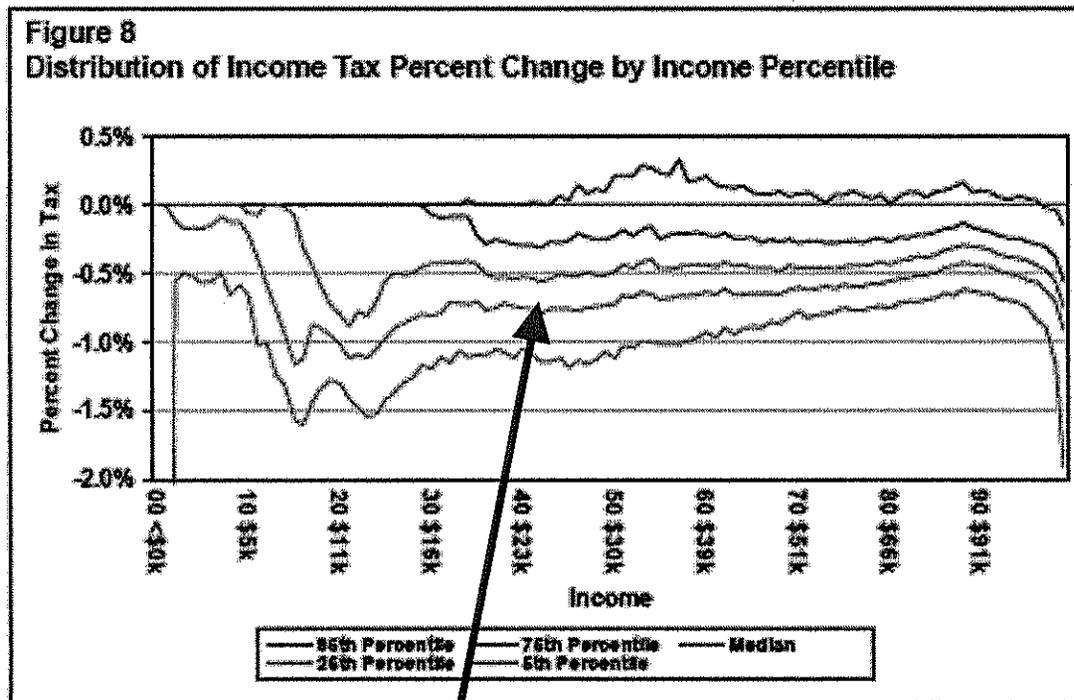
Taxpayers with Income above \$100,000 pay ~62% of total tax but received 48% of tax cut.

Taxpayers with Income above \$100,000 pay a slightly higher share of overall liability.



Tax Simulation Model Information

Segmented Income Analysis



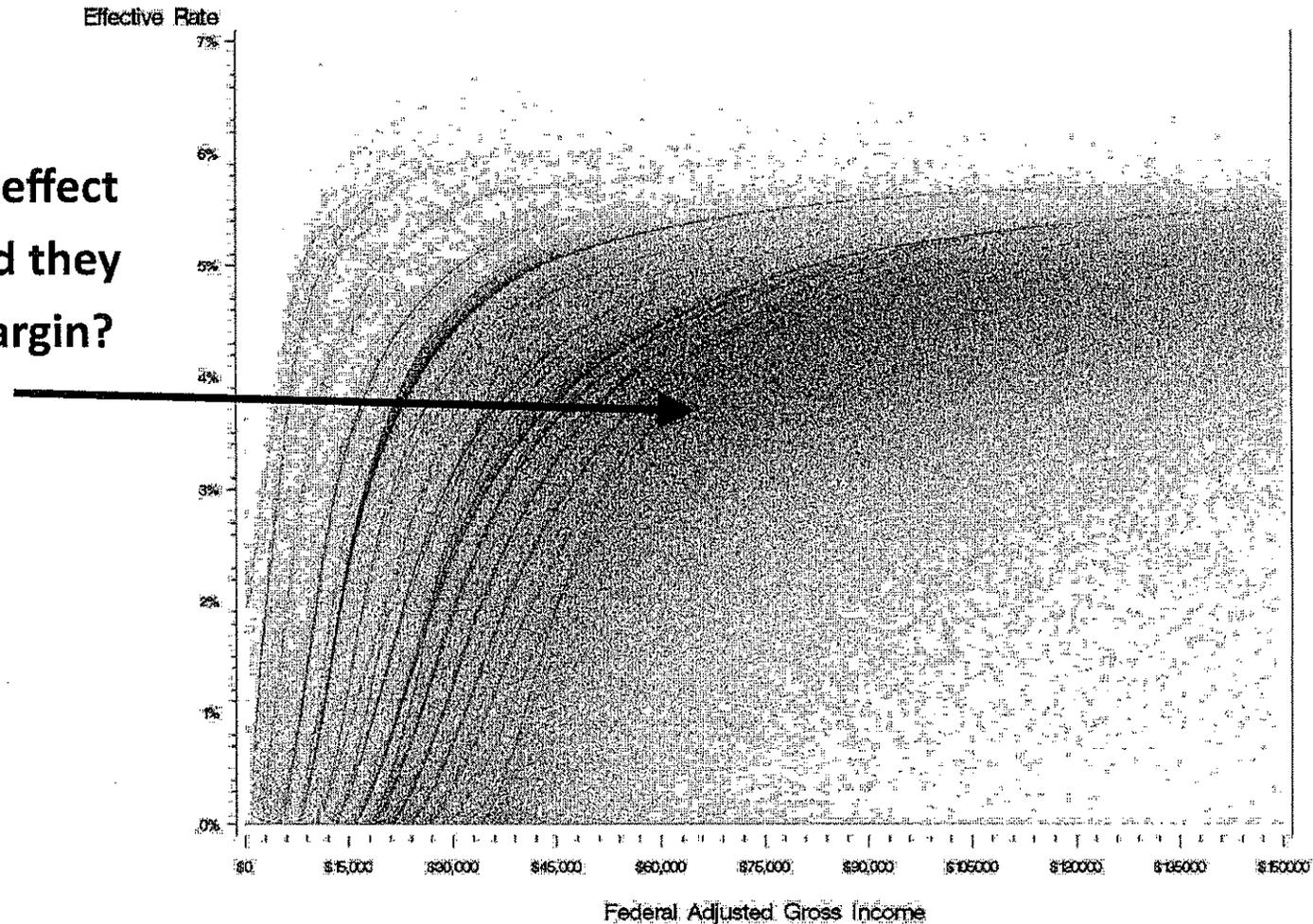
The Median Taxpayer within each income percentile had about a 0.5% tax cut



Tax Simulation Model Information

Effective Rate Changes

Figure 27
2008 Projected Effective Income Tax Rates Under the Graduated Rate System



What were prior effect rates and how did they change at the margin?

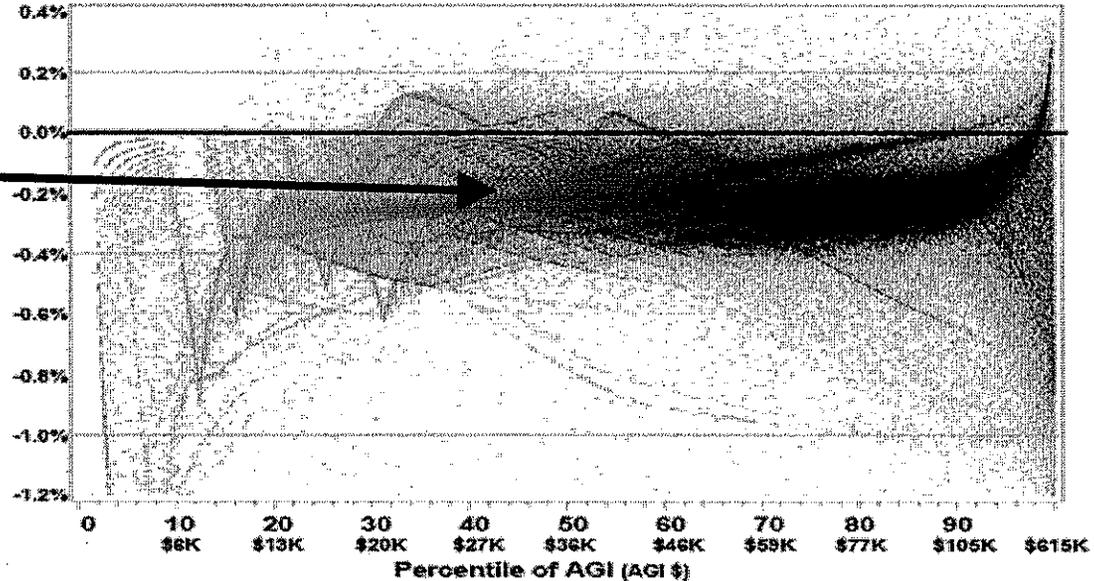


Tax Simulation Model Information

Effective Rate Changes

Chart 2
Effective Tax Rate Change, Tax Year 2005 to 2008, by Taxpayer & Income

Most Taxpayers
paid less in taxes

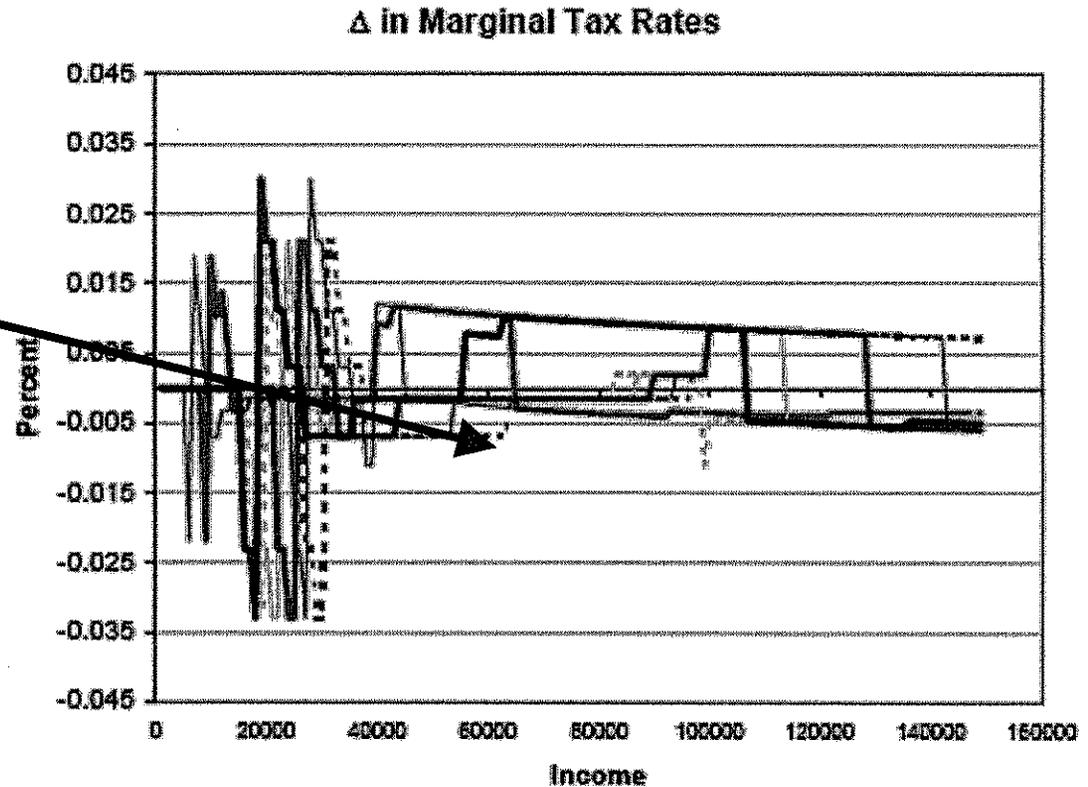


Tax Simulation Model Information

Effective Rate Changes

Most High Income Taxpayers
faced lower effective marginal
tax rates.

Middle Income Taxpayers
faced higher marginal rates
with credits phasing out



Tax Reform in Utah Retrospective

Intense Effort Required to Reform Taxes.

- It took a lot of resources and reallocation of resources to accomplish.
- It absorbed many public officials time for over 3 years.
- Analysis, specifically the Tax Simulation Model was key to success.
- Product of the Reform was a Single Rate System.
- It produced an individual tax cut of around \$190 million on \$2.5 billion.
- More progressive, larger share of the tax cut went to lower income.
- Expanded the Tax Base from ~\$38 billion to ~\$60 billion (2007).
- Lowered the statutory Tax Rate from 7% to 5%.
- Change in the Withholding Tables caused early confusion.
- Makes Utah more competitive, aligns statutory rate with marginal rate.



Tax Reform in Utah Retrospective

Why?

- Single rate shows propensity, if not promise, to not 'soak the rich'.
- General trend in lower top marginal rates and fewer rate structures.
- Deductions and Exemptions disproportionately help the rich, conversion to tax credits allows for targeted incentives for activities to specific groups.
- Marginal Incentives matter more for behavioral changes than the overall level of taxation.
- This happened in the context of broader tax reform which changed sales taxes, corporate taxes, and other business taxes.
- Stabilizes Utah's finances and leaves it competitively positioned relative to tax systems in other states.
- Current analysis confirms the accuracy of Simulation Model forecasts.

