STATE OF ARIZONA

2009
Tax Handbook

JLBC

Prepared by the Staff
of the Joint Legislative Budget Committee

CONTENTS

Page No.

Foreword i
Overview of Arizona Taxes iii

GENERAL FUND

SALES AND USE TAXES
A. Transaction Privilege Tax 1
B. Use Tax 20
C. Severance Tax on Metalliferous Minerals 23
D. Jet Fuel Excise and Use Tax 25
E. Rental Occupancy Tax 27
F. Severance Tax on Timber 29

INCOME TAXES
A. Individual Income Tax 31
B. Corporate Income Tax 61

PROPERTY TAXES 79

LUXURY TAXES AND LICENSES
A. Luxury Tax on Cigarettes and Tobacco 95
B. Luxury Tax on Liquor 101
C. Alcoholic Beverage License Fees 104

INSURANCE PREMIUM TAX 109

ESTATE TAX 115

OTHER GENERAL FUND REVENUE SOURCES
A. Bingo License and Lieu Tax 117
B. Boulder Canyon Projects - In Lieu Payments 119
C. Commercial Nuclear Generating Station Assessment 120
D. In Lieu Tax on Private Railroad Car Companies 122
E. Pari-Mutuel Tax 124
F. Unclaimed Property Collections 128

Contents

OTHER FUNDS

PAYMENTS IN LIEU OF PROPERTY TAXES

A. Aircraft License Tax 133
B. Flight Property Tax 135
C. Voluntary Contributions by Districts 138
D. Voluntary Contributions by the Game and Fish Commission 140
E. Watercraft License Fee 142
F. Government Property Lease Excise Tax 145

HIGHWAY USER TAXES

A. Highway User Revenue Fund Overview 149
B. Motor Vehicle Fuel Tax 152
C. Use Fuel Tax 155
D. Vehicle License Tax 157
E. Motor Carrier Fee 162

MISCELLANEOUS OTHER FUND REVENUE SOURCES

A. Aviation Fuel Tax 165
B. Intrastate Utility Corporation Assessments 167
C. Tax on Workers' Compensation Insurance Premiums 170
D. Telecommunication Services Excise Tax 173
E. Underground Storage Tank Tax 176
F. Unemployment Insurance Tax 179
G. Job Training Employer Tax 186
H. Water Use Tax 188

APPENDIX - Fiscal Impact of Statutory Tax Changes 191

Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007
Phone: (602) 926-5491
Email: jlbcwebmaster@azleg.gov
JLBC Website: http://www.azleg.gov/jlbc.htm
October 2, 2009

FOREWORD

The 2009 Tax Handbook provides Legislators and the interested public with collection and distribution numbers for the taxes levied by the state, as well as summaries of all tax law revisions enacted in the 2003 through 2009 legislative sessions. A listing of tax law changes prior to the 2003 legislative session is available on the Joint Legislative Budget Committee (JLBC) Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

In the 2009 Tax Handbook, we attempt to describe in the narrative the impacts, if quantifiable, of tax law changes passed in recent sessions. In addition, an itemized list of incremental tax law changes has been included for every tax category that experienced a tax law change with an incremental impact in FY 2004 through FY 2010.

In this edition of the handbook, we have included tables which provide the estimated impact of tax credits and exemptions to the Sales Tax, Individual Income Tax, and Corporate Income Tax sections. These tables were prepared by the Office of Economic Research and Analysis section of the Arizona Department of Revenue. We have also included an Appendix to the document, which provides the estimated dollar value of individual historical tax law changes enacted by the Legislature since FY 1989.

The chapters of the 2009 Tax Handbook are organized by revenue category under General Funds and Other Funds. The sections within each chapter are generally organized from the largest revenue category to the smallest.

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

- Description – a comprehensive narrative description of the tax or revenue source.
- Distribution – a 20-year history of collections and a description of how the tax is distributed by fund, or shared with other jurisdictions such as cities and towns.
- Who Pays the Tax – a description of who is legally responsible for the payment of the tax or fee.
- Tax Base and Rate – a definition of the tax base, a discussion of exemptions if any, and a description of the tax rate(s).
- Tax Refunds and/or Credits – a description of circumstances under which tax refunds are made, and/or credits are allowed.
- Payment Schedule – due dates, delinquency dates, and payment schedules, as well as an explanation of how the tax or fee is remitted to the state.
- Impact of Tax Law and Revenue Changes – includes tax law and other revenue changes from 2003 through 2009. As noted above, tax law changes prior to 2003 are available on the JLBC Web site.

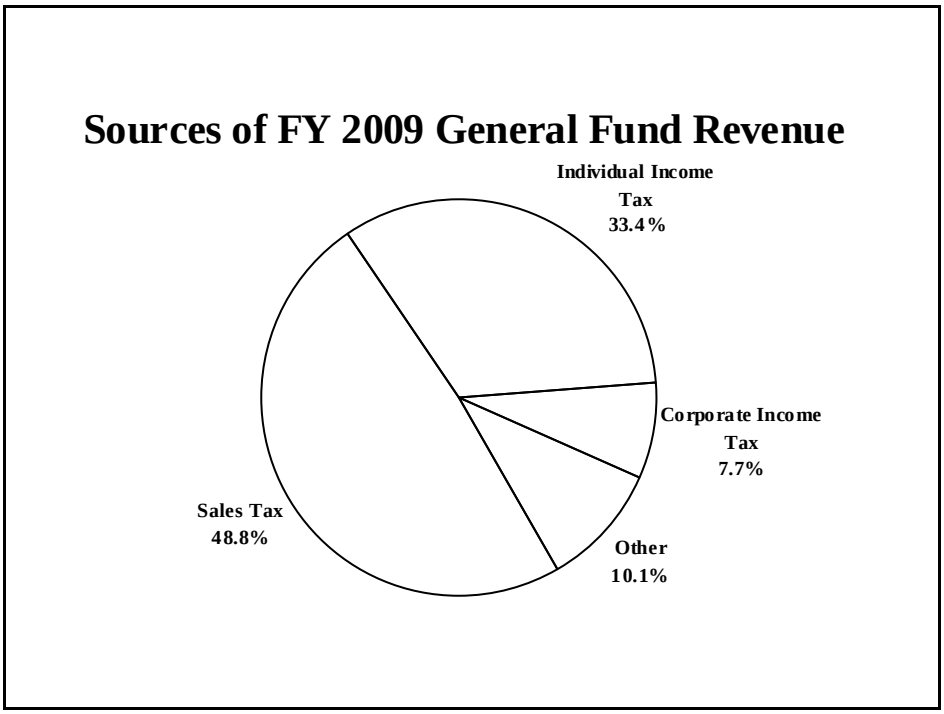
OVERVIEW OF ARIZONA TAXES

Taxes represent the most visible and important revenue source for Arizona. Other forms of revenue such as fees, assessments, and federal grants do exist, but taxes are the primary method by which the state provides goods and services to its citizenry.

There are many different types of taxes. Some are obvious and well known, such as the sales tax and the income tax. Others are more obscure, such as the telecommunication services excise tax and the intrastate utility corporation assessment. Taxes also vary widely in terms of their revenue generating capacity. The state sales tax produces over $3.7 billion per year, while at the other end of the spectrum, voluntary contributions by the Game and Fish Department produce just $10,000 a year.

The revenues from Arizona's different taxes are deposited in a number of funds. The largest fund is the General Fund. In FY 2009, total General Fund revenue was $6.97 billion, plus approximately $1.3 billion in one-time financing sources, for a total revenue amount of $8.25 billion.

While revenues from numerous taxes are deposited in the General Fund, there are 3 taxes that constitute the bulk of General Fund collections: the sales tax, the individual income tax, and the corporate income tax. In FY 2009, the Big Three, as they are called, represented approximately 90% of General Fund on-going revenues (excluding Urban Revenue Sharing, and one-time budget solutions). As noted in the following chart, the largest category is the state sales tax, which represented almost 49% of General Fund revenue collections in FY 2009. Individual income tax represented about 33% and corporate income tax just under 8%.



Beyond the Big Three, the state levies many other taxes. Some of the other taxes generate sizable amounts of revenue, but their collections are not deposited in the General Fund. For example, the motor vehicle fuel tax generated over $470 million in FY 2009 and the unemployment insurance tax almost $300 million. However, these collections were deposited in the Highway User Revenue Fund and the Unemployment Compensation Fund, respectively.

This handbook provides a listing and description of the taxes levied by the State of Arizona. It shows revenue collection amounts and tax distributions by fund. In addition, the handbook provides the estimated incremental dollar impact of tax law changes.

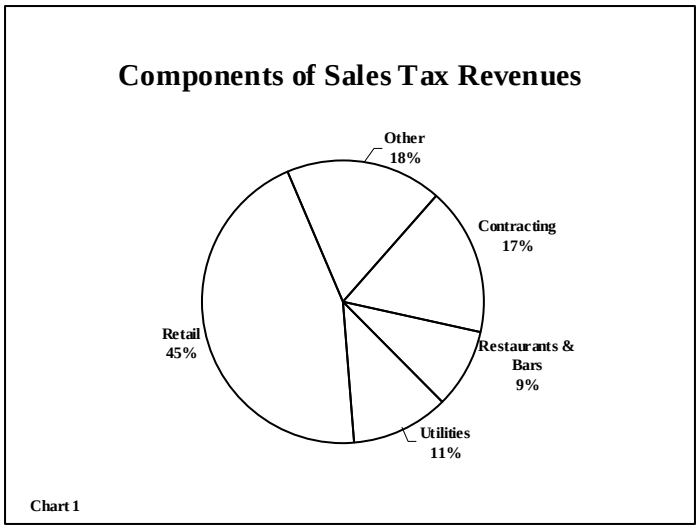
SALES AND USE TAXES

TRANSACTION PRIVILEGE TAX

DESCRIPTION

The transaction privilege tax (TPT) is Arizona's version of a sales tax. Across the United States, there are 13 states that levy a transaction privilege tax, 17 states that employ a sales tax, and another 15 states that impose a hybrid tax. All 3 types of taxes are levied upon consumer spending, but they differ with regard to the legal burden of the tax. Under Arizona's transaction privilege tax, the seller is responsible for remitting to the state the entire amount of tax due based on the gross proceeds or gross income of the business. The seller may include the tax in the purchase price or absorb the tax. Because of its similarity to the sales tax, the transaction privilege tax is often referred to as a sales tax.

The sales tax consists of many different tax categories. The largest of these, the retail sales tax, comprises approximately 45% of total sales tax revenues. Other large sales tax categories include contracting, utilities, and restaurants and bars. Chart 1 illustrates the relative importance of the major categories. A full listing of all sales tax classifications is provided in Table 3.



The sales tax is the state's single largest revenue source, representing 48.8% of forecasted General Fund revenues in FY 2009. A significant portion of state sales tax revenues is shared with the counties and cities. This revenue sharing occurs through the distribution base, described in further detail in the Distribution Section below.

Beginning in June 2001, the sales tax rate for most categories rose from 5.0% to 5.6%, with the extra 0.6% being dedicated to education. This tax increase was approved by voters, and is commonly known as Proposition 301.

DISTRIBUTION

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

Distribution. The Department of Revenue (DOR) transmits all sales tax revenues to the State Treasurer, separately accounting for payments of estimated taxes, the transient lodging tax, transaction privilege and severance taxes on mining and timber collected from businesses located on Indian reservations, and education sales taxes. The aforementioned tax collections have dedicated uses. All other TPT revenues are credited to a clearing account. Revenues designated by statute for the distribution base (see Tables 1 and 3) are divided among the state, the counties and the cities. The remaining monies (non-shared) are directly credited to the General Fund, except as

needed for school capital finance pursuant to A.R.S. § 42-5030.01, part of the Students FIRST legislation [A.R.S. § 42-5029].

Table 1

TAX COLLECTIONS AND DISTRIBUTION (20-year history)*

Fiscal Year	General Fund	Cities	Counties	Proposition 301	Total
FY 2009	$3,756,407,238	$387,050,618	$627,176,822	$558,899,709	$5,329,534,387
FY 2008	$4,353,564,848	$447,060,657	$724,417,089	$645,827,821	$6,170,870,415
FY 2007	$4,457,494,716	$462,037,141	$748,684,984	$666,184,022	$6,334,800,863
FY 2006	$4,273,358,451	$439,120,139	$711,550,274	$628,471,192	$6,052,500,056
FY 2005	$3,661,168,623	$376,212,970	$609,615,497	$538,346,435	$5,185,343,525
FY 2004	$3,294,788,319	$340,535,844	$551,804,282	$487,214,807	$4,674,343,252
FY 2003	$3,033,877,715	$316,406,294	$512,704,759	$447,841,034	$4,310,829,802
FY 2002	$3,000,431,898	$311,693,101	$505,067,501	$439,004,543	$4,256,197,043
FY 2001	$2,983,552,245	$312,676,402	$506,661,075		$3,802,889,722
FY 2000	$2,829,307,415	$299,386,513	$485,126,158		$3,613,820,086
FY 1999	$2,577,768,324	$272,402,244	$441,400,596		$3,291,571,164
FY 1998	$2,367,883,017	$253,826,710	$411,300,801		$3,033,010,528
FY 1997	$2,211,158,987	$240,264,373	$389,324,389		$2,840,747,749
FY 1996	$2,103,275,229	$233,196,324	$377,871,323		$2,714,342,876
FY 1995	$1,968,613,472	$219,908,226	$356,339,289		$2,544,860,987
FY 1994	$1,787,609,451	$200,069,251	$304,745,483		$2,292,424,185
FY 1993	$1,626,535,290	$184,318,955	$280,754,631		$2,091,608,876
FY 1992	$1,503,124,515	$170,654,277	$259,940,595		$1,933,719,387
FY 1991	$1,447,942,088	$163,823,044	$249,535,260		$1,861,300,392
FY 1990	$1,442,587,551	$159,021,328	$242,221,287		$1,843,830,166

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

Revenues collected from the 0.6% education tax go directly toward education programs. For a more extensive discussion of the specific uses of education tax revenues, please refer to the Department of Education – Summary section of the *FY 2010 Appropriations Report*.

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

- 25% is paid to the cities in proportion to their population based on the last U.S. decennial census, a special census, or revised population figures approved by the Department of Economic Security (DES).
- 40.51% is paid to the counties according to the formula described below.
- The remaining 34.49% is retained by the state and used to make various allocations and appropriations specified by statute.

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

1. 38.08% of the total TPT distribution base is calculated.

2. 2.43% of the total TPT distribution base is calculated.

3. Each county's share of the 38.08% portion of the TPT distribution base is calculated using an average of percent of total point-of-sale and percent of total net assessed valuation.

4. Each county's share of the 38.08% portion of the TPT distribution base is calculated using an average of percent of total point-of-sale and percent of total census population.

5. The shares that each county would receive under the two previous steps are compared, with the larger of the two amounts selected for each county. The "new" amounts are added for all 15 counties to determine the difference between this total and the sum of the 38.08% proportions. This difference is subtracted from the sum of the 2.43% proportions calculated in Step 2.

6. Any money remaining from the 2.43% portion is distributed among all 15 counties based on Step 4's combined percentage. Add the amount for each county from this step to the total for each county from Step 5 to get the total amount to be distributed to each county for the month.

