Historical Tax Law Changes

Individual Income Tax

Laws 1933, Chapter 39 imposed the first Arizona State Income Tax. The tax was levied on net taxable income. Net taxable income was determined by subtracting authorized deductions from the taxpayer's gross income. The tax rates that were imposed on each incremental level of taxable income are shown in Exhibit I. These rates were used to determine the taxpayer's initial liability. Taxpayers were allowed to claim a credit against this liability in the following amounts:

1. An individual filer $8.00
2. A husband and wife or the head of a family $17.50
3. Each dependent child under 18 and other qualifying dependents $4.00
4. Each dependent child under 18 in a family headed by a widow or widower an additional $4.00

The tax imposed by this law was payable to the State Tax Commission on March 15 of each year or 75 days after the close of the taxpayer's fiscal year. If the tax was paid in two installments, the second installment came due 90 days after the original due date. For the 1933 calendar year, the tax was based on one-half of the net income for 1932 and was due and payable on June 15, 1933 or 75 days after the close of the taxpayer's fiscal year. This law was effective June 13, 1933. Due to a referendum filed on June 10, 1933, the effective date of this law was postponed until the law could be approved by the voters at the next general election. The law was subsequently repealed before the election could be held.

Laws 1933, 1st Special Session, Chapter 8 repealed the law passed in the regular session and imposed a tax that was substantially the same in its place. Under the new law, the rate of graduation for the tax on personal incomes was less sharp and the rate was 1% lower for incomes in the highest bracket (see Exhibit I). Collections from the tax imposed by this law were remitted to the State Treasurer who deposited all contested payments in an Income Tax Suspense Fund. Ten percent of the remaining collections, or a maximum of $20,000, was also dedicated to the Suspense Fund. (E - June 26, 1933)

Laws 1935, Chapter 80 increased the amount that filers could deduct from their tax liability. The deduction for individual filers was increased from $8.00 to $10.00. The deduction for a husband and wife or the head of a family was increased from $17.50 to $20.00. These changes were effective March 25, 1935. A share of the income tax revenues (not to exceed 4%) was allocated to the State Tax Commission for administration of the tax. The unexpended balance of this amount reverted to the state General Fund on December 31 of each year. The change in the distribution was effective July 1, 1935.

Laws 1944, 2nd Special Session, Chapter 10 exempted from taxation the first $1,500 earned by members of the United States Armed Forces or United States Merchant Marine. This provision was effective until six months after the U.S. was no longer at war with any nation (E - March 17, 1944).

Laws 1952, Chapter 136 changed the due date for payment of the Individual Income Tax. For taxpayers who keep records on a calendar year basis, the due date was changed from March 15 to April 15. For taxpayers who keep records on a fiscal year basis, the due date was extended to 105 days after the close of the fiscal year. For taxpayers paying in two installments, the due date for the second installment was changed to 75 days after the original due date (E - March 26, 1952).

Laws 1954, Chapter 65 repealed the Income Tax Act of 1933 and all amendments to the act. The 1954 act imposed a new income tax closely patterned after the Federal Income Tax. The law authorized taxpayers to use a standard deduction in lieu of itemizing deductions if they chose to do so. It also established personal exemptions for taxpayers and additional exemptions for blind persons, dependents and for estates and trusts. The credits against tax liability that were included in the 1933 laws were omitted from the new law. The tax rates on personal income were
increased as shown in Exhibit I. Individuals paying the tax on a gross annual income of less than $5,000 were given the option of computing the amount due by using the optional tax table. To facilitate collection of the Income Tax, a system of withholding was established. Under this system, employers were required to withhold one-half of 1% of all wages paid to employees. Withholding collections from the previous quarter were forwarded to the state on or before the last day of April, July, October and January. The balance of the tax (after withholding was paid) was due to the State Tax Commission on April 15 or on the 15th day of the fourth month after the close of the taxpayer's fiscal year. Alternatively, the balance of the tax due could be paid in three installments. The first installment was paid on the due date, the second was paid four months after the due date and the third was paid eight months after the due date. Gross proceeds from the new Income Tax were distributed as follows:

(1) 25% to the Income Tax Fund from which refunds were issued.
(2) 75% to the state General Fund.

On June 30 of each year, any amounts that remained in the Income Tax Fund in excess of $200,000 were to revert to the state General Fund. (E - July 9, 1954 and Applicable to Tax Years From and After December 31, 1953)

Laws 1962, Chapter 24 excluded from gross income certain amounts received as annuities under the United States Civil Service Retirement System when these amounts were paid from the Retirement and Disability Fund. Such exclusions were allowed in amounts up to $2,500 annually. (E - June 21, 1962)

Laws 1962, Chapter 100 provided an additional $1,000 exemption for persons age sixty-five and older. (E - June 21, 1962)

Laws 1965, Chapter 79 placed a restriction upon tax credits allowed for taxes paid to other states or foreign countries. (ETYBFA - December 31, 1964)

Laws 1965, 3rd Special Session, Chapter 10 increased the income tax rates and provided for a corresponding increase in tax liability under the optional tax table. The new tax rates established by this law are shown in Exhibit I. The withholding tax rate was increased to .66% of employee wages. (E - July 1, 1965)

Laws 1967, 3rd Special Session, Chapter 1 increased the amount withheld from employee wages from .66% to 1%. (E - January 1, 1968)

Laws 1967, 3rd Special Session, Chapter 7 increased the income tax rates. The rate changes are illustrated in Exhibit I. Tax Liability under the optional tax table was also increased. (E - January 1, 1968)

Laws 1968, Chapter 50 allowed an accelerated rate of amortization for equipment and machinery used in the prevention or control of air and water pollution. (E - June 20, 1968)

Laws 1969, Chapter 130 conformed state law with existing federal provisions for determining depreciation allowances. For assets used in trade or business, the law authorized taxpayers to claim 20% of the cost of the asset as the first year's depreciation. The maximum amount that could be claimed as first year depreciation under this provision was limited to $10,000 or $20,000 for married taxpayers filing jointly. The provision that allowed businesses to carry back net operating losses was repealed and taxpayers were authorized to carry net operating losses forward for a period of five years. The law also changed the amount withheld from employee paychecks to equal 10% of the amount withheld by the federal government for income tax purposes (E - January 1, 1970).

Laws 1971, Chapter 128 allowed single individuals, heads of households, trusts, estates, or married individuals filing jointly to claim a $1,000 capital loss deduction in addition to the amount offset by capital gains. A similar deduction of $500 was also allowed for married individuals filing separately. (E - for Tax Years Beginning From and After December 31, 1970)

NOTE: An initiative measure approved November 7, 1972 established an urban revenue sharing fund and provided that all incorporated cities and towns in Arizona receive a share of monies in the fund. The amount deposited in the fund each year equaled 15% of the net proceeds of the state income tax two
years prior to the current fiscal year. In return, political subdivisions of the state were prohibited from levying an income tax. This law was effective beginning July 1, 1973.

Laws 1972, Chapter 58 provided for the proration of personal exemptions for part-year residents on the basis of the number of days of residency spent in Arizona during the taxable year. (E - January 1, 1973)

Laws 1973, Chapter 7 established a new state income tax code. The new code reorganized the existing income tax code without making substantive changes in the laws. (E - March 6, 1973)

Laws 1973, Chapter 68 provided that the amount withheld from an employee's wages for state income tax purposes equal either 10 or 20% of the amount withheld for federal tax purposes. The choice of the amount withheld (10 or 20% of federal withholding) was left to the individual. (EFA - December 31, 1973)

Laws 1973, Chapter 123 created the Department of Revenue and transferred the powers and duties of the State Tax Commission to the new Department. (E - July 1, 1974)

Laws 1973, Chapter 182 allowed a taxpayer to amortize and claim deductions over a 5-year period for the purchase or construction of child care facilities for the children of the taxpayer's employees. The deductions authorized by this law were in lieu of an allowance for depreciation. (EFA - January 1, 1974)

Laws 1974, Chapter 187 provided that the individual deduction available to employees for their share of health insurance premiums was limited to policies which include catastrophic medical cost coverage. This provision also applied to the share of health insurance premiums paid by employers. (E - January 1, 1975)

Laws 1975, Chapter 49 required non-residents and part-year residents to prorate certain exemptions and deductions when computing taxable Arizona income. In particular, this provision applied to personal exemptions, and special deductions for blind persons, dependents, and persons age 65 or older. These items were prorated based on the percent of gross income received by the taxpayers during the year, which was derived from sources within Arizona. (EFA - December 31, 1975)

Laws 1975, Chapter 77 increased the number of households eligible to receive an income tax credit for property taxes paid by persons 65 years of age or older. This was accomplished by redefining the measure of income used to determine eligibility for the credit. The new definition excluded railroad retirement, federal social security, state unemployment, veterans' disability and cash public assistance, workmen's compensation, loss of time insurance, gifts, and in-kind transfers. (E - September 12, 1975)
Laws 1975, Chapter 121 provided for the payment of income taxes in two installments instead of three. The first installment was due on the fifteenth day of the fourth month following the close of the tax year and the second installment was due six months later. (E - September 12, 1975)

Laws 1976, Chapter 129 allowed for the amortization of a qualified solar device in thirty-six months instead of sixty months. This provision expired from and after December 31, 1984. (E - June 27, 1976)

Laws 1976, Chapter 176 increased the income tax credit for rent constituting property taxes from a maximum of $25 per year to a maximum of $50 per year. The length of residency required to qualify for the credit was reduced from one year to six months. (E - September 23, 1976)

Laws 1977, Chapter 77 authorized a tax deduction similar to the Federal Income Tax deduction for contributions made by an individual to an individual retirement account or a qualified pension, profit-sharing, stock bonus, bond purchase, annuity or trust plan. (EFA - December 31, 1976)

Laws 1977, Chapter 81 established an income tax credit for solar heating and cooling devices which could be claimed in lieu of the tax deduction for solar energy devices. The credit was based on a percentage of the cost of the device. Taxpayers were allowed to claim 35% of this cost in 1978; after 1978 the percentage claimed was reduced in increments of 5% per year. The maximum credit could not exceed $1,000. An income tax credit for installation of certain types of residential insulation was also established. This credit equaled 25% of the cost of the insulation, not to exceed $100. The provisions of this law expired from and after December 31, 1984. (EFA - December 31, 1977)

Laws 1977, Chapter 87 authorized a depletion allowance schedule for geothermal resource development similar to the allowance for oil and gas interests that was included in the 1954 tax revision. (E - May 23, 1977)

Laws 1977, Chapter 152 modified the income tax credit available to persons age 65 or older for property taxes paid during the year. The new schedule of credits was based solely on household income instead of income and property taxes accrued.