David Stringfellow, Chief Economist, State of Utah - Office of the Utah State Auditor



**ARIZONA DEPARTMENT OF REVENUE
INDIVIDUAL INCOME TAX MODEL**



Individual Income Tax Model

- Model designed to measure impact of changes in Arizona state individual income tax given:
 - Changes in federal tax law
 - Proposed changes in state tax law

- Contains a sample of approximately 60,000 individual income tax returns with both state and federal tax data

Model Sample

- Sample size is determined using a formula that considers variation in the tax liability for all resident returns by filing status within an income bracket
 - ▣ Want a sample size that has the smallest number of returns while maintaining a high level of confidence in the data in each bracket
 - ▣ Returns are randomly selected by filing status and FAGI bracket
 - ▣ Returns selected contain both federal and state data

Model Output

- Model output compares the original state tax liability on the sample returns with the newly calculated liability
 - ▣ Sample returns are expanded to represent the universe of resident returns

- The output is then grown to current tax year
 - ▣ Actual tax liability growth for completed years
 - ▣ Estimated filer growth used for future years

Final Notes on Model Output

- Output is presented in terms of a tax year
 - ▣ Numbers reflect total tax liability in a given tax year not a fiscal year
- Database was chosen on tax liability and filing status and not on smaller groups within the whole population therefore impacts are guidelines and should not be considered exact representations of the impact.
- Model does not include the impact of credits

ARIZONA STATE LEGISLATURE

INTERIM MEETING NOTICE OPEN TO THE PUBLIC

JOINT TASK FORCE ON INCOME TAX REFORM

Date: Thursday, September 19, 2013

Time: 1:30 P.M.

Place: HHR 1

AGENDA

1. Call to Order
2. Presentations
 - Arizona Conformity to Federal Income Tax Provisions - Arizona Department of Revenue
 - Income Tax Progressivity and Volatility - Stephen Slivinski, Goldwater Institute
 - Income Tax Model Run Simulations - Arizona Department of Revenue
3. Public Testimony
4. Adjourn

Members:

Senator Steve Yarbrough, Co-Chair
Senator Steve Farley
Senator Kelli Ward
Barry Broome
Kevin McCarthy
Farrell Quinlan
Aimee Rigler

Representative Javan D. Mesnard, Co-Chair
Representative Debbie Lesko
Representative Bruce Wheeler
Jim Rounds
Stephen Slivinski
Peggy Ullmann

9/17/13
lae

People with disabilities may request reasonable accommodations such as interpreters, alternative formats, or assistance with physical accessibility. If you require accommodations, please contact the Chief Clerk's Office at (602) 926-3032, TDD (602) 926-3241.

ARIZONA STATE LEGISLATURE
Fifty-first Legislature – First Regular Session

JOINT TASK FORCE ON INCOME TAX REFORM

Minutes of Interim Meeting
Thursday, September 19, 2013
House Hearing Room 1 -- 1:30 p.m.

Co-Chairman Mesnard called the meeting to order at 1:42 p.m. and attendance was noted by the secretary.

Members Present

Senator Steve Yarbrough, Co-Chairman	Representative Javan Mesnard, Co-Chairman
Senator Steve Farley	Representative Debbie Lesko
Barry Broome	Representative Bruce Wheeler
Farrell Quinlan	Stephen Slivinski
Aimee Rigler	Peggy Ullmann
Jim Rounds	

Members Absent

Senator Kelli Ward	Kevin McCarthy
--------------------	----------------

Co-Chairman Mesnard expressed the intent for the Committee to focus on small reforms to the tax code, as well reforming or improving the overall tax structure, possibly this session or next session.

PRESENTATIONS

Arizona Conformity to Federal Income Tax Provisions

Ernest Powell, Manager, Tax Research and Analysis Section, Arizona Department of Revenue (ADOR), reviewed a handout showing sections of Arizona Revised Statutes (A.R.S.) that relate to a conformity bill that ADOR requests each session (Attachment 1, Items 1-8). The federal government makes changes to its statute which changes Arizona's starting point and ADOR specifically decides not to conform to certain portions. He noted that many of the items are obsolete. He responded to questions concerning the federal bonus depreciation provisions and indicated that the reason for nonconformance for most of the items is cost.

Sean Laux, Chief Liaison and Public Information Officer, Arizona Department of Revenue (ADOR), in response to questions about the standard deduction and personal exemption, stated those are not items ADOR would consider as part of conformity. There could be an issue with the Legislature giving up its taxing power by allowing the federal government to dictate the state's personal exemption or standard deduction.

Discussion followed about deduction of medical expenses and the potential cost to the state to conform to the federal standard deduction.

Mr. Powell continued the presentation (Attachment 1, Items 9-10), acknowledging that Item 9 could still be relevant.

Co-Chairman Mesnard said he would like to be provided with the negative and/or positive impact to the General Fund (GF) for conformity, as well as nonconformity of the items.

Ms. Ullmann commented that there are timing differences.

Mr. Powell indicated that he plans to review other additions and subtractions to see if some may be obsolete. In response to a question about what happens if the federal section 179 expensing provisions are not extended, he stated there would be nothing to conform to. He said the federal bonus depreciation is due to expire, at which point perhaps the additions could be eliminated, but there would still be subtractions for which a certain time limit could be set.

Ms. Ullmann clarified that if the federal section 179 expensing provisions are not extended, the figure returns to \$145,000 of expensing. She reviewed a handout, *Individual Income Tax – List of Non-Conforming and Other State Adjustments (dissimilar or not applicable for federal tax purposes) - 2013* (Attachment 2). She said the major items are the federal bonus depreciation and federal section 179 expensing provisions. Federal section 179 expires in four years because the adjustment is a five-year process, but the federal bonus depreciation could take longer because some of the assets were bonused for 25 years. This requires the taxpayer to maintain two sets of depreciation schedules, one for federal and one for Arizona; it is probably one of the most complex and costly adjustments.

In response to a question, Ms. Ullmann related that the federal bonus depreciation was implemented as a stimulus and expires at the end of 2013. It is typically put in place for one or two years at a time and it could be at 50 percent or 100 percent, depending on the need. Since federal section 179 is available, the federal bonus depreciation may not be necessary. The problem is that the federal bonus depreciation is usually extended at the last minute or whenever the federal government determines it is needed as a stimulus, which makes it difficult to plan.

Income Tax Progressivity and Volatility

Mr. Slivinski, Goldwater Institute, gave a presentation on *Tax Volatility and Progressivity – An Economist’s Approach* (Attachment 3). He addressed tax revenue volatility concepts, ranking of taxes by volatility, ranking states by income tax volatility, what influences tax revenue volatility and progressivity of collections/payments and rates, noting that progressivity can influence economic growth. He responded to questions concerning the volatility of property taxes and indicated there is nothing inherently wrong with volatility, but there is a point at which the costs outweigh the benefits.

Representative Wheeler asked why the state continuously decreases property taxes instead of relying to a greater degree on property taxes for revenue since they are less volatile and more constructive to stability. Co-Chairman Mesnard replied that property taxes have been decreased specifically on the commercial side over the last few years because they were exceedingly high relative to other states.

Co-Chairman Mesnard remarked that volatility, progressivity and stability need to be kept in mind in reviewing the overall tax structure. Income tax is more volatile, but if ways can be found to make it less volatile, that would be good. Mr. Slivinski responded to a question concerning progressivity.

Income Tax Model Run Simulations

Co-Chairman Mesnard noted that he received a request from Mr. Rounds who wanted to see what a flat tax would look like.

Karen Jacobs, Arizona Department of Revenue (ADOR), noted that the Members were provided with a *Summary of data available in the ADOR Individual Income Tax Model* (Attachment 4). She reviewed an example from ADOR's model that eliminates additions, subtractions, exemptions, standard/itemized deductions and the family tax credit and keeps the federally-required subtractions and nonconformity adjustments, at a flat tax rate of 2.13 percent (Attachment 5).

Co-Chairman Mesnard noted that in the scenario presented by Ms. Jacobs, those at the lower economic spectrum are affected the most.

Mr. Rounds remarked that there has been discussion of holding certain groups harmless, which cannot be done without an associated cost with the recommendation. The most important factors in changing tax policy are cost and benefit. Based on revenues this next fiscal year there will not be a lot of money for tax cuts, and any changes will probably not be effective until Fiscal Year (FY) 2016, so at some point, perhaps the Committee should decide if it wants to discuss this in a more holistic way, or talk about sales taxes in addition and some concepts for the Legislature to follow.

Co-Chairman Mesnard reviewed an example with a tax exemption at the federal poverty level (FPL) and a single tax rate of 2.74 percent (Attachment 6) and the same scenario changing the personal exemption for married filing jointly, at a proposed single tax rate of 2.95 percent (Attachment 7).

Senator Farley commented that the examples (Attachments 6 and 7) involve the middle class subsidizing the rich and the poor, when the middle class was hurt the most during the recession. Co-Chairman Mesnard indicated that these are only examples and encouraged the Members to think about creating a new system that utilizes a single rate.

Representative Wheeler requested that Marshall Vest, an economist at the University of Arizona, be asked to give a presentation on the state of the economy, where revenues are derived, how it compares to other places and the strengths and weaknesses. Senator Farley commented that it would be appropriate to ask Mr. Vest how to make the income tax structure fairer to the middle class. Mr. Broome surmised that Mr. Vest may be able to facilitate a more in-depth conversation on volatility.

Discussion followed about the ADOR model in relation to income.

Representative Lesko declared that there is no intention of increasing taxes on the middle class.

Co-Chairman Mesnard announced that the next meeting will be held on Thursday, October 3, 2013, in the Senate.

Without objection, the meeting adjourned at 3:28 p.m.

Linda Taylor, Committee Secretary
September 24, 2013

(Original minutes, attachments and audio on file in the Chief Clerk's Office; video archives available at <http://www.azleg.gov>)

JOINT TASK FORCE ON INCOME TAX REFORM
September 19, 2013

9/19

1. A.R.S. §§ 43-1021(4) and 43-1022(8)

A.R.S. §§ 43-1021(4) and 43-1022(8) different treatment in pensions for pensions where the first payment was received prior to December 31, 1978. We will recommend these be repealed due to their obsolescence.

The addition in A.R.S. § 43-1021(4) and the subtraction in A.R.S. § 43-1022(8) are transitional provisions of the 1978 Arizona Income Tax Act. These sections generally require that a taxpayer adjust Arizona gross income by adding amounts in excess of or subtracting amounts less than the taxpayer's cost of an annuity when the first payment from such annuity was received prior to December 31, 1978. Prior to the 1978 Act, the Arizona treatment of annuity income was different than the federal treatment. For Arizona purposes, the taxpayer excluded from Arizona gross income all annuity payments received until the taxpayer recovered the cost of the annuity. After the cost of the annuity was recovered, the total annuity payments received were included in Arizona gross income (former A.R.S. § 43-112(b)(3)). However, for federal purposes, only a portion of the cost was excluded from each payment, which in effect, spread the tax-free portion of the annuity over the annuitant's life expectancy. It was recently determined that if there are any taxpayers still affected by this provision, that those taxpayers would be required to make an addition to income and not be able to take a subtraction, since the costs of such pensions would have been recovered for Arizona purposes a long time ago. I would also note that assuming a person started drawing the pension at age 50, that person would be at least 85 years old at some point during 2013. Since age 50 would have been young to draw a pension, it could probably be safely assumed that very few, if anyone would be still alive with income sufficient to require the addition.

2. A.R.S. §§ 43-1021(7) and 43-1022(11)

A.R.S. §§ 43-1021(7) and 43-1022(11) different basis of property held for the production of income and which is sold or otherwise disposed of during the taxable year, except depreciable property used in a trade or business. We will recommend these be repealed due to their obsolescence.

The addition in A.R.S. §§ 43-1021(7) and the subtraction in A.R.S. § 43-1022(11) are transitional provisions of the 1978 Arizona Income Tax Act. These sections generally require a taxpayer to adjust Arizona gross income by either adding or subtracting the difference in the adjusted basis of property held for the production of income and which is sold or otherwise disposed of during the taxable year, except depreciable property used in a trade or business. These sections appear to apply to only inventories, and

mining (mining is depleted rather than depreciated) since any difference in depreciable property and capital losses had their own transitional provisions (former A.R.S. § 43-1026 capital losses and former A.R.S. § 43-1027 depreciable property).

With respect to inventory methods, under the Income Tax Act of 1954, a taxpayer could have used a different inventory method for Arizona purposes than the taxpayer used for federal purposes. Starting with the Arizona Income Tax Act of 1978, the taxpayer would have been required to use the same inventory method for Arizona purposes as used for federal purposes. This could have resulted in a different basis in the property at the time the property was sold or otherwise disposed. However, since any inventory on the books at the time the Arizona Income Tax Act of 1978 was enacted is by now long gone, it does not appear that this transitional provision is necessary any longer.

With respect to mining expenses (different basis resulting is the difference between depletion taken at the Arizona level and the federal level due to deferred exploration expenses deducted as depletion), the addition and subtraction are probably no longer applicable to individuals or partnerships, since mining operations by these types of entities would probably be on a smaller scale and either depleted or disposed of by now. However, these sections are still referenced in the corporate provisions under A.R.S. § 43-1127. Again, because the provisions apply to only differences in basis from property acquired prior to 1978, they may not even have a corporate application. However, if these sections are repealed, consideration should be given to enacting a specific provision for corporation income tax purposes to account for the difference in basis due to different depletion methods required for federal purposes than for Arizona purposes for deferred exploration expenses.

3. A.R.S. §§ 43-1021(25), 43-1022(27), and 43-1022(28)

A.R.S. §§ 43-1021(25), 43-1022(27), and 43-1022(28) all are related to Arizona not conforming to the federal bonus depreciation provisions.

A.R.S. § 43-1021(25) Requires an addition for all depreciation taken on the federal return.

A.R.S. § 43-1022(27) This subtraction originally required a subtraction of depreciation based on the amount the federal depreciation would have been if the taxpayer had opted out of the federal bonus depreciation. Now the subtraction is based on the amount that would have been allowed if the federal bonus depreciation had been 10% of the bonus depreciation amount allowed federally. If the federal bonus depreciation is 50%, Arizona will allow a bonus depreciation of 5% (10% of 50%).