The remaining 34.49% of distribution base revenues is allocated for various purposes, including expansion of the Phoenix convention center, school capital finance, multipurpose facilities, construction of a bridge and improvement of a highway at Phoenix International Raceway, and the Tourism and Sports Authority (TSA). The TSA's share of distribution base monies is equal to the amount of sales taxes collected at Arizona Cardinals football games. In addition, some monies are transferred to the Water Quality Assurance Revolving Fund, as required by A.R.S. § 49-282. After these distributions have been made, the remainder is credited to the General Fund. From this amount, the following distributions are subject to appropriation:

1) DOR receives monies sufficient to cover administrative expenses.
2) DES receives monies for the purposes stated in Title 46, Chapter 1 (public welfare, out-of-wedlock pregnancy prevention, and aging).
3) The Firearm Safety and Ranges Fund receives $50,000 derived from retail sales taxes collected during the current fiscal year.
4) The Tourism Fund receives 3.5% of last year's gross transient lodging tax revenues, 3.0% of last year's gross amusement tax revenues, and 2.0% of last year's gross restaurant and bar tax revenues.

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

Laws 1999, Chapter 162 required the state to pay a county multipurpose facility district one-half of all the TPT revenue received each month from all persons doing business at a multipurpose facility or generated from the construction of a multipurpose facility. In no case are the monthly payments to exceed the net new revenues generated in a given month compared to the TPT revenues generated in the same month during the year prior to the vote authorizing the creation of the district. Payments were to begin when the district board of directors delivered to the State Treasurer a resolution requesting payment and would continue for 10 years after either the commencement or completion of the primary component of the facility, at the option of the district. Chapter 162 required that the publicly owned components of the district must cost at least $200 million to construct. The definition of a multipurpose facility was broadened to include secondary components such as parking lots and garages, on-site infrastructure, artistic components, public parks, plazas, and some commercial facilities. Chapter 162 was effective and retroactive to July 1, 1998.

Rio Nuevo
In November 1999, Tucson voters approved Proposition 400, which authorized creation of the Rio Nuevo Project. With 1999 established as the base year, DOR began tracking the TPT revenue collected within the Rio Nuevo District, compared it to base year collections, and refunded the difference as provided by Laws 1999, Chapter 162. State TPT payments to the Rio Nuevo District are provided in the table below:

Table 2

Fiscal Year	Distributions
FY 2009	$10,399,300
FY 2008	$15,456,200
FY 2007	$14,974,900
FY 2006	$10,968,200
FY 2005	$7,469,600
FY 2004	$5,081,200

Source: Department of Revenue, Annual Reports

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

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

The state's obligation for the Phoenix Convention Center project is to pay the debt service and related costs on $300 million of construction bonds. The state's obligation will begin at $5 million for the first year after construction is completed, increase to $10 million the second year, $15 million the third year, $20 million the fourth year, then increase by an additional $500,000 per year up to a maximum of $30 million. Construction was completed in FY 2009, with the state's obligation beginning in FY 2010.

WHO PAYS THE TAX

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

Internet Taxation. A current topic in tax policy discussions is the extent to which transactions conducted on the Internet are subject to the sales tax. While the legal landscape is still evolving, we attempt to describe current Arizona policy with respect to 3 different Internet sales scenarios.

1. A consumer purchases an item on the Internet from a company headquartered out of state that also has a store in Arizona. This can be either a sales tax or a use tax situation, depending on whether the retailer has created a semi-separate Internet version of itself. If the product is shipped from the retailer's "Internet company" located in another state, it is a use tax situation. If the product is shipped from the local retail branch, it is a sales tax situation. Regardless, the vendor is required to collect the tax because it has a physical presence (nexus) in this state.

2. A consumer makes an Internet purchase from an out of state company that has no physical presence in Arizona but whose products are sold in Arizona retail stores. For example, consider a situation in which vitamins are bought on the Internet from an out-state company; this company's vitamins are also sold in Arizona grocery stores. In this case, the vendor is not responsible for collecting a tax for the state because it has no nexus in Arizona. The purchaser is legally responsible for paying the use tax.

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

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

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

For business activities performed for Indian tribal members by retailers located off the reservation, those activities are subject to the sales tax. Sales of tangible personal property to an Indian tribal member, however, are not subject to the sales tax if the solicitation, delivery and payment of the goods take place on the reservation. In addition, the sale of a motor vehicle to an Indian tribal member who resides on the reservation is exempt from the sales tax [A.R.S. § 42-5061].

Other than motor vehicles sales, there are no specific statutory references related to the imposition of Arizona state sales tax on tribal members. Thus, to facilitate the administration of state sales tax on Indian reservations, DOR has adopted sales tax rulings based on the decisions in several court cases. The most recent ruling, which is reflected in the description above, was issued in April 1995 and is referred to as TPR 95-11.

TAX BASE AND RATE

In general, the tax base is the gross proceeds of sales or gross income derived by a person from a taxable business. However, there are variations between the tax bases of the different classifications of the TPT, as specified in A.R.S. § 42-5061 - A.R.S. § 42-5077. Notably, the contracting tax has a unique tax base. The tax base for contractors is 65% of the value of a contract, based on the assumption that labor costs represent 35% of the value of a contract [A.R.S. § 42-5023].

Exemptions. There are numerous (over 100) sales tax exemptions provided in statute, such as exemptions for food and medicine. The effect of these exemptions is to reduce the size of the tax base. See Table 3 for specific tax exemption statutes for each sales tax classification. Attached at the end of this section is the Transaction Privilege and Use Tax Expenditures section of DOR's publication, *The Revenue Impact of Arizona's Tax Expenditures, FY 2007/08 (Preliminary).* This document provides a complete listing of the sales tax exemptions, and includes the estimated FY 2008 dollar impact of each exemption (where available).

Tax Rates. Once the net tax base is computed, it is multiplied by the applicable tax rate to derive the total tax due. The tax rates vary according to the business classification of the taxable activity. Most categories, however, are taxed at the rate of 5.6%. Table 3 lists the tax rates for each classification. In addition, a complete list of sales tax rates by all Arizona cities, including the tax rates levied by state, county, and city governments, is provided in *Attachment A* at the end of this section [A.R.S. § 42-5010].

TAX REFUNDS AND/OR TAX CREDITS

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

Accounting Allowance. A taxpayer may claim a tax credit of 1% of the amount of tax due, not to exceed $10,000 in any calendar year. This credit is designed to reimburse taxpayers for expenses incurred in accounting for and reporting sales tax payments [A.R.S. § 42-5017].

PAYMENT SCHEDULE

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

Table 3

TRANSACTION PRIVILEGE TAX CLASSIFICATIONS

Classification	A.R.S. Exemption Statute	Tax Rate	Distribution Base 1/	Non-Shared Base 2/	Education 3/
Retail	42-5061	5.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment
Transporting	42-5062	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Utilities	42-5063	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Telecommunications	42-5064	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Publication	42-5065	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Job Printing	42-5066	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Pipeline	42-5067	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Private Car Line	42-5068	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Transient Lodging	42-5070	5.5%	50%	50%	None
Personal Property Rental	42-5071	5.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment
Mining	42-5072	3.125%	100%	0%	None
Amusement	42-5073	5.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment
Restaurant and Bar	42-5074	5.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment
Prime Contracting	42-5075	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Owner Builder	42-5076	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Membership Camping	42-5077	5.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment

1/ Represents the portion of revenues that is designated for the distribution base.
2/ Represents the portion of revenues that is designated for the non-shared base.
3/ Represents the portion of revenues that is designated for education.

Delinquency Dates. Tax payments are delinquent if not postmarked on or before the 25th day of the month or received by DOR on or before the next-to-last business day of the month.

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

- Taxpayers with an estimated annual tax liability of $500 or less may pay on an annual basis.
- Taxpayers with an estimated annual tax liability of between $500 and $1,250 may pay on a quarterly basis.
- Taxpayers whose business is of a "transient character" may be required to pay on a daily, weekly, or transaction-by-transaction basis.

Estimated Tax Payments. Taxpayers who pay income taxes and whose business had an annual sales tax liability in the preceding calendar year of $1,000,000 or more must make a single estimated advance payment in June of each year. Normally, the full June tax bill would be due on July 20. This estimated payment is in addition to the regular June sales tax liability (which represents May sales). Prior to FY 2007, the threshold for estimated payments was $100,000. Laws 2006, Chapter 351 increased the threshold to $1,000,000.

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

When the estimated payments program was first enacted in 1989, the estimated payments provided a one-time boost to state revenues by advancing a portion of the next fiscal year's revenues into the current fiscal year. If the program is ever eliminated (as is periodically proposed), it would entail a one-time cost to state revenues. This is because every July taxpayers make a "claim" for the preceding month's estimated payment, and every June taxpayers make a counterbalancing estimated payment. Eliminating the June payment leaves the July claim without a counterbalance – and the state with a one-time cost.

Collection. DOR may enter into agreements with cities and towns that levy TPT to provide a uniform method of administration, collection, and auditing of sales taxes. In FY 2008, DOR collected transaction privilege and use taxes for some 77 Arizona cities and towns *(see the DOR's 2008 Annual Report)* [A.R.S. § 42-6001].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003. The estimated initial dollar impact of these changes is summarized by fiscal year in Table 4 below.

Table 4

ANNUAL INCREMENTAL DOLLAR IMPACT OF TAX LAW AND REVENUE CHANGES 1/

Session/Chapter	Description	Revenue Impact
FY 2008		
L 05, Ch 317	Motion Picture Production Exemptions	$ (100,000)
FY 2007		
L 06, Ch 333	Solar Energy Devices – Commercial Applications	$ (500,000)
L 06, Ch 351	Increase Estimated Payment Threshold to $1.0 M (one-time FY 2007 impact)	(55,200,000)
L 06, Ch 354	Eliminate Sales Tax Categories	(200,000)
L 06, Ch 371	Liquid Natural Gas Exemption	(378,600)
L 05, Ch 317	Motion Picture Production Exemptions	(600,000)
Subtotal FY 2007		(56,578,600)
FY 2006		
L 05, Ch 317	Motion Picture Production Exemptions	$ (600,000)
FY 2005		
L 04, Ch 242	"Lemon Law" Refunds	$ (158,000)
L 04, Ch 296	Non-Resident Motor Vehicle Purchases	Unknown
L 04, Ch 309	Architectural and Engineering Services Exemption	(100,000)
Subtotal FY 2005		(258,000)
FY 2004		
L 03, Ch 262	DOR Revenue Generating Proposal	$ 25,452,000
FY 2003		
L 03, 1st SS, Ch 1	DOR Revenue Generating Proposal	$ 3,168,000
L 02, Ch 307	Landscape Contracting	Unknown
Subtotal FY 2003		3,168,000

1/ Excluding Proposition 301 revenue.

2009 TAX LAWS

Laws 2009, 1st Special Session, Chapter 3 established a state and county tax amnesty program, which ran from May 1, 2009 through June 1, 2009. The program allowed DOR to abate or waive all or part of penalties and to impose reduced interest payments for tax liabilities for all qualifying taxpayers. To qualify for the program, a taxpayer must have filed a return, and paid any balance due by June 1, 2009. The one-month amnesty program generated a total of $31.8 million, including $16.7 million in corporate income taxes, $2.1 million in individual income taxes, and $13.0 million in sales tax revenue. After accounting for sales taxes collected on the behalf of counties, and revenue sharing to cities and counties, a total of $27.3 million was deposited into the state's General Fund The one-time revenue impact of the tax amnesty program has not been included in the tax law changes table at the beginning of this section.

2008 TAX LAWS

Laws 2008, Chapter 194 provided that internet application for services designed to assess student learning, or to promote curriculum design are exempt from the TPT, the telecommunications classification, and the rental property classification. The impact to the General Fund has not been determined. (Effective retroactively to January 1, 2000)

Laws 2008, Chapter 255 provided that preconstruction services related to prime constructing to be exempt from TPT. The impact to the General Fund has not been determined. (Effective retroactively to January 1, 2001)

Laws 2008, Chapter 303 modified the deduction for development fees from TPT for prime contactors or subcontractors. Chapter 303 intends to clarify, and not to expand, the provisions of Laws 2006, Chapter 386, relating to deduction of development fees. The impact to the General Fund has not been determined. (Effective retroactively to September 1, 2006)

2007 TAX LAWS

Laws 2007, Chapter 169 provided that medallions and coins that are authorized by the Arizona Historical Advisory Commission to commemorate Arizona's 2012 statehood centennial to be exempt from state and local TPT. (Effective September 19, 2007)

Laws 2007, Chapter 188 established a mechanism to determine TPT liability under the prime contracting classification for former property owners who make improvements that are not included in the original sales contract after title to the property has been transferred to a new owner. It excludes property owners who hire contractors to make improvements from being defined as prime contractors, regardless of the existence of a sales contract, retroactive to January 8, 1991. Chapter 188 allows the former property owner to be liable for TPT under the prime contracting classification only on improvements not included in the sales contract made by the former owner after the title to the property has been transferred to a new owner. A refund mechanism is established by which refunds for taxable periods after January 8, 1991 may be claimed if they are filed before January 1, 2008. The maximum cumulative amount of refunds is limited to $10,000. Valid aggregate claims in excess of $10,000 will result in the proportional reduction of all refunds. (Effective September 19, 2007)

Laws 2007, Chapter 265 repealed Laws 2002, Chapter 330, which limited the tribal community colleges transfer of TPT revenues to Diné College. It increased the recipients of the TPT distributions to include qualifying Indian tribes, with the funds to be used for maintenance, renewal and capital expenses of community colleges owned, operated and chartered by the tribes. Chapter 265 allows for existing compacts between qualifying Indian tribes and the state to be renewed for 10 years after a hearing and review of the compact during the last year of the compact's first 10-year term. This legislation is estimated to increase Arizona Community Colleges General Fund expenditures by $194,000 in FY 2008. (Effective September 19, 2007)

Laws 2007, Chapter 276 penalized municipalities located entirely within metropolitan areas with populations exceeding 2 million people that provide retail tax incentives to induce businesses to locate within their borders. This penalty does not apply to cities or towns that adopted retail tax incentives prior to July 1, 2007, and several other exceptions are provided. Municipalities are required to report to DOR the value of any actual or contingent tax incentives offered to retail businesses as an inducement or in exchange for locating within their borders. Municipalities that do offer these incentives shall be penalized by a commensurate reduction in state shared revenue. (Effective September 19, 2007)

2006 TAX LAWS

Laws 2006, Chapter 105 clarified that the sales tax does not apply to postage in printing jobs. Under the job printing classification, printing jobs may include pre-printed postage. This chapter clarifies that the amount collected by the business for the postage is exempt from the sales tax. This legislation will have no fiscal impact. (Effective September 21, 2006)

Laws 2006, Chapter 123 modified the due dates for sales tax payments by standardizing the delinquent date for all payments, regardless of how the payments are made. The chapter clarifies that payments, including electronic payments, are delinquent if they are not received by DOR by the second to the last day of the month, and that payments received by mail must be postmarked before the 25th day of the month. This legislation will have no fiscal impact. (Effective September 21, 2006)

Laws 2006, Chapter 171 provided a municipal sales tax exemption for the state fair. Current statute exempts income received from state and county fairs from the state sales tax. This chapter expands that exemption to municipal sales taxes. This legislation will have no state fiscal impact. (Effective retroactively from June 30, 1999)

Laws 2006, Chapter 222 expanded the sales tax exemption made available to motion picture producers by Laws 2005, Chapter 317 to include printing activity related to motion picture production. The printing exemption is estimated to have a negligible fiscal impact. (Effective retroactively from January 1, 2006)

Laws 2006, Chapter 225 exempted food donated by a restaurant to a qualified nonprofit organization that regularly serves free meals to the needy from the sales and use tax. The donated food exemption is estimated to have a negligible fiscal impact. (Effective September 21, 2006)

Laws 2006, Chapter 321 exempted the sale of food prepared off campus that is provided to school districts, charter and private schools for consumption during school hours from TPT and use tax. (Effective September 21, 2006)

Laws 2006, Chapter 333 eliminated the $5,000 cap on the existing sales tax exemption for the purchase of solar energy devices. The removal of the cap is expected to reduce sales tax revenue by approximately $(500,000) per fiscal year. (Effective retroactively from January 1, 2006)

Laws 2006, Chapter 351 increased the threshold beyond which a June estimated sales tax payment is required from the current $100,000 to $1.0 million. (Effective September 21, 2006)

Laws 2006, Chapter 354 eliminated the sales tax on membership camping fees. The state revenue impact is estimated to be $(100,000) in FY 2007 and $(120,000) per year in subsequent fiscal years. (Effective November 1, 2006)

Laws 2006, Chapter 371 provided an exemption from sales and use tax for natural gas purchased to fuel equipment used to convert natural gas into liquefied natural gas. This exemption is expected to result in a decrease of $(379,000) per fiscal year in sales and use tax collections.