Under the new schedule, the credit allowed for a person living alone with an income of less than $3,751 was determined as follows (EFA - December 31, 1976):

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Tax Credit</th>
<th>Household Income</th>
<th>Tax Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ -0- - $1,750</td>
<td>$225</td>
<td>$2,751 - 2,850</td>
<td>$115</td>
</tr>
<tr>
<td>1,751 - 1,850</td>
<td>215</td>
<td>2,851 - 2,950</td>
<td>105</td>
</tr>
<tr>
<td>1,851 - 1,950</td>
<td>205</td>
<td>2,951 - 3,050</td>
<td>95</td>
</tr>
<tr>
<td>1,951 - 2,050</td>
<td>195</td>
<td>3,051 - 3,150</td>
<td>85</td>
</tr>
<tr>
<td>2,051 - 2,150</td>
<td>185</td>
<td>3,151 - 3,250</td>
<td>75</td>
</tr>
<tr>
<td>2,151 - 2,250</td>
<td>175</td>
<td>3,251 - 3,350</td>
<td>65</td>
</tr>
<tr>
<td>2,251 - 2,350</td>
<td>165</td>
<td>3,351 - 3,450</td>
<td>55</td>
</tr>
<tr>
<td>2,351 - 2,450</td>
<td>155</td>
<td>3,451 - 3,550</td>
<td>45</td>
</tr>
<tr>
<td>2,451 - 2,550</td>
<td>145</td>
<td>3,551 - 3,650</td>
<td>35</td>
</tr>
<tr>
<td>2,551 - 2,650</td>
<td>135</td>
<td>3,651 - 3,750</td>
<td>25</td>
</tr>
<tr>
<td>2,651 - 2,750</td>
<td>125</td>
<td>--</td>
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</tr>
</tbody>
</table>
The credit allowed for a person living with one or more persons with a combined household income of less than $5,501 was determined as follows (EFA - December 31, 1976):

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Tax Credit</th>
<th>Household Income</th>
<th>Tax Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0- - $2,500</td>
<td>$225</td>
<td>$4,001 - 4,150</td>
<td>$115</td>
</tr>
<tr>
<td>2,501 - 2,650</td>
<td>215</td>
<td>4,151 - 4,300</td>
<td>105</td>
</tr>
<tr>
<td>2,651 - 2,800</td>
<td>205</td>
<td>4,301 - 4,450</td>
<td>95</td>
</tr>
<tr>
<td>2,801 - 2,950</td>
<td>195</td>
<td>4,451 - 4,600</td>
<td>85</td>
</tr>
<tr>
<td>2,951 - 3,100</td>
<td>185</td>
<td>4,601 - 4,750</td>
<td>75</td>
</tr>
<tr>
<td>3,101 - 3,250</td>
<td>175</td>
<td>4,751 - 4,900</td>
<td>65</td>
</tr>
<tr>
<td>3,251 - 3,400</td>
<td>165</td>
<td>4,901 - 5,050</td>
<td>55</td>
</tr>
<tr>
<td>3,401 - 3,550</td>
<td>155</td>
<td>5,051 - 5,200</td>
<td>45</td>
</tr>
<tr>
<td>3,551 - 3,700</td>
<td>145</td>
<td>5,201 - 5,350</td>
<td>35</td>
</tr>
<tr>
<td>3,701 - 3,850</td>
<td>135</td>
<td>5,351 - 5,500</td>
<td>25</td>
</tr>
<tr>
<td>3,851 - 4,000</td>
<td>125</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Laws 1978, Chapter 50** allowed Arizona residents over the age of sixty-five to exclude from their gross incomes certain gains from the sale of residences in which they have lived. (EFA - December 31, 1977)

**Laws 1978, Chapter 211** increased the income tax credit for renters from a maximum of $50 per year to a maximum of $75 per year. The law also provided that the amounts which may be claimed by individuals for certain exemptions, deductions and credits against income tax liability were increased during the 1978 tax year by a percentage equal to the annual growth in the state consumer price index. In particular, this provision applied to the standard deduction for individuals, personal exemptions, exemptions for the blind, exemptions for persons age sixty-five or more, credits for dependents, credits for estates or trusts, credits for property taxes paid by persons sixty-five or older, and the income tax credit for renters. The provisions of this law were effective January 1, 1978.

**Laws 1978, Chapter 213** established a new income tax code for the State of Arizona which was to take effect beginning with the 1979 income tax year (1980 filing year). Under the new tax code, Arizona gross income would equal federal adjusted gross income and be adjusted to allow for state exemptions, deductions and credits. The optional tax table and short income tax reporting form were extended to all incomes below $20,000 or $40,000 for married couples filing jointly.

**Laws 1979, Chapter 14** changed the method of taxing small business corporations (commonly referred to as subchapter S corporations) to conform with federal law. Under this law, qualifying corporations are not required to pay corporate income taxes; instead, the income of the corporation is distributed to shareholders and is taxed on each shareholder's individual return. (ETYBFA - December 31, 1978)

**Laws 1979, Chapter 43** changed the amount of collections retained in the Income Tax Fund at the end of each fiscal year from $200,000 to $500,000. (E - April 17, 1979)

**Laws 1979, Chapter 145** changed the Arizona Income Tax Code to conform with certain changes to the federal Internal Revenue Code adopted during 1978. This bill was necessary since federal adjusted gross income is the starting point for calculating Arizona income tax liability. (ETYBFA - December 31, 1978)

**Laws 1979, Chapter 146** extended the income tax credit for residential insulation through 1989. The tax credit for solar energy devices was also extended through 1989. The annual reduction in the solar energy credit, which was originally scheduled to begin in 1979, was delayed until 1984. The law also expanded the definition of solar energy devices that are covered by the credit. (E - July 21, 1979)
Laws 1979, Chapter 164 extended the provisions for inflation indexing of exemptions, deductions and credits through the 1979 income tax year. Inflation indexing was first authorized by Laws 1978, Chapter 211. The Department of Revenue was authorized to modify the optional tax table to reflect the effects of inflation indexing. (ETYBFA - December 31, 1978)

Laws 1979, Chapter 191 established an income tax deduction for political contributions made by individuals. The maximum deduction allowed under this law was $100 or $200 for a joint return. (EFA - December 31, 1978)

Laws 1980, Chapter 44 provided that the amounts which may be claimed by individuals for certain exemptions, deductions and credits against tax liability were increased annually by a percentage equal to the growth in the state consumer price index. Specifically, this provision applied to the standard deduction for individuals, personal exemptions, exemptions for dependents, exemptions for blind persons and persons over 65, exemptions for estates and trusts, credits for property taxes paid by persons 65 or older and the income tax credit for renters. (EFA - December 31, 1979)

Laws 1980, Chapter 89 changed the deduction for contributions to charitable organizations to conform with the Federal Tax Code. (E - July 31, 1980)

Laws 1980, Chapter 220 changed the interest rate imposed on delinquent tax payments from 6% to 12% per year. (E - July 31, 1980)

Laws 1980, Chapter 235 established a new income tax deduction for renters who itemize their deductions. The law required landlords, upon the request of a tenant, to furnish to the tenant the percentage of his total rental payment that represents property taxes on the rental unit. The tenant may apply that percentage against total rents paid to derive the amount of allowable deductions from Arizona taxable income. (EFA - December 31, 1979)

Laws 1980, Chapter 240 changed the Arizona Income Tax Code to conform with certain changes to the Federal Internal Revenue Code adopted during the period ending April 7, 1980. The changes to the Federal Income Tax Code must be adopted or rejected annually since Arizona uses federal adjusted gross income or federal taxable income as the starting point for calculating Arizona income tax liability (Effective July 31, 1980 and Applicable to Tax Years From and After December 31, 1979)

Laws 1981, Chapter 132 modified the method of taxing subchapter S-corporations that was established by Laws 1979, Chapter 14. Under the new provision, income distributed to non-residents from a subchapter S corporation located in Arizona is considered taxable income of this state. (E - April 14, 1981)

Laws 1981, Chapter 297 made the following changes in the Individual Income Tax laws:

(1) Conformed Arizona’s policy of taxing income from dividends and interest with the Federal Income Tax Code, by allowing taxpayers to claim a deduction for the first $200 of dividends and interest on single tax returns and the first $400 for joint tax returns. (EFA - December 31, 1980)

(2) Removed the requirement that 16% of income tax collections be placed in the Income Tax Fund and replaced it with a requirement that amounts placed in the Income Tax Fund must be sufficient to cover refunds issued to taxpayers. (EFA - October 1, 1981)

(3) Provided that taxpayers at their option, set their state withholding at a level equal to 15% of federal withholding, in addition to the existing options of 10% and 20%. (EFA - January 1, 1982)

(4) Changed the Arizona Income Tax Code to conform with certain changes to the Federal Internal Revenue Code adopted during 1980. The changes to the Federal Income Tax Code must be adopted or rejected annually since Arizona uses federal adjusted gross income or federal taxable income as the starting point for calculating Arizona income tax liability. (EFA - December 31, 1980)

(5) Authorized Arizona taxpayers to subtract from their gross income any taxes withheld from their earnings by a foreign government. (EFA - December 31, 1980)

Laws 1981, Chapter 320 provided that persons who are certified by a county to provide foster care homes for indigent adults, may exclude from their taxable income, any payments received from the county for this purpose. The law also established new income tax exemptions and deductions for taxpayers who contribute a certain
minimum amount toward the support of persons who are aged 65, or older and are living in a nursing care institution, supervisory care home or adult foster care home or are receiving home health care or other types of medical care. These exemptions and deductions are allowed regardless of the relationship between the taxpayer and the person receiving support. (E - July 25, 1981)

**Laws 1982, Chapter 2** made the following changes in the Individual Income Tax laws:

2. Required Arizona employers to transfer employee withholding taxes to the state on a monthly basis, instead of a quarterly basis, if the amount of withholding taxes collected by the employer in the previous calendar quarter exceeds $9,000 (E - April 1, 1982)
3. Changed the Arizona Income Tax Code to conform with certain changes in the Federal Income Tax Code passed in the U.S. Economic Recovery Tax Act of 1981. Among other effects, these changes permitted individual taxpayers to claim increased exemptions for contributions to retirement accounts and authorized new exclusions for interest income from selected forms of saving. Adopting the new federal provisions also permitted business owners who file on individual returns to take advantage of accelerated depreciation rates in computing their taxable Arizona Income. The state did not adopt the federal provision which established a deduction for married couples with two incomes. This deduction was established by the federal government to offset the higher tax rates levied on these couples at the federal level. The state's tax rates do not discriminate against married couples. (E - February 19, 1982)

**Laws 1982, Chapter 75** provided for inflation indexing of individual income tax brackets beginning with tax year 1983. Under the provisions of this law, the upper and lower income limits of each rate bracket will be increased annually by a percentage equal to the growth in the state consumer price index. The Department of Revenue is authorized to modify the optional tax table each year to reflect the effects of this provision. (EFA - December 31, 1982)

**Laws 1982, Chapter 186** provided for the amortization of groundwater measuring devices that are required by law in groundwater management areas and irrigation non-expansion areas (E - July 24, 1982). An income tax credit was also established that may be taken in lieu of amortization. The credit is equal to 100% of the costs of purchasing and installing groundwater measuring devices. The credit applies to groundwater measuring devices installed after June 12, 1980 and is effective beginning with tax year 1983. The amount of the credit may be used over a period not less than three years and not more than five years. The credit and amortization provisions will be discontinued after 1986, but the unused portion of a credit may be carried forward after this time.

**Laws 1982, Chapter 256** (as amended by Laws 1982, 6th Special Session, Chapter 2) provided that partnerships, sole proprietorships and subchapter S corporations may claim the following income tax credits:

1. Solar energy devices installed for commercial and industrial purposes.
2. Solar energy devices installed by contractors in residential housing.

Formerly, commercial solar energy credits were only available to corporations. The credits established by this law are effective beginning with tax year 1982. These credits may be taken in lieu of the tax deduction authorized by Laws 1974, Chapter 165. The individual income tax credit for solar energy devices installed for commercial and industrial purposes is only effective through tax year 1984. The expiration date for residential solar energy tax credits was changed to December 31, 1987.