A.R.S. § 43-1022(28) This provision allows a subtraction when the property is sold, based on the difference in basis caused by the adjustments to depreciation.

4. A.R.S. § § 43-1021(26), and 43-1022(29)

A.R.S. § § 43-1021(26), and 43-1022(29) are related to Arizona not conforming to the federal section 179 expensing provisions.

A.R.S. § 43-1021(26) Previously, this required the addition of all federal section 179 expense deducted in excess of \$25,000 (the current amount allowed federally is \$500,000). In the last legislative session this addition was changed to only apply to assets acquired prior to 2013.

A.R.S. § 43-1022(29) Allows a deduction of 1/5 of the amount added back under the addition in A.R.S. § 43-1021(26) each year for 5 years. Even though the addition, is no longer required the subtraction will still apply through 2016.

5. A.R.S. § 43-1021(31)

A.R.S. § 43-1021(30) required the addition of the amount of unemployment compensation that was excluded from federal adjusted gross income pursuant to section 85(c) of the internal revenue code as added by section 1007 of the American recovery and reinvestment act of 2009 (P.L. 111-5).

For the 2009 taxable year, Arizona did not fully conform to federal tax law changes. For federal purposes, a taxpayer that received unemployment income in 2009 was allowed to exclude up to \$2,400 of that income on the 2009 federal return. Arizona did not conform to the provision and required the taxpayer to make an addition to Arizona income for the excluded amount. Since this provision was applicable to only 2009, this provision is now obsolete and should be repealed.

6. A.R.S. § § 43-1021(31), 43-1021(32), 43-1022(31)and 43-1022(32)

A.R.S. § § 43-1021(31), 43-1021(32), 43-1022(31), and 43-1022(32) are all related to Arizona not conforming to a federal provision for tax years 2009 and 2010 that allowed the deferral of discharge of indebtedness income (DOI) from the business reacquisition of a debt instrument under IRC section 108(i).

For the 2009 taxable year, Arizona did not fully conform to federal tax law changes. For federal purposes for 2009, a taxpayer may have made a special election for the taxable year

to include DOI income in connection with the reacquisition of a business debt instrument, ratably over a 5 year period. A taxpayer that made this election will generally include this income in federal adjusted gross income over a 5-year period beginning with the 2014 taxable year. In addition, when the IRS deferred the recognition of income it also deferred the recognition of subtractions for any original issue discount (OID) until the income is recognized.

Arizona did not adopt the special federal DOI income deferral provisions or the related deferral of the OID. For Arizona purposes, if the taxpayer made the federal election to defer the inclusion of DOI income under I.R.C. § 108(i), the taxpayer must have made an addition to income to include that income for Arizona purposes under A.R.S. § 43-1021(31) in 2009 or 2010. In addition, the taxpayer is allowed a subtraction under A.R.S. § 43-1022(31) each year for the OID that was deferred federally.

When the IRS includes the DOI income starting in 2014 (generally) taxpayer's will be allowed a subtraction (A.R.S. § 43-1022(32)) in their Arizona return for the DOI included in their federal return to the extent it was added back for Arizona purposes in a prior year. In addition, when the IRS allows OID that was originally deferred Arizona will add back the amount so that it will not be allowed twice for Arizona (A.R.S. § 43-1021(32)).

7. A.R.S. § 43-1022(4)

A.R.S. § 43-1022(4) provides a subtraction for certain amounts distributed from an IRA (provided in I.R.C. § 408) or a retirement plan of a self-employed individual (provided in I.R.C. § 401) to the extent that the total amount subtracted in all tax years do not exceed the total of all contributions made by the taxpayer to the plan before December 31, 1975.

A.R.S. § 43-1022(4) is a transitional provision of the 1978 Arizona Income Tax Act. This section provides a subtraction for certain amounts distributed from an IRA (provided in I.R.C. § 408) or a retirement plan of a self-employed individual (provided in I.R.C. § 401) to the extent that the total amount subtracted in all tax years do not exceed the total of all contributions made by the taxpayer to the plan before December 31, 1975. It appears that prior to December 31, 1975, Arizona did not allow an individual to deduct from Arizona gross income contributions made to those types of retirement plans. For federal purposes, such contributions were deductible (my research indicates IRAs starting in 1975 and Keoghs in 1963). When the IRA or the pension is distributed, the distributions comprised of amounts contributed prior to December 31, 1975 may be included in the taxpayer's federal adjusted gross income.

However, the amounts contributed prior to December 31, 1975 while the taxpayer was an Arizona resident would have already been taxed by Arizona.

My research indicates that the generally, a person can start taking distributions from these plans as early as age 59½ and as late as age 70½. The period to which the subtraction applies are actions taken prior to 1976 (38 years ago). My research also indicates that for the purpose of an IRA, there would only be 1 year involved (1975) and the total maximum subtraction could be no more than \$1,500. It is somewhat different with the self-employed retirement plan. However, one article I read indicated that the number of private defined benefit plans starting declining in 1984 (In 1983 there were 175,143 plans, but in 2008 there were only 46,926 plans). This number is probably even much smaller today after the last great recession. With that in mind, it is probably safe to assume that there are few, if any, plans in existence today for self-employed individuals that were created between 1963 and 1975 by Arizona residents that have not yet retired

8. A.R.S. § 43-1022(7)

A.R.S. § 43-1022(7) is a subtraction for the amount of any income tax refund received from other states.

A.R.S. § 43-1022(7) provides a subtraction from Arizona gross income for the amount of any income tax refunds that were received from states other than Arizona and that were included as income in computing federal adjusted gross income. This subtraction was enacted under the 1978 Arizona Income Tax Act as former A.R.S. § 43-1022(13). This provision was deemed necessary since under former A.R.S. § 43-1043(A) (1978 Act) and former A.R.S. § 43-123.05(1) (1954 Act) a taxpayer could take an itemized deduction for the amount of taxes paid during the taxable year, except a taxpayer was precluded from taking a deduction for income taxes imposed by another state or foreign country. Under the Arizona Income Tax Act of 1954, if the deduction exceeded the taxes actually paid and the taxpayer got a refund in the subsequent year, the taxpayer was required to include that refund in gross income to the extent the deduction exceeded the taxes (former A.R.S. § 43-112(b)(17)). However, with the enactment of the Arizona Income Tax Act of 1978, the starting point for the Arizona computation was the federal adjusted gross income and the "tax benefit rule" under former A.R.S. § 43-112(b)(17) was no longer applicable. Therefore, A.R.S. § 43-1022(7) was enacted to preclude Arizona from taxing refunds from other states since the taxpayer was never allowed to deduct the taxes giving rise to that refund. This all changed with Laws 1990, 3rd SS, Ch 3. Under Laws 1990, 3rd SS, Ch 3, the Arizona itemized deductions were repealed including former A.R.S. § 43-1043, and new A.R.S. § 43-1042 was enacted to provide that the itemized deductions allowed for Arizona purposes were basically the same deductions allowed for federal purposes. With the 1990 enactment, a taxpayer

was (and is currently) allowed to take a deduction for taxes paid to another state. However, when former A.R.S. § 43-1043 was repealed, the Legislature appear to have overlooked the repeal of former A.R.S. § 43-1022(13) (the subtraction for other state tax refunds).

9. A.R.S. § 43-1022(17)

A.R.S. § 43-1022(17) provides a subtraction for exploration expenses that were deferred by an individual prior to 1990.

A.R.S. § 43-1022(17) provides for a subtraction for the amount of exploration expenses that is determined pursuant to I.R.C. § 617, that has been deferred in a taxable year ending before January 1, 1990 and for which a subtraction has not previously been made. The subtraction shall be made on a ratable basis as the units of produced ores or minerals discovered or explored as a result of this exploration are sold.

10. A.R.S. § 43-1022(33)

A.R.S. § 43-1022(33) provides a subtraction for certain net operating losses from 2008 or 2009 that were carried back for federal income tax purposes but carried forward for Arizona purposes.

Generally, for individual income tax Arizona conforms to the federal net operating loss treatment and the net operating loss claimed on the federal return will flow through to the Arizona return. In most cases this would allow the loss to be carried back for two (sometimes three) years and forward 20 years.

In 2009, the federal government passed a provision allowing for a 5-year carryback of net operating losses for losses created in 2008 or 2009. Arizona did not conform to this additional carryback. Therefore, taxpayers that amended their federal returns to carryback 2008 and 2009 losses 5 years were only allowed to carryback for the two or three years they were allowed before the change. The difference between the amount used during the federal carryback period and the Arizona carryback period is allowed to be carried forward and taken as a subtraction on the Arizona return based on when it would have been used if the taxpayer had not carried the amount back 5 years for federal purposes.

Summary of data available in ADOR Individual Income Tax Model

Federal Individual Income Tax Calculation

(based on tax year 2012)

Sum of:

Wages, salaries, tips
Taxable interest
Ordinary dividends
Taxable refunds, credits or offsets
Alimony received
Business income or loss
Capital gain or loss
Other gains or losses
Taxable IRA distributions
Taxable pensions & annuities
Rental real estate, royalties, partnerships, S corps, trusts
Farm income or loss
Unemployment compensation
Taxable Social Security benefits
Other income
= Federal Total Income

Less adjustments to income:

Educator expenses (not in ty2006)
Certain business expenses
Health savings account deduction
Moving expenses
Deductible pare of self employment tax
Self-employed SEP, SIMPLE & qualified plans
Self-employed health insurance deduction
Penalty on early withdrawal of savings
Alimony paid
IRA deduction
Student loan interest deduction
Tuition & fees
Domestic production activities deduction
= Federal Adjusted Gross Income (CURRENT AZ TAX BASE)

Less exemptions and deductions:

Fed Standard or Itemized deductions
Federal Itemized Deductions sum of:
Medical & dental expenses
State & local income taxes or general sales taxes (sales tax not in ty06)
Real estate taxes
Other taxes
Home mortgage interest & points

Qualified mortgage insurance premiums
Investment interest
Gifts to charity by cash or check
Gifts to charity other than cash or check
Casualty or theft losses
Job expenses and certain miscellaneous:
 Unreimbursed employee expenses
 Tax preparation fees
 Other expenses
Other miscellaneous deductions
= Federal Itemized Deductions

Fed Personal exemptions
Fed Dependent exemptions
Fed 65 & over exemption
Fed Blind exemption

= **Federal Taxable Income**

Arizona Individual Income Tax Calculation

(based on tax year 2012)

= **Federal Adjusted Gross Income (CURRENT AZ TAX BASE)**

Plus additions to income:

Non-Arizona municipal interest
Ordinary income portion of lump sum distributions
Total federal depreciation (**conformity adj**)
Medical savings accounts distributions
IRC Sec. 179 expense in excess of allowable amount (**conformity adj**)
Other additions to income (**some conformity adj**)

Less subtractions from income:

Interest on US obligations (**federally required**)
Exclusion for federal, AZ state or local govt pensions
AZ state lottery winnings
US Social Security benefits or Railroad retirement benefits (**RR federally required**)
Recalculated Arizona depreciation
Certain wages of American Indians (**federally required**)
Income tax refund from other states
Deposits & employer contributions into MSAs
Adjustment for I.R.C. §179 expense not allowed
Pay received for active service
Net operating loss adjustment
Other subtractions (**some conformity adj**)

= **Arizona Adjusted Gross Income**

Less exemptions and deductions:

65 & over exemption \$2,100
Blind exemption \$1,500
Dependent exemptions \$2,300
Qualifying parents & ancestor exemption \$10,000
Personal exemptions \$2,100 sgl & mfs
\$4,200 mfj
\$6,300 mfj w/ kids
\$4,200 uhoh
\$3,150 mfs w/ kids
Standard deduction \$4,833 sgl / \$9,665 mfj

OR Itemized deduction

Federal itemized deduction with AZ adjustments:

Adjustment to medical & dental expenses
Adjustment to interest deduction
Adjustment to gambling losses
Adjustment to charitable contributions
Other adjustments
= Arizona Itemized Deductions

= Arizona Taxable Income

Apply tax rate:

Single / Married
\$0-10k / \$0-20k 2.59%
10k-25k / 20k-50k 2.88%
25k-50k / 50k-100k 3.36%
50k-150k / 100k-300k 4.24%
\$150k & over / \$300k & over 4.54%

= Arizona Tax

less Family tax credit:

\$40/person
\$120 credit cap for single/mfs and \$240 credit cap for mfj, uhoh
income threshold \$10,000 for single/mfs, \$26,575 for uhoh, \$31,000 mfj

= Arizona tax before other credits are applied

ESTIMATED INDIVIDUAL INCOME TAX-2006 DATA BASE GROWN TO 2014

Federal Adjusted Gross Income		Estimated Tax Under Arizona Tax Law			Tax Under Proposed Arizona Tax Law			% change
		# Of Returns	Total	Average	# Of Returns	Total	Average	
At Least	But Less Than							
Negative Fed. AGI		44,910	\$734,650	\$16	44,910	\$795,306	\$18	8.3%
\$ 0 - \$	10,000	319,853	\$2,308,147	\$7	319,853	\$265,645	\$1	-88.5%
	10,000 -	425,428	\$37,101,615	\$87	425,428	\$26,994,042	\$63	-27.2%
	20,000 -	193,092	\$38,138,676	\$198	193,092	\$43,391,539	\$225	13.8%
	25,000 -	167,835	\$52,156,317	\$311	167,835	\$61,404,627	\$366	17.7%
	30,000 -	285,306	\$136,395,257	\$478	285,306	\$164,841,945	\$578	20.9%
	40,000 -	210,741	\$146,506,873	\$695	210,741	\$180,689,964	\$857	23.3%
	50,000 -	371,421	\$386,026,102	\$1,039	371,421	\$493,436,711	\$1,329	27.8%
	75,000 -	240,297	\$391,048,810	\$1,627	240,297	\$483,027,168	\$2,010	23.5%
	100,000 -	302,915	\$907,702,863	\$2,997	302,915	\$961,827,727	\$3,175	6.0%
	200,000 -	74,461	\$627,280,513	\$8,424	74,461	\$547,833,687	\$7,357	-12.7%
	500,000 -	10,544	\$251,406,342	\$23,844	10,544	\$189,527,089	\$17,975	-24.6%
	1,000,000 -	4,130	\$289,397,958	\$70,072	4,130	\$203,789,541	\$49,344	-29.6%
	5,000,000	393	\$287,571,730	\$731,735	393	\$197,614,473	\$502,836	-31.3%
	Over \$5,000,000							
	TOTAL	2,651,326	\$3,553,775,853	\$1,340	2,651,326	\$3,555,439,464	\$1,341	0.0%

Non Resident Add Factor \$3,776,952,977 \$3,778,721,062

IMPACT: \$1,768,085

CURRENT TAX is 2013 state law with 2012 federal tax rates, exemptions and deductions. The tax rates are set out below. The personal exemption is \$2,100. It is \$6,300 for a married couple with at least one dependent. The dependent exemption is \$2,300; blind \$1,500; over 65 \$2,100; qualifying ancestor \$10,000; and the standard deduction is \$4945/\$9883. A tax credit of \$40/person (\$40 for uhoh) is allowed, up to \$120 for single/mfs and \$240 for married and uhoh. Income must be \$31,000 or less for mfi, \$26,575 for uhoh, and \$10,000 for single. **ALL OTHER CREDITS ARE NOT INCLUDED IN THE DATABASE.** The subtraction for long term capital gains is not included in the model - JLBC estimated total cost of (\$17.5m) in tax year 2013.