2005 TAX LAWS

Laws 2005, Chapter 11 made technical, conforming, and clarifying corrections to the tax statutes. The act repealed a section of statue exempting intrastate railroad fertilizer transportation from the sales tax, but added the exemption to the transportation classification. It also clarified that purchasers of goods subject to the use tax have the option of paying the tax directly to DOR. This legislation has no fiscal impact. (Effective August 12, 2005)

Laws 2005, Chapter 39 increased the maximum hotel tax rate in Pima County from 2% to 6% and struck an existing provision that would have adjusted the maximum rate to 1% after December 31, 2012. The legislation also decreased, from 50% to 34%, the amount of revenues generated from the tax that may be dedicated toward the construction and operation of a Major League Baseball spring training stadium or facility, and instead authorized the county to use up to 16% of its revenues for economic development activities. (Effective August 12, 2005)

Laws 2005, Chapter 62 made clarifications to the transportation, telecommunications, transient lodging, and amusement classifications. The act specified that, retroactive to June 30, 1993, arranging for transportation or amusement activities as a service to a person's customers is exempt from the sales tax if the person is not otherwise engaged in that type of business. The legislation also specified that telephone, fax, or internet services provided at an additional charge by a transient lodging business are subject to the sales tax. This legislation has no fiscal impact. (Effective August 12, 2005)

Laws 2005, Chapter 317 granted qualifying motion picture companies sales and use tax exemptions for certain expenses, including machinery and equipment, lodging space leases or rentals, catered food and drink, and building (or other structure) construction. To qualify, a motion picture company must incur production costs of at least $250,000 in one year and must employ a certain percentage of Arizona residents in the production. The act also repealed the existing 50% motion picture sales tax refund. This legislation is estimated to have a General Fund cost of $(600,000) in FY 2006. (Effective August 12, 2005)

2004 TAX LAWS

Laws 2004, Chapter 2 required Maricopa County to call a special election concurrent with the state general election on November 2, 2004 on the question of extending the life of the county's ½ cent transportation sales tax for 20 years past its expiration date of December 31, 2005. It also required the inclusion of a provision on expanding the transportation program to include a light rail system. (Effective February 5, 2004)

Laws 2004, Chapter 61 made technical, conforming, and clarifying corrections to the tax statutes. It specified that nonprofit health care organizations are exempt from the sales tax for construction of their facilities, clarified the exemption regarding the sale of tangible personal property for programs for mentally or physically handicapped persons, and amended the prime contracting tax to clarify that certain charitable organizations are exempt from the use tax as well as the sales tax. This legislation has no fiscal impact. (Effective August 25, 2004)

Laws 2004, Chapter 143 exempted from the personal property rental tax classification the amount received by a motor vehicle dealer for the first month of a lease payment if the lease is transferred to a third party. This act is estimated to have no fiscal impact. (Effective August 25, 2004)

Laws 2004, Chapter 147 re-authorized Pima County to levy a ½ cent transportation sales tax for 20 years, if approved by voters in a countywide election. The tax would fund the county's regional transportation plan. The previous authorization for the county to hold an election to approve a transportation tax expired in 1992. (Effective August 25, 2004)

Laws 2004, Chapter 182 allowed Maricopa County to issue bonds for up to $5 million to pay for improvements to 115th Avenue, the main transportation artery to and from Phoenix International Raceway (PIR). The authority to issue bonds expires on December 31, 2004. The bonds are to be repaid with diverted state sales tax revenue collected at PIR. The amount of diverted sales tax revenue used to secure the bonds is capped at $416,667 annually from FY 2008 – FY 2019. The act does not go into effect unless PIR is selected as the site of a major national sporting event by the end of 2004. It is thought that improvements to 115th Avenue will improve PIR's chances of landing a new major race. This legislation has no estimated cost to the state, because sales taxes would only be diverted if PIR is selected as the site of a major race. Since PIR does not currently serve as the site of this race, the diversion of any new sales taxes collected at this race would be considered foregone revenue. (Effective August 25, 2004)

Laws 2004, Chapter 234 specified that sales tax rate increases do not apply for the first 120 days after the date of the rate increase for businesses that have preexisting contracts that were entered into before the effective date of the rate increase, unless the contract states that the purchaser is liable for any tax increase. This act does not apply to prime contracting, since Laws 2003, Chapter 3 already exempted preexisting contracts from sales tax rate increases. Since no tax rate increases are currently scheduled, this legislation has no fiscal impact in FY 2005. (Effective August 25, 2004)

Laws 2004, Chapter 240 provided an exemption from the transporting classification for fertilizer transported by railroad from one point in this state to another point in the state. This bill is estimated to have no fiscal impact. (Effective October 1, 2004)

Laws 2004, Chapter 242 allowed a motor vehicle manufacturer that repurchases a vehicle from a consumer under Arizona's "lemon" laws to apply to DOR for a refund of sales taxes if the manufacturer has refunded the tax to the consumer. It is estimated that this legislation will cost the General Fund $(158,000) annually. (Effective August 25, 2004)

Laws 2004, Chapter 296 changed the requirements for a nonresident to obtain a special 30-day registration for a motor vehicle purchased in this state. Nonresidents who receive a 30-day registration permit and whose home state has a reciprocity agreement with Arizona are required to pay either the sales tax rate of the purchaser's home state or Arizona's sales tax rate, whichever is lower. The fiscal impact of this legislation cannot be determined. (Effective August 25, 2004)

Laws 2004, Chapter 309 specified that architectural and engineering services that are incorporated into a contracting project are not subject to TPT under the prime contracting classification. It authorized DOR to provide refunds for taxes paid since October 17, 1969 on architectural or engineering services incorporated in a prime contracting contract. The total amount of refunds is capped at $100,000. (Effective August 25, 2004)

Laws 2004, Chapter 326 established sales tax exemptions for equipment purchased between July 1, 2004 and June 30, 2014 by a qualified business for harvesting, transporting, or the initial processing of forest products. It also provided a contracting tax exemption for the construction of any building or structure by a qualified business for harvesting, transporting, or the initial processing of forest products, as long as the construction begins before January 1, 2010. These tax exemptions represent foregone sales tax revenues, and not a loss to the current General Fund base, if the equipment purchases and construction would not have occurred in the absence of the bill. (Effective June 3, 2004)

Laws 2004, Chapter 337 created a way to determine the taxable gross proceeds for intrastate landline telephone calls that are part of a bundled transaction of services offered by telecommunications companies. Taxpayers are to use the allocation percentages derived from the taxpayer's nationwide service area to determine liability under the telecommunications classification of the sales tax. There is no fiscal impact associated with this legislation. (Effective August 25, 2004)

2003 TAX LAWS

Laws 2003, 1st Special Session, Chapter 1 appropriated $3,275,800 from the General Fund to DOR for a revenue generating plan. See Laws 2003, Chapter 262 for a more complete explanation of this issue. The program is projected to generate $5,838,000 in additional General Fund revenues in FY 2003, of which $3,168,000 is attributable to the sales tax. (Contained various effective dates.)

Laws 2003, Chapter 3 stipulated that increases in the sales tax rate do not apply to contractors who have entered into contracts or submitted a written bid for a contract before the legislation becomes effective or the date of the election enacting the increase. Since no tax rate increases are currently scheduled, this legislation has no fiscal impact in FY 2004. (Effective September 18, 2003)

Laws 2003, Chapter 36 clarified that the prime contracting tax exemption for installing a solar energy device includes both the contractor's retail cost *and* the installation cost. This bill is estimated to have no fiscal impact. (Effective retroactively to January 1, 1997)

Laws 2003, Chapter 262 appropriated $6,552,000 from the General Fund to DOR for a revenue generating program. The program is projected to generate new revenue through increased audit and collections activity. It is expected to generate $53,249,000 in additional General Fund revenues in FY 2004, of which $25,452,000 is attributable to the sales tax. This act represents the annualization of the revenue generating program begun by Laws 2003, 1st Special Session, Chapter 1. (Contained various effective dates.)

Laws 2003, Chapter 263 established a tax amnesty program, which allows DOR to abate or waive all or part of penalties and to impose reduced interest payments for tax liabilities for all qualifying taxpayers. To qualify for the program, a taxpayer must pay at least one-third of the total amount due by October 31, 2003 and the entire balance due by May 1, 2004. The amnesty program is projected to generate $25 million in additional General Fund revenues in FY 2004, of which $9.0 million is attributable to the sales tax. This provision is repealed after June 30, 2004.

Transaction Privilege Tax

The one-time revenue impact of the tax amnesty program has not been included in the tax law changes table at the beginning of this section.

In addition to this bill's tax amnesty provisions, the bill also allows the Phoenix International Raceway to recapture up to $416,667 annually in state sales taxes generated at its facility to pay for improvement of a highway near the racetrack. This sales tax diversion will be in place from FY 2007 through FY 2018.

Laws 2003, Chapter 267 provided a contracting tax exemption for contracts entered into before July 1, 2006 for constructing a state university research infrastructure project. The project must be reviewed by the Joint Committee on Capital Review before the university enters into the construction contract. The fiscal impact of this exemption is estimated to be $12.4 million in foregone General Fund revenues, spread over several years. (Effective June 26, 2003)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

Attachment A

State and Local Retail Sales Tax Rates by City

August 2009

		County						
Cities by County	**State**	**GF**	**Road**	**Jail**	**Capital**	**Health**	**City**	**Total Rate**
Apache County								
Eagar	5.60	0.50	-	-	-	-	3.00	**9.10**
St. Johns	5.60	0.50	-	-	-	-	2.00	**8.10**
Springerville	5.60	0.50	-	-	-	-	3.00	**9.10**
Cochise County								
Benson	5.60	0.50	-	-	-	-	2.50	**8.60**
Bisbee	5.60	0.50	-	-	-	-	2.50	**8.60**
Douglas	5.60	0.50	-	-	-	-	2.80	**8.90**
Huachuca City	5.60	0.50	-	-	-	-	1.50	**7.60**
Sierra Vista	5.60	0.50	-	-	-	-	1.75	**7.85**
Tombstone	5.60	0.50	-	-	-	-	2.50	**8.60**
Willcox	5.60	0.50	-	-	-	-	3.00	**9.10**
Coconino County								
Flagstaff	5.60	0.50	-	0.50	0.125	-	1.721	**8.446**
Fredonia	5.60	0.50	-	0.50	0.125	-	4.00	**10.73**
Page	5.60	0.50	-	0.50	0.125	-	3.00	**9.73**
Sedona	5.60	0.50	-	0.50	0.125	-	3.00	**9.73**
Williams	5.60	0.50	-	0.50	0.125	-	3.00	**9.73**
Gila County								
Globe	5.60	0.50	0.50	-	-	-	2.00	**8.60**
Hayden	5.60	0.50	0.50	-	-	-	3.00	**9.60**
Miami	5.60	0.50	0.50	-	-	-	2.50	**9.10**
Payson	5.60	0.50	0.50	-	-	-	2.12	**8.72**
Star Valley	5.60	0.50	0.50	-	-	-	2.00	**8.60**
Winkelman	5.60	0.50	0.50	-	-	-	3.50	**10.10**
Graham County								
Pima	5.60	0.50	-	-	-	-	2.00	**8.10**
Safford	5.60	0.50	-	-	-	-	2.50	**8.60**
Thatcher	5.60	0.50	-	-	-	-	2.00	**8.10**
Greenlee County								
Clifton	5.60	0.50	-	-	-	-	3.00	**9.10**
Duncan	5.60	0.50	-	-	-	-	2.00	**8.10**
La Paz County								
Parker	5.60	0.50	-	0.50	-	-	2.00	**8.60**
Quartzsite	5.60	0.50	-	0.50	-	-	2.50	**9.10**
Maricopa County								
Apache Junction	5.60	-	0.50	0.20	-	-	2.20	**8.50**
Avondale	5.60	-	0.50	0.20	-	-	2.50	**8.80**
Buckeye	5.60	-	0.50	0.20	-	-	2.00	**8.30**
Carefree	5.60	-	0.50	0.20	-	-	3.00	**9.30**
Cave Creek	5.60	-	0.50	0.20	-	-	3.00	**9.30**
Chandler	5.60	-	0.50	0.20	-	-	1.50	**7.80**
El Mirage	5.60	-	0.50	0.20	-	-	3.00	**9.30**
Fountain Hills	5.60	-	0.50	0.20	-	-	2.60	**8.90**
Gila Bend	5.60	-	0.50	0.20	-	-	3.00	**9.30**
Gilbert	5.60	-	0.50	0.20	-	-	1.50	**7.80**
Glendale	5.60	-	0.50	0.20	-	-	2.20	**8.50**
Goodyear	5.60	-	0.50	0.20	-	-	2.00	**8.30**
Guadalupe	5.60	-	0.50	0.20	-	-	3.00	**9.30**
Litchfield Park	5.60	-	0.50	0.20	-	-	2.80	**9.10**
Mesa	5.60	-	0.50	0.20	-	-	1.75	**8.05**
Paradise Valley	5.60	-	0.50	0.20	-	-	1.65	**7.95**
Peoria	5.60	-	0.50	0.20	-	-	1.80	**8.10**
Phoenix	5.60	-	0.50	0.20	-	-	2.00	**8.30**