**Laws 1983, Chapter 4** made the following changes in the Individual Income Tax laws:

1. Required individual taxpayers who file for an extension of the due date, to pay 90% of their tax liability before an extension may be granted. This provision was effective beginning with tax year 1983. For the 1982 tax year, individuals filing for an extension were required to pay 75% of their liability before June 15, 1983.
2. Accelerated the schedule for submitting withholding taxes to the state. Under this provision, employers were required to forward withholding taxes to the state in accordance with the federal payment schedule whenever their withholding collections exceeded $1,500 in each of the four preceding calendar quarters.
The due date for other employers was changed from the 20th day of the month following the end of each quarter to the last day of the month following the end of each quarter. (EFA - December 31, 1982 however penalties were waived on amounts due under this law until March 13, 1983)

(3) Required certain individuals to make estimated tax payments to the state during tax years 1983 and 1984. Individuals were only required to pay estimated taxes if they were required to make estimated tax payments to the federal government and if 10% of their federal tax liability was at least $1,000. In making this calculation, federal tax liability does not include liability from the tax on income that is exempt from Arizona's tax laws. (EFA - December 31, 1982)

(4) Provided that lottery winnings of $5,000 or more per year were subject to the Individual Income Tax; the law also established a withholding tax on certain gambling and lottery winnings which are subject to federal withholding laws. (E - February 11, 1983)

(5) Changed the interest rate on deficient and delinquent tax payments to equal the rate of interest established by Section 6621 of the Internal Revenue Code, compounded annually. (E - February 11, 1983)

Laws 1983, Chapter 247 changed the Arizona Income Tax Code to conform with changes in the Federal Income Tax Code that were passed in the Tax Equity and Fiscal Responsibility Act of 1982. Among other effects, these changes permitted the taxation of unemployment benefits to the extent that income (including unemployment benefits) exceeds $12,000 ($18,000 on a joint return). Before passage of this law, unemployment benefits were only taxable to the extent that income (including unemployment benefits) exceeded $20,000 ($25,000 on joint returns). This law became effective April 25, 1983 and applied to returns beginning with tax year 1982.

Laws 1983, Chapter 298 increased the minimum withholding rate for employees with annual compensation of $15,000 or more. Formerly, all taxpayers could set their withholding at a level equal to 10%, 15% or 20% of federal withholding. Under this law, the minimum withholding percentage for employees with annual compensation of $15,000 or more equaled 15% of federal withholding. This provision became effective beginning January 1, 1984. The law also modified the withholding provisions of Laws 1983, Chapter 4. As a result of this modification, employers were required to forward withholding taxes to the state in accordance with the federal payment schedule whenever their average state withholding collections exceeded $1,500 per quarter over the four preceding quarters. (E - April 28, 1983)

Laws 1984, Chapter 25 provided for the payment of interest on the amount to be refunded to a taxpayer if the Department of Revenue fails to pay the refund due within 60 days of the last day for filing the return or 60 days from the filing of the return, whichever is later. Interest shall be paid from the 61st day until the issue date of the refund warrant.

Laws 1984, Chapter 27 provided for the order of crediting tax payments. The Department of Revenue shall credit payments against a taxpayer's unpaid tax liability before crediting payments against any interest or penalties.
Laws 1984, Chapter 33 concerns taxpayers who operate a child care facility primarily for the children of employees of the taxpayer. In computing Arizona Adjusted Gross Income, the taxpayer is allowed to amortize and subtract ratably over a 24 month period any expenditures made to acquire, construct, renovate or remodel the child care facility or equipment thereto.

Laws 1984, Chapter 76 provided for a deductible voluntary contribution into the Game, Non-Game, Fish and Endangered Species Fund. Through tax year 1989, taxpayers may designate an amount of the taxpayer's income tax refund as a contribution to this fund. The designated amount qualified as a deduction under A.R.S. § 43-1046 for the taxable year in which the contribution is made (EFA - December 31, 1984).

Laws 1984, Chapter 195 repealed the individual income tax credit for installation of residential insulation and energy-saving devices. The act applies to taxable years beginning from and after December 31, 1983.

Laws 1984, Chapter 210 allowed a subtraction from Arizona Adjusted Gross Income for tax years ending before or in 1987 to employers of displaced homemakers. Eligible taxpayers may subtract an amount equal to the compensation paid to the displaced homemaker during the first three months of continuous full-time employment. A.R.S. § 43-1035 provides a statutory definition of "displaced homemaker". The law applies to taxable years beginning from and after December 31, 1983.

Laws 1984, Chapter 371 amended the maximum amount of the credit allowed for residential rent constituting property taxes. For tax years ending before January 1, 1988 the maximum credit is $100 or 5% of rent paid, whichever is less. Also, the dollar amounts of the credit will no longer be indexed to reflect changes in the rate of inflation.

Laws 1984, Chapter 371 amended the maximum credit allowed to taxpayers at least 65 years of age for payment of property taxes. The maximum credit allowed is now the lesser of $225 or the amount of property taxes actually paid. Claimants must submit a copy of his or her property tax statement along with the income tax return to be eligible.

Laws 1985, Chapter 8 prescribed a penalty for failure to comply with the requirements for an extension of time for filing income tax returns. A penalty of one-half of 1% of the tax not paid is imposed for each 30 days, or fraction thereof, between the date the return is due and the date the tax is paid. The maximum penalty is limited to 25% of the tax liability.

Laws 1985, Chapter 21 adopted changes in the Internal Revenue Code, which serves as the basis for state estate and income tax computations.

Laws 1985, Chapter 25 empowered the Director of the Department of Revenue to enter into reciprocal agreements with other states for the exemption from state income taxes otherwise imposed by other states on Arizona residents and by Arizona on non-residents.

Laws 1985, Chapter 59 raised the maximum contributions from tax refunds to the Child Abuse Prevention and Treatment Fund. Previously taxpayers could donate $2 or $4 to the fund; now they can contribute $2, $5, or $10. Also, the bill allowed donations to the fund in addition to or in lieu of the income tax refund checkoff. The delayed repeal was removed, thus establishing a permanent checkoff. (RTYBFA - December 31, 1984)

Laws 1985, Chapter 79 allowed the voluntary withholding of military retirement payments for state income tax purposes. Also extended withholding to amounts withdrawn prior to retirement from certain state and local retirement plans. The withholding rate is 5% of the amount withdrawn.

Laws 1985, Chapter 366 established a general 4-year statute of limitations for most taxes. The filing period for a tax protest was set at 45 days after receiving notice for those taxes administered under Title 42 and 43, except the Individual Income Tax which is allowed 90 days after notice is mailed. A Tax Refund Fund was established to handle all tax refunds. Any amount remaining in this fund at the end of each fiscal year in excess of $500,000 is transferred to the state General Fund. (EFA - June 30, 1986)
Individual Income Tax

Laws 1986, Chapter 56 allowed individuals receiving payments from the U.S. Civil Service Retirement and Disability Fund to elect that such payments be subject to state income tax withholding. (E - August 13, 1986)

Laws 1986, Chapter 60 adopted the 1985 changes to the United States Internal Revenue Code, which serves as the basis for the state income and estate tax computations.

Laws 1986, Chapter 105 allowed non-residents to prorate their itemized deductions by the percentage in which their Arizona gross income is of their federal adjusted gross income. This brings Arizona into conformity with most other states. (E - August 13, 1986)

Laws 1986, Chapter 170 entitled co-owners of child care facilities and equipment to claim their prorata share of the state income tax subtraction for allowable amortized cost based on ownership interest in the property. The total subtraction allowed for such owners shall not exceed the amount that would have been allowed for a sole owner of the property. (E - August 13, 1986)

Laws 1986, Chapter 325 established a Corrections Officer Retirement Plan (CORP), thus necessitating conforming changes in "additions to" and "subtractions from" Arizona Gross Income. (R - July 1, 1986)

Laws 1986, Chapter 393 amended the definition of "income" for claiming the senior citizens' earned property tax credit to include retirement benefits received from the state or any of its political subdivision or the United States. Cash public assistance and relief payments, railroad retirement benefits, social security benefits, veterans disability insurance, Arizona unemployment insurance, nongovernmental gifts, workmen's compensation payment, and the gross amount of "loss of time" insurance are specifically excluded from this definition. (RTYBFA - December 31, 1985)

Laws 1986, Chapter 402 instituted a Taxpayer Assistance Office within the Department of Revenue and defined its responsibilities. Also, a Taxpayer's Bill of Rights was established. (E - August 13, 1986)

Laws 1986, Chapter 419 phased-out the renter's credit by January 1, 1992. Beginning in tax year 1988, the maximum credit was set at $100 and reduced each year until it reaches zero for tax years beginning after December 31, 1991. (RFA - January 1, 1985)

Laws 1987, Chapter 26 allowed the Department of Revenue to charge a $25.00 fee for bad checks or other dishonored negotiable instruments issued by a taxpayer for payment of taxes. (E - August 18, 1987)

Laws 1987, Chapter 134 defined income tax penalties on granted extensions. If the taxpayer files without a copy of the extension or if at least 90% of the tax liability is not paid at the time of filing for the extension, the taxpayer is subject to a penalty of 5/10% of the unpaid tax for each 30 day period or fraction of a 30 day period after the due date. This penalty, combined with a late filing penalty of 5%, if applicable, can not exceed 25% of the remaining tax due. Also, allowed the Director of the Department of Revenue to enter into agreements with taxing authorities of other states who impose an income tax on compensation paid in that state to Arizona residents. In the agreement, the Director may exempt Arizona residents receiving compensation in that state from income tax liability, the requirement for filing a tax return, and withholding tax from compensation. Compensation paid in Arizona to residents of that state is reciprocally exempt. This was the Tax Corrections Bill for 1987. (ER - July 1, 1986)

Laws 1987, Chapter 361 allowed a county to establish a five-member enterprise zone committee appointed by the County Board of Supervisors. The committee can establish enterprise zones in areas which the average annual unemployment rate was 12% or more in at least three of the preceding five years. An income tax credit of $5,000 per net new employees in enterprise zones was established. The owners must certify to the Department of Revenue that at least 35% of its employees hired for full-time permanent employment, unless released for due cause during the taxable year, are residents of the enterprise zone and are or were receiving some form of public assistance immediately before employment. There is a 5-year carry forward of the tax credit. (EFA - June 30, 1988)

Laws 1987, Chapter 365 provided an income tax deduction for employers who pay for public transit of employees commuting to and from work. The employer is required to retain transportation receipts as evidence to qualify for this deduction. (E - August 18, 1987)
Laws 1987, 2nd Special Session, Chapter 2 conformed the Arizona Income Tax Code to changes in the U.S. Internal Revenue Code which was significantly amended by the U.S. Tax Reform Act of 1986. One effect of this act was the expansion of the federal tax base through removal of numerous tax deductions and other such provisions as eliminating the preferential treatment of capital gains. The resulting higher state tax revenues or "windfall" to the state was returned to the taxpayers by this bill through a special subtraction in computing Individual Income Tax liability for 1987. The subtraction was equal to 46% of the taxpayer's 1987 federal income tax liability or $475, whichever is greater. Also, a separate provision corrected a withholding rate conflict by repealing Laws 1987, Chapter 96 and enacting the same language with an emergency clause. In effect, this raised the withholding rate from 10%, 15% or 20% to 10%, 17%, 22% or 25% for employees with annual wages less than $15,000; but for those with annual wages $15,000 or more, the rates changed from 15% or 20% to 17%, 22%, or 25%. (E - July 1, 1987)

Laws 1988, Chapter 11 provided for the itemized deduction of certain employee business expenses, including moving expenses. These expenses had been subtracted on the federal return before determining the Federal Adjusted Gross Income (FAGI), but the U.S. Tax Reform Act of 1986 changed these expenses to itemized deductions, which are calculated after FAGI. This bill only maintains the status quo for these business expense deductions. (RTYBFA - December 31, 1986)

Laws 1988, Chapter 120 repealed the previous Arizona information return statutes under A.R.S. § 43-344 through A.R.S. § 43-347, but required the filing of a copy to the Department of Revenue of any federal information returns by February 28 of the year following the year in which payment was made. Also, the Department of Revenue must make available the names of corporations whose dividends qualify for the income tax deduction of dividends received from Arizona corporations. (ETYBFA - December 31, 1988)

Laws 1988, Chapter 142 established a checkoff provision on the individual income tax return for voluntary contributions made from a taxpayer's refund towards a political party currently qualified for the ballot. Before December 31 of each year, the administrative costs of this provision shall be deducted and deposited into the state General Fund. (RTYBFA - December 31, 1987)

Laws 1988, Chapter 271 was the Omnibus Revenue Bill for FY 1989. The following provisions affected the Individual Income Tax (RTYBFA - December 31, 1987):

1. Continued the special windfall subtraction of federal income tax liability resulting from the U.S. Tax Reform Act of 1986, except the formula was changed to (1) 63% of the actual federal tax liability or $600, whichever is greater, and (2) the maximum subtraction was set at $20,000. This was effective for the 1988 tax year.
2. Eliminated the itemized deduction for taxes paid on motor vehicle, use, and aviation fuel.
3. The Arizona depletion allowance statutes are repealed, thus conforming to federal depletion allowances.