PROPOSED TAX eliminates additions, subtractions, exemptions, standard/itemized deduction & family tax credit. Keeps federally required subtractions and nonconformity adjustments. Includes personal exemption of \$11,490 single and \$15,510 mfi/uhoh. New rate shown below.

QUALIFIER: The database used for this model was chosen based on Arizona tax liability and filing status, and not on any smaller groups within the whole population. Therefore, the impacts shown here are guidelines and should not be considered exact representations of the impact.

NOTE THAT THE MODEL RESULTS PROVIDED ABOVE HAVE REDUCED RELIABILITY DUE TO THE AGE OF THE MODEL DATABASE.

Current Tax Rate Schedule:

Single		Married	
\$0 - 10,000	2.59%	\$0 - 20,000	2.59%
10,000 - 25,000	2.88%	20,000 - 50,000	2.88%
25,000 - 50,000	3.36%	50,000 - 100,000	3.36%
50,000 - 150,000	4.24%	100,000 - 300,000	4.24%
150,000 and over	4.54%	300,000 and over	4.54%

Proposed Tax Rate Schedule:

Single		Married	
\$0 and over	2.74%	\$0 and over	2.74%

INDIVIDUAL INCOME TAX

LIST OF ARIZONA'S NON-CONFORMING AND OTHER STATE TAX ADJUSTMENTS (DISSIMILAR OR NOT APPLICABLE FOR FEDERAL TAX PURPOSES) - 2013

COMMONLY APPLICABLE

INCREASES TO STATE TAXABLE INCOME AND/OR STATE INCOME TAX:

- Non-Arizona municipal bond interest
Adjustment for federally tax exempt municipal bond interest received in the taxable year from sources other than Arizona.
- Federal bonus depreciation
Limits federally deductible bonus depreciation to 10% of the allowance for state purposes. Without an extension of the federal bonus depreciation provision's December 31, 2013 expiration date, Arizona's bonus depreciation adjustment will be zero in 2014.
- Charitable contributions eligible for Arizona state tax credit (Form 301)
Charitable contributions eligible for Arizona Working Poor Tax Credit, Arizona Public School Contributions Tax Credit, and Arizona School Tuition Organization Contributions Tax Credit reduce state itemized deductions. (Arizona allows a credit in lieu of the itemized deduction.)
- Partnership or Fiduciary income adjustment on Arizona Schedule K-1
May result in an increase or decrease to state income.

DECREASES TO STATE TAXABLE INCOME AND/OR STATE INCOME TAX:

- Medical expenses
Medical expenses are 100% deductible as an Arizona itemized deduction. Federal itemized deductions are disallowed if they don't meet the Federal threshold.
- Additional personal exemptions for individuals 65 and over, the blind, dependents, and qualifying parents or grandparents.
An additional Arizona personal exemption deduction for each of the following instances multiplied by the number of qualifying individuals:

<u>Qualifying Individuals:</u>	<u>Additional Exemption Amount:</u>
Individuals 65 and over	\$ 2,100
Blind	\$ 1,500
Dependents	\$ 2,300
Qualifying parents and grandparents	\$ 10,000
- Interest on US Savings Bonds
A state deduction equal to the federal taxable amount of interest earned on United States savings bonds.

INDIVIDUAL INCOME TAX

LIST OF ARIZONA'S NON-CONFORMING AND OTHER STATE TAX ADJUSTMENTS (DISSIMILAR OR NOT APPLICABLE FOR FEDERAL TAX PURPOSES) - 2013

COMMONLY APPLICABLE

DECREASES TO STATE TAXABLE INCOME (Continued):

- State and/or local government pension
A state deduction for pension income received from the United States Government Retirement Disability Fund, Arizona State Retirement System, and other federal and Arizona retirement systems and/or funds. The deduction is equal to amount received up to a maximum of \$2,500.
- Social security and railroad retirement benefits
A state deduction equal to the total amount of federally taxable social security or railroad retirement benefits received.
- Net operating loss adjustment
Arizona re-calculated net operating losses deductible in the current taxable year when carried forward from prior taxable year (maximum of 20 years) or carried back from subsequent taxable years (maximum of 2 year).
- 529 (Education Savings Account) contributions
A state deduction for contributions to a 529 college savings account during the taxable year. The deduction is equal to the amount contributed, up to a maximum of \$2,000 (single) or \$4,000 (married filing joint) – effective January 1, 2013.
- Adoption expenses
Arizona state deduction for adoption expenses (e.g. adoption counseling, legal and agency fees, other nonrecurring costs of adoption) paid in the taxable year the adoption order is granted. Deduction is equal to amount paid or \$3,000, whichever is less.
- Capital Gains on assets acquired after December 31, 2011
A state deduction for net long term capital gain (LTCG) included in federal adjusted gross income equal to 10% of the LTCG in 2013, 20% of the LTCG in 2014, and 25% of the LTCG for all subsequent years. (43-1022.37 of House Bill 2815)
- Income Tax refunds from other states

INDIVIDUAL INCOME TAX

LIST OF ARIZONA'S STATE TAX ADJUSTMENTS (DISSIMILAR OR NOT APPLICABLE FOR FEDERAL TAX PURPOSES)- 2013

LESS COMMONLY APPLIED

INCREASES TO STATE TAXABLE INCOME AND/OR STATE INCOME TAX:

ADDITIONS TO INCOME:

- Ordinary income portion of lump-sum distributions excluded on the federal tax return
- Medical savings account (MSA) distributions
- Pension adjustments (pensions taxed pre-1979 and used the percentage exclusion method)
- Adjustment for Married persons filing separate returns (one-half of community income from all sources)
- Items previously deducted for Arizona purposes
- Claim of right adjustment for amounts repaid in current year
- Claim of right adjustment for amounts repaid in prior taxable years
- Addition to S corporation income due to credits claimed
- Solar hot water heater plumbing stub outs and electric vehicle recharge outlet expenses deducted on federal return eligible for AZ credit.
- Wage expense for employers on TANF recipients deducted on federal return eligible for AZ credit
- Motion picture expenses deducted on federal return eligible for AZ credit
- Agricultural water conservation system expenses deducted on federal return eligible for AZ credit.
- Adjusted basis in property for which credit for investment in qualified small business claimed
- Depreciation or amortization for a water conservation system in which AZ credit is claimed.
- Nonqualified withdrawals from 529 college savings plans
- Original issue discount on reacquisition of debt instruments
- Early withdrawal of Arizona, county, city or school retirement contributions.
- Qualified health insurance plans deducted on federal return eligible for AZ credit
- Sole proprietorship loss of an Arizona nonprofit medical marijuana dispensary included in Federal AGI
- Other expenses deducted federal and eligible for AZ credit

DECREASES TO STATE TAXABLE INCOME AND/OR STATE INCOME TAX:

SUBTRACTIONS FROM INCOME:

- Arizona state lottery winnings included as income on the federal return (max \$5,000)
- Certain wages of American Indians
- Deposits and employer contributions into medical savings accounts (MSA)
- Wages for active service as a member of US armed services
- Previously reported gain on decedent's installment sale
- Federally taxable Arizona municipal interest
- Qualified wood stove, wood fireplace, or gas fired fireplace conversion costs
- Claim of right adjustment for amounts repaid in prior taxable years

INDIVIDUAL INCOME TAX

LIST OF ARIZONA'S STATE TAX ADJUSTMENTS (DISSIMILAR OR NOT APPLICABLE FOR FEDERAL TAX PURPOSES)- 2013

LESS COMMONLY APPLIED

DECREASES TO STATE TAXABLE INCOME AND/OR STATE INCOME TAX (Continued):

SUBTRACTIONS FROM INCOME (Continued):

- Certain expenses not allowed for federal purposes
- Distributions for World War II victims
- Installment sale income from another state taxed by the other state in a prior taxable year
- Agricultural crops given to Arizona charities
- Basis adjustment for property sold or otherwise disposed of during the taxable year
- Previously deferred discharge of indebtedness income adjustment
- Original issue discount on reacquisition of business debt instrument
- Sole proprietorship income of an Arizona nonprofit medical marijuana dispensary included in federal AGI

ADJUSTMENTS TO ITEMIZED DEDUCTIONS:

- Interest deduction claimed as federal credit (Form 8396)
- Federal itemized deductions related to income not subject to Arizona tax

1 Tax Volatility and Progressivity

An Economist's Approach

GOLDWATER

I N S T I T U T E

What is tax revenue volatility?

2

“The volatility of tax revenue refers to the relationship of state tax revenues to the state’s business cycle – that is, the cyclicalness of revenues.”

- R. Alison Felix,
Federal Reserve Bank of
Kansas City (2008)

Tax Revenue Volatility: Concepts

- Volatility is usually measured in the short-term.
- It compares the change in the growth rate of revenue relative to the growth rate of the relevant tax base (or personal income).
- It's a ratio. When the result is greater than 1, the tax revenue is said to be more "volatile" than the tax base. When the result is less than 1, the revenue is considered less volatile (i.e., more stable).
- Volatility is like golf: you want a low score.

Ranking Taxes by Volatility

4

Sales tax	1.24
Personal income tax	2.58
Corporate income tax	2.61

Timeframe: 1965-2007

Source: Federal Reserve Bank of Kansas City (2008)

Ranking States by Income Tax Volatility

5

Colorado	1.17
Utah	1.41
Arizona	1.55
National average	1.76
California	1.82
New Mexico	3.11

Source: Berry, Fox, and Tuttle
(2006)

GOLDWATER
I N S T I T U T E

What influences tax revenue volatility?

6

Traditionally, it is believed that structure and health of state economy – the industry mix and the performance of industries within a state – were a big factor.

However, Rutgers University study in 2011 concluded that when tax structure is taken into account, revenue volatility was more strongly associated with tax provisions (what is taxed, what is exempt, what are the rates, etc.)

Tax structure influences volatility

7

Federal Reserve Bank of Kansas City study in 2008 concluded:

“[T]ax bases exhibiting rapid growth were also often the most unstable.”

“[Tax] structures that are more progressive and not indexed for inflation will experience faster growth and more volatility in revenues.”

Flat tax systems may be less volatile

8

The same Federal Reserve Bank study analyzed Colorado (which has had a flat tax since 1987).

“The long-run and short-run elasticities for Colorado show that its personal income tax revenues have grown more slowly than in other states and are also less volatile.”

Progressivity can inhibit economic growth

10

University of Colorado economics professor Barry Poulson concluded in a 2008 study:

“States with more regressive tax systems achieved higher rates of economic growth. States with more progressive tax systems – that generated greater growth rates in revenue than in income – were at a disadvantage in economic growth.”

Note: “Progressive” here means that income tax revenues grow faster than personal income.

Progressivity

Two forms:

- Progressivity of collections/payments: Higher income levels pay larger percentage of the total revenue pie.
- Progressivity of rates: Higher income levels have a higher statutory tax rate.

Note: “Flat taxes” can be progressive when a “zero bracket” and exemptions are present.

ARIZONA STATE LEGISLATURE

INTERIM MEETING NOTICE OPEN TO THE PUBLIC

JOINT TASK FORCE ON INCOME TAX REFORM

Date: Thursday, October 17, 2013

Time: 1:30 P.M.

Place: HHR 3

AGENDA

1. Call to Order
2. Specific Income Tax Changes
 - Arizona Department of Revenue - Individual Income Differences Between Arizona and Federal Tax Code
3. Comprehensive Income Tax Changes
 - Arizona Department of Revenue - Model Presentations
4. Internet Sales Taxation
 - Joint Legislative Budget Committee -Presentation
5. Public Testimony
6. Adjourn

Members:

Senator Steve Yarbrough, Co-Chair
Senator Steve Farley
Senator Kelli Ward
Barry Broome
Kevin McCarthy
Farrell Quinlan
Aimee Rigler

Representative Javan Mesnard, Co-Chair
Representative Debbie Lesko
Representative Bruce Wheeler
Jim Rounds
Stephen Slivinski
Peggy Ullmann

10/11/13
JJB

People with disabilities may request reasonable accommodations such as interpreters, alternative formats, or assistance with physical accessibility. If you require accommodations, please contact the Chief Clerk's Office at (602) 926-3032, TDD (602) 926-3241.