		County						
Cities by County	**State**	**GF**	**Road**	**Jail**	**Capital**	**Health**	**City**	**Total Rate**
Queen Creek	5.60	-	0.50	0.20	-	-	2.25	**8.55**
Scottsdale	5.60	-	0.50	0.20	-	-	1.65	**7.95**
Surprise	5.60	-	0.50	0.20	-	-	2.20	**8.50**
Tempe	5.60	-	0.50	0.20	-	-	1.80	**8.10**
Tolleson	5.60	-	0.50	0.20	-	-	2.50	**8.80**
Wickenburg	5.60	-	0.50	0.20	-	-	2.20	**8.50**
Youngtown	5.60	-	0.50	0.20	-	-	3.00	**9.30**
Mohave County								
Bullhead City	5.60	0.25	-	-	-	-	2.00	**7.85**
Colorado City	5.60	0.25	-	-	-	-	2.00	**7.85**
Kingman	5.60	0.25	-	-	-	-	2.00	**7.85**
Lake Havasu City	5.60	0.25	-	-	-	-	2.00	**7.85**
Navajo County								
Holbrook	5.60	0.50	-	-	-	-	3.00	**9.10**
Pinetop-Lakeside	5.60	0.50	-	-	-	-	2.50	**8.60**
Show Low	5.60	0.50	-	-	-	-	2.00	**8.10**
Snowflake	5.60	0.50	-	-	-	-	2.00	**8.10**
Taylor	5.60	0.50	-	-	-	-	2.00	**8.10**
Winslow	5.60	0.50	-	-	-	-	3.00	**9.10**
Pima County								
Marana	5.60	-	0.50	-	-	-	2.00	**8.10**
Oro Valley	5.60	-	0.50	-	-	-	2.00	**8.10**
Sahuarita	5.60	-	0.50	-	-	-	2.00	**8.10**
South Tucson	5.60	-	0.50	-	-	-	2.50	**8.60**
Tucson	5.60	-	0.50	-	-	-	2.00	**8.10**
Pinal County								
Apache Junction	5.60	0.50	0.50	-	-	0.10	2.20	**8.90**
Casa Grande	5.60	0.50	0.50	-	-	0.10	2.00	**8.70**
Coolidge	5.60	0.50	0.50	-	-	0.10	3.00	**9.70**
Eloy	5.60	0.50	0.50	-	-	0.10	3.00	**9.70**
Florence	5.60	0.50	0.50	-	-	0.10	2.00	**8.70**
Kearny	5.60	0.50	0.50	-	-	0.10	3.00	**9.70**
Mammoth	5.60	0.50	0.50	-	-	0.10	2.00	**8.70**
Maricopa	5.60	0.50	0.50	-	-	0.10	2.00	**8.70**
Superior	5.60	0.50	0.50	-	-	0.10	2.00	**8.70**
Winkelman	5.60	0.50	0.50	-	-	0.10	3.50	**10.20**
Santa Cruz County								
Nogales	5.60	0.50	-	0.50	-	-	2.00	**8.60**
Patagonia	5.60	0.50	-	0.50	-	-	3.00	**9.60**
Yavapai County								
Camp Verde	5.60	0.50	-	0.25	-	-	2.00	**8.35**
Chino Valley	5.60	0.50	-	0.25	-	-	3.00	**9.35**
Clarkdale	5.60	0.50	-	0.25	-	-	3.00	**9.35**
Cottonwood	5.60	0.50	-	0.25	-	-	3.00	**9.35**
Dewey-Humboldt	5.60	0.50	-	0.25	-	-	1.00	**7.35**
Jerome	5.60	0.50	-	0.25	-	-	3.00	**9.35**
Prescott	5.60	0.50	-	0.25	-	-	2.00	**8.35**
Prescott Valley	5.60	0.50	-	0.25	-	-	2.33	**8.68**
Sedona	5.60	0.50	-	0.25	-	-	3.00	**9.35**
Yuma County								
San Luis	5.60	0.50	-	0.50	-	0.10	4.00	**10.70**
Somerton	5.60	0.50	-	0.50	-	0.10	2.50	**9.20**
Wellton	5.60	0.50	-	0.50	-	0.10	2.50	**9.20**
Yuma	5.60	0.50	-	0.50	-	0.10	1.70	**8.40**

SOURCE: Arizona Tax Research Association.

The following information on sales tax exemptions and credits for FY 2008 is provided courtesy of the Department of Revenue.

TRANSACTION PRIVILEGE AND USE TAX EXPENDITURES

	Additional Collections at a 5% rate
PREFERENTIAL TAX RATE CATEGORIES	
Nonmetalliferous Mining; Oil and Gas Production	$ 4,063,000
Commercial Lease	412,977,000
Rental Occupancy Tax	NIA*
Total Preferential Tax Rates	**$ 417,040,000**
CREDITS	
Accounting Credit	$ 22,247,000
Total Credits	**$ 22,247,000**
EXEMPTIONS	
Professional Scientific and Technical Services	
Legal	$ 132,244,000
Architectural and Engineering	151,677,000
Design Services	13,938,000
Computer System Design and Related Services	164,642,000
Management, Scientific and Technical Consulting	87,778,000
Market Research, Polling.	5,366,000
Photographic Services	4,749,000
Veterinary Services	18,741,000
Accounting, Tax Preparation & Bookkeeping	55,374,000
Total Reportable Professional, Scientific and Technical Services	$ 634,509,000
Health Care and Social Assistance Services:	
Physicians	$ 276,532,000
Dentists	82,111,000
Chiropractors	12,797,000
Optometrists	811,000
Mental Health Practitioners	2,606,000
Physical, Occupational and Speech Therapy	9,495,000
Podiatrists	3,291,000
Miscellaneous Health Practitioners	3,509,000
Outpatient Care Center	77,819,000
Medical Diagnostic Labs	42,612,000
Home Health Services	28,107,000
Other Ambulatory Health Services	13,286,000
Nursing and Residential Care Facilities	103,262,000
Individual and Family Social Services	38,107,000
Community Food and Housing, Emergency Relief Services	20,540,000
Vocational Rehabilitation	7,121,000
Total Reportable Health Care and Social Assistance Services	$ 722,009,000

*No Information Available

Administrative and Business Support Services	
Administrative and Support Services	$ 198,872,000
Business Support Services	61,199,000
Services to Buildings and Dwellings	95,270,000 1/
Management of Companies	30,280,000
Investigation and Security	30,200,000
Other Support Services	57,343,000
Waste Management	37,603,000
Total Administrative and Business Support Services	$ 510,768,000
Personal Care Services	
Barber	$ 640,000
Beauty Salons	16,582,000
Nail Salons	770,000
Other Personal Care	3,707,000
Death Care Services	9,130,000
Drycleaner & Laundry	6,872,000
Pet Care (not Veterinary)	1,591,000
Parking Lot/Garages	5,375,000
Total Personal Care Services	$ 44,667,000
Educational Services	
Business School/Computer/Management Training	$ 5,698,000
Technical and Trade Schools	17,272,000
Dance Schools	1,266,000
Exam Preparation	1,168,000
Driving Schools	990,000
Other Miscellaneous Schools	1,376,000
Total Educational Services	$ 27,770,000
Other Services	
Automotive Repair and Maintenance	$ 92,934,000
Electronic and Precision Repair and Maintenance	10,969,000
Commercial, Industrial Machinery Repair and Maintenance	15,516,000
Personal and Household Goods Repair and Maintenance	7,122,000
Total Other Services	$ 126,541,000
Wholesale Trade	$3,597,762,000
Cash Discounts	NIA*
Trade-Ins	NIA*
Sale of Warranty or Service Contracts	$ 21,103,000 2/
Sale of Tangible Personal Property by a Nonprofit Organization	NIA*
Sale of Stocks and Bonds	NIA*
Prescription Drugs and Medical Oxygen	400,541,000 2/
Eyeglasses and Contact Lenses, Insulin, Insulin Syringe and Glucose Test Strips, Prosthetic Appliances, Hearing Aids and Durable Medical Equipment	13,662,000 2/
Sales to Nonresidents for use outside Arizona if the Property is Shipped or Delivered Outside the State	77,014,000 2/
Food for Home Consumption	687,522,000 2/
Textbooks that are required by any State University or Community College	4,270,000 2/
Meals provided to Employees of Restaurants	7,448,000
Food used in School Lunches	NIA*
Sale of Arizona Lottery Tickets	23,647,000
Precious Metal Bullion and Monetized Bullion	NIA*

*No Information Available

1/ A portion of these services may be taxable.

2/ This information is an estimate for Fiscal Year 2007/08. Actual data will be available at a later date.

Tangible Personal Property Sold to a Qualifying Hospital or a Qualifying Health Care Organization	58,791,000
Tangible Personal Property Sold to or Purchased by Qualifying Community Health Centers and Health Care Organizations	NIA*
Tangible Personal Property Sold to a Non-Profitable Organization which regularly serves Meals to the Needy and Indigent	1,698,000 2/
Tangible Personal Property Sold to a Non-Profitable Organization which provides Housing for Low Income Persons over Sixty-Two Years	NIA*
Gross Proceeds from Contracts to Build Housing for Nonprofits to House Low Income Persons over Sixty-Two Years	NIA*
Magazines or other Periodicals or other Publications to encourage Tourist Travel	NIA*
Sale of Articles to a Contractor for Incorporation or Fabrication under a Contract	475,351,000
Sale of Articles to be Incorporated into a Manufactured Product	1,112,489,000
Exempt Motor Vehicle Sales (certain nonresidents and Indians)	25,776,000
Tangible Personal Property Purchased by a Nonprofit Charitable Organization that uses such Property for Training, etc., for Mentally or Physically Handicapped Persons	NIA*
Tangible Personal Property Sold by a Nonprofit Organization associated with a Major League Baseball Team or a National Touring Professional Golf Association	NIA*
Tangible Personal Property sold by a Nonprofit Organization associated with a Rodeo featuring primarily Farm and Ranch Animals	NIA*
Sales of Commodities under Futures Contracts Consigned to a Warehouse for Resale	NIA*
Seeds, Seedlings, Roots, Bulbs, Cuttings and Other Propogative Material used to Commercially Produce Agricultural, Horticultural, Viticultural or Floricultural Crops in Arizona	866,000 2/
Machinery, Equipment and Certain Supplies used to assist the Physically or Developmentally Disabled or those Persons with Head Injuries	NIA*
Tangible Personal Property Shipped or Delivered Directly to a Foreign Country for use in that Country	11,278,000 2/
Sales of Natural Gas or Liquefied Petroleum Gas used to Propel a Motor Vehicle	1,278,000 2/
Paper Machine Clothing used or consumed in Paper Manufacturing	NIA*
Machinery, Equipment, Utility Product, Materials and Other Tangible Personal Property used to Construct a Qualified Environmental Technology Facility	NIA*
Sales of Coal, Petroleum, Coke, Natural Gas, Virgin Fuel Oil and Electricity to an Environmental Technology Facility	905,000 2/
Sales of Liquid, Solid or Gaseous Chemicals used in Manufacturing, Processing, Fabricating, Mining, Refining, Metallurgical Operations or Research and Development	3,115,000 2/
Sales of Food or Drink consumed on the Premises of a Jail, Prison	1,250,000 2/
Motor Vehicles and any Tangible Personal Property or Repair that becomes a part of the Motor Vehicles sold to a Licensed Motor Operator that Lease or Rent the Property	9,935,000 2/
Livestock, Poultry, Feed and Supplies for use or consumption in the Businesses of Farming, Ranching and Feeding Livestock and Poultry.	NIA*
Sale or Purchase of Implants used as Growth Promotants and Injectable Medicine	281,000 2/
Sales of Motor Vehicles at Auction to Nonresidents of this State for use Outside of this State	4,353,000 2/
Personal Hygiene Products which are Furnished to and to be consumed by Hotel Occupant	NIA*
Sales or Purchases of Alternative Fuel to a Used Oil Fuel Burner	NIA*
Printed, Photographic, Electronic or Digital Media Materials for use in Publicly Funded Libraries	86,000 2/
Tangible Personal Property consisting of Food, Beverages and Condiments Sold to or Purchased by a Commercial Airline	126,000 2/
Sale of New Alternative Fuel Vehicles and Conversion Equipment	NIA*
Sale of Spirituous, Vinous or Malt Liquor by a Liquor Wholesaler	NIA*
Property to be Incorporated as part of Environmental Response or Remediation Activities	NIA*

*No Information Available

2/ This information is an estimate for Fiscal Year 2007/08. Actual data will be available at a later date.

Tangible Personal Property by a Nonprofit that Produces, Organizes or Promotes Cultural or Civic Related Festivals	NIA*
Machinery or Equipment used directly in Manufacturing, Processing, Fabricating, Job Printing, Refining or Metallurgical Operations	50,720,000
Sale of Machinery or Equipment used in Mining and in Drilling for or Extracting Oil or Gas from the Earth	40,807,000 2/
Certain Equipment used in the Telecommunications Industry	NIA*
Machinery, Equipment or Transmission Lines used directly in Producing or Transmitting Electrical Power	72,342,000 2/
Neat Animals, Horses, Asses, Sheep, Swine or Goats used or to be used as breeding or production stock	NIA*
Pipes or Valves Four Inches in Diameter used to Transport Oil, Natural Gas, Artificial Gas, Water or Coal Slurry	18,385,000 2/
Certain Aircraft, Navigational and Communication Instruments	2,996,000 2/
Machinery, Tools, Equipment used in Repairing, Remodeling or Maintaining Aircraft, Aircraft Engines or Aircraft Component Parts	NIA*
Railroad Rolling Stock, Rails, Ties and Signal Control Equipment used to Transport Persons or Property for Hire	NIA*
Buses or Other Urban Mass Transit Vehicles used to Transport Persons for Hire or Pursuant to a Governmentally Adopted and Controlled Urban Mass Transportation Program	NIA*
Certain Groundwater Measuring Devices and their Installation	NIA*
New Machinery and Equipment used for Commercial Production of Agricultural, Horticultural, Viticultural and Floricultural Crops	NIA*
Machinery or Equipment used in Research and Development	NIA*
Machinery and Equipment Purchased by or on Behalf of Owners of a Soundstage Complex	NIA*
Tangible Personal Property used by any Direct Broadcast Satellite Television or Data Transmission Service or Facility	NIA*
Sales of Services by Direct Broadcast Satellite Television Services	NIA*
Clean Rooms used for Manufacturing, Processing Fabrication or Research and Development	NIA*
Gross Income from Installation, Assembly, Repair or Maintenance Clean Rooms	NIA*
Machinery and Equipment used in the Feeding of Poultry or Production and Packaging of Eggs	NIA*
Machinery and Equipment used to meet Land, Water and Air Quality Standards	NIA*
Machinery and Equipment used by Agriculture to Prevent, Monitor, Control or Reduce Pollution	NIA*
Digital Television Machinery and Equipment Purchases for Compliance with the Telecommunications Act of 1996	NIA*
Machinery and Equipment Sold or Rented to a Healthy Forest Certified Business	66,000 2/
Machinery, Equipment and Tangible Personal Property used directly in Motion Picture Production by a Motion Picture Production Company	NIA*
Portion of Sales Price of Luxury Automobiles that reflects the Federal Luxury Excise Tax	NIA*
Portion of Sales Price of Use Fuel that reflects the Federal Luxury Excise Tax	NIA*
Gross Income from Machinery, Equipment and Materials used directly to Construct a Qualified Environmental Technology Facility	NIA*
Sales of Overhead Materials or Other Tangible Personal Property to a Manufacturer, Modifier, Assembler or Repairer if performing a Contract between the United States Government and the Manufacturer	NIA*
Sales of Tangible Personal Property made to the United States Government not deducted under A.R.S. § 42-5061L	NIA*
Gross Income from Motor Vehicle Manufacturer's Cash Rebates if Assigned to the Retailer	14,416,000 2/
Gross Income derived from the Waste Tire Disposal Fee	NIA*
Sales of Solar Energy Devices	2,815,000 2/
Sales of Wireless Telecommunication Equipment as an Inducement to Enter into or Continue a Contract for Telecommunication Services or Sales Commissions Received	NIA*
Ambulances or Ambulance Services	NIA*

*No Information Available

2/ This information is an estimate for Fiscal Year 2007/08. Actual data will be available at a later date.