Laws 1989, Chapter 71 waived the late payment penalties for taxpayers who voluntarily filed an amended return and paid the additional tax due. Applied only if taxpayer is not under audit and the additional tax is not a substantial underpayment which is 10% of actual tax liability or $2,000. (E - September 15, 1989)

Laws 1989, Chapter 194 established new procedures and criteria for establishing enterprise zones. Changed the amount of state income tax credit from $5,000 per net new employee to the following (E - May 15, 1989):

1. One-fourth of taxable wages paid to each previously qualified employee, not to exceed $1,000 per net new employee.
2. One-third of taxable wages paid to each previously qualified employee, not to exceed $1,500 per employee in the second year of continuous employment.
3. One-half of taxable wages paid to each previously qualified employee, not to exceed $2,500 per employee in the third year of continuous employment. This credit was allowed for taxable years beginning from and after December 31, 1989.
**Individual Income Tax**

**Laws 1989, Chapter 211** conformed state income tax code to changes in the Internal Revenue Code during 1988. The deduction for federal excise taxes paid was eliminated. Also, the special windfall subtraction was continued. The amount of subtraction is equal to 65% of the federal tax liability or a minimum of $600, but not to exceed $30,000 for married filing jointly or $15,000 for individuals. Laws 1989, Chapter 312 later changed the cap to $10,000 and $5,000, respectively. The formula and its limits enabled the state to retain a portion of the windfall, while returning the balance to taxpayers. (RTYBFA - December 31, 1988)

**Laws 1989, Chapter 239** exempted from state income taxation risk retention or workers' compensation pools by public agencies or contractors. (RFA - November 19, 1986)

**Laws 1989, Chapter 262** extended the sunset date for the Wildlife Contribution Fund checkoff on the state income tax return from 1989 to 1999. (E - September 15, 1989)

**Laws 1989, Chapter 312** was the General Revenue Act for FY 1990. The following provisions apply to the Individual Income Tax:

1. Changed the special windfall subtraction caps to $5,000 for individual filers and $10,000 for joint filers. This is effective for the 1989 taxable year.
2. Reduced the consumer interest deduction to 50% of all interest paid on bank loans, installment loans, credit cards and other charge accounts, but left the home mortgage interest fully deductible. (RTYBFA - December 31, 1988)
3. Allowed a maximum of $2,500 as a subtraction from Arizona gross income for all Federal and Arizona public pension income. This conformed state law to an earlier U.S. Supreme Court ruling that exemptions for state employees only were discriminatory toward federal employees. (RTYBFA - December 31, 1988)

**Laws 1989, 2nd Special Session, Chapter 1** required taxpayers whose Arizona gross income was $100,000 or more in the previous tax year or who can reasonably be expected to reach this threshold in the current tax year to make quarterly estimated tax payments. The amount of estimated tax payments is either (RTYBFA - December 31, 1989):

1. If estimated tax payments are required by the Internal Revenue Service (IRS) then 20% of these amounts shall be paid on the same due dates established by the IRS, or
2. If no federal estimated tax payments are required, then an amount which reasonably reflects the tax liability left unpaid at the end of the tax year shall be paid in four installments on due date established by the IRS and shall total, when combined with the taxpayer's withholding tax, at least 90% of the tax due for the current year or 100% of tax due from the preceding year.

**Laws 1990, Chapter 63** conformed the state income tax code to changes in the U.S. Internal Revenue Code during 1989. (EFA - December 31, 1989)

**Laws 1990, Chapter 98** revised the assessment and collection procedures relating to delinquent taxes. Assessments for not filing or filing a false return does not preclude subsequent deficiency assessments. Also, the effective date of a lien was changed from the liability due date to the date amounts are assessed or date the return is filed. (E - September 27, 1990)

**Laws 1990, Chapter 255** eliminated the inclusion of installment income received upon the death of a taxpayer in computing Arizona Adjusted Gross Income, but continued the subtraction from Arizona adjusted gross income of such installments receivable that have already been taxed. (RTYBFA - December 31, 1989)

**Laws 1990, Chapter 296** established a state income tax credit for employers who incurred certain expenses in providing dependent day care services to employees. The credit is equal to either:

1. The lesser of $15,000 or 50% of the cost incurred to acquire, construct, renovate or remodel dependent day care facilities. This credit is in lieu of any amortization of the facilities under A.R.S. § 43-1032 and any allowance taken for exhaustion, wear and tear of property under section 167 or 168 of the Internal Revenue Code.

- 12 -
(2) The lesser of $5,000 or 30% of the net costs to a) operate dependent day care facilities, b) provide such services or pay employees as reimbursement for day care expenses and c) provide information and referral assistance in obtaining dependent day care.

Certain restrictions apply in qualifying for the credit. [See A.R.S. § 42-1075(B-G)] Credit is effective for tax years beginning from and after December 31, 1990 and ending before January 1, 1995.

**Laws 1990, 3rd Special Session, Chapter 3** was the Arizona Tax Reform Act of 1990. The provisions affecting the Individual Income Tax are as follows:

(1) Reduced the number of taxable income brackets and altered the marginal tax rates:

<table>
<thead>
<tr>
<th>OLD LAW</th>
<th>NEW LAW</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taxable Income</strong></td>
<td><strong>Rate</strong></td>
</tr>
<tr>
<td>$ 0 - $2,579</td>
<td>2%</td>
</tr>
<tr>
<td>2,580 - 5,159</td>
<td>3</td>
</tr>
<tr>
<td>5,160 - 7,739</td>
<td>4</td>
</tr>
<tr>
<td>7,740 - 10,319</td>
<td>5</td>
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<tr>
<td>10,320 - 12,899</td>
<td>6</td>
</tr>
<tr>
<td>12,900 - 15,479</td>
<td>7</td>
</tr>
<tr>
<td>15,480 and over</td>
<td>8</td>
</tr>
</tbody>
</table>

\[1/\] For married filing jointly or head of household. For single or married filing separately, the taxable income rate is reduced by one-half. Also, inflation indexing for these brackets was eliminated.

(2) Conformed the state's itemized deductions to the same amounts taken on the federal income tax return.

(3) Raised the standard deduction to $7,000 for married filing jointly or head of household and $3,500 for single filers.

(4) Simplified the "Additions" and "Subtractions" to Arizona gross income by eliminating among others the subtraction for federal income taxes paid and the $1,000 military pay exclusion.

(5) New exemption amounts - $1,500 for 65 years of age or older or blind, $2,000 for personal or dependents.

(6) Eliminated the inflation indexing of exemption amounts, standard deductions, and taxable income brackets.

(7) Current tax credits and voluntary contributions remain, but the deductibility of voluntary contributions are permitted only as allowed and taken on the federal tax return.

(8) Limited the current renter's credit to those filers with Arizona gross income of $25,000 or less.

(9) The income withholding tax percentages were increased from 17% to 20%, 22% to 25%, and 25% to 29%. (EFA - December 31, 1990)

All the above changes, except provision #9, are effective retroactive to taxable years beginning from and after December 31, 1989. Though not specifically written into the act, it should be mentioned that the special "windfall" subtraction was not enacted for tax year 1990; this, in effect, eliminated it from statute.

**Laws 1991, 1st Special Session, Chapter 1** changed the Tax Refund Fund to the Tax Refund Account within the state General Fund. This modification allows any account balances to count towards the year-end balance of the state General Fund. (E - May 4, 1991)
Individual Income Tax

Laws 1991, Chapter 22 defined Arizona taxable income during a tax year when a taxpayer changes residency as:

(1) All realized, recognized, or accrued income and deductions, depending on the method of accounting, for the period when the individual was a resident, and
(2) All income and deductions earned or derived from Arizona sources when the individual was a non-resident.

This bill also clarified that extension requests mailed by the date the tax return is otherwise due to be filed is eligible for an automatic extension provided 90% of the tax liability is paid. (E - September 21, 1991)

Laws 1991, Chapter 87 required every taxpayer to include their federal taxpayer identification number on tax returns or documents. Persons failing to provide such I.D. number will incur a penalty of $5 for each failure. Moreover, any person who files a return for compensation on behalf of a taxpayer shall pay a penalty of $50 for each such failure. A person filing a return for a taxpayer without compensation will not be charged a penalty for such failure. (E - September 21, 1991)


Laws 1991, Chapter 149 clarified in statute that savings and loan associations are included under the same provisions as other financial institutions that exclude a portion of interest expense from being deducted when computing Arizona taxable income. (E - September 21, 1991)

Laws 1991, Chapter 155 eliminated the Arizona Individual Income Tax subtraction for contributions made to the Corrections Officer Retirement Plan (CORP) or the Public Safety Personnel Retirement System (PSPRS). To offset this increased tax burden the employee contributions to CORP and PSPRS was reduced from 7% to 6.665% and from 8% to 7.65%, respectively. The provisions related to eliminating the income tax subtraction were effective for tax year beginning January 1, 1991, while the provisions relating to employee contributions were made retroactive to July 1, 1991.

Laws 1991, Chapter 158 was the Tax Correction Act of 1991. Compensation received by a member of the U.S. armed forces for any month which was served in a designated combat zone is excluded from Arizona Gross Income. This applied to pay which was not already excluded under section 112 of the Internal Revenue Code. (ERTYBFA - December 31, 1989)

Laws 1991, Chapter 196 prohibited the distribution of any refunds of taxes imposed by a law that was declared invalid by a final court judgement until the Legislature makes a specific appropriation for that purpose. State funds to counties for such invalid taxes collected are also subject to this provision. (E - September 21, 1991)

Laws 1991, Chapter 264 established two income tax refund checkoffs on the income tax return for contributions into the following new funds: (1) The Special Olympics Tax Refund Fund - monies in this fund will be distributed to the Department of Economic Security (DES) to contract with Arizona Special Olympics programs. This checkoff will begin with the 1991 tax year. (2) The Neighbors Helping Neighbors Fund - monies will provide certain low income, elderly, or handicapped individuals assistance in paying utility bills, conserving energy, and weatherization. DES will administer this fund. This checkoff begins with the 1992 tax year, conditional on the continued phase-out of the renter's credit.