ARIZONA STATE LEGISLATURE

Fifty-first Legislature – First Regular Session

JOINT TASK FORCE ON INCOME TAX REFORM

Minutes of Interim Meeting
Thursday, October 17, 2013
House Hearing Room 3 -- 1:30 p.m.

Co-Chairman Mesnard called the meeting to order at 1:35 p.m. and attendance was noted by the secretary.

Members Present

Senator Steve Farley
Senator Kelli Ward
Kevin McCarthy
Farrell Quinlan
Aimee Rigler

Representative Javan Mesnard, Co-Chairman
Jim Rounds
Stephen Slivinski
Peggy Ullmann

Members Absent

Senator Steve Yarbrough, Co-Chairman
Barry Broome

Representative Debbie Lesko
Representative Bruce Wheeler

Co-Chairman Mesnard provided opening remarks and explained that the agenda is divided into two sections: the tax differences between the state and federal government and the overall tax structure.

PRESENTATIONS

Individual Income Differences Between Arizona and Federal Tax Code

Sean Laux, Chief Liaison and Public Information Officer, Arizona Department of Revenue (ADOR), acknowledged that, after a recent conversation with Co-Chairman Mesnard, ADOR recognizes the need to focus on providing additional information on individual income tax (IIT) expenditures and the bonus depreciation conformity figure. He advised the Committee that the information will be forthcoming but not part of today's presentation.

Karen Jacobs, Economist, Arizona Department of Revenue (ADOR), reviewed a slideshow presentation of Arizona's IIT model (Attachment 1) and the tax value of IIT expenditures (Attachment 2). In response to questions regarding federal and state subtractions for personal exemptions and standard deductions, Ms. Jacobs explained that the top section of Attachment 2, Page 1 displays the federal subtractions and the bottom section lists the Arizona specific subtractions. She pointed out that some of the state subtractions are federally required, such as the interest on U.S. obligations, railroad retirement benefits and certain wages of Native Americans. Ms. Jacobs further explained the state value and types of Arizona exemptions.

Co-Chairman Mesnard remarked that the provided information is a good starting point; however, he requested additional information comparing the different tax areas the state includes that the federal government excludes, federal government inclusions that the state does not and a comparison of the areas where the state and federal government have the same kind of tax but differ. Co-Chairman Mesnard questioned if Attachment 2 reflects the impact to the General Fund (GF). Ms. Jacobs answered in the affirmative.

In response to additional questions, Ms. Jacobs explained the tax value of the IIT model (Attachment 2) and final tax liability. She said that bonus depreciation is not included in the model, although ADOR is examining ways to provide the information to the Committee.

Co-Chairman Mesnard noted that previous tax legislation based fiscal note figures off of assumptions and estimates, creating vast differences. He requested that the impending information from ADOR be summarized and complete to ease drafting legislation.

Ms. Jacobs continued reviewing Attachment 2 and provided an overview on the following areas:

- Federal itemized deductions - schedule A form
- Interest expense deductions
- Charitable contribution deductions
- Medical deductions
- Miscellaneous deductions
- Arizona standard deductions and cost
- Federal itemized deductions and cost
- Total deduction cost

Co-Chairman Mesnard queried Ms. Ullmann on the impact to a state return when 7.5 percent of the federal adjusted gross income for medical deductions is met. Ms. Ullmann explained that the federal itemized deduction form does not allow an individual to deduct 100 percent of medical expenses; the state allows individuals the portion the federal government disallows. For example, if an individual exceeds the 7.5 percent gross income threshold on the federal return, the portion that exceeds 7.5 percent will go on the federal return and the portion up to 7.5 percent will become an additional itemized deduction on the state return.

For clarification, Mr. McCarthy asked if an individual can claim the medical deduction on the federal return if they do not meet the 7.5 percent adjusted gross income for medical expenses. Ms. Ullmann responded in the negative; until medical expenses exceed 7.5 percent of an individual's adjusted gross income there is no deduction on the federal return, yet the state allows for the medical deductions up to 7.5 percent.

Ms. Jacobs pointed out that most taxpayers do not exceed the 7.5 percent adjusted gross income and do not qualify for the credit on the federal return.

Ms. Ullmann provided an example, stating that an individual with an adjusted gross income of \$100,000 annually with medical deductions up to \$7,500 but not exceeding, does not receive any benefit on the federal return but will get the entire amount on the Arizona return. In this case, if the medical deductions are \$8,000, an individual will receive \$500 from the federal return and an additional \$7,500 from the state.

Discussion ensued relating to deductions, bonus depreciation and IIT model data and exclusions.

Co-Chairman Mesnard stated that a request for information on possible external revenue through the Marketplace Fairness Act (MFA) was made at the first meeting, but due to the federal government shut down, it is difficult to

know if the legislation will be voted on. The Joint Legislative Budget Committee (JLBC) put together a presentation that roughly estimates the state impact if MFA legislation becomes law.

Internet Sales Taxation

Jack Brown, Joint Legislative Budget Committee (JLBC), delivered a presentation on Internet Sales Taxation (Attachment 3). He explained that a 1992 U.S. Supreme Court decision determined that, absent federal legislation, states could not collect sales tax from retailers with no physical presence (nexus) in their state. The Marketplace Fairness Act (MFA) is federal legislation that will enable states to collect sales tax from the remote retailers with no nexus in their state, including online and catalogue retailers. Mr. Brown pointed out that retailers with less than \$1 million remote sales will be exempt from the MFA provisions.

Co-Chairman Mesnard asked for clarification on what the MFA does. Mr. Brown replied the MFA allows states to impose sales tax on sellers that do not have a physical nexus in the state, such as mail order catalogues, telephone calls and online sales. Co-Chairman Mesnard questioned available data on the projected sales amount of these businesses. Mr. Brown stated that there is a very limited amount of financial data on the issue.

In response to Mr. Quinlan's question on an estimate of revenue, Mr. Brown advised the Committee that one study had a significant increase when pulling in figures from remote sales; however, there is concern about the magnitude estimate on e-commerce versus mail order catalogue and telephone call base.

Mr. Brown continued with the presentation, explaining that the MFA requires states to simplify their sales tax laws. Arizona must be in compliance with either the Streamlined Sales and Use Tax Agreement (SSUTA) or other alternative simplification requirements including establishing a uniform sales tax base throughout the state. He related Arizona is not currently a member state of SSUTA and has several areas which do not currently comply with the MFA guidelines, such as different tax bases at the city versus state level and the city use of tiered sales tax rates.

Mr. Brown stated that any revenue gain from the MFA or other e-commerce legislation will be derived from reducing non-compliance. He said that online sales from retailers outside Arizona are already subject to use tax but there is a significant amount of noncompliance. The MFA is intended to significantly affect noncompliance by requiring retailers to collect required taxes at the time of sale. Mr. Brown stated that noncompliance can vary depending on the following type of commerce: business-to-business (B2B) or business-to-consumer (B2C).

Mr. Brown cited the following potential sales tax revenue gains:

- University of Tennessee (UT) study estimated the total nationwide increase in state and local sales tax collections from e-commerce legislation to be \$11.4 billion in 2012.
- State and local sales tax gains in Arizona were estimated to be \$370 million with approximately \$190 million going to the GF.
- UT estimates included the impact of e-commerce only, not other remote sales like mail and phone orders.

Senator Farley related that a study conducted by the National Conference of State Legislators (NCSL) indicated that in 2012, the estimated sales tax loss for Arizona was over \$700 million.

Mr. Brown stated that he is aware of the study but has concerns with the magnitude of remote sales inclusions which doubles the amount found in the UT study.

Mr. Slivinski asked if the NCSL figures are for one year. Mr. Brown replied in the affirmative.

Mr. Brown continued the presentation, relating that the UT study may significantly overstate the potential revenue gain. He recommended JLBC staff work with the Executive to develop a state-generated estimate as opposed to relying on outside sources. Mr. Brown reviewed the following caveats of the UT estimates:

- UT study based on 2006 U.S. census data on nationwide amount of e-commerce.
- UT study assumes Arizona's share of U.S. e-commerce is 2.9 percent compared to 2.1 percent share of U.S. population.
- UT estimate assumes an overall e-commerce noncompliance rate of 25 percent.
- Noncompliance is by definition impossible to measure and is therefore highly uncertain.
- Uncertain impact of exempting smaller retailers given lack of data.

Co-Chairman Mesnard questioned the percentage attainment of Arizona's share of e-commerce. Mr. Brown stated that, in terms of relative personal income, factors such as population and cost of living are taken into consideration.

Mr. Brown directed the Committee to the potential revenue for B2C and cited the following statistics relating to Amazon:

- Amazon has started collecting sales tax for any goods sold to Arizonans.
- Based on U.S. Securities and Exchange Commission (SEC) filings, and the experience of Amazon in other states, JLBC staff estimated that the GF will gain an additional \$25 million in fiscal year (FY) 2014 from Amazon sales.
- State revenue gain from MFA will exclude Amazon sales.
- Amazon's market share of online sales highlights the need to better understand what types of sales MRA will impact.

Mr. Brown stated that Amazon has approximately \$60 billion of annual online sales which is larger than the subsequent 12 competitors combined, including Wal-Mart, Best Buy, Staples, Macy's, etc. He expressed the need to better understand the other types of e-commerce sales that the MFA will bring into compliance. In May 2013, the MFA bill passed out of the U.S. Senate, but its fate in the U.S. House of Representatives (U.S. House) remains uncertain. Mr. Brown said in preliminary sessions, the U.S. House is considering removing the small business exemption and there are unknown issues if MFA is enacted such as the implementation process, potential litigation and compliance costs. He said that the UT study appears to be overstated and the question remains on what collections remain in e-commerce with many B2B and B2C already in compliance.

Co-Chairman Mesnard commented that he heard the opposite on the small business exemption with the U.S. House considering increasing the amount collected by tenfold.

Mr. McCarthy questioned how the UT study took into account the states differing sales tax and the added incentive for people buying on the internet to avoid paying sales tax. Mr. Brown explained the study prorated the national e-commerce by using a relative base on the amount states collected for state and local sales tax. Mr. McCarthy mentioned the importance of analysis to inform the debate but stated collecting e-commerce sales tax will be problematic and is likely underestimated.

Ms. Ullmann provided an example on the difficulty of complying with Arizona's use tax for internet sales. She said that without a line item on the tax return, which was only available for one year in Arizona, to pay the tax, a person has to send a letter to ADOR with all the receipts attached.

Co-Chairman Mesnard stated that the line item was removed after one year due to public blowback.

Mr. Slivinski queried if the \$25 million Amazon collected is at the state tax rate and not the local tax rate. Mr. Brown answered in the affirmative.

Co-Chairman Mesnard clarified that Arizona is not set up to be part of the MFA because the state does not meet the requirements. Mr. Brown concurred and explained the process for the state to become qualified.

Comprehensive Income Tax Changes

Co-Chairman Mesnard reviewed a handout entitled Estimated Individual Income Tax Data Base Grown to 2014 (Attachment 4) and explained that the information compares the estimated tax under current Arizona tax law and the tax under proposed Arizona tax law. He stated that, after running numerous scenarios, a single rate tax system can be achieved without penalizing the lower and middle class. Co-Chairman Mesnard stated that the intent for the modeling is to focus on simplifying the tax code, attempt to mitigate the "winners/losers" problem, protecting populations and developing a simple overall tax structure.

Mr. Rounds stated interest in obtaining feedback from the small business community to address tax and regulation issues. He said that he would like a clear definition of the Committee recommendations and does not want to change tax policy unless it pertains to an area where it is necessary. Mr. Rounds suggested concentrating on ways to improve the economy and small business development.

Discussion ensued on bonus depreciation conformity, transaction privilege tax (TPT), MFA compliance, personal income tax and improving the overall tax system.

Senator Ward stated that in the district she represents, a majority of the population is in favor of a flat tax or a fair tax rate which allows everyone to pay into the system.

Co-Chairman Mesnard provided closing remarks stating that the intent is to arrive at making specific recommendations which will improve the overall tax system, eliminate unnecessary statutes and move toward a more stable single rate system.

Without objection, the meeting adjourned at 2:50 p.m.