Public Transportation Services for Dial-A-Ride Programs and Special Needs Transportation Services	NIA*
Gross Proceeds for Transporting Freight or Property by an Exclusively Arizona Railroad for Portions of Single Shipments Involving Other Railroads	NIA*
Gross Proceeds for Arranging Transportation as a Convenience or Service to a Customer if the Business is not otherwise engaged in the Transportation Business	NIA*
Gross Proceeds of Sales or Gross Income Derived from Transporting for Hire Persons, Freight or Property by a Railroad Pursuant to a Contract with Another Railroad	NIA*
Gross Proceeds of Sales or Gross Income Derived from Transporting Fertilizer by a Railroad from a Point in this State to Another Point in this State	NIA*
Sales of Electricity to a Distributor	NIA*
Sales of Alternative Fuel to a Used Oil Fuel Burner	NIA*
Sales of Electric Services to a Retail Electric Customer who is Located Outside this State for Delivery and Use Outside the State	NIA*
Revenues Received by a Municipally Owned Utility in the Form of Fees Charged to Persons Constructing Residential, Commercial or Industrial Developments	NIA*
Revenues Received by Any Person Owning a Utility System in the Form of Reimbursement or Contribution Compensation for Property and Equipment Installed to Provide Utility Access to, on or across the Land of an Actual Utility Consumer	NIA*
Interstate Sales of Electricity, Natural Gas & Water	NIA*
Interstate Telecommunication Services	NIA*
Sales of Intrastate Telecommunications Services by a Cable Television System or by a Microwave Television Transmission System	NIA*
Sales of Internet Access Services	1,529,000 2/
End User Common Line Charges and Carrier Access Charges Established by Federal Communications Regulations	NIA*
Sales of Direct Broadcast Satellite Television Services	NIA*
Manufacturing or Publishing Books	NIA*
Gross Income of Publications Derived from Advertising	33,279,000
Sales to a Person who Distributes Printing, Engraving, Embossing or Copying without consideration in connection with the Publication of a Newspaper or Magazine	NIA*
Sales of Job Printing, Engraving, Embossing, and Copying for use Outside the State if the Materials are Shipped or Delivered Out of the State	NIA*
Sales of Postage and Freight	NIA*
Sales of Job Printing, Engraving, Embossing or Copying to a Motion Picture Production Company	NIA*
Leasing or Renting Four or Fewer Rooms of an Owner Occupied Residence Bed and Breakfast with less than 50% Average Annual Occupancy	NIA*
Leasing Films, Tapes or Slides Used by Theaters or Movies or used by Television Stations or Radio Stations	NIA*
Operating Coin Operated Washing, Drying and Dry Cleaning Machines	NIA*
Operating Coin Operated Car Washing Machines	NIA*
Leasing or Renting Personal Property for Incorporation into a Qualified Environmental Technology Facility	NIA*
Leasing or Renting Aircraft or Training Equipment by a Non-Profit School Offering Aviation and Aerospace Degrees	NIA*
Leasing or Renting Photographs, Transparencies or Other Creative Works used by this State on Internet Web Sites, in Magazines or Other Publications that encourage Tourism	NIA*
Amounts Received by a Motor Vehicle Dealer for the First Month of a Lease Payment if the Lease is Transferred to a Third Party	1,152,000 2/
Freight Charges Relating Nonmetalliferous Mineral Products	NIA*
Tuition and Fees Paid to Universities & Community Colleges	NIA*

*No Information Available

2/ This information is an estimate for Fiscal Year 2007/08. Actual data will be available at a later date.

Private or Group Instructional Activities and Membership and Initiation Fees for Health or Fitness Clubs or Private Recreational Establishments with Memberships Greater than 28 Days	NIA*
Events Sponsored by the Arizona Coliseum & Exposition Board	NIA*
Musical, Dramatic or Dance groups or a Botanical Garden, Museum or Zoo that qualifies as a Nonprofit Charitable Organization	NIA*
Sales of Admissions to Intercollegiate Football Contests	122,000
Fees and Assessments received by a Homeowner's Organization	NIA*
Arranging an Amusement Activity as a Service to a Person's Customers	NIA*
2009 NBA All Star Game Events	0
Sales by a Congressionally Chartered Veterans Organization of Food or Drink	NIA*
Sales by Churches, Fraternal Benefit Societies and Other Nonprofit Organizations which do not regularly Engage or Continue in the Restaurant Business for the purpose of Fund Raising	NIA*
Restaurant Sales to Qualifying Hospital	NIA*
Wages & Salaries for Labor Employed in Construction	772,206,000 2/
Sale Price of Land	39,029,000 2/
Contracting in a Military Reuse Zone for a Manufacturer, Assembler or Fabricator of Aviation or Aerospace Product	NIA*
Gross Proceeds from Contracts to Construct a Qualified Environmental Technology Facility	NIA*
Gross Proceeds of Sales from a Contract to Provide Response to a Release or Suspected Release of a Hazardous Substance	NIA*
Gross Proceeds of Sales from a Contract to Install, Assemble, Repair or Maintain Machinery that does not become permanently attached	NIA*
Income received from a Contract for Constructing a Lake Facility Development in a Commercial Enhancement Reuse District	NIA*
Income from Contracts for Construction of Facilities for Raising Egg Producing Poultry, or the Production and Packaging of Eggs	NIA*
Tangible Personal Property not exceeding $200 Purchased by an Individual at Retail Outside the Continental United States – USE TAX ONLY	NIA*
Purchases made by a Residential Care Institution that is operated in conjunction with Licensed Nursing Care Institutions – USE TAX ONLY	NIA*
Tangible Personal Property Purchased by a Nonprofit Charitable Organization from the Parent or Affiliate Organization located Out of State- USE TAX ONLY	NIA*
Motor Vehicles Removed from Inventory and Provided to Charitable or Educational Institutions or State Universities or their Affiliated Organization- USE TAX ONLY	NIA*
Tangible Personal Property which directly enters into or becomes an Ingredient or Part of Cards used as Prescription Plan Identification Cards - USE TAX ONLY	NIA*
Total Exemptions	**$9,656,674,000**
TOTAL QUANTIFIABLE TRANSACTION PRIVILEGE AND USE TAX EXPENDITURES 3/	**$10,095,961,000**
Value of Exemptions from the Proposition 301-Education Tax	$1,158,801,000

*No Information Available

2/ This information is an estimate for Fiscal Year 2007/08. Actual data will be available at a later date.

3/ These expenditures represent foregone revenues to the state General Fund, counties and incorporated cities/towns.

USE TAX

DESCRIPTION

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

Beginning in June 2001, the use tax rate rose from 5.0% to 5.6%, with the extra 0.6% being dedicated to education. This tax increase was approved by voters and is commonly known as Proposition 301.

DISTRIBUTION

Use tax revenues are virtually all deposited in the General Fund, except that 20% of use tax revenues collected from the sale of electricity are deposited in the distribution base.

Table 1

USE TAX COLLECTIONS

Fiscal Year	State General Fund	Fiscal Year	State General Fund
FY 2009	$292,698,574	FY 1999	$147,642,017
FY 2008	$340,909,535	FY 1998	$136,473,801
FY 2007	$303,010,863	FY 1997	$119,600,758
FY 2006	$306,198,808	FY 1996	$113,964,912
FY 2005	$259,615,656	FY 1995	$104,480,933
FY 2004	$232,216,222	FY 1994	$97,492,637
FY 2003	$189,684,520	FY 1993	$84,424,541
FY 2002	$162,022,998	FY 1992	$83,023,743
FY 2001	$196,147,647	FY 1991	$82,625,028
FY 2000	$175,730,649	FY 1990	$61,708,485

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

Individuals and Businesses

The tax is paid by persons who make retail purchases of tangible personal property outside this state and store, use, or consume the item in Arizona. If a sales tax has already been paid on the item in another state, the Arizona use tax does not apply. The use tax is due, for example, when an Arizona resident purchases goods over the Internet from an out-of-state retailer and has the item delivered to this state (see the *Internet Taxation* section in the Transaction Privilege Tax section of this book). In practice, the use tax is primarily paid by businesses. Individuals are also liable for the use tax but rarely pay it, because individuals are often unaware of the tax or are unwilling to "voluntarily" report a taxable transaction [A.R.S. § 42-5155].

Tribal Members and Businesses

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

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

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

There are no specific statutory references related to the imposition of Arizona state use tax on tribal members. Thus, to facilitate the administration of state use tax on Indian reservations, the Department of Revenue (DOR) has adopted use tax rulings based on the decisions in several court cases. The most recent ruling, which is reflected in the description above, was issued in April 1995 and is referred to as TPR 95-11.

TAX BASE AND RATE

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

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

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

PAYMENT SCHEDULE

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

Tax payments are delinquent if not postmarked on or before the 25th day of the month or received by DOR on or before the next-to-last business day of the month [A.R.S. § 42-5162].

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

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

The following tax law changes apply only to the use tax. Tax law changes that apply to both the use tax and the transaction privilege tax are included in the Transaction Privilege Tax section of the Tax Handbook.

There were no changes enacted to this tax in 2003, 2006, 2007, and 2009.

2008 TAX LAWS

Laws 2008, Chapter 60 established a use tax exception for the purchase of solar energy devices from a retailer that is registered with DOR as a solar energy retailer or as a solar energy contractor. The fiscal impact of this legislation can not be determined. (Effective December 31, 2006)

2005 TAX LAWS

Laws 2005, Chapter 196 established a percentage based reporting method for determining use tax payments. Statute authorizes businesses that annually make over $500,000 in purchases to self-assess and make direct use tax payments to DOR. Prior to enactment of this legislation, calculation of the tax was based on actual purchases. The

act authorized businesses to instead make the calculation based on a sampling of purchases. The fiscal impact of this legislation can not be determined. (Effective August 12, 2005)

2004 TAX LAWS

Laws 2004, Chapter 249 required the Department of Transportation (DOT) to deduct a taxpayer's use tax liability from any use fuel tax refund. Currently, if use (diesel) fuel is consumed for a non-highway purpose, it is exempt from the use fuel tax and DOT refunds the taxes paid. Use fuel that is consumed for a non-highway purpose is subject to the use tax. Under this legislation, DOT will make sure the use tax is paid before issuing a refund of use fuel taxes. The act is estimated to not have a revenue impact. (Effective January 1, 2005)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

SEVERANCE TAX ON METALLIFEROUS MINERALS

DESCRIPTION

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

DISTRIBUTION

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

Table 1

TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Cities	Counties	Total
FY 2009	$8,666,537	$3,642,014	$5,901,520	$18,210,071
FY 2008	$20,822,267	$8,750,323	$14,179,023	$43,751,613
FY 2007	$20,725,843	$8,709,801	$14,113,362	$43,549,006
FY 2006	$14,486,992	$6,087,995	$9,864,986	$30,439,973
FY 2005	$7,804,650	$3,279,819	$5,314,617	$16,399,086
FY 2004	$3,112,796	$1,308,118	$2,119,674	$6,540,588
FY 2003	$539,399	$224,889	$361,945	$1,126,233
FY 2002	$ (49,954)	$(21,400)	$(35,237)	$(106,591)
FY 2001 1/	$56	$1,609,331	$2,607,994	$4,217,380
FY 2000	$3,554,565	$3,237,959	$5,247,042	$12,039,566
FY 1999	$8,914,656	$3,746,283	$6,070,478	$18,731,417
FY 1998	$12,884,325	$5,414,492	$8,773,643	$27,072,460
FY 1997	$12,875,213	$5,410,663	$8,767,438	$27,053,314
FY 1996	$19,540,585	$8,211,710	$13,306,254	$41,058,549
FY 1995	$17,901,380	$7,522,853	$12,190,030	$37,614,263
FY 1994	$11,618,342	$4,690,868	$7,145,130	$23,454,340
FY 1993	$13,804,934	$5,573,698	$8,489,856	$27,868,488
FY 1992	$13,883,704	$5,585,313	$8,507,549	$27,926,566
FY 1991	$13,911,842	$6,020,608	$9,170,591	$30,103,041
FY 1990 2/				$29,552,883

1/ Note Laws 1999, 1st Special Session, Chapter 5.
2/ Distribution amounts are not available for FY 1989 - FY 1990.

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

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

TAX BASE AND RATE

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

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

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

PAYMENT SCHEDULE

Tax payments for this tax are due on the same schedule as the transaction privilege tax [A.R.S. § 42-5205].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax from 2003 through 2009.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

JET FUEL EXCISE AND USE TAX

DESCRIPTION

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

DISTRIBUTION

Forty percent of the excise tax revenue collected is designated as distribution base, and is distributed as described in the Transaction Privilege Tax section of this book. Sixty percent of the excise tax revenue and 100% of the use tax revenue is credited directly to the state General Fund [A.R.S. § 42-5353]. Tables 1 and 2 below provide a history of jet fuel excise tax and use tax distributions since the taxes became effective on October 31, 1991.

Table 1

DISTRIBUTION OF JET FUEL EXCISE TAX

Fiscal Year	General Fund	Cities	Counties	Total
FY 2009	$2,982,561	$404,163	$654,906	$4,041,630
FY 2008	$3,421,347	$462,874	$752,020	$4,636,291
FY 2007	$3,584,305	$485,704	$787,036	$4,857,045
FY 2006	$4,471,848	$605,974	$981,921	$6,059,743
FY 2005	$3,941,095	$534,053	$865,378	$5,340,526
FY 2004	$3,833,833	$519,518	$841,826	$5,195,177
FY 2003	$4,308,588	$583,851	$946,073	$5,838,512
FY 2002	$4,167,728	$564,764	$915,143	$5,647,635
FY 2001	$4,333,585	$587,239	$951,561	$5,872,385
FY 2000	$3,838,375	$519,727	$842,165	$5,200,267
FY 1999	$3,645,555	$494,004	$800,485	$4,940,044
FY 1998	$3,767,232	$510,493	$827,203	$5,104,928
FY 1997	$3,411,961	$462,351	$749,193	$4,623,505
FY 1996	$3,135,681	$424,912	$688,527	$4,249,120
FY 1995	$3,462,468	$469,194	$760,282	$4,691,944
FY 1994	$3,889,868	$520,258	$792,457	$5,202,583
FY 1993	$5,194,309	$694,724	$1,058,203	$6,947,236
FY 1992	$3,869,796	$517,574	$788,368	$5,175,738

SOURCE: Department of Revenue, Annual Reports.

Table 2

DISTRIBUTION OF JET FUEL USE TAX

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2009	$679,816	FY 2000	$835,615
FY 2008	$1,045,498	FY 1999	$458,118
FY 2007	$906,377	FY 1998	$394,789
FY 2006	$724,106	FY 1997	$532,451
FY 2005	$890,252	FY 1996	$613,252
FY 2004	$724,543	FY 1995	$421,116
FY 2003	$501,537	FY 1994	$490,721
FY 2002	$728,989	FY 1993	$725,335
FY 2001	$740,281	FY 1992	$550,908

SOURCE: Department of Revenue, Annual Reports.

Jet Fuel Excise and Use Tax

WHO PAYS THE TAX

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

TAX BASE AND RATE

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

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

PAYMENT SCHEDULE

Taxes are collected and due in the same manner as for Transaction Privilege Taxes.