Laws 1991, Chapter 307 established guidelines for forgiveness of interest charged on deficient income tax payments which were due to a Department of Revenue (DOR) error. This bill directs DOR to forgive penalties and interest on underpayments of 1986 income taxes resulting from taxpayer's reliance on an Arizona tax form instruction that contained an incorrect reference to the 1986 Federal 1040EZ Form. Also, DOR shall forgive penalties and 50% of any interest on the underpayment of 1986, 1987, or 1988 income taxes due to erroneous written advice by DOR or a taxpayer's reliance of a DOR tax form which caused the taxpayer to misapply the tax law. No refunds shall be issued by DOR due to these interest or penalty abatements until July 1, 1992. (E - September 21, 1991)
Individual Income Tax

Laws 1991, 4th Special Session, Chapter 7 amended the Arizona income tax code by providing a phase-in of full itemized deductibility for medical care expenses instead of following the federal treatment. In computing Arizona Taxable Income, a taxpayer may now deduct medical care expenses exceeding 6% of Federal Adjusted Gross Income for tax year 1992, 5% in 1993, 4% in 1994, 3% in 1995, and full expenses in 1996 and thereafter. This act was conditional on the enactment of House Bill 2004, 40th Legislature, 4th Special Session, Chapter 3. (E - March 16, 1992)

Laws 1992, 7th Special Session, Chapter 1 enacted higher state income withholding tax rates to offset the federal change towards lower withholding levels. The state withholding rates were automatically increased beginning April 19, 1992, but did not preclude the employee's election of which rate to deduct from earnings. The new withholding rates are as follows (E - March 24, 1992):

1. For annual compensation of less than $15,000: 10%, 20%, 22%, 28%, or 32% of the federal withholding amount.
2. For annual compensation of $15,000 or more: 20%, 22%, 28% or 32% of the federal withholding amount.

Laws 1992, Chapter 15 adjusted the individual income tax filing thresholds to equal a zero state income tax liability. The changes are as follows (ERTYBFA - December 31, 1991):

1. For single filers or married filing separately the filing threshold was raised from $1,100 to $5,500 of Arizona adjusted gross income.
2. For joint returns the filing threshold was raised from $2,200 to $11,000 of Arizona adjusted gross income.
3. The $4,000 gross income requirement for filing was eliminated.

Laws 1992, Chapter 16 allowed the Department of Revenue to require tax payments by electronic funds transfer or other immediately available monies from any taxpayer who had a tax liability of $20,000 or more (excluding individual income tax) in the preceding taxable year. This applied for tax years or reporting periods starting on or after January 1, 1993. Electronic funds transfer is required for the following (E - September 30, 1992):

1. Quarterly withholding tax payments by persons who had a quarterly withholding average during the prior year of $100,000 or more.
2. Estimated income tax payments by corporations with a prior year tax liability of $100,000 or more.


Laws 1992, Chapter 61 allowed a city or town to conduct and certify an alternative special census prior to July 1, 1993 by contract with the U.S. Census Bureau for purposes of determining state shared revenues in the Transaction Privilege, Income, Highway User, and Vehicle License Taxes. The State Treasurer is not to accept another special census until after the year 2000. (E - September 30, 1992)

Laws 1992, Chapter 79 was the Tax Corrections Act for 1992. The administrative costs associated with the Individual Income Tax checkoff for the Child Abuse Prevention Fund shall be determined by the Department of Revenue and transferred to the state General Fund. This bill does not contain any other substantive changes. (E - September 30, 1991)

Laws 1992, Chapter 113 enacted enabling legislation for the establishment and organization of limited liability companies (LLC). This bill subjects a limited liability company to state income taxation as a partnership or a corporation as determined by the Internal Revenue Code.

Laws 1992, Chapter 130 established an income tax credit for individuals or corporations who place recycling equipment in service after December 31, 1992, unless the taxpayer previously took an income deduction for depreciation. The credit is equal to 10% of the installation cost of such equipment, not to exceed the lesser of 25% of the tax liability determined for the applicable tax year or $5,000. If the recycling equipment ceases operation or is transferred, then certain recapture provisions will apply. The unused credit can be carried forward for 15 years. (E - September 30, 1992)
Individual Income Tax

**Laws 1992, Chapter 210** extended the date from February 16th to February 28th for filing an employer's annual withholding report to conform with the federal filing date. The Department of Revenue may extend the deadline on a showing of good cause by the employer. (E - September 30, 1992)

**Laws 1992, Chapter 220** required the Department of Revenue (DOR) to notify employers who are not complying with timely monthly withholding payments because they were previously reporting on a quarterly basis. DOR cannot assess a penalty to such an employer if all filings and payments are brought into current compliance within 30 days after notification. In addition, employers may apply to DOR by December 31, 1992 for forgiveness of all penalties and interests for any prior such violations provided all withholding taxes due are paid by the date of application. This amnesty is repealed from and after June 30, 1993. (E - September 30, 1992)

**Laws 1992, Chapter 232** extended an income tax credit to business owners in an enterprise zone who employ a qualified dislocated worker for the purposes of the Job Training Partnership and Economic Dislocation and Worker Adjustment Act. A business receiving enterprise zone income tax credits must report annually to the zone administrator its business name, mailing address, location, the number of employees counting toward the credits, and the total amount of credits received for the tax year. (E - September 30, 1992)

**Laws 1992, Chapter 290** was 1 of 7 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 1993. Provisions affecting the Individual Income Tax are as follows:

1. Lowered the threshold for requiring individual income tax estimated payments from $100,000 to $75,000 of Arizona gross income expected for the taxable year. (EFA - December 31, 1992)
2. Raised the Individual Income Tax personal and dependent exemptions from $2,000 to $2,100. (ERTYBFA - December 31, 1991)
3. Raised the Individual Income Tax exemption for persons aged 65 or older from $1,500 to $1,750. (ERTYBFA - December 31, 1991)

**Laws 1992, Chapter 295** established a defense contractor restructuring program to assist Arizona-based qualified defense contractors to attract new Department of Defense contracts, diversify commercially, consolidate facilities into the state, and adopt new technologies. The tax incentives are as follows (Also see page 3):

1. Qualified Defense Contractors (ETYBFA - June 30, 1993):
   - Amortization of one-half the federal time period of capital investment in solely private commercial activity.
   - A declining 5-year nonrefundable income tax credit for net defense employment increases or net private commercial employment increases, but not both.
   - A nonrefundable income tax credit of up to 40% of the portion of property taxes paid during the taxable year.

2. Military Reuse Zone:
   - A progressive 5-year nonrefundable income tax credit for net aviation-related manufacturing employment gains for business located in a military reuse zone. (ETYBFA - June 30, 1993)
   - A Class 8 commercial and industrial property established for property located in a military reuse zone and for aviation-related manufacturing. The assessment ratio will be 5% of full cash value. This is effective beginning in tax year 1993.
   - A sales tax exemption for military reuse zone construction contracts entered into within 5 years of the zone's establishment with an aviation or aerospace company. (E - September 30, 1992)

**Laws 1992, Chapter 311** established an Individual Income Tax subtraction not to exceed $3,000 for nonreimbursed expenses related to adoption such as medical, hospital, counseling, and legal fees, etc. The subtraction may be taken for prior year costs, but the subtraction can only occur in the year in which the final adoption order is granted. (ETYBFA - December 31, 1992)
Individual Income Tax

Laws 1992, Chapter 312 was 1 of 7 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 1993. The bill allowed the use of electronic funds transfer requests rather than warrants or other legal forms of transaction for FY 1993. (ER - July 1, 1992)

Laws 1993, 2nd Special Session, Chapter 9 was 1 of 6 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 94. Affecting the Individual Income Tax was the provision raising the elderly exemption from $1,750 to $2,100, and the dependent exemption from $2,100 to $2,300. The bill also accelerates the phase-in of full medical deductions on individual income tax returns by allowing expenses that exceed 4% of federally adjusted gross income instead of 5% for tax year 1993 and 2% instead of 4% for tax year 1994. For taxable years 1995 and after, a full deduction will be allowed. Effective from and after June 30, 1993 a qualified defense contractor shall not claim both a itemized deduction and a tax credit for income tax purposes with respect to the same property taxes paid. (RTYBFA - December 31, 1992)

Laws 1993, Chapter 19 clarified the language and replaced the 10% penalty provisions related to estimated income tax payments. If a taxpayer now fails to pay the full amount of estimated income tax, a penalty will be assessed equal to the amount of interest that would accrue for the period of nonpayment, not to exceed 10% of the amount not paid. This act does not apply to or affect any amount of penalty that accrued on unpaid or underpaid estimated tax before the effective date of this act. (E - July 17, 1993)

Laws 1993, Chapter 65 provided a subtraction from Arizona taxable income for qualified crop contribution to a charitable organization. The deduction is not to exceed 80% of the wholesale market price or most recent sale price, whichever is greater. The bill defines the criteria for a contribution to qualify, the most recent sale price, qualified crop contribution and wholesale market price. (ERTYBFA - December 31, 1992)

Laws 1993, Chapter 106 clarified and changes the defense restructuring incentives (E - April 14, 1993):

1. Tracks full-time equivalent employee positions rather than employees and accounts for them on a first-in first-out basis.
2. Allows a taxpayer to carry forward the credit allowed for not more than 5 taxable years, regardless of continuing certification as a qualified defense contractor.
3. If a taxpayer qualifies in the same year it relocates into this state, the taxpayer's baseline is zero.
4. Allows qualified defense contractors with tax years beginning in the fourth quarter of 1992 or later to qualify for the increased employment credit during 1993. However, estimated Corporate Income Tax payments cannot be adjusted until July 1, 1993.

Laws 1993, Chapter 111 was the Annual Tax Corrections Bill that made technical and conforming changes to the tax statutes. The bill eliminated the requirement that the Department of Revenue charge interest on penalties imposed in connection with a deficiency or delinquency.

The following substantive changes were made to Individual Income Taxes (E - July 17, 1993):

1. Increased the Arizona adjusted gross income thresholds used to determine which taxpayers a fiduciary is required to file a return to $5,500 if single, $11,000 if married and eliminates the requirement that a Fiduciary Return be filed for all individuals with a gross income over $5,000.
2. Clarified that the maximum subtraction from Arizona gross income for adoption costs is $3,000 for married filing a joint return and $1,500 for married filing separately.
3. Subjected Arizona income taxpayers who itemize deductions to federal limitations prescribed by the internal revenue code.

Laws 1993, Chapter 160 provided an Individual Income Tax subtraction for alternative fuel vehicles and equipment for taxable years beginning from and after December 31, 1993. Alternative fuels are defined as liquified petroleum gas, compressed or liquified natural gas, hydrogen, electricity, or solar energy. An alternative fuel vehicle is defined as a self-propelled vehicle for operation on the highways that is primarily propelled by an alternative fuel. The taxpayer may subtract an amount equal to the sum of the following (E - July 17, 1993):
Individual Income Tax

(1) 25% of the purchase price, exclusive of taxes, interest and other finance charges, but not more than $5,000 per vehicle. The subtraction is not allowed for the purchase of a used alternative vehicle. One-third of the subtraction shall be allocated and applied to each of 3 consecutive years: except if the title is conveyed to another person, in which case the subtraction is not allowed for any subsequent taxable year.

(2) The cost of converting a conventional vehicle, exclusive of taxes, interest and other finance charges, but not more than $3,000 per vehicle. One-third of the subtraction shall be allocated and applied to each of 3 consecutive years: except if the title is conveyed to another person, in which case the subtraction is not allowed for any subsequent taxable year.

(3) The purchase price of refueling equipment installed on the taxpayer's property for private non-commercial use, exclusive of taxes, interest and other finance charges, but not more than $5,000.

(4) 50% of the interest paid or accrued by the taxpayer to purchase new alternative fuel vehicles, convert conventional vehicles, or to do both. One-third of the subtraction shall be allocated and applied to each of 3 consecutive taxable years, beginning with the taxable year in which the equipment is purchased and installed.