Abby Selvey, Committee Secretary
November 1, 2013

(Original minutes, attachments and audio on file in the Office of the Chief Clerk; video archives available at <http://www.azleg.gov>)

VALUE OF INDIVIDUAL INCOME TAX EXPENDITURES

in millions

TAX YEAR	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
FEDERAL SUBTRACTIONS																
Educator expense/tuition fees deduction	---	---	---	---	---	---	---	---	---	---	---	\$2.44	\$2.71	---	---	---
Educator expense	---	---	---	---	---	---	---	---	---	---	---	incl above	incl above	\$0.48	\$0.66	\$0.54
Tuition and fees deduction	---	---	---	---	---	---	---	---	---	---	---	incl above	incl above	\$3.14	\$3.75	\$1.89
Archer MSA deduction	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	\$0.03
Certain business expenses for reservists, etc.	---	---	---	---	---	---	---	---	---	---	---	---	---	\$0.06	\$0.06	\$0.32
Individual Retirement Account for qualifying individuals	\$5.81	\$5.12	\$5.64	\$4.23	\$3.86	\$4.57	\$3.90	\$3.72	\$3.44	\$3.88	\$3.29	\$4.27	\$5.11	\$4.58	\$6.69	\$7.37
Student loan interest deduction	---	---	---	---	---	---	---	\$0.63	\$1.01	\$1.27	\$1.31	\$3.02	\$2.07	\$1.92	\$2.61	\$3.16
Health Savings Account deduction	---	---	---	---	---	---	\$0.32	\$0.02	\$0.00	\$0.03	\$0.20	\$0.07	---	\$0.07	\$0.27	\$0.63
Moving expenses	---	---	---	\$0.34	---	---	\$0.03	\$0.55	\$0.35	\$0.49	\$0.96	\$0.45	\$0.48	\$0.97	\$1.22	\$1.27
One-half of self-employment tax	\$5.23	\$4.32	\$5.51	\$6.10	\$5.10	\$5.21	\$6.07	\$6.33	\$6.88	\$7.02	\$5.94	\$7.23	\$8.25	\$9.51	\$9.76	\$9.73
Self-employed health insurance deduction	\$0.72	\$0.44	\$0.75	\$0.50	\$0.73	\$1.14	\$1.41	\$1.60	\$2.75	\$3.28	\$2.75	\$3.95	\$8.36	\$8.59	\$8.34	\$8.59
KEOGH retirement plan and self-employed SEP deduction	\$4.66	\$3.87	\$4.41	\$5.33	\$3.55	\$6.41	\$5.49	\$5.70	\$7.55	\$7.36	\$5.26	\$7.85	\$10.31	\$11.93	\$12.05	\$10.86
Penalty on early withdrawal of savings	\$0.35	\$0.55	\$0.03	\$0.06	\$0.12	\$0.07	\$0.10	\$0.04	\$0.03	\$0.17	\$0.02	\$0.06	\$0.03	\$0.02	\$0.31	\$0.15
Alimony paid	\$2.70	\$1.88	\$3.80	\$2.94	\$2.66	\$2.74	\$3.07	\$2.82	\$4.04	\$4.78	\$5.91	\$5.90	\$6.17	\$6.21	\$8.24	\$6.52
Jury duty pay	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	\$0.02
Domestic production activities deduction	---	---	---	---	---	---	---	---	---	---	---	---	---	---	\$3.54	\$4.24
Write-in adjustment	---	---	---	---	---	---	---	---	---	---	---	---	---	\$0.15	\$0.02	\$1.90
TOTAL COST OF FEDERAL SUBTRACTIONS	\$19.57	\$15.40	\$20.28	\$19.60	\$16.09	\$20.57	\$20.51	\$21.48	\$25.95	\$28.44	\$25.76	\$35.39	\$43.86	\$47.33	\$57.96	\$55.88
ARIZONA SUBTRACTIONS																
Interest on U.S. obligations	\$16.07	\$15.39	\$11.05	\$12.43	\$11.93	\$16.34	\$17.06	\$17.45	\$11.13	\$14.76	\$11.08	\$7.79	\$7.35	\$4.81	\$7.48	\$10.17
Exclusion for federal, Arizona or local pensions	\$7.33	\$9.51	\$8.29	\$8.35	\$6.40	\$8.28	\$6.90	\$7.53	\$7.81	\$7.81	\$7.17	\$9.20	\$7.19	\$8.72	\$9.15	\$8.17
Exempt Arizona lottery winnings	\$0.18	\$0.24	\$0.52	\$0.06	\$0.15	\$0.25	\$0.15	\$0.21	\$0.19	\$0.06	\$0.13	\$0.12	\$0.09	\$0.03	\$0.21	\$0.30
Social Security or Railroad Retirement benefits included in inc	\$15.30	\$16.08	\$18.37	\$25.99	\$25.30	\$31.80	\$36.71	\$40.65	\$47.92	\$56.41	\$52.14	\$55.67	\$59.97	\$68.55	\$80.05	\$87.03
Agricultural crop contributions	---	---	\$0.03	\$0.00	\$0.00	\$0.00	\$0.00	\$0.01	\$0.01	\$0.00	\$0.00	---	---	---	---	---
Alternative fuel vehicles and refueling equipment	---	---	---	---	---	---	\$0.00	\$0.00	\$0.00	\$0.00	---	---	---	---	---	---
Adjustment for bonus depreciation	---	---	---	---	---	---	---	---	---	---	---	\$0.57	\$2.67	\$36.02	\$39.33	\$43.65
Certain wages of Native Americans	---	---	---	---	---	---	\$6.37	\$7.18	\$3.12	\$7.92	\$6.58	\$4.81	\$14.43	\$9.65	\$12.38	\$18.34
Income tax refunds from other states	---	---	---	\$0.57	\$0.29	\$0.44	\$0.76	\$0.65	\$0.74	\$0.98	\$0.63	\$0.58	\$0.75	\$1.05	\$0.73	\$0.53
Deposits and employee contributions into med sav accts	---	---	---	---	\$0.16	---	\$0.01	\$0.01	\$0.03	\$0.01	\$0.01	\$0.01	\$0.15	\$0.04	\$0.06	\$0.03
Construction of an energy efficient residence	---	---	---	---	---	---	---	---	---	---	---	\$0.07	\$0.04	\$0.07	\$0.06	\$3.14
Active duty military pay	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	\$0.38
Other subtractions (from back of 140)	\$7.47	\$9.48	\$8.58	\$6.31	\$6.88	\$6.41	\$4.02	\$2.16	\$2.23	\$5.63	\$4.89	\$3.63	\$6.41	\$8.05	\$15.32	\$13.13
Elective Subtraction of 2000 fed retirement contributions	---	---	---	---	---	---	\$0.09	\$0.22	\$0.12	\$0.25	---	---	---	---	---	---
Elective Subtraction of 2003 fed retirement contributions	---	---	---	---	---	---	---	---	---	---	---	---	\$0.40	---	---	---
TOTAL COST OF ARIZONA SUBTRACTIONS	\$46.82	\$51.33	\$47.36	\$55.02	\$50.74	\$64.78	\$72.84	\$76.63	\$74.50	\$95.83	\$83.44	\$83.14	\$100.19	\$137.97	\$167.14	\$187.24
TYPE OF ARIZONA EXEMPTIONS																
Personal exemption	\$140.84	\$157.49	\$162.17	\$154.92	\$137.18	\$147.44	\$169.76	\$176.77	\$183.20	\$190.35	\$190.43	\$197.84	\$200.24	\$195.66	\$223.27	\$221.68
Preferential personal exemption for UHOH filers	\$6.52	\$7.39	\$7.82	\$7.28	\$6.16	\$7.49	\$7.71	\$8.30	\$8.97	\$9.94	\$9.95	\$10.57	\$11.21	\$11.95	\$12.90	\$13.09
Preferential pers exempt for married filers w/ at least 1 dep	---	---	---	---	---	---	\$23.15	\$23.19	\$23.34	\$23.85	\$25.22	\$26.92	\$26.75	\$27.51	\$29.60	\$27.80
Age 65 or older exemption	\$13.44	\$15.44	\$18.24	\$17.14	\$20.81	\$19.14	\$17.29	\$17.28	\$18.70	\$19.32	\$18.10	\$18.81	\$19.10	\$18.73	\$21.15	\$34.24
Dependent exemption	\$67.03	\$68.31	\$77.09	\$76.32	\$75.69	\$68.67	\$96.12	\$105.57	\$70.13	\$73.40	\$78.10	\$79.16	\$81.83	\$83.65	\$93.08	\$92.75
Blind exemption	\$0.19	\$0.16	\$0.17	\$0.20	\$0.20	\$0.30	\$0.23	\$0.27	\$0.25	\$0.23	\$0.26	\$0.23	\$0.20	\$0.34	\$0.22	\$0.22
Qualifying parent or ancestor exemption	---	---	---	---	---	---	---	---	\$0.98	\$1.79	\$1.43	\$2.00	\$1.59	\$2.16	\$3.46	\$1.75
TOTAL COST OF ARIZONA EXEMPTIONS	\$238.95	\$253.45	\$271.35	\$260.67	\$232.38	\$248.63	\$272.97	\$292.17	\$302.24	\$317.65	\$321.17	\$344.17	\$350.70	\$331.62	\$383.57	\$351.32

VALUE OF INDIVIDUAL INCOME TAX EXPENDITURES

	in millions																
TAX YEAR	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
FEDERAL ITEMIZED DEDUCTIONS																	
TAX DEDUCTIONS																	
State and local income taxes	\$48.53	\$52.03	\$57.27	\$61.76	\$56.66	\$65.14	\$68.87	\$77.17	\$85.65	\$94.60	\$92.82	\$91.72	\$91.77	\$105.97	\$153.45	\$153.64	
Real estate taxes	\$19.29	\$18.61	\$21.20	\$21.88	\$21.87	\$24.89	\$25.37	\$28.08	\$30.47	\$34.68	\$37.43	\$40.35	\$43.92	\$46.69	\$55.41	\$55.31	
Personal property and Other taxes	\$5.54	\$6.53	\$6.56	\$6.94	\$6.84	\$8.03	\$7.51	\$9.43	\$10.21	\$11.17	\$11.43	\$12.18	\$12.00	\$12.56	\$14.13	\$14.10	
COST OF TAXES PAID DEDUCTION	\$70.36	\$73.67	\$81.27	\$87.02	\$81.77	\$94.86	\$99.09	\$111.98	\$123.50	\$137.58	\$138.46	\$141.26	\$145.03	\$161.97	\$221.60	\$219.94	
INTEREST EXPENSE DEDUCTIONS																	
Home mortgage interest and points from form 1098	\$99.84	\$99.10	\$100.50	\$99.44	\$101.64	\$123.02	\$127.41	\$136.27	\$161.34	\$179.49	\$191.10	\$207.80	\$206.57	\$204.91	\$263.38	\$320.65	
Home mortgage interest not reported on form 1098	---	---	---	---	---	---	---	---	---	---	---	---	---	---	\$2.02	\$2.79	
Points not reported on form 1098	---	\$1.04	\$2.31	\$0.82	\$1.61	\$0.85	\$1.22	\$1.28	\$0.88	\$0.90	\$1.24	\$1.30	\$2.13	\$1.28	\$1.64	\$1.88	
Deductible investment interest	\$10.22	\$6.87	\$6.52	\$5.58	\$6.21	\$9.85	\$10.30	\$10.18	\$11.64	\$11.67	\$11.13	\$7.31	\$9.82	\$9.35	\$20.65	\$16.71	
COST OF INTEREST EXPENSE DEDUCTION	\$109.97	\$105.31	\$108.48	\$105.28	\$109.10	\$133.43	\$138.77	\$147.10	\$173.54	\$192.39	\$203.06	\$216.11	\$217.93	\$215.04	\$287.85	\$341.63	
CHARITABLE CONTRIBUTION DEDUCTIONS																	
Cash contributions	\$23.61	\$25.12	\$28.40	\$26.50	\$24.86	\$32.36	\$32.67	\$37.36	\$44.04	\$56.24	\$54.25	\$58.88	\$59.68	\$68.83	\$100.11	\$83.87	
Contributions other than cash	\$5.33	\$6.80	\$7.11	\$8.05	\$7.85	\$9.49	\$16.27	\$15.40	\$17.50	\$19.41	\$16.87	\$17.71	\$17.56	\$19.83	\$31.03	\$26.89	
Carryover from prior year	\$1.37	\$1.50	\$1.09	\$1.72	\$1.71	\$2.27	\$1.90	\$4.13	\$5.43	\$4.48	\$4.13	\$4.08	\$4.83	\$6.75	\$9.51	\$5.40	
COST OF CHARITABLE CONTRIBUTION DEDUCTION	\$29.99	\$32.52	\$36.49	\$36.16	\$34.45	\$44.12	\$50.79	\$56.73	\$66.90	\$79.01	\$75.07	\$79.73	\$82.02	\$95.09	\$140.89	\$115.99	
OTHER DEDUCTIONS																	
Medical and dental expenses	\$9.38	\$12.61	\$17.00	\$20.94	\$35.59	\$43.11	\$43.91	\$53.89	\$60.40	\$63.23	\$68.08	\$85.66	\$85.77	\$90.48	\$108.68	\$115.78	
Value of additional medical expenses allowed by Arizona															\$77.09	\$82.09	
Casualty or theft losses	\$0.11	\$0.83	\$1.13	\$0.11	\$0.78	\$0.08	\$0.10	\$0.98	\$0.10	\$0.20	\$0.20	\$0.88	\$0.78	\$5.43	\$2.10	\$0.66	
Moving Expenses	\$0.31	\$1.49	\$2.32	---	---	---	---	---	---	---	---	---	---	---	---	---	
Job expenses and most other miscellaneous deductions	\$14.70	\$16.74	\$18.74	\$15.71	\$16.13	\$16.86	\$14.87	\$23.22	\$25.96	\$29.36	\$5.88	\$7.60	\$34.37	\$44.84	\$43.50	\$44.95	
Other miscellaneous deductions (nonlimited - except gambling)	\$1.95	\$1.56	\$2.65	\$2.27	\$2.87	\$4.30	\$3.92	\$5.24	\$9.19	\$6.10	\$11.27	\$32.71	\$15.28	\$20.32	\$16.92	\$23.06	
Nonlimited gambling losses	incl above	\$2.83	---														
COST OF ALL FEDERAL ITEMIZED DEDUCTIONS	\$165.53	\$165.42	\$180.63	\$178.62	\$189.97	\$228.94	\$243.71	\$280.50	\$327.33	\$368.93	\$353.69	\$397.20	\$421.85	\$450.03	\$648.61	\$674.97	
ARIZONA STANDARD DEDUCTION																	
Preferential standard deduction for uhoh filers	\$136.04	\$146.99	\$149.13	\$142.06	\$124.52	\$127.25	\$126.10	\$134.00	\$132.38	\$133.30	\$149.44	\$156.34	\$161.81	\$146.03	\$178.28	\$158.47	
	\$8.95	\$9.41	\$10.41	\$9.72	\$7.98	\$9.53	\$9.89	\$10.64	\$11.26	\$12.38	\$13.44	\$14.32	\$15.12	\$15.56	\$18.07	\$18.28	
COST OF AZ STANDARD AND FED ITEMIZED DEDUCTIONS	\$442.11	\$404.76	\$468.64	\$451.77	\$441.60	\$500.25	\$509.74	\$560.79	\$617.94	\$671.89	\$695.00	\$758.08	\$788.03	\$745.83	\$1,065.08	\$1,103.81	