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in the period from 2003 to 2009.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

RENTAL OCCUPANCY TAX

DESCRIPTION

The rental occupancy tax is imposed on tenants of real property whose lease was entered into prior to December 1, 1967. It is intended to be a substitute for the transaction privilege tax on rentals of real property where the landlord cannot pass the tax on to tenants in the form of a rent increase because of the long-standing fixed nature of the lease price. The tax rate is 3% of the tenant's rent.

Laws 2006, Chapter 354 eliminated the rental occupancy tax, effective November 1, 2006.

DISTRIBUTION

Revenues from the rental occupancy tax are distributed between the state, the counties, and the cities.

- Two-thirds of the tax revenues collected are designated as Distribution Base and is distributed as described in the Transaction Privilege Tax section of this book. The Department of Revenue shall determine each county's share of the Distribution Base on the basis of occupancy in each county.
- One-third of the tax revenues are deposited in the General Fund [A.R.S. § 42-5409].

Table 1

TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Cities	Counties	Total
FY 2009	$1,714	$511	$829	$3,054 1/
FY 2008	$(44,875)	$(13,377)	$(21,733)	$(79,985) 1/
FY 2007	$17,704	$5,285	$8,564	$31,553
FY 2006	$58,139	$17,356	$28,123	$103,618
FY 2005	$40,554	$12,107	$19,618	$72,279
FY 2004	$70,857	$21,062	$34,128	$126,047
FY 2003	$24,120	$7,138	$11,566	$42,824
FY 2002	$100,837	$29,840	$48,352	$179,029
FY 2001	$82,743	$24,485	$39,675	$146,903
FY 2000	$63,092	$18,670	$30,252	$112,014
FY 1999	$66,455	$19,665	$31,865	$117,985
FY 1998	$71,158	$21,056	$34,120	$126,334
FY 1997	$55,632	$16,462	$26,675	$98,769
FY 1996	$59,739	$17,677	$28,644	$106,060
FY 1995	$55,917	$16,547	$26,812	$99,276
FY 1994	$56,919	$16,372	$24,938	$98,229
FY 1993	$49,874	$14,346	$21,851	$86,071
FY 1992	$54,161	$15,579	$23,730	$93,470
FY 1991	$62,738	$18,061	$27,510	$108,359
FY 1990				$91,832

1/ Laws 2006, Chapter 354 eliminated the rental occupancy tax, effective November 1, 2006. These amounts represent activity prior to the elimination of the tax.

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

The tax is paid by landlords who collect the tax from the tenant together with the rental payment or by any tenant from whom no tax has been collected by the landlord [A.R.S. § 42-5406].

TAX BASE AND RATE

The rental occupancy tax is levied at a rate of 3% on tenants of preexisting leases for the privilege of occupancy [A.R.S. § 42-5404]. A preexisting lease is defined as any written lease or rental agreement entered into prior to December 1, 1967 [A.R.S. § 42-5401].

Exceptions to Preexisting Lease. The following are exempt from the rental occupancy tax:

- Any bilateral amendment to a lease or rental agreement entered into after December 1, 1967 that lengthens the term of the lease or changes the size of the premises leased.
- A lease or rental agreement for the following businesses: hotels, guest houses, dude ranches, resorts, rooming houses, apartment houses, office buildings, automobile storage garages, parking lots, and tourist camps [A.R.S. § 42-5401].

Other Exemptions from this tax:

- Occupancy by any tenant who is exempt under the Constitution or laws of the United States or Arizona.
- Occupancy under a lease entered into prior to December 1, 1967 which the Constitution or laws of the United States or Arizona would prohibit from taxing if the landlord were the tenant.
- Leasing or renting of property when such property is used by the lessee as a principal or permanent place of residence [A.R.S. § 42-5405].

PAYMENT SCHEDULE

On or before the last day of each month, the landlord shall pay taxes on rents received during the previous calendar month. An extension may be granted for good cause, but not beyond the last day of the second month following the regular due date [A.R.S. § 42-5407].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax from 2003 to 2005. Laws 2006, Chapter 354 eliminated the rental occupancy tax, effective November 1, 2006.

2006 TAX LAWS

Laws 2006, Chapter 354 eliminated the rental occupancy tax. The state revenue impact is estimated to be $(60,000) in FY 2007 and $(72,000) per year in subsequent fiscal years. (Effective November 1, 2006)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

SEVERANCE TAX ON TIMBER

DESCRIPTION

The severance tax on timber is levied on the production of timber products. Timber products include poles, saw logs, pulpwood, and firewood.

Laws 2006, Chapter 354 eliminated the severance on timber products, effective November 1, 2006.

DISTRIBUTION

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

Table 1

TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Cities	Counties	Total
FY 2009	$(121)	$(51)	$(83)	$(255) 1/
FY 2008	$2,259	$949	$1,538	$4,746 1/
FY 2007	$5,371	$2,257	$3,658	$11,286
FY 2006	$15,769	$6,627	$10,738	$33,134
FY 2005	$19,346	$8,130	$13,166	$40,642
FY 2004	$5,098	$2,143	$3,471	$10,711
FY 2003	$2,455	$1,032	$1,672	$5,159
FY 2002	$6,561	$2,757	$4,467	$13,785
FY 2001	$521	$219	$355	$1,095
FY 2000	$6,150	$2,584	$4,188	$12,922
FY 1999	$19,160	$8,053	$13,047	$40,260
FY 1998	$24,812	$10,426	$16,894	$52,132
FY 1997	$19,781	$8,312	$13,470	$41,563
FY 1996	$21,720	$9,127	$14,791	$45,638
FY 1995	$124,045	$52,129	$84,469	$260,643
FY 1994	$131,612	$53,138	$80,939	$265,689
FY 1993	$209,243	$84,481	$128,681	$422,405
FY 1992	$232,679	$93,943	$143,094	$469,716
FY 1991	$175,944	$71,037	$108,204	$355,185
FY 1990 2/				$543,461

1/ Laws 2006, Chapter 354 eliminated the severance on timber products, effective November 1, 2006. These amounts represent activity prior to the elimination of the tax. A negative amount represents a refund of previously collected tax revenues.

2/ Distribution by jurisdiction not available prior to FY 1991.

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

The tax is paid by individuals engaged in the business of producing timber products [A.R.S. § 42-5202].

TAX BASE AND RATE

This tax is imposed on timbering activities that result in timber products, such as poles, saw logs, pulpwood, or firewood. An exemption is provided for timber products sold at retail [A.R.S. § 42-5202]. The tax rate is:

- $2.13 per 1,000 board feet for timber products derived from ponderosa pine.
- $1.51 per 1,000 board feet for timber products derived from all species except ponderosa pine.

TAX REFUNDS AND/OR TAX CREDITS

None.

PAYMENT SCHEDULE

The due dates for the severance tax on timber are the same as for the transaction privilege tax [A.R.S. § 42-5014].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax from 2003 to 2005. Laws 2006, Chapter 354 eliminated the severance tax on timber products, effective November 1, 2006.

2006 TAX LAWS

Laws 2006, Chapter 354 eliminated the severance tax on timber products. The state revenue impact was estimated to be $(15,000) in FY 2007 and $(18,000) per year in subsequent fiscal years. (Effective November 1, 2006)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

INCOME TAXES

INDIVIDUAL INCOME TAX

DESCRIPTION

The individual income tax is levied on the personal income of full-time residents and pro-rated for part-time residents of Arizona. Taxation of income by local entities is preempted by the state as long as the Urban Revenue Sharing Fund is maintained. The starting point for Arizona individual income tax is the federal adjusted gross income. Arizona uses a graduated rate structure, which currently ranges between 2.59% and 4.54% of Arizona taxable income depending on the taxpayer's income level.

The individual income tax is an important revenue source for the state, representing about 33% of forecasted General Fund revenues. A portion of individual income tax collections (along with corporate income tax collections) is shared with incorporated cities and towns within the state.

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

DISTRIBUTION

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

Table 1

INDIVIDUAL INCOME TAX COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2009	$2,567,963,783	FY 1999	$2,097,629,461
FY 2008	$3,406,450,738	FY 1998	$1,862,514,798
FY 2007	$3,747,386,937	FY 1997	$1,668,414,355
FY 2006	$3,689,373,375	FY 1996	$1,494,282,274
FY 2005	$2,973,716,271	FY 1995	$1,479,588,252
FY 2004	$2,306,175,168	FY 1994	$1,405,482,556
FY 2003	$2,097,754,868	FY 1993	$1,367,641,116
FY 2002	$2,086,648,727	FY 1992	$1,237,540,251
FY 2001	$2,300,751,988	FY 1991	$1,243,656,300
FY 2000	$2,289,328,921	FY 1990	$996,405,685

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

Urban Revenue Sharing

The Urban Revenue Sharing Fund (URS), which was established based on a ballot initiative approved by voters in 1972, provides that a percentage of income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and towns within the state. The amount that is currently distributed to cities and towns is 15% of net income tax collections from 2 years prior. Table 2 below shows the URS distribution percentages in effect since the establishment of this revenue sharing program.

Table 2

URBAN REVENUE SHARING PERCENTAGE

Distribution Year Fiscal Year	Collection Year Fiscal Year	Percentage
1974 – 1992	1972 – 1990	15.0%
1993	1991	12.8%
1994	1992	12.8%
1995	1993	12.8%
1996	1994	12.8%
1997	1995	13.6%
1998	1996	15.0%
1999	1997	15.0%
2000	1998	15.8%
2001	1999	15.0%
2002	2000	15.0%
2003	2001	14.8%
2004	2002	14.8%
2005-2008	2003-2006	15.0%

SOURCE: Department of Revenue.

This distribution is based on the last U.S. decennial census, a special census, or revised population figures approved by the Department of Economic Security (DES) [A.R.S. § 42-5033.01]. Pursuant to Laws 2008, Chapter 290, a city or town is entitled to receive at least an amount equal to what a city or town with a population of 1,500 or more receives from the Urban Revenue Sharing Fund. Table 3 below provides historical urban revenue sharing distributions [A.R.S. § 43-206].

Table 3

DISTRIBUTION OF INDIVIDUAL AND CORPORATE INCOME TAX

Fiscal Year	Total Collections 1/	State General Fund 2/	Urban Revenue Sharing	Voluntary Contribution Funds
FY 2009	$3,160,121,036	$2,432,443,636	$727,677,400	$7,567,118
FY 2008	$4,190,964,198	$3,506,425,272	$684,538,926	$7,847,478
FY 2007	$4,732,909,595	$4,181,678,934	$551,230,661	$7,102,333
FY 2006	$4,563,592,847	$4,138,363,920	$425,228,927	$5,818,045
FY 2005	$3,675,575,556	$3,302,502,977	$373,072,578	$5,559,370
FY 2004	$2,831,825,037	$2,466,759,879	$365,065,158	$4,830,420
FY 2003	$2,491,760,840	$2,056,602,160	$430,559,053	$4,599,627
FY 2002	$2,436,905,359	$2,011,052,550	$421,876,573	$3,976,236
FY 2001	$2,845,000,474	$2,445,472,944	$396,452,640	$3,074,890
FY 2000	$2,815,006,109	$2,434,799,494	$377,710,989	$2,495,626
FY 1999	$2,643,737,477	$2,302,706,943	$340,310,656	$719,878
FY 1998	$2,390,575,871	$2,098,733,397	$291,243,578	$598,896
FY 1997	$2,269,304,787	$2,010,937,159	$257,800,548	$567,080
FY 1996	$1,942,321,758	$1,723,080,577	$218,543,272	$697,909
FY 1995	$1,896,299,526	$1,689,985,202	$205,607,690	$707,264
FY 1994	$1,708,098,853	$1,521,964,032	$185,405,279	$729,542
FY 1993	$1,606,910,521	$1,422,638,002	$183,667,152	$605,368
FY 1992	$1,448,985,875	$1,272,391,599	$176,087,148	$507,128
FY 1991	$1,435,328,781	$1,268,036,363	$166,863,264	$429,154
FY 1990	$1,174,472,787	$1,023,291,736	$150,622,581	$558,470

1/ Note that this column also includes corporate income tax.
2/ Ladewig refunds and attorney payments are not included.

Laws 2006, Chapter 351 appropriated $850,000 from the General Fund in FY 2007 to supplement the URS distribution for towns with a population of less than 1,500. In lieu of the statutory URS distribution to cities and towns, the act appropriates $717.1 million in FY 2009 to hold cities and towns harmless from the individual income tax rate reductions implemented in FY 2007 *(see Laws 2006, Chapter 354)*. In addition, Chapter 351 session law also appropriated $10.5 million in FY 2009 to repay cities and towns for the reduced (14.8%) distribution percentage in FY 2003 and FY 2004. Thus, Laws 2006, Chapter 351 authorizes a total URS distribution amount of $727.6 million for FY 2009.

Voluntary Contribution Funds

Laws 1984, Chapter 76 provided for taxpayers to designate an amount of their income tax refund as a voluntary contribution to the Arizona Game, Non-Game, Fish and Endangered Species Fund. Laws 1985, Chapter 59 established a permanent check-off provision on the individual income tax return, which was also expanded to include contributions to the Child Abuse Prevention Fund.

Arizona statutes were amended in subsequent years to also include contributions to the Arizona Assistance for Education Fund, Domestic Violence Shelter Fund, Neighbors Helping Neighbors Fund, Special Olympics Fund, Citizens Clean Elections Fund, and National Guard Relief Fund. Laws 2006, Chapter 102 further expanded the list of voluntary contribution funds to also include the newly created Veterans' Donation Fund. In addition to these voluntary contribution funds, taxpayers were also given the option to give all or part of their refund to a political party. Table 3 above shows the total amount of refunds designated annually to voluntary contribution funds and political parties since the program started in 1984 [A.R.S. § 43-611 to 620].

WHO PAYS THE TAX

Individuals

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

Businesses

Businesses other than regular corporations must also pay the individual income tax [A.R.S. § 43-102A]. A business that is subject to the individual income tax is often referred to as a "pass-through entity" since its income passes or flows through the business to the individual owners or members of that business. In other words, the business itself is not a tax-paying entity. Instead, the individual owners or members of that business include their pro rata share of the business net income (or loss) on their personal tax return.

In Arizona, a pass-through entity is either operating as a sole proprietorship, partnership, limited liability company (LLC), or a Subchapter S Corporation. A brief overview of the different business structures is shown in Table 4 below.

Table 4

COMPARISON OF BUSINESS STRUCTURES

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

SOURCE: Arizona Corporation Commission.

Estates and Trusts

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

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

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

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

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

TAX BASE

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

Capital gains from the sale of capital assets, such as stocks, bonds, and real estate, are not taxed separately under the state's income tax statutes, but are instead included in a taxpayer's Arizona gross income (or equivalently, federal adjusted gross income) amount. Thus, income from net (short-term and long-term) capital gains is subject to the same marginal tax rates as other income included under the definition of Arizona taxable income. The historical amounts of net capital gains subject to income tax, as reported by Arizona taxpayers to the Internal Revenue Service (IRS), are shown in Table 5 below.