Laws 1993, Chapter 210 conformed the state income tax code to 1992 changes in the United States Internal Revenue Code. (RTYBFA - December 31, 1992)

Laws 1993, Chapter 211 provided for a mandatory withholding for active military pay, instead of an election by the taxpayer. (E - July 17, 1993)

Laws 1993, Chapter 258 required the Department of Commerce (Commerce) to establish and conduct an Environmental Technology Assistance Program to promote business and economic development by recruiting and expanding companies that manufacture, produce, or process solar and other renewable energy products from recycled materials. Commerce has until June 30, 1996 to certify qualified environmental technology manufacturers, producers and processors for purposes of available tax incentives provided in the bill. The bill contains a severability clause. Various sections of this bill are delayed or have retroactive effective dates (for details on this bill see Page 3). (E - April 22, 1993)

Laws 1993, 6th Special Session, Chapter 1 contained the following provisions related to the individual income tax for taxable years beginning from and after December 31, 1993. The bill modifies the Individual Income Tax subtraction related to alternative fuel vehicles and equipment. The definition of alternative fuel was amended to include alcohol fuels that contain not less than 85% alcohol by volume. The bill increased the maximum subtraction for the cost of purchasing a new alternative fuel vehicle from $5,000 to $10,000 per vehicle. The maximum subtraction for the cost of converting a conventional vehicle was increased from $3,000 to $5,000 per vehicle. The bill eliminated the private noncommercial use restriction related to the Income Tax subtraction for the purchase price of refueling equipment. The bill included a private noncommercial use restriction for subtraction of 50% of the interest paid on indebtedness incurred by purchasing, converting, or both purchasing and converting vehicles.

Also included in the bill are new Individual Income Tax subtractions related to qualified wood stoves, wood or gas fireplaces, and equipment. Qualified wood stove or wood or gas fireplace is defined as:

1. A residential wood heater that meets the standards of performance for phase II new residential wood heaters pursuant to 40 Code of Federal Regulation Part 60, subpart AAA.
2. The conversion of an existing wood burning fireplace to gas logs or a unit defined in paragraph 1.

The taxpayer may subtract from Arizona adjusted gross income an amount equal to the cost, exclusive of taxes, interest and other finance charges, but not more than $500, for the purchase and installation of a qualified wood stove, wood or gas fireplace, and equipment. The taxpayer may also subtract from Arizona adjusted gross income an amount equal to the cost, exclusive of taxes, interest and other finance charges, but not more than $500, for conversion of an existing wood fireplace. (E - February 10, 1994)

Laws 1993, 6th Special Session, Chapter 2 conformed the Individual Income Tax to the United States Internal Revenue Code in effect on November 8, 1993, except for selected provisions which are offset by the following income tax subtractions (E - November 12, 1993):
(1) For tax years beginning before January 1, 1994, taxpayers may subtract the following amounts from Arizona gross income:

(a) For taxable years beginning from and after December 31, 1992:

(i) The excess depreciation of nonresidential real property placed in service on or after May 13, 1993 determined by using a recovery period of 31 2 years over the amount of the depreciation deduction computed pursuant to Section 168 of the Internal Revenue Code.

(ii) The excess amortization of an intangible asset listed in Section 197 of the Internal Revenue Code amortized pursuant to the Internal Revenue Code in effect on January 1, 1993 over the amount of amortization computed pursuant to Section 197 of the Internal Revenue Code.

(iii) The amount of gain recognized pursuant to Section 475 of the Internal Revenue Code by a dealer in securities for the taxable year.

(b) The portion of any wages or salaries paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal targeted jobs credit that the taxpayer received under Section 51 of the Internal Revenue Code. This paragraph applies retroactively with respect to employees who began work for the taxpayer from and after June 30, 1992.

(c) The portion of qualified clinical testing expenditures paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal orphan drug credit that the taxpayer received under Section 28 of the Internal Revenue Code. This paragraph applies retroactively to taxable years ending from and after June 30, 1992.

(d) The portion of research and experimental expenditures paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal credit for research activities that the taxpayer received under Section 41 of the Internal Revenue Code. This paragraph applies retroactively to taxable years ending from and after June 30, 1992.

(2) For taxable years beginning from and after December 31, 1992 through December 31, 1993, an individual may deduct the amount of investment interest, as defined in Section 163 of the Internal Revenue Code, that exceeds the net investment income but does not exceed the amount of the net capital gain from the dispositions of property held for investment that the taxpayer did not elect to include in computing the allowable investment interest deduction under the Internal Revenue Code.

(3) For taxable years beginning from and after December 31, 1992 through December 31, 1993, trusts and estates may subtract the amount of investment interest, as defined in Section 163 of the Internal Revenue Code, that exceeds the net investment income but does not exceed the amount of the net capital gain from dispositions of property held for investment that the taxpayer did not elect to include in computing the allowable investment interest deduction under the Internal Revenue Code.

**Laws 1994, Chapter 34** clarified that taxpayers with a gross income of $15,000 or over, regardless of the amount of taxable income, are required to file a tax return. The act defined "gross income" as gross income defined in the Internal Revenue Code minus income excluded from taxation at the state level. (RTYBFA - December 31, 1993)

**Laws 1994, Chapter 41** contained the major components of the tax reduction package known as the Middle Income Tax Relief Act (MITRA) of 1994. The act contained the following major provisions affecting the Individual Income Tax:

The act reduced the Individual Income Tax rates levied on taxable income for both residents and nonresidents. [See Laws 1995, 1st Special Session, Chapter 9 for the marginal Income Tax rates for tax year 1994] (ETYBFA - December 31, 1993)

The act amends the Urban Revenue Sharing Fund which distributes, to incorporated cities and towns, an amount equal to 12.8% of the net proceeds of State Income Taxes for the fiscal year 2 years prior to the current fiscal year. Beginning in FY 1997, the amount distributed will be equivalent to 13.6% of the net proceeds. (E - July 17, 1994)
The act conformed the income tax for tax years 1994, 1992 and 1991 to the United States Internal Revenue Code in effect for those tax years. This act also conformed, except as provided in A.R.S. § 42-106, the income tax for tax year 1993 to the United States Internal Revenue Code in effect for tax year 1993.

The act added A.R.S. § 42-106 that contains the selective conformity provisions for tax year 1993 (for details on this bill, see Page 3). (E - July 17, 1994)

Laws 1994, Chapter 45 established provisions for individual medical savings accounts that taxpayers may use to pay eligible medical expenses from and after December 31, 1994. A taxpayer may subtract the amount of deposits to an individual medical savings account during the taxable year when computing Arizona's adjusted gross income. Employers may also contribute to the medical savings account.

The individual medical savings account will be established as a trust and placed with a trustee. The account holder may withdraw monies from the individual medical savings account on the last business day of the calendar year without incurring a penalty that may be used for expenses other than those allowed. However, such a withdrawal is considered income for the purposes of computing Arizona's adjusted gross income. Amounts withdrawn at any other time will be subject to penalty. The trustee of the medical savings account will file such reports as are necessary.

In each taxable year, total deposits made to the medical savings account from either the account holder or the account holder's employer shall not exceed the following:

(1) For tax year 1995, either:
   a. Not more than $2,000 for the account holder.
   b. Not more than $2,000 for the account holder plus not more than $1,000 for each of the account holder's dependents, up to a maximum of 2 dependents.

(2) For subsequent taxable years, the Department of Revenue shall adjust the maximum deposits according to the annual change in the GDP deflator.

The Individual Income Tax Code was revised to include, in Arizona's gross income, amounts withdrawn by the taxpayer from an individual medical savings account established in the taxpayer's name. A taxpayer may subtract from Arizona's gross income:

(1) The amount of contributions made by the taxpayer's employer during the tax year to the extent that the employer contributions are included in the taxpayer's gross income.
(2) The amount deposited by the taxpayer during the taxable year.
(3) The account holder's employer may subtract the amount of contributions made by the employer to an individual medical savings account established on the employee's behalf to the extent that the contributions are not deductible under the Internal Revenue Code.

The expense for medical care that are paid or reimbursed from the taxpayer's medical savings account shall not be included in a taxpayer's itemized deductions.

A trust established as a medical savings account shall not add, in computing Arizona's taxable income, the amount of interest income received on obligations located outside of Arizona. A trust established as a medical savings account may subtract from Arizona's gross income that income earned by the trust during the tax year to the extent the income is included in the trust's Arizona gross income.

The Director of the Department of Administration shall provide an individual medical savings account option for state employees. (E - July 17, 1994)

Laws 1994, Chapter 60 provided that confidential tax information may be disclosed to agencies, officials and organizations that grant substantially similar privileges to the Department of Revenue. Confidential tax information
may be disclosed upon the establishment of a written agreement between the department and the following (E - July 17, 1994):

(1) The United States Internal Revenue Service, the United States Bureau of Alcohol, Tobacco and Firearms, the United States Drug Enforcement Agency and the Federal Bureau of Investigation.
(2) A state tax or unclaimed property official of another state.
(3) An organization of states that operates an information exchange for tax administration purposes.
(4) An agency, official or organization of a foreign country with responsibilities that are comparable to those listed in items 1, 2 or 3.

**Laws 1994, Chapter 90** included in Arizona's adjusted gross income for individuals and Arizona taxable income for corporations any amount of agricultural water conservation expenses that were deducted pursuant to the Internal Revenue Code, for which a credit is claimed. The act provided a credit to both individuals and corporations, against taxes imposed for expenses the taxpayer incurred during the taxable year to purchase and install an agricultural water conservation system. The amount of credit is equal to 75% of the qualifying expenses. To qualify for the credit:

(1) The agricultural water conservation system must be primarily designed to substantially conserve water on land that is used by the taxpayer or the taxpayer's tenant to:
   a. Produce crops, fruits or other agricultural products.
   b. Raise, harvest or grow trees.
   c. Sustain livestock.

(2) The expense must be consistent with a water conservation plan that the taxpayer has filed and that is in effect with the United States Department of Agriculture Soil Conservation Service.

The tax credits for partnerships and S-corporations are to be pro-rated and there is a 5-year carry forward provision. The credit allowed by this section is in lieu of any allowance for state tax purposes for a deduction for such expenses allowed by the Internal Revenue Code. (RTYBFA - December 31, 1993)

**Laws 1994, Chapter 117** provided Individual Income Tax credits for solar energy devices and Individual and Corporate Income Tax credits for pollution control equipment, and construction materials incorporated into qualifying facilities. The act clarified that a taxpayer who claims a credit may not claim a credit for the same equipment under another section.

An Individual and Corporate Income Tax credit is established equal to 10% of the purchase price for qualified real and personal property used to control or prevent pollution. For tax years 1995 and 1996, the maximum credit is $750,000. For all subsequent tax years, the maximum credit is $500,000. Co-owners may each claim a pro rata share of the credit allowed and may carry the credit forward for not more than 5 taxable years. Depreciation or amortization in excess of the income tax credit may be subtracted for income tax purposes.

An Individual and Corporate Income Tax credit is established equal to 5% of the purchase price of materials used to build a new facility or expand an existing facility within the state that is predominantly used for manufacturing, mining, or research and development. The total cost of the construction must be in excess of $5 million and the construction must begin on or after January 1, 1994 and completed by December 31, 1999. Co-owners may each claim a pro rata share of the credit allowed and may carry the credit forward for not more than 5 taxable years.

The Individual Income Tax credit for solar energy devices is equal to 25% of the cost of the device. The maximum credit in a taxable year may not exceed $1,000, and the aggregate credit over different tax years is $1,000 for the same residence. Taxpayers may carry forward the credit for not more than 5 consecutive tax years. A husband and wife who file separately may each claim half of the tax credit that would have been allowed on a joint return. (ETYBFA - December 31, 1994)
Individual Income Tax

Laws 1994, Chapter 119 provided forgiveness of penalties and interest assessed against an employer for failing to make timely filing and payment of withholding tax with respect to any taxable years beginning from and after December 31, 1985 if the following qualifications apply:

1. The employer has paid all withholding taxes due on or before the date of the application.
2. The delinquency resulted solely from incorrect application of the payment schedule and not from failure to withhold the tax.