SUMMARY OF ESTIMATED IMPACTS OF MATCHING AZ INCOME TAX CALCULATION TO FEDERAL INCOME TAX CALCULATION

FAGI At Least But Less Than	(A)	(B)	(C)	(D)	(E)	(F)	(G)
	No AZ additions to income	No AZ subtractions (except fed required)	Match federal standard deduction blind, & over \$5	Match federal personal exemptions	Match federal itemized deductions	No AZ family tax credit	Match all federal additions, subtractions, deductions, exemptions
Negative FAGI	-100.0%	1070.6%	-0.4%	-10.1%	0.0%	8.4%	-100.0%
\$ 0 - \$ 10,000	-21.0%	42.5%	-86.3%	-36.9%	0.8%	298.3%	207.5%
10,000 - 20,000	-1.0%	4.7%	-13.4%	-25.2%	1.0%	3.9%	-23.6%
20,000 - 25,000	-1.5%	3.9%	-4.5%	-21.2%	1.2%	1.4%	-20.2%
25,000 - 30,000	-0.7%	3.5%	-3.9%	-18.4%	1.4%	0.7%	-16.4%
30,000 - 40,000	-1.1%	4.4%	-2.8%	-14.9%	2.0%	0.1%	-11.7%
40,000 - 50,000	-1.7%	5.2%	-1.5%	-12.3%	3.2%	0.0%	-7.2%
50,000 - 75,000	-1.5%	7.6%	-0.6%	-9.7%	4.2%	0.0%	-0.5%
75,000 - 100,000	-1.7%	7.5%	0.2%	-7.7%	4.3%	0.0%	1.7%
100,000 - 200,000	-2.4%	4.9%	0.3%	-4.3%	3.6%	0.0%	2.0%
200,000 - 500,000	-2.3%	3.0%	0.3%	-1.3%	2.0%	0.0%	1.7%
500,000 - 1,000,000	-2.5%	3.0%	0.1%	1.3%	0.7%	0.0%	2.0%
1,000,000 - 5,000,000	-2.1%	1.6%	0.0%	0.4%	0.4%	0.0%	0.3%
Over \$5,000,000	-1.2%	0.7%	0.0%	0.1%	0.0%	0.0%	-0.4%
TOTAL % CHANGE FROM BASE	-2.0%	4.6%	-0.4%	-4.9%	2.5%	0.2%	-0.3%
TOTAL \$ CHANGE FROM BASE	(\$75,861,895)	\$175,273,142	(\$13,823,673)	(\$187,806,708)	\$96,759,241	\$9,472,931	(\$10,609,053)

CURRENT TAX is 2013 state law with 2013 federal tax rates, exemptions and deductions. The tax rates are set out below. The AZ personal exemption is \$2100. It is \$6300 for a married couple with at least one dependent. The AZ dependent exemption is \$2,300; blind \$1,500 and over 65 \$2,100; and the AZ standard deduction is \$4945/\$9883. A tax credit of \$40/person (\$40 for uhoh) is allowed, up to \$120 for single/mfs and \$240 for married and uhoh. Income must be \$31,000 or less for m/fj, \$26,575 for uhoh, and \$10,000 for single. ALL OTHER CREDITS ARE NOT INCLUDED IN THE DATABASE.

The subtraction for long term capital gains (beginning TY2013) is not included in the model at this time - JLBC estimated total cost of (\$17.5m) in tax year 2013.

Tax Rate Schedule

Single / Married	Current
\$0-10k / \$0-20k	2.59%
10k-25k / 20k-50k	2.88%
25k-50k / 50k-100k	3.36%
50k-150k / 100k-300k	4.24%
\$150k & over / \$300k & over	4.54%

PROPOSED CHANGES

- (A) **No AZ additions to income:** eliminates additions for non AZ municipal interest, ordinary income portion of lump-sum distributions, total federal depreciation (bonus depreciation adj), MSA distributions, IRC 179 excess expenses, other additions.
- (B) **No AZ subtractions:** eliminates subtractions for fed/state/local pensions, AZ lottery winnings, social security, recalculated depreciation, income tax refund from other states, MSA contributions, active duty military pay, other subtractions.
Federally required subtractions remain (interest on US obligations, RR retirement, and certain wages of American Indians).
- (C) **Match Federal standard deduction:** standard deduction of s/mfs \$6100, m/fj \$12,200, hoh \$8950, includes blind exemption of s/hoh \$1500, m/fj/mfs \$1200 and over 65 exemption of s/hoh \$1500, m/fj/mfs \$1199.
- (D) **Match Federal personal exemptions:** \$3900 per exemption (replaces separate AZ personal exemption and dependent exemption) and limited if FAGI > \$150,000.
- (E) **Match Federal itemized deductions:** no additional medical
- (F) **No AZ family tax credit:** eliminates only AZ family tax credit from calculation.
- (G) **Match all Federal additions, subtractions, deductions and exemptions:** Uses Federal Taxable Income as starting point instead of FAGI, no family tax credit.

QUALIFIER: The database used for this model was chosen based on Arizona tax liability and filing status, and not on any smaller groups within the whole population. Therefore, the impact shown here are guidelines and should not be considered exact representations of the impact.

NOTE THAT THE MODEL RESULTS PROVIDED ABOVE HAVE REDUCED RELIABILITY DUE TO THE AGE OF THE MODEL DATABASE.

Internet Sales Taxation

**Presentation to the
Joint Task Force on Income Tax Reform**

October 17, 2013



What is the Marketplace Fairness Act?

- 1992 U.S. Supreme Court decision stated that absent federal legislation, states could not collect sales tax from retailers with no physical presence (“nexus”) in their state
- Marketplace Fairness Act is Federal legislation that would enable states to collect sales tax from those remote retailers with no nexus in their state
- Remote sellers include online and catalogue retailers
- Retailers with less than \$1 million in remote sales annually would be exempted

MFA Requires States to Simplify Their Sales Tax Laws

- State must be in compliance with either:
 - The Streamlined Sales and Use Tax Agreement – Arizona is not currently a member state of SSUTA
 - Other alternative simplification requirements, including establishing a uniform sales tax base throughout the state

- Does Arizona currently meet the simplification mandates under MFA?
 - Several areas which do not currently comply with the MFA guidelines: different tax bases at the city vs. state level, and city use of tiered rates (such as lower tax rate for single large purchases)

Any Revenue Gain From Marketplace Fairness Act Would Come From Reducing Non-Compliance

- Online sales from retailers outside Arizona are already subject to use tax – however there is a significant amount of non-compliance
- MFA is intended to significantly affect non-compliance by requiring retailer to collect required tax at time of sale
- Non-compliance can vary depending on type of commerce
 - Business-to-business (B2B) or business-to-consumer (B2C)

What Are The Potential Sales Tax Revenue Gains?

- University of Tennessee study estimated the total nationwide increase in state and local sales tax collections from e-commerce legislation to be \$11.4 billion in 2012
- State and local sales tax gains in Arizona were estimated to be \$370 million (State share = \$190 M?)
- UT estimates included the impact of e-commerce only, not other remote sales (e.g., mail and phone orders)

UT Study Probably Significantly Overstates Potential Revenue Gain

- ❑ Numerous caveats associated with UT estimation
- ❑ Alternative study reached much different conclusion – total Arizona revenue gain estimated at \$98 M
- ❑ Given challenges, we recommend JLBC Staff work with the Executive to develop state-generated estimate.

What Are Some of the Caveats of the UT Estimates?

- Differing Estimates on Amounts of E-Commerce

- UT Study based on 2006 U.S. census data on nationwide amount of e-commerce
 - Is UT assumption of 9% annual growth (2007 – 2012) in online sales reasonable?
 - Or will growth rates slow as most households gain broadband internet access?
- Arizona's share of US e-commerce – UT study assumes 2.9% compared to 2.1% share of US population

What Are Some of the Caveats of the UT Estimates? (Continued)

- UT estimate assumes an overall e-commerce non-compliance rate of 25%
 - Business-to-business transactions already typically viewed as having a low non-compliance rate
 - Growth of “brick and click” (online sales from traditional stores) tends to reduce business-to-consumer (B2C) non-compliance
 - Is there enough overall non-compliance to generate estimated revenue gains?
- However, non-compliance is by definition impossible to measure and is therefore highly uncertain
- Uncertain impact of exempting smaller retailers given lack of exact data

Amazon Already Collects Arizona Sales Tax

- Amazon has started collecting sales tax for any goods sold to Arizonans
- Based on SEC filings, and the experience of Amazon in other states, JLBC Staff estimated that General Fund would gain an additional \$15 million in FY 2014 from Amazon sales.
- Therefore, any state revenue gain from MFA would exclude Amazon sales.
- Amazon's market share of online sales highlights need to better understand what types of sales MFA would impact

Other Issues

- MFA bill (S. 743) passed out of U.S. Senate in May but its fate in the U.S. House remains uncertain.
- U.S. House is considering removing the small business exemption.
- Unknown issues such as implementation process, litigation and compliance costs if MFA were enacted

Interim agendas can be obtained via the Internet at <http://www.azleg.state.az.us/InterimCommittees.asp>

ARIZONA STATE LEGISLATURE

INTERIM MEETING NOTICE OPEN TO THE PUBLIC

JOINT TASK FORCE ON INCOME TAX REFORM

Date: Thursday, November 7, 2013

Time: 1:30 P.M.

Place: HHR 3

AGENDA

1. Call to Order
2. Specific Income Tax Changes
 - Arizona Department of Revenue - Individual Income Differences Between Arizona and Federal Tax Code
3. Comprehensive Income Tax Changes
 - Arizona Department of Revenue - Model Presentations
4. Discussion and Recommendations
5. Public Testimony
6. Adjourn

Members:

Senator Steve Yarbrough, Co-Chair
 Senator Steve Farley
 Senator Kelli Ward
 Barry Broome
 Kevin McCarthy
 Farrell Quinlan
 Aimee Rigler

Representative Javan Mesnard, Co-Chair
 Representative Debbie Lesko
 Representative Eric Meyer
 Representative Bruce Wheeler
 Jim Rounds
 Stephen Slivinski
 Peggy Ullmann

11/5/13
 11/7/13
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ARIZONA STATE LEGISLATURE

INTERIM MEETING NOTICE OPEN TO THE PUBLIC

JOINT TASK FORCE ON INCOME TAX REFORM

Date: Thursday, November 21, 2013

Time: 9:00 A.M. 1:30 P.M. ←

Place: HHR 3

AGENDA

1. Call to Order
2. Specific Income Tax Changes
 - Individual Income Tax Expenditures - Estimated Change in Tax Liability
 - Simplifying Arizona Income Tax Survey Suggestions - Walter Dudley, President of Arizona Society of Practicing Accountants
3. Comprehensive Income Tax Changes
4. Discussion and Recommendations
5. Public Testimony
6. Adjourn

Members:

Senator Steve Yarbrough, Co-Chair
 Senator Steve Farley
 Senator Kelli Ward
 Barry Broome
 Kevin McCarthy
 Farrell Quinlan
 Aimee Rigler

Representative Javan Mesnard, Co-Chair
 Representative Debbie Lesko
 Representative Eric Meyer
 Jim Rounds
 Stephen Slivinski
 Peggy Ullmann

11/19/13
JJB

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ARIZONA STATE LEGISLATURE

JOINT TASK FORCE ON INCOME TAX REFORM

Minutes of the Meeting
November 7, 2013
1:30 p.m., House Hearing Room 3

Members Present:

Senator Steve Yarbrough, Co-Chair
Barry Broome
Kevin McCarthy
Farrell Quinlan
Aimee Rigler

Representative Javan Mesnard, Co-Chair
Representative Debbie Lesko
Representative Eric Meyer
Jim Rounds
Stephen Slivinski
Peggy Ullmann

Members Absent:

Senator Steve Farley
Senator Kelli Ward

Staff:

Jeanine Jones, House Research Analyst
Casey Baird, House Assistant Research Analyst
Bill Ritz, Senate Research Analyst

Co-Chairman Mesnard called the meeting to order at 1:35 p.m. and attendance was noted.

Representative Mesnard discussed his vision for the Committee. He stated that the Committee is reviewing the Arizona income taxing system looking for inefficiencies, obsolescence and ways to improve the system. Representative Mesnard explained changes may or may not be revenue neutral.

Specific Income Tax Changes

Karen Jacobs, Economist, Arizona Department of Revenue (ADOR), distributed handouts entitled "Comparison of Arizona Individual Income Tax Provisions that Differ from Federal Individual Income Tax" (Attachment A) and "Estimated Individual Income Tax – 2006 Data Base Grown to 2014" (Attachment B). Ms. Jacobs discussed the information in the handouts and explained that the information is not complete as it is still being compiled but is expected to be completed in a couple of weeks. Ms. Jacobs answered questions posed by the Committee.

The Committee discussed the information provided by Ms. Jacobs from ADOR.