Table 5

NET CAPITAL GAINS REPORTED BY ARIZONA TAXPAYERS TO THE IRS
(Millions of Dollars)

Tax Year	Net Capital Gains 1/	Tax Year	Net Capital Gains 1/
2007	$14,853.7	1996	$4,051.2
2006	$15,214.8	1995	$2,461.2
2005	$14,784.3	1994	$1,879.7
2004	$8,732.1	1993	$1,812.0
2003	$4,580.4	1992	$1,488.1
2002	$3,603.7	1991	$1,341.7
2001	$4,420.8	1990	$1,488.8
2000	$8,412.9	1989	$1,782.2
1999	$8,163.1	1988	$2,174.8
1998	$7,045.1	1987	$2,221.5
1997	$5,409.1	1986	$2,068.6

1/ Note that this column refers to net capital gains subject to income tax as opposed to income tax collections attributable to net capital gains.

SOURCE: Internal Revenue Service, Statistics of Income (SOI).

EXEMPTIONS

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

(1) Labor, agricultural, and horticultural organizations except for cooperative organizations.
(2) Fraternal beneficiary societies, orders, or organizations that both: (a) operate under the lodge system or for the exclusive benefit of the members of a fraternity, and (b) provide for the payment of life, sick, accident, or other benefits to their members or their dependents.
(3) Cemetery companies that are owned and operated exclusively for the benefit of their members or are not operated for profit.
(4) Corporations that are organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children and animals.
(5) Business leagues, chambers of commerce, real estate boards, and boards of trade that are not organized for profit.
(6) Civic leagues or organizations that are not organized for profit.
(7) Clubs that are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes.
(8) Corporations that are organized for the exclusive purpose of holding title to property, collecting income from such property, and turning over the entire net income to an organization which itself is exempt from income tax.
(9) Voluntary employees' beneficiary organizations that provide for the payment of life, sick, accident or other benefits to their members or their dependents, if both of the following apply: (a) no part of their net earnings inures to the benefit of any private shareholder or individual, and (b) 85% or more of the income consists of monies collected from members and contributions by the employer of the members.
(10) Teachers' or public employees' retirement fund organizations that are of a purely local character, if both of the following apply: (a) no part of their net earnings inures to the benefit of any private shareholder or individual, and (b) the income consists solely of monies received from public taxation, assessments on the salaries of members, and income from investments.
(11) Religious or apostolic organizations or corporations, if such organizations or corporations have a common treasury or community treasury.
(12) Voluntary employees' beneficiary organizations that provide for the payment of life, sick, accident or other benefits to their members, their dependents or designated beneficiaries, if both of the following apply: (a) admission to membership is limited to individuals who are officers or employees of the United States Government, and (b) no part of the net earnings inures to the benefit of any private shareholder or individual.
(13) Corporations classified as diversified management companies under Section 5 of the federal Investment Company Act of 1940.
(14) Insurance companies that are subject to the insurance premium tax.
(15) Mutual ditch, irrigation or water companies or similar nonprofit organizations if 85% or more of their income consists of amounts collected from members for the sole purpose of meeting losses and expenses.
(16) Workers’ compensation pools established pursuant to A.R.S. § 23-961.01

TAX RATE

Rates and Brackets. The current rate structure, based on Arizona taxable income, is as follows [A.R.S. § 43-1011]:

CURRENT TAX RATE SCHEDULE

Single [1/] Arizona Taxable Income	Rate [2/]	Married [3/] Arizona Taxable Income	Rate [2/]
$0 - $10,000	2.59%	$0 - $20,000	2.59%
$10,001 - 25,000	$259 plus 2.88%	$20,001 - 50,000	$518 plus 2.88%
$25,001 - 50,000	$691 plus 3.36%	$50,001 - 100,000	$1,382 plus 3.36%
$50,001 - 150,000	$1,531 plus 4.24%	$100,001 - 300,000	$3,062 plus 4.24%
$150,001 and over	$5,771 plus 4.54%	$300,001 and over	$11,542 plus 4.54%

1/ Or married filing separately.
2/ The marginal rates apply to income within the taxable income bracket.
3/ Or unmarried head of household.

NOTE: Laws 1990, 3rd Special Session, Chapter 3 repealed inflation indexing of the dollar amounts included in the rate brackets.

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

HISTORICAL INDIVIDUAL INCOME TAX RATES [1/]

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

1/ For marginal rates prior to 1990, see page 90 of the 1990 Tax Handbook.
2/ These brackets applied to single or married filing separately filers. For married joint filers or head of households, the bracket amounts are doubled. In 1990, the brackets were altered into the present form (see Laws 1990, 3rd Special Session, Chapter 3).

TAX CREDITS

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

A tax credit is either refundable or non-refundable. Unlike refundable credits, non-refundable credits can never exceed a taxpayer's tax liability. However, many of the non-refundable tax credits allow the unused amounts to be carried forward to future years. Under current statutes, only the following credits are refundable: the property tax credit, agricultural preservation district credit, technology training credit, the low-income credit for increased excise taxes paid, and the renewable energy industry credit. (Note that 2 of the refundable tax credits – the agricultural preservation district credit and technology training credit – were only available through tax year 2005. The renewable energy industry credit is available for tax years 2010 to 2014.) The value of tax credits used and carried forward through calendar year 2007 (the latest year available) is summarized by the Arizona Department of Revenue (DOR) summary report attached at the end of this section.

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

Title 43, Chapter 10, Article 5 of the Arizona Revised Statutes lists all the tax credits currently available to Arizona taxpayers. A brief description of each tax credit currently in statutes is provided below.

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

Agricultural Preservation District. A refundable credit for individuals and corporations that donate land or development rights to land to an agricultural preservation district. The amount of the credit is equal to the appraised value of the property if ownership is conveyed to the district or the difference between the appraised value of the undeveloped land and the land for development purposes if development rights are conveyed instead. The maximum credit is $33,000. The credit was available for tax years 2001 through 2005 [A.R.S. § 43-1081.02].

Agricultural Water Conservation System. A tax credit can be claimed for 75% of the qualifying expenses in purchasing and installing an agricultural water conservation system. This credit is in lieu of itemized deductions for such expenses, in which case, the taxpayer must add the credit back to Arizona gross income when computing taxable income. This non-refundable tax credit is allowed to be carried forward for no more than 5 years [A.R.S. § 43-1084].

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

Charitable Organizations and Contributions. A credit can be claimed for cash contributions to charitable organizations that provide assistance to low-income residents, chronically ill or physically disabled children. The maximum credit is $200 for taxpayers filing as single or head of household and $400 for those filing as married couples. The credit is only available to taxpayers that itemize their deductions. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [A.R.S. § 43-1088].

Clean Elections Fund Tax Reduction. Under this credit, a taxpayer that files a state income tax return can choose to designate a $5 voluntary contribution per taxpayer to the Clean Elections Fund by marking an optional check-off box on the first page of the tax form. A taxpayer that checks this box receives a $5 reduction of their tax payments and at the same time DOR is required to transfer an equal amount to the fund. The total amount attributed to the Clean Elections Fund check-off box in FY 2008 was $6.5 million. The credit became effective January 1, 1998 [A.R.S. § 16-954A].

Clean Elections Fund Tax Credit. Under this credit, a taxpayer that makes a direct donation to the Clean Elections Fund receives a dollar-for-dollar credit not to exceed 20% of the tax amount on the return or $500, whichever is higher. DOR is required to provide a check-off box for this credit on the first page of the tax form. This credit became effective January 1, 1998 [A.R.S. § 16-954B].

Construction Materials. A tax credit can be claimed for 5% of the purchase price of new construction materials used to build a new facility or expand an existing one. The facility must be predominantly used for manufacturing, refining, mining, metallurgical operations, or research and development and the total cost of construction must exceed $5 million. Also, construction must have begun on or after January 1, 1994 and have been completed by December 31, 1999. This non-refundable tax credit is allowed to be carried forward for no more than 5 years [A.R.S. § 43-1082].

Defense Contractor. A defense contractor certified by the Arizona Department of Commerce may qualify for a tax credit due to: (1) net employment increases under defense related contracts, or (2) net employment increases from transferring employment from exclusively defense related activities to exclusively private commercial activities, or

(3) taxes paid on Class 1 property if there was new defense related employment during the taxable year. This non-refundable tax credit is allowed to be carried forward until 2012 [A.R.S. § 43-1077 and 43-1078].

Enterprise Zones. Businesses located in an enterprise zone can claim a credit for net increases in employment of persons who qualify as economically disadvantaged under the Job Training Partnership Act. *(See Laws 1989, Chapter 194 for changes in the amount of credit allowed.)* To qualify, at least 35% of the full-time equivalent employees claimed must reside in an enterprise zone. The maximum amount of the credit per qualified employment position is $500 in the first year, $1,000 in the second year, and $1,500 in the third year of continuous employment. The credit, which is non-refundable and can be carried forward for up to 5 years, may not be claimed for more than 200 employees [A.R.S. § 43-1074].

Environmental Technology Facility. A taxpayer may claim a credit for expenses incurred in constructing a qualified environmental technology facility as described in A.R.S. § 42-1514.02. The credit is equal to 10% of construction costs including land acquisition, improvements, building improvements, machinery and equipment. The credit may not exceed 75% of the tax liability for the taxable year. This credit is in lieu of the credit given for the same recycling equipment. Certain recapture provisions apply to this credit. This non-refundable tax credit is allowed to be carried forward for no more than 15 years [A.R.S. § 43-1080].

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

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

Low-Income Credit for Increased Excise Taxes Paid. For taxpayers filing as married couple or as head of household and whose federal adjusted gross income is $25,000 or less, a credit of $25 is granted per person or $100 per household. For taxpayers filing as single or as married person filing separately, the income requirement is $12,500 or less. This refundable credit is considered a mitigation of the 0.6% sales tax increase resulting from Proposition 301 passed in November 2000. This law became effective January 1, 2001 [A.R.S. § 43-1072.01].

Military Family Relief Fund Tax Credit. A credit may be claimed for cash contributions to the Military Family Relief Fund established by Laws 2007, Chapter 258. The maximum credit is $200 for taxpayers filing as single or head of household and $400 for those filing as married couples. The credit is not allowed to exceed the taxpayer's tax liability. The total dollar value of the credit, which is available for tax years 2008 through 2012, is capped at $1,000,000 per taxable year [A.R.S. § 43-1086].

Military Reuse Zones. Businesses that are primarily engaged in manufacturing, assembling or fabricating aviation or aerospace products, and are located in a military reuse zone can claim a tax credit for net employment increases within the military reuse zone. This credit is in lieu of any other tax credit obtained by a qualified defense contractor for the same employees. This non-refundable tax credit is allowed to be carried forward for no more than 5 years [A.R.S. § 43-1079].

Motion Picture Productions and Infrastructure Projects. An income tax credit is available to businesses that produce motion pictures in Arizona. Motion picture productions with qualified expenses of $250,000 to $1 million in a 12-month period may receive a tax credit equal to 20% of production costs, while productions with qualified expenses exceeding $1 million may be credited for 30% of production costs. The total amount of income tax credits approved for all qualifying productions and investments may not exceed $30 million in 2006, $40 million in 2007, $50 million in 2008, $60 million in 2009, and $70 million in 2010. The income tax credits may be claimed for expenses incurred in the production of commercial advertisements, and music videos, with 5% of the income tax credit available to be set aside for these productions. Income tax credits also may be claimed for expenses incurred

for the construction of soundstages and associated support and augmentation facilities. Tax credits for soundstage investments are capped at $5 million per year in 2008, 2009, and 2010. Tax credits for associated support and augmentation facilities are capped at $7 million in 2009 (if at least one soundstage project was certified in 2008) and $9 million in 2010 (if one or more soundstage projects were certified in 2008 or 2009). The tax credits may be sold or transferred, in whole or in part, to other taxpayers. The law requires taxpayers claiming the credits to meet various reporting requirements and for film companies to recruit Arizona residents to hold 25% of full-time positions in 2006, 35% in 2007, and 50% in 2008 and after [A.R.S. § 43-1075 and § 43-1075.01].

Pollution Control Equipment. A taxpayer may claim a tax credit for 10% of the cost to purchase real or personal property used to control or prevent pollution. Amounts that qualify for this credit must be included in the taxpayer's adjusted basis for the property. This credit is in lieu of the recycling equipment credit. The maximum credit is $500,000. This non-refundable tax credit is allowed to be carried forward for no more than 5 years [A.R.S. § 43-1081].

Public School Extra Curricular Activity Fees. A credit may be claimed for contributions to extracurricular activities and character education programs at public schools. The maximum credit is $200 for taxpayers filing as single or head of household and $400 for those filing as married couples. (Prior to Laws 2005, Chapter 334, the maximum credit for married couples was $250.) This credit is in lieu of any federal or state deduction for such contributions. A 5-year carry forward of the credit is allowed [A.R.S. § 43-1089.01].

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

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

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

Renewable Energy Industry. A credit is allowed on new renewable energy capital investments in manufacturing or company headquarters for up to 10% of the taxpayer's total capital investment. The credit is refundable, with the combined total of individual and corporate income tax credits capped at $70.0 million annually. Recipients must receive their credit in 5 equal portions over 5 consecutive tax years.

The taxpayer must create at least 1.5 new full-time positions for each $500,000 in capital investment in a manufacturing facility and 1.0 new full-time position for each $200,000 in capital investment at a headquarters. The amount of the credit is reduced if the above minimum requirements are not met and is instead equal to 10% of $500,000 for every 1.5 new full-time positions at a manufacturing facility or 10% of $200,000 for each new full-time position at a headquarters.

The credit is dependent upon the taxpayer paying 51% of new full-time employees a rate exceeding 125% of the median annual wage in the state and paying 80% or more of the premium for all full-time employees' health insurance. The taxpayer must also stay in operation within the state for 5 years after receiving post-approval for the credit or face recapture of any credits received. The tax credit is only available for tax years 2010 to 2014 [A.R.S. § 43-1083.01].

Research and Development (R&D). A taxpayer may take a credit of 20% of qualified research expenses over a "base amount" (defined in the Internal Revenue Code) for expenses up to $2.5 million ($500,000 credit), plus 11% of expenses over $2.5 million. Laws 2008, Chapter 290 expands the tax credit in tax years 2010 through 2017 by allowing for a larger percentage of qualified R&D expenses to be used to offset an individual's tax liability (for more details, refer to the 2008 tax law changes under *Impact of Tax Law and Revenue Changes*). The credit was capped at $1.5 million for CY 2001 and $2.5 million for CY 2002. The R&D credit became available as an individual income tax credit for the first time in tax year 2001. A 15-year carry forward of the credit is allowed [A.R.S. § 43-1074.01].

School Site Donation Credit. A credit is allowed in the amount of 30% of the value of real property and improvements donated by a taxpayer to a school district or a charter school. This credit became available January 1,

2001. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [A.R.S. § 43-1089.02].

School Tuition Organizations. A credit may be claimed for donations to a non-governmental primary or secondary school tuition organization that allocates at least 90% of its annual revenue to educational scholarships or tuition grants. The maximum credit is $500 for taxpayers filing as single or head of household and $1,000 for married couples. (Prior to Laws 2005, Chapter 334, the maximum credit for married couples was $625.) A 5-year carry forward of the credit is allowed [A.R.S. § 43-1089].

Small Business Investment Credit. This credit can be claimed by taxpayers that provide investments in qualified small businesses. The allowable credit is 30% of the investment over a 3-year period and is increased to 35% if the investment is made in a bioscience company or a company located in a rural county. This non-refundable credit, which is in effect for tax years 2007 through 2014, is allowed to be carried forward for no more than 3 consecutive years. The credit, which is administered by the Department of Commerce, is capped at $20 million over the life of the program [A.R.S. § 43-1074.02].