An employer that meets the qualifications may apply, on or before December 31, 1994. The Department of Revenue will promptly process all applications on or before June 30, 1995. This act is repealed from and after June 30, 1995. (ETYBFA - December 31, 1985)

Laws 1994, Chapter 248 provided individual and corporate income tax credits for expenses incurred by a taxpayer, who is not liable or responsible for a corrective action as an owner or operator of an underground storage tank, but takes corrective action with respect to the release of a regulated substance from an underground storage tank. The amount of the credit is equal to 10% of the total amount spent by the taxpayer to take corrective action certified by the Department of Environmental Quality as having been performed and meeting necessary requirements. The credit is not allowed for corrective action costs reimbursed by the Department of Environmental Quality. (E- July 17, 1994)

Laws 1994, Chapter 333 was the Annual Tax Corrections Act that made technical and conforming changes to the tax code. (E - July 17, 1994)

Laws 1994, Chapter 353 clarified that an Individual Income Tax subtraction is available for expenses related to the purchase and installation of a qualified wood stove, wood fireplace or gas fired fireplace and non-optional equipment directly related to its operation. (RTYBFA - December 31, 1993)

The act also provided a corporate and individual income tax credit, in lieu of a subtraction, for the purchase of one or more new alternative fuel vehicles or expenses incurred from converting conventional vehicles. The credit is $1,000 per conversion or purchase for tax years 1994, 1995 and 1996; $500 for 1997; and $250 for 1998.

Alternative fuel means:

1. Liquified petroleum gas.
2. Natural gas.
3. Hydrogen.
4. Electricity.
6. Alcohol fuels that contain not less than 85% alcohol by volume.

Co-owners may each claim a pro rata share of the credit allowed, and may carry the credit forward for not more than 5 taxable years. (ETYBFA - December 31, 1993 and before January 1, 1999)

Laws 1994, Chapter 354 clarified that when computing Arizona's 1990 adjusted gross income, the amount of the federal income tax refund received in 1990 shall be added to Arizona's gross income in 1990 only to the extent that the refund is attributable to a prior year's federal income tax subtraction which was in excess of that year's federal income tax. (E - July 17, 1994)

Laws 1994, Chapter 375 provided changes to the Taxpayers' Bill of Rights including provisions on installment payments of tax, abatement of penalties, and reimbursement of fees and other costs. The reimbursement of fees and other costs section is effective after December 31, 1994. (E - July 17, 1994)

Individual Income Tax

Laws 1995, 1st Special Session, Chapter 9 reduced Individual Income Tax rates for all income levels for the second year in a row. The combined 2-year rate reduction reduces Individual Income Tax liability for all taxpayers by approximately 20%. Established the following marginal income tax rates:

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>1993 Tax Rate</th>
<th>1994 Tax Rate</th>
<th>1995 Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single or Married Filing Separate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$0 - $10,000</td>
<td>3.80%</td>
<td>3.25%</td>
<td>3.0%</td>
</tr>
<tr>
<td>$10,001 - $25,000</td>
<td>4.40%</td>
<td>4.00%</td>
<td>3.5%</td>
</tr>
<tr>
<td>$25,001 - $50,000</td>
<td>5.25%</td>
<td>5.05%</td>
<td>4.2%</td>
</tr>
<tr>
<td>$50,001 - $150,000</td>
<td>6.50%</td>
<td>6.40%</td>
<td>5.2%</td>
</tr>
<tr>
<td>$150,001 and over</td>
<td>7.00%</td>
<td>6.90%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

<p>| Married Filing Joint or Single Head of Household |</p>
<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>1993 Tax Rate</th>
<th>1994 Tax Rate</th>
<th>1995 Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $20,000</td>
<td>3.80%</td>
<td>3.25%</td>
<td>3.0%</td>
</tr>
<tr>
<td>$20,001 - $50,000</td>
<td>4.40%</td>
<td>4.00%</td>
<td>3.5%</td>
</tr>
<tr>
<td>$50,001 - $100,000</td>
<td>5.25%</td>
<td>5.05%</td>
<td>4.2%</td>
</tr>
<tr>
<td>$100,001 - $300,001</td>
<td>6.50%</td>
<td>6.40%</td>
<td>5.2%</td>
</tr>
<tr>
<td>$300,001 and over</td>
<td>7.00%</td>
<td>6.90%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

Increased the optional standard deduction from $3,500 to $3,600 for single or married filing separate and from $7,000 to $7,200 for married filing joint or head of household.

Provided a nonrefundable income tax credit equal to $30 for each personal or dependent exemption, up to a maximum of $120 for married filing joint or head of household and $60 for single or married filing separate. The credit applies only to those taxpayers whose Arizona gross income is $20,000 or less for married filing joint or head of household and to $10,000 or less for single or married filing separate. (ERTYBFA - December 31, 1994)

Increased the distribution to the Urban Revenue Sharing Fund to 15% of the net proceeds of state income taxes beginning in FY 1998. Currently the distribution is 12.8% and is scheduled to increase to 13.6% in FY 1997. The increased distributions are to compensate incorporated cities and towns for reduced income tax revenues resulting from individual income tax rate reductions enacted in the 1994 and 1995 legislative sessions.

Laws 1995, Chapter 120 established a 60-day non-penalty period for transferring funds from one individual medical savings account to another. After 60 days, amounts withdrawn and not redeposited are considered income for tax purposes and subject to a 10% penalty. In the case of legal separation, dissolution of a marriage or transfer of employment, amounts withdrawn are considered income but are not subject to penalty. (ERTYBFA - December 31, 1994)

Laws 1995, Chapter 182 authorized municipalities with a population less than 50,000 and counties with a population less than 125,000 to submit their July 1995 populations, as approved by the Director of the Department of Economic Security (DES) Population Statistics Unit, for state revenue sharing purposes without having to contract with DES to conduct a sample survey verification. Allowed any city, town or county to submit a request
that the 1990 Decennial Census, plus revisions due to annexation certified by the United States Bureau of the Census, continue to be used for the purposes of state revenue sharing, even if a special census has been conducted. (E - July 13, 1995)

**Laws 1995, Chapter 188** allowed the state to intercept a defendant’s Arizona tax refund to pay a restitution order. (E - July 13, 1995)

**Laws 1995, Chapter 200** was the Annual Tax Corrections Act that made technical and conforming changes to the tax code. (E - July 13, 1995)

**Laws 1995, Chapter 236** provided individual and corporate income tax credits for tax year 1995 to employers who hire students enrolled in the Summer School and Jobs Program. The maximum credit is equal to one-half of the wages paid to the student up to a maximum of $3.00 per hour, with a maximum of 20 hours of work per week. To qualify for the credit the employer must be certified by the Department of Economic Security as employing one or more enrolled students, the wage must be paid on or before September 1, 1995, and the student must remain in summer school for the entire session. Co-owners of a business may each claim a pro rata share of the credit allowed based on ownership interest. Any deductions for wages allowed by the Internal Revenue Code shall be reduced by the amount of any credit taken. (E - April 19, 1995)

**Laws 1995, Chapter 256** established individual and corporate income tax claim of right adjustments for claim of right income in excess of $3,000. The adjustment is equal to the decrease in the tax liability that would result from excluding the claim of right income from gross income for the applicable prior taxable year or years. The claim of right adjustment does not apply to stock, inventory or other property held by the taxpayer for sale to customers in the ordinary course of business. The claim of right adjustment also does not apply to the refund or repayment of regulated public utility rates if the refund or repayments are required by a government entity, by an order of the court or made under threat of litigation. If the adjustment creates or impacts a net operating or capital loss, then certain carry forward and carry back provisions are provided. Taxpayers normally barred from filing an amended return because of statute of limitation restrictions may file an amended return on or before December 31, 1995. Refund claims exceeding $1 million will be paid by credit voucher unless the taxpayer provides satisfactory proof there will be no future tax liability to the state. The bill contains a severability clause. (RTYBFA - December 31, 1985)

Also, this bill clarified that the family income tax credit applies to Arizona residents only. (RTYBFA - December 31, 1994)

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

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

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

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

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

**Laws 1996, Chapter 309** established Project Intervention to promote neighborhood rehabilitation. One aspect of this project involved funding summer employment programs for at risk youth, in which students attend school for
Individual Income Tax

half days and work for private employers the other half of the day. The act allowed an income tax credit for employers in an amount equal to half the wages paid to the student employee up to a maximum of $3 per hour, with a maximum of 20 hours of work per week. A limit of $300,000 was placed on the total amount of wages paid by all employers that qualify for the tax credit. The act repealed the summer employment tax credit on December 1, 1996. (Effective January 1, 1996)

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

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

Laws 1996, 6th Special Session, Chapter 1 expanded the individual and corporate income tax credit for new construction materials incorporated into a qualifying manufacturing, fabricating, or mining facility to include materials incorporated into a direct broadcast satellite or transmission services facility, provided that the facility is completed by December 31, 19960. (Effective January 1, 1996)

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

The second credit is for any fees paid, up to $200, by a taxpayer to a public school to support extracurricular activities. The credit is available beginning in tax year 1998, and it may be carried-forward for up to five consecutive years. Extracurricular activities are defined as school sponsored activities that require enrolled students to pay a fee in order to participate. (Effective January 1, 1998)

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

Laws 1997, Chapter 171 established the Family College Savings program as a state-run savings program for higher education that enables participants to take advantage of state and federal tax incentives. It creates a public-private partnership that allows individuals to open savings accounts with qualified financial institutions for future use by the beneficiary for qualifying postsecondary education expenses. Withdrawals from the program are exempt from the state income tax. (Effective April 24, 1997)

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

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

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

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

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

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

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

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

The act also created an individual income tax credit for contributions made to a qualifying charitable organization that spends at least 50% of its budget on services for recipients of Temporary Assistance for Needy Families or on services for state residents whose income is less than 150% of the federal poverty level. The maximum amount of the credit is $200, and the credit applies only to contributions that are in excess of the total amount that the taxpayer deducted for charitable contributions in tax year 1996. If no charitable contribution deduction was taken in 1996, the base year becomes the first subsequent tax year that a deduction is taken. (Effective January 1, 1998)

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

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

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

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

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

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

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

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

- Are eligible to use the optional tax tables developed by the department; do not have income from sources other than wages, salaries, tips, dividends, interest and tax refunds; have dividend and interest income not in excess of $400 from either of those sources; elect not to file for credits against income tax liability other than the tax credit allowed for property taxes, residents 65 years and older, and the family income tax credit; and do not have interest income over $500 from non-Arizona municipal bonds.
- Are eligible to use the optional tax tables developed by the department; do not have income from sources other than wages, salaries, tips, dividends, interest and tax refunds; are residents for the full taxable year and file as single individuals or married couples filing joint returns; are not 65 years of age or older or blind on January 1 of the taxable year and claim no dependents; elect to claim the optional standard deduction; are not required to add any income to the taxpayer's Arizona gross income and do not elect to take any deduction or file for any credits; and do not elect to contribute or donate any portion of their tax refund to the programs designated on the current form. (Effective August 21, 1998)

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

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

Laws 1998, 4th Special Session, Chapter 3 contained a two-year phase-in of a $50 million cut to the personal income tax. The first phase of the cut, effective January 1, 1998, increased the family tax credit from $30 to $40 for
Individual Income Tax

each member in the family and allowed six family members to qualify for the credit (current law allows four). This change has the effect of raising the income thresholds where taxpayers have no tax liability.

Raising the thresholds had an estimated impact in FY 1999 of $3.3 million. In addition to raising the thresholds, Chapter 3 provided an estimated $26 million rate reduction across the income tax brackets. The total individual income tax revenue loss for FY 1999 was thus estimated to be approximately $30 million. For those income tax brackets not affected by raising the thresholds, the FY 1998-1999 rate reduction equated to approximately 1.5%.