Representative Mesnard discussed a handout entitled "Nonconforming Legislation" (Attachment C) regarding obsolescence of certain A.R.S. sections and possible repeal.

The Committee discussed the degree of specificity for Committee recommendations for income tax reform.

Comprehensive Income Tax Changes - Model Presentations

Representative Mesnard distributed three models entitled "Estimated Individual Income Tax – 2006 Data Base Grown to 2014" (Attachment D) and discussed the possibilities and impact.

The Committee discussed the Utah taxing system and how to proceed with potential changes to the Arizona taxing system.

Discussion and Recommendations

The Committee discussed tax credits and exploring options and difficulties in modeling credits including the future impact of small changes.

Representative Mesnard recommended that the Legislature remove A.R.S. 43-1021, paragraph 4 and 43-1022, paragraph 8 with no objections.

Representative Mesnard recommended that the Legislature remove A.R.S. 43-1021, paragraph 7 and 43-1022, paragraph 11 with no objections.

Farrell Quinlan seconded both recommendations. The recommendations passed.

Representative Mesnard raised some issues regarding A.R.S. 43-1022, paragraph 4 and whether it was obsolete. Ms. Jacobs responded she would get the information for the Committee.

The Committee discussed setting guidelines for Committee recommendations and future goals for the taxing system in Arizona and discussed information requests for future meetings.

There being no further business, the meeting was adjourned at 3:03 p.m.

Respectfully submitted,

Shelley Ponce
Committee Secretary

(Audio recordings and attachments are on file in the Secretary of the Senate's Office/Resource Center, Room 115. Audio archives are available at <http://www.azleg.gov>)

**COMPARISON OF ARIZONA INDIVIDUAL INCOME TAX PROVISIONS THAT DIFFER FROM
FEDERAL INDIVIDUAL INCOME TAX**

Estimated change in total Arizona tax liability (resident filers only) when conforming to the federal level of each provision

	Notes		TAX YEAR
	Federal	Arizona	2006 in millions
ADDITIONS TO INCOME			
Non-Arizona municipal interest excluded on fed return			(\$15.98)
Ordinary income portion of lump-sum distributions excluded on fed return			(\$0.11)
Total federal depreciation deducted on fed return		non conformity adjustment	(\$31.76)
Medical savings account (MSA) distributions			(\$0.00)
IRC Section 179 expense deducted on fed return in excess of allowable amount		non conformity adjustment	(\$9.77)
Other additions to income			(\$4.81)

SUBTRACTIONS FROM INCOME

Interest on U.S. obligations		federally required	\$10.17
Exclusion for federal, Arizona or local pensions		\$2,500 per taxpayer	\$8.17
Exempt Arizona lottery winnings included as income on fed return		up to \$5,000	\$0.30
SS or RR benefits included on fed return			\$67.03
Estimated Social Security portion			\$67.03
Estimated Railroad Retirement benefits portion		federally required	\$20.00
Recalculated Arizona depreciation		non conformity adjustment	\$43.65
Certain wages of Native Americans		federally required	\$18.34
Income tax refunds from other states			\$0.53
Deposits and employee contributions into medical saving accts (MSA)			\$0.03
Active duty military pay included in FAGI			\$0.38
Other subtractions from income			\$13.13

EXEMPTIONS

Personal exemption	\$3,300 per exemption (limited if FAGI over \$112,875)	\$2,100 s/mfs \$4,200 mfj \$6,300 mfj w/at least 1 child \$4,200 hoh \$3,150 mfs w/at least 1 child	(\$43.82)
Preferential personal exemption for hoh filers	na	\$4,200 hoh	\$13.09
Preferential personal exemption for married filers w/at least 1 child	na	\$6,300 mfj w/at least 1 child \$3,150 mfs w/at least 1 child	\$27.80
Age 65 or older exemption	\$1,000 mfj/mfs per exemption \$1,250 s/hoh per exemption	\$2,100 per exemption	\$10.09
Dependent exemption	\$3,300 per exemption	\$2,300 per exemption	(\$37.85)
Blind exemption	\$1,000 mfj/mfs per exemption \$1,250 s/hoh per exemption	\$1,500 per exemption	\$0.06
Qualifying parent or ancestor exemption	na	\$10,000 per exemption	\$1.75

**COMPARISON OF ARIZONA INDIVIDUAL INCOME TAX PROVISIONS THAT DIFFER FROM
FEDERAL INDIVIDUAL INCOME TAX**

Estimated change in total Arizona tax liability (resident filers only) when conforming to the federal level of each provision

	Notes		TAX YEAR
	Federal	Arizona	2006 in millions
ITEMIZED DEDUCTIONS			
Value of additional medical expenses allowed by Arizona	cap at 7.5% of FAGI	100% allowed	\$82.09
Adjustment to interest deduction for federal credit for interest paid on mortgage credit certificates		may deduct amount of mortgage int paid equal to federal credit	\$0.04
Adjustment to gambling losses		may deduct wagering losses only to the extent of wagering gains	(\$0.51)
Adjustment to charitable contributions		may not claim a credit and deduction for same donation	(\$2.55)
Adjustment for federal itemized deduction that relates to income not subject to Arizona tax		may not deduct an expense related to income not subject to AZ tax	(\$5.68)

STANDARD DEDUCTION

Standard deduction	\$5,150 s/mfs \$10,300 mfj \$7,550 hoh	\$4,247 s/mfs \$8,494 mfj/hoh	(\$22.39)
Preferential standard deduction for hoh filers		\$8,494 hoh	\$18.28

Individual Income Tax Expenditures – Estimated Change in Tax Liability

The following data was gathered from AZ resident efile and 2D bar code returns for tax years 2010 and 2011. The estimated change in tax liability was calculated using the effective tax rate for this group of returns in total (TY2010 = 3.41%, TY2011 = 3.48%) and was not calculated on each return within the group.

	in millions	<u>TY 2010</u>	<u>TY 2011</u>
ARIZONA ADDITIONS TO INCOME			
Non-Arizona municipal interest		(\$15.73)	(\$14.03)
Early withdrawal of Arizona retirement system contributions		\$0.00	\$0.00
Ordinary income portion of lump-sum distributions		(\$0.11)	(\$0.10)
Total federal depreciation (bonus depreciation adjustment)		(\$56.00)	(\$54.79)
Medical savings account (MSA) distributions		(\$2.16)	(\$0.02)
IRC Section 179 expense in excess of allowable amount		(\$5.71)	(\$5.01)
Other additions to income		(\$8.07)	(\$7.71)

ARIZONA SUBTRACTIONS			
Interest on U.S. obligations		\$4.13	\$3.74
Exclusion for federal, Arizona or local pensions		\$11.00	\$11.53
Exempt Arizona lottery winnings		\$0.18	\$0.16
Social Security or Railroad Retirement benefits included in inc		\$121.25	\$124.44
Adjustment for bonus depreciation		\$52.83	\$49.93
Certain wages of Native Americans		\$22.06	\$22.24
Income tax refunds from other states		\$0.63	\$0.52
Deposits and employee contributions into med sav accts		\$0.04	\$0.04
Construction of an energy efficient residence		\$0.09	---
Active duty military pay		\$16.71	\$20.07
IRC 179 expenses not allowed		incl in other	\$5.36
Other subtractions		\$21.86	\$9.46

Estimated Cost of Conforming to Federal Bonus Depreciation

- Using data reported on AZ resident individual income tax returns filed for TY 2010 and 2011:
 - Estimated cost from \$3.2 million to \$4.9 million for individual income.
- The above estimate does not include the cost of conforming to the federal bonus depreciation for corporate income tax. Using data reported on AZ corporate income tax returns filed for TY 2010:
 - Estimated cost of \$85 million for corporate income.

Joint Task Force on Income Tax Reform November 21, 2013

Simplifying Arizona Income Tax Survey

Arizona Society of Practicing Accountants 9/25/13

Issues raised by 16 respondents												total	
allow e-filing for business entities	1	1	1	1	1	1	1	1	1	1	1	1	12
match AZ audit period to federal 3 yr.	1			1				1		1	1	1	6
cryptic ADOR notices, need more detail				1	1								2
have AZ conform to federal tax rules	1		1					1	1	1	1		7
more ADOR staff	1												1
use e-mail for tax updates	1												1
process power of attorney faster	1												1
have state itemizing = federal itemizing				1	1					1	1		4
have state tax ss = federal				1									1
bring back use tax entry					1								1
retain generous AZ medical deductions					1	1				1	1		4
simplify tax credits													0
eliminate school tuition tax credit								1					1
have AZ extended dues dates = federal										1	1	1	3
permit ADOR to talk with preparer w/o power of attorney, like CA										1			1
its not broke, don't need to fix it											1		1

Additional comments on ADOR notices

Wonus: I would love to see ADOR include complete explanations on all changes they make

Sumiko: I thought it was the norm. I can't figure out how many letter or bills have no explanation.

Griffin: ADOR notice is not clear on the year and form it pertains to. Refund checks lack what the refund is for.

Nelson: Was told by ADOR I would have to go to Phoenix to obtain a detailed statement. ADOR told client who was making monthly payments to quit and only make monthly payments so the collectors job would be easier. ADOR said they won't issue a statement showing a credit until all returns are filed. ADOR messages lacking a name.

Sabbagh: Have 4 adjusted refunds with only 1 having the appropriate enclosures. Not allowed to fax POA's for real-time resolution. Must wait till faxed POA has been processed.

Schapiro: ADOR final notice before collection does not explain the issue.

Lukey: I can't remember ever seeing an ADOR letter that has had an explanation of changes.

Visco: ADOR collection letter has no detail as to why there is a problem. Auditor said they were not able to give any detail to the taxpayer regarding the IRS change that resulted in the ADOR collection notice.

Walter F Dudley, ABA, EA Arizona Society of Practicing Accountants

DUDLEY & HOLOMON, INC.

WALTER F. DUDLEY, EA, ABA, ATA

CAROLYNN A. HOLOMON, EA, ABA, ATA

September 30, 2013

Representative J.D. Mesnard
Arizona House of Representatives
1700 W. Washington St.
Office 220
Phoenix, AZ 85007

Dear Representative Mesnard:

Attached are 16 Simplifying Arizona Income Tax Survey's that attendees submitted at last week's business in depth income taxation seminar.

On November 6+7 (Mesa) and December 4+5 (Tucson) we are having our 1040 income tax seminars. Our Mesa seminar would have 200 to 300 attending and Tucson would have 100 to 150. Let us know if you would like to address and survey these attendees. Let us know if you would like the survey changed.

Sincerely,



Walter Dudley, President
Arizona Society of Practicing Accountants

Member National Society of Accountants
Member Arizona Society of Practicing Accountants

Simplifying Arizona Income Tax Survey

Arizona Society of Practicing Accountants September 25&26, 2013

The Arizona legislature is in the midst of looking at ideas to simplify our state income tax rules. A joint Senate House task force has been meeting this fall to address this matter. Representative JD Mesnard co-chair's this task force.

Simplification is being considered in two veins. One is looking for simple fixes to existing tax laws and the other is looking at major tax law changes.

Some simple changes might be having AZ audit periods match the IRS audit periods or having the same partnerships and corporations extension filing dates as the IRS. Some have suggested eliminating itemized deductions on state returns.

Your suggestions are requested. Return this survey to the ASPA table. /

E file business Returns

conforming to IRS Code - except Medical
have more AZOR Reps on Tax Practitioner Line
faster processing on POA's
provide e services for state
provide AZ tax updates via email

Marta Neely
Name (optional)

mneely@freestoneaccounting
E-mail (optional)

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Business - E-File return piggyback w/ Fed.
also align better with Federal

Name (optional)

E-mail (optional)

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MATCH AZ AUDIT PERIOD WITH FEDERAL

E-FILING OF BUSINESS TAX RETURNS

FULL FEDERAL COMPLIANCE INCLUDING SECT 179 DEPRECIATION

EXPLANATION OF CHANGES TO TAXPAYER

ACCOUNTS VIA LETTERS - LETTERS NOW DO NOT
INCLUDE SUFFICIENT EXPLANATION OF
CHANGES

Name (optional)

E-mail (optional)

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- TPT Post Marked THE LAST DATE OF THE MONTH
FOLLOWING THE END DATE eg JAN TPT DUE LAST DATE OF
FEB POST MARK - SAME AS IRS
 - TAXPAYERS WHO ARE UNDER \$500.00 TPT BE
 - QUARTERLY REPORTERS; Eg JAN-FEB-MAR DUE APR '30
C-FILE BUSINESS RETURNS - SAME AS IRS
- IN SHORT - SAME REPORTING SCHEDULE
AS IRS POST MARK DUE DATES

Post
MARK
SAME
AS
IRS

Name (optional)

E-mail (optional)

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The more generous medical is good for
Seniors, please keep.

Simplify credits: A Form for each credit,
& a transition form that reads on to ~~former~~
AZ Form 140. STOP Killing trees.

AZ TAXES.gov IS good unless you need to change
Banking information, etc.
E-file Business Return.

Valerie
Name (optional)

E-mail (optional)

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— PLEASE ELIMINATE THE PRIVATE SCHOOL TUITION ORGANIZATION CREDIT. MOST PRIVATE SCHOOLS ARE RELIGIOUS AND WE NEED TO KEEP CHURCH & STATE SEPARATE. —

— ACCEPT BUSINESS RETURNS ELECTRONICALLY —

DOUG RADER
Name (optional)

DOUG BRADER CPA.COM
E-mail (optional)

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Electronic Filing of Business Returns

Foster problem resolution

Remove factoring in contracting (sales tax)

Simulate federal elections (Sec 179)

Hector M. Harbock

Name (optional)

E-mail (optional)