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

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

**Laws 1999, Chapter 50** made numerous small changes to the benefits received by members of the Public Safety Personnel Retirement System (PSPRS), the Elected Officials’ Retirement Plan, and the Corrections Officer Retirement Plan. With regard to income taxes, it allows the PSPRS to characterize employee contributions to the retirement system as employer contributions so that the employee contributions are not subject to federal income taxation until paid out in the form of a refund or pension payment. The language allows the PSPRS to obtain a qualification letter from the Internal Revenue Service. (Effective August 6, 1999)

**Laws 1999, Chapter 250** made several changes to the taxpayers’ bill of rights. The statute of limitations on specified actions by the Department of Revenue is reduced. The director may abate all or part of an assessment if additional interest has accrued due to error or delay by an employee of the department. This provision is effective August 6, 1999. A taxpayer’s obligation to pay any tax, interest, or penalties after 6 years is eliminated, unless the department has commenced a suit to collect the debt, the taxpayer has consented to extend the time period, or the collection has been stayed by federal or state law. This provision is effective January 1, 2001. Other changes include modifying the method for determining the existence of unreported income (effective January 1, 2001), enacting an “innocent spouse” provision (effective August 6, 1999), and providing relief from joint and several liability under specific circumstances (effective August 6, 1999).

**Laws 1999, Chapter 274** allowed taxpayers who have income from sources other than wages, salaries, tips, dividends, interest, and tax refunds to use the Arizona short form tax return. In addition, it eliminates the $400 maximum income requirement to use the short form and extends use of the optional tax tables to all taxpayers with incomes less than $50,000 regardless of filing status. These provisions are effective January 1, 1999. The act also corrects individual income tax tables that may have been inadvertently amended by prior legislation. The correction is effective January 1, 1997. Finally, Arizona residents employed in another state may request their employer to withhold Arizona income taxes on wages earned outside the state. (This provision is effective August 6, 1999.)

**Laws 1999, Chapter 317** conformed the Arizona statutory definition of the Internal Revenue Code (IRC) to that in effect on January 1, 1999. This provision is effective January 1, 1999. It also retroactively incorporates the Federal Tax and Trade Relief Extension Act of 1998, the Federal Internal Revenue Service Restructuring and Reform Act of 1998, and the Federal Surface Transportation Revenue Act of 1998. (This provision is effective retroactive to January 1, 1998.)

**Laws 1999, Chapter 325** reduced from 15.8% to 15.0% the Urban Revenue Sharing percentage starting in FY 2001. In FY 2001, the sum of $2,000,000 is appropriated from the General Fund to the State Treasurer for distribution to cities and towns having a population of 60,000 persons or less in order to mitigate the effect of a reduced Urban Revenue Sharing percentage. (Effective July 1, 2000)

**Laws 2000, 5th Special Session, Chapter 1** (referred to and approved by voters as Proposition 301 in the November 2000 general election) raised the transaction privilege tax from 5.0% to 5.6% in order to increase funding for K-12
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and higher education. (For example, it provided more funds for teacher salaries, smaller class size, and additional school days.) Besides raising the maximum allowable tax credit from $500 to $625 for school tuition organizations, and from $200 to $250 for public school extra curricular activity fees, the law also provided a tax credit for low-income households intended to mitigate the impact of the transaction privilege tax rate increase. As a result of the low-income tax credit, individual income tax collections were estimated to decrease by $(20,100,000) in both FY 2002 and FY 2003. The increased contribution thresholds for school tuition organizations and public school extra curricular activities were estimated to reduce individual income tax revenues by $(3,750,000) in FY 2002 and $(3,847,500) in FY 2003. (Effective January 1, 2001)

Laws 2000, 7th Special Session, Chapter 1 limited tax credits for alternative fuel vehicles (AFV) and alternative fuel refueling equipment. To this end, the law modified the amount of the AFV tax credits and imposed ownership, alternative fuel use, and emissions testing requirements on individuals qualifying for the credits. It also allowed persons who did not qualify for the tax credit to seek reimbursement from the state to recover financial losses incurred from their AFV purchase. The law provided for the state General Fund to borrow up to $200 million from the Budget Stabilization Fund (BSF) to pay for the AFV tax credits and reimbursement claims. The current estimated cost is between $130 and $140 million. The repayment (including interest) from the transaction privilege tax distribution base to the BSF was not to exceed $16 million annually. Note that this repayment provision was subsequently repealed prior to full pay back. This legislation was estimated to result in a one-time loss of $(4,427,000) in FY 2001. (Tax credits will be repealed December 31, 2003.)

Laws 2000, Chapter 252 conformed state income tax laws with the federal Internal Revenue Code, which is the starting point for the calculation of state personal and corporate income taxes. Changes to federal tax calculations, therefore, impact state income tax revenues. Estimates of the dollar impacts of both the retroactive and prospective federal tax law changes are prepared by the Department of Revenue using estimates provided by the Bureau of the Census, U.S. Department of Commerce, Arizona Department of Economic Security, and other state and federal agencies. The law is estimated to reduce individual income tax revenues by $(680,000) in FY 2000, $(2,116,000) in FY 2001, and $(464,000) in FY 2002. (Effective January 1, 2000)

Laws 2000, Chapter 267 established a tax credit, in lieu of a deduction, for individuals or corporations that convey ownership or development rights of class two properties (agriculture) to an Agriculture Preservation District for tax years 2001 through 2005. The credit is equal to the appraised value of the property if ownership is conveyed or the difference between the appraised value of the undeveloped land and the appraised value of the land for development purposes if development rights are conveyed. Tax credits for each District are capped at $33,000 per calendar year. If qualified applications exceed the maximum, each credit is proportionately reduced. If the tax credit exceeds taxes due or if there are no taxes due, there shall be a tax refund. The General Fund impact in FY 2002, the first year credits are expected to reduce individual income tax revenues, was estimated to be $(100,000). (Effective January 1, 2001)

Laws 2000, Chapter 286 provided a personal income tax subtraction for any income received as reparation payments made to victims or first recipients heirs of the Nazi Holocaust to the extent that the income is not already excluded under federal law. The bill also excludes income received as a Holocaust reparation payment when determining income eligibility for any state program. This act is estimated to have minimal General Fund impact. (Effective January 1, 2000)

Laws 2000, Chapter 313 extended the $200 public school extracurricular activity tax credit to include character education programs. It defines character education programs and provides that the Department of Education shall certify if a school district or charter school meets the requirements in order for the taxpayer to take the tax credit. The General Fund impact in FY 2002, the first year such credits are expected to reduce individual income tax revenues, was estimated to be $(75,000). (Effective January 1, 2001)

Laws 2000, Chapter 334 allowed a personal or corporate income tax credit, in lieu of a deduction, for any real property and improvements that are donated to a school district or charter school for use as a school or as a site for the construction of a new school. This act is estimated to have no fiscal impact. (Effective January 1, 2001)

Laws 2000, Chapter 394 extended the school tuition tax credits to preschools for handicapped students. Handicapped student is defined as a student who has any of the following conditions: hearing impairment, visual
impairment, preschool moderate delay, preschool severe delay, or preschool speech or language delay. The estimated General Fund impact in FY 2002, the first year the credits are expected to affect revenues, is $(100,000). (Effective January 1, 2001)

Laws 2000, Chapter 405 made numerous statutory changes relating to alternative fuels. Among the changes were: (1) defined neighborhood electric vehicles (NEV), (2) decreased the allowable income tax credit for NEVs, (3) provided that NEVs could not be operated on golf courses if the tax credit had already been claimed, and (4) prohibited income tax credits for used NEVs. As a result of this legislation, individual income tax revenues were estimated to decrease by $(15,750,000) in FY 2001 and increase by $96,100 in both FY 2002 and FY 2003. Note that the actual impact was much higher than the estimate, which resulted in the repeal of this legislation in the 7th Special Session. (Contained various effective dates)

Laws 2001, Chapter 30 changed the income threshold required for filing estimated tax payments from “reasonably expected to exceed” to “exceed.” Provided an exception for estimated payments if the taxpayer’s Arizona income tax liability is less than $1,000. (Effective January 1, 2002)

Laws 2001, Chapter 115 was the annual tax correction bill that made technical, conforming, and clarification changes to the Arizona tax statutes. (Contained various effective dates)

Laws 2001, Chapter 191 established new provisions pertaining to the Department of Revenue’s (DOR) electronic tax return filing program. Most notably, this law provided administrative provisions for DOR related to alternative signatures. (Effective August 9, 2001)

Laws 2001, Chapter 235 increased the standard deduction for taxpayers filing as single and as married filing separately from $3,600 to $4,050, and for head of household and married filing jointly from $7,200 to $8,100. These provisions became effective retroactively from January 1, 2001 and were estimated to reduce individual income tax revenues by $(15,000,000) in both FY 2002 and FY 2003. In addition, this bill contained provisions that would become enacted conditional upon actual revenues exceeding forecasted revenues by specified amounts in FY 2001 and FY 2002. However, actual revenues in FY 2001 were insufficient to “trigger” this legislation.

Laws 2001, Chapter 261 established a Refund Offset Program Fund. This fund enables the Department of Revenue (DOR) to offset federal tax refunds against state debts and other debts. Monies from the fund are then utilized for administrative costs for the fund and any remaining monies go to the General Fund. This law also expands to whom DOR may disclose confidential information apart from the corporate principal officers. The act was estimated to result in additional individual income tax revenues of $1,400,000 in FY 2002 and $1,300,000 in FY 2003. (Effective August 9, 2001)

Laws 2001, Chapter 296 was the annual bill that conformed the Arizona statutory definition of the Internal Revenue Code (IRC) to the 2001 United States IRC. This law was estimated to reduce individual income tax revenues by $(123,000) in FY 2001, $(157,000) in FY 2002, and $(262,000) in FY 2003. (Contained various effective dates)

Laws 2001, Chapter 370 extended the repeal of the enterprise zone program from July 1, 2001 to July 1, 2006 and, in addition, made several modifications to the program. For example, the law now permits businesses with no more than 10% of their retail activity at the location of the enterprise zone, measured by the number of employees, to be eligible for the program. The fiscal impact could not be determined. (Contained various effective dates)

Laws 2001, Chapter 382 repealed laws against cohabitation, sodomy, and lewd and lascivious acts. The law also modified the definition of “dependent” for state income tax purposes. Arizona uses the same definition of dependent as the Internal Revenue Code (IRC). However, because a provision in the IRC prohibits taxpayers from claiming a dependent if local law is violated, individuals who violated the laws in Arizona prior to the enactment of Chapter 382 were not allowed to claim the dependent exemption. This act eliminated the “local law violation” qualifier from the definition of dependent for Arizona income tax purposes. The fiscal impact was estimated to be $(522,800) in both FY 2002 and FY 2003. (Contained various effective dates)
Laws 2001, 2nd Special Session, Chapter 2 adjusted state withholding rates to compensate for changes at the federal level. The withholding rates were changed, as of January 1, 2002, as shown in the table below:

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<thead>
<tr>
<th>Old Withholding Rates</th>
<th>New Withholding Rates</th>
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<td>0%</td>
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The purpose of these rate adjustments was to prevent a one-time loss of $60 million in FY 2003. The act also established a tax amnesty program within the Department of Revenue for any taxpayer with an outstanding individual income tax liability prior to November 1, 2001. Taxpayers that were eligible for the tax amnesty program had to apply to the department between January 1 and February 28, 2002. This program was originally estimated to generate $10 million in income tax revenues in FY 2003, but generated substantially less. (The act contained various effective dates)