Solar Energy Devices for Commercial and Industrial Purposes. A taxpayer can claim a credit equal to 10% of the installed cost of a solar energy device used in their trade or business. The credit cannot exceed $25,000 for the same building in the same year or $50,000 in total in any year. The credit is available between tax years 2006 and 2012. This income tax credit may be claimed by a taxpayer purchasing a solar energy device, or a taxpayer that finances the purchase of a qualifying device. The credit also may be transferred to a third party that manufactures or installs a qualifying device. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [A.R.S. § 43-1085].

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

Solar Hot Water Heater Stub-Outs and Electric Vehicle Recharge Outlets. A taxpayer may take a credit up to $75 for installing solar hot water plumbing stub-outs or electric vehicle recharge outlets in home dwellings built by the taxpayer. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years. This law became effective January 1, 1998 [A.R.S. § 43-1090].

TANF Employment. A credit that is allowed for net increases in qualified employment of recipients of temporary assistance for needy families (TANF) residing in Arizona. The credit is in lieu of any wage expense deduction taken for tax purposes. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [A.R.S. § 43-1087].

Taxes Paid to Other States. Subject to certain conditions, residents are allowed a credit for income taxes paid to another state or country [A.R.S. § 43-1071].

Technology Training. A taxpayer may claim a credit for expenses incurred in providing qualified technology skills training for up to 20 of his employees. The credit is 50% of the expenses for the training but cannot exceed $1,500 per employee. This refundable credit was available for tax years 2001 through 2005 [A.R.S. § 43-1088.01].

Water Conservation Systems. The credit is for the installation of water conservation systems to encourage the re-use of "graywater," or waste water for irrigation purposes. The credit is equal to 25% of the cost of the water conservation system up to a maximum of $1,000. The maximum aggregate amount that can be claimed in a taxable year is $250,000. This non-refundable tax credit, which is effective for tax years 2007 through 2011, is allowed to be carried forward for no more than 5 consecutive years [A.R.S. § 43-1090.01].

TAX COMPUTATION

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

Individuals:

Arizona Gross Income	Equivalent to taxpayer's federal adjusted gross income. Includes a taxpayer's capital gain or loss.
Plus	
Additions to Income	See A.R.S. § 43-1021 for amounts not taxed under federal income tax laws, but subject to Arizona income tax.
Minus	
Subtractions from Income	See A.R.S. § 43-1022 for amounts taxed under federal income tax laws, but not subject to Arizona income tax.
Minus	
Exemptions	See A.R.S. § 43-1023 for exemptions: (1) $1,500 for blind taxpayer and/or spouse (2) $2,300 for taxpayer and/or spouse who is age 65 or over, (3) $2,300 for each dependent, (4) $2,300 for stillborn child, and (5) $10,000 for qualifying parents and ancestors of parents.
Equals	
Arizona Adjusted Gross Income	
Minus	
Standard or Itemized Deductions	See A.R.S. § 43-1041 and 43-1042: Standard deduction is $4,247 for single or married filing separately and $8,494 for married filing jointly or unmarried head of household. Itemized deductions are the same as on the federal income tax return. Beginning in tax year 2005, the standard deduction is adjusted for inflation each year.
Minus	
Personal Exemptions	See A.R.S. § 43-1043: (1) single or married filing separately - $2,100 (2) married filing jointly - $4,200 (3) unmarried head of household - $4,200 (4) a married couple filing a joint return and claiming at least one dependent - $6,300.
Equals	
Taxable Income	
Multiply By	
Tax Rates	See *Tax Rate* Section.
Equals	
Tax Liability	
Minus	
Tax Credits	See *Tax Credits* Section.
Minus	
Tax Payments	Withholding, estimated, and extension payments made to the Department of Revenue.
Equals	
Tax Due	This can also be an overpayment; in which case, taxpayer will be entitled to tax refund.

Partnerships:

Arizona Gross Income *Add*	Equivalent to federal ordinary business and rental income for the year, excluding (1) items requiring a separate computation under A.R.S. § 43-1412, paragraph 1 through 17 and (2) the federal provisions relating to interest on investment indebtedness.
Addition to Income *Minus*	See A.R.S. § 43-1021 for amounts not taxed under federal income tax laws, but subject to Arizona income tax.
Subtractions from Income *Equals*	See A.R.S. § 43-1022 for amounts taxed under federal income tax laws, but not subject to Arizona income tax.
Arizona Taxable Income *Calculate*	This is mainly for filing and reporting purposes. The taxable income of a partnership is passed through to individuals in the partnership who are then taxed through the individual income tax on their distributed portion of the income.
Apportionment Ratio	Only for multi-state partnerships to determine Arizona's share of income and deductions. Uses a 3-part apportionment formula of property, payroll and sales. See A.R.S. § 43-1131 through A.R.S. § 43-1150.

Fiduciaries:

Arizona Gross Income *Add*	Equivalent to federal taxable income of estates or trusts (A.R.S. § 43-1301). Income is taxable based on the residence of the decedent for an estate and the residence of the fiduciary or the beneficiary for a trust. See A.R.S. § 43-1312.
Additions to Income *Minus*	See A.R.S. § 43-1331 for a list of additions which also include those items listed for individuals under A.R.S. § 43-1021.
Subtractions from Income *Equals*	See A.R.S. § 43-1332 for a list of subtractions which also include those items listed for individuals under A.R.S. § 43-1022.
Arizona Taxable Income *Multiply By*	
Individual Tax Rates *Equals*	See *Tax Rate* Section.
Tax Liability *Minus*	
Individual Tax Credits *Minus*	See *Tax Credits* Section.
Tax Payments *Equals*	
Tax Due	

PAYMENT SCHEDULE

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

Percentages. An employee must elect which percentage of the federal income tax withholding shall be withheld for state income taxes. Pursuant to Laws 2009, Chapter 2, the following withholding percentages apply for the period from May 1, 2009 to December 31, 2009:

- If the employee's annual wage is less than $15,000, he can elect to withhold 0%, 11.5%, 21.9%, 26.5%, 28.8%, 35.7%, or 42.6% of federal withholding.
- If the employee's annual wage is $15,000 or more, he can elect to withhold 0%, 21.9%, 26.5%, 28.8%, 35.7%, or 42.6% of federal withholding.

Laws 2009, Chapter 2 prescribes the following withholding percentages for the period from January 1, 2010 to June 30, 2010:

- If the employee's annual wage is less than $15,000, he can elect to withhold 0%, 10.7%, 20.3%, 24.5%, 26.7%, 33.1%, or 39.5% of federal withholding.
- If the employee's annual wage is $15,000 or more, he can elect to withhold 0%, 20.3%, 24.5%, 26.7%, 33.1%, or 39.5% of federal withholding.

The 0% option is available only for those who had no state tax liability in the prior taxable year and expect to have no state tax liability for the current taxable year

Beginning on July 1, 2010, Arizona's withholding amounts will no longer be calculated as a percentage of federal withholding. Instead, state withholding will be determined based on withholding tables established by the Department of Revenue.

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

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

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

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

Estimated Tax Payments. A taxpayer whose Arizona gross income was greater than $75,000 (or $150,000 if the taxpayer filed a joint return) in the preceding taxable year or can reasonably expect to exceed $75,000 (or $150,000 if the taxpayer files a joint return) in the current year, must make estimated payments, if estimated withholding for the tax year does not equal 90% of the tax liability for the current year or 100% of the liability for the preceding year [A.R.S. § 43-581].

The estimated amount shall be paid in 4 installments on or before the due dates established for federal filing and reasonably reflect the taxpayer's Arizona income tax liability. The total of annual estimated tax payments and withholding tax must be at least 90% of the tax liability for the current year or 100% of tax liability for the preceding year.

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

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

Payment of Balance. The taxpayer is required to pay the balance of the tax due on April 15 after the close of the calendar year or, if return is based on a fiscal year, on the 15th day of the fourth month following the close of the fiscal year. An income tax return is required to be filed with DOR along with the tax payment [A.R.S. § 43-501].

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

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

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

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

TAX EXPENDITURES

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

The most current individual income tax expenditure data is for tax year 2003. The state collected over $2.3 billion in resident individual income taxes that year. However, according to DOR, the state allowed exclusions, exemptions, deductions, and credits worth as much as $1.73 billion in the same year. This tax expenditure estimate, which was derived from DOR's Individual Income Tax Simulation Model, represents foregone revenues to the state General Fund and to the Urban Revenue Sharing Fund. Table 6 below, which was reproduced from DOR's report *The Revenue Impact of Arizona's Tax Expenditures FY 2004/05*, lists all individual income tax expenditures by category.

Table 6

FY 2004 INDIVIDUAL INCOME TAX EXPENDITURES

FEDERAL SUBTRACTIONS FROM INCOME:	Tax Year 2003
Educator Expenses / Tuition Fees Deduction	$2,713,000
Individual Retirement Account for Qualifying Individuals	5,108,000
Student Loan Interest Deduction	2,068,000
Moving Expenses	480,000
One-Half of Self-employment Tax	8,249,000
Self-employed Health Insurance Deduction	8,359,000
Keogh Retirement Plan and Self-employed SEP Deduction	10,307,000
Penalty on Early Withdrawal of Savings	30,000
Alimony Paid	6,166,000
Total Value of Federal Subtractions from Income	**$43,861,000**

EXEMPTIONS:	
Personal Exemptions	$200,236,000
Preferential Personal Exemption for Unmarried Head of Household	11,206,000
Preferential Personal Exemption for Married Filers with One or More Dependents	26,753,000
Age 65 or over Exemptions	19,104,000
Dependent Exemptions	81,828,000
Blind Exemptions	197,000
Qualifying Parent or Ancestor Exemption	1,587,000
Total Value of Exemptions	**$350,697,000**
SUBTRACTIONS FROM INCOME:	
Interest on U.S. Obligations	$7,349,000
Exclusion for Federal, State, and Local Pensions	7,186,000
Exempt State Lottery Winnings	87,000
Social Security or Railroad Retirement Benefits Included on Federal Form 1040	59,974,000
Bonus Depreciation Adjustment	2,667,000
Certain Wages of Native Americans	14,434,000
Income Tax Refunds from Other States	753,000
Constructing Energy Efficient Residences	39,000
Other Subtractions	6,959,000
Total Value of Subtractions	**$100,188,000**
DEDUCTIONS:	
Standard Deduction	$161,815,000
Preferential Standard Deduction for Unmarried Head of Household	15,116,000
Itemized Deductions:	
Medical and Dental Expenses	85,768,000
State and Local Income Taxes	91,772,000
Real Estate Taxes	43,924,000
Personal Property Taxes and Other Taxes	11,996,000
Home Mortgage Interest	206,570,000
Deductible Points	2,130,000
Deductible Investment Interest	9,821,000
Charitable Contribution – Cash	59,684,000
Charitable Contribution – Other than Cash	17,563,000
Charitable Contribution – Carryover from Prior Year	4,831,000
Casualty and Theft Losses	784,000
Job Expenses and Most Other Miscellaneous Deductions	34,368,000
Non-limited Miscellaneous Deductions	15,276,000
Total Value of Itemized Deductions	**$421,849,000**
Total Value of Standard and Itemized Deductions	**$788,025,000**
CREDITS [1/]:	
Family Tax Credit	$7,382,000
Property Tax Credit	5,302,000
Clean Elections Fund Credit	727,000
Credit for Increased Excise Taxes Paid	29,582,000
Credit for Taxes Paid to Other States or Countries	62,485,000
Enterprise Zone Credit	1,714,000
Research and Development Credit	1,109,000
Recycling Equipment Credit	2,000
Defense Contracting Credit	0
Military Reuse Zone Credit	0
Environmental Technology Credit	0
Pollution Control Device Credit	31,000
Agricultural Pollution Control Equipment Credit	NR [2/]
Construction Materials Credit	NR [2/]

Solar Energy Device Credit	480,000
Agricultural Water Conservation System Credit	1,611,000
Underground Storage Tanks Credit	0
Alternative Fuel Vehicles Credit	61,000
Neighborhood Electric Vehicle Credit	1,583,000
Alternative Fuel Delivery System Credit	0
Vehicle Refueling Apparatus Credit	9,000
Solar Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets Credit	NR 2/
Employment of TANF Recipients Credit	NR 2/
Contributions to Charities Providing Assistance to Working Poor Credit	3,259,000
Private School Tuition Organization Credit	29,445,000
Public School Extra Curricular Activity Fee Credit	27,754,000
School Site Donation Credit	2,049,000
Technology Training Credit	0
Agricultural Preservation District Credit	0
Total Value of Credits	**$174,664,000**
TOTAL VALUE OF INDIVIDUAL INCOME TAX EXPENDITURES	**$1,727,012,000**

1/ Note that updated tax credit information after 2003 is available and can be found on pages 50-58.
2/ NR indicates that the information is not releasable due to Arizona confidentiality laws.

SOURCE: Department of Revenue Report – *The Revenue Impact of Arizona's Tax Expenditures FY 2004/05*.

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003. The estimated initial dollar impact of these changes is summarized by fiscal year in Table 7 below.

Table 7

ANNUAL INCREMENTAL DOLLAR IMPACT OF TAX LAW AND REVENUE CHANGES

Session/Chapter	Description	Revenue Impact
FY 2010		
L 09, Ch 2	Internal Revenue Code Conformity	$(4,000,000)
L 09, Ch 80	Contributions to Charitable Organizations	(5,000,000)
Subtotal FY 2010		$(9,000,000)
FY 2009		
L 08, Ch 94	Internal Revenue Code Conformity	$(970,000)
L 07, Ch 258	College Savings Plan	(2,500,000)
L 07, Ch 258	Military Relief Fund Credit	(1,000,000)
Subtotal FY 2009		$(4,470,000)
FY 2008		
L 07, Ch 1	Internal Revenue Code Conformity	$(1,300,000)
L 06, Ch 342	Active Duty Military Pay Exemption	(12,200,000) 1/
L 06, Ch 354	Income Tax Rate Reduction – 5% (tax year 2007)	(177,900,000)
L 06, Ch 357	Internal Revenue Code Conformity	1,100,000
L 05, Ch 292	Graywater Tax Credit	(250,000)
L 05, Ch 303	Active Duty Military Pay Exemption	10,300,000 1/
L 05, Ch 334	Internal Revenue Code Conformity	(2,860,000)
L 05, Ch 334	Index Standard Deduction to CPI	(2,400,000)
Subtotal FY 2008		$(185,510,000)

FY 2007		
L 06, Ch 333	Solar Energy Device Credit	$(500,000)
L 06, Ch 354	Income Tax Rate Reduction – 5% (tax year 2006)	(156,100,000)
L 06, Ch 357	Internal Revenue Code Conformity	(700,000)
L 05, Ch 303	Active Duty Military Pay Exemption	(10,300,000) 1/
L 05, Ch 334	Internal Revenue Code Conformity	310,000
L 05, Ch 334	Elimination of "Marriage Penalty"	(6,400,000)
L 05, Ch 334	Index Standard Deduction to CPI	(2,400,000)
Subtotal FY 2007		$(176,090,000)
FY 2006		
L 05, Ch 334	Internal Revenue Code Conformity	$(5,400,000)
L 05, Ch 334	Elimination of "Marriage Penalty"	(6,400,000)
L 05, Ch 334	Index Standard Deduction to CPI	(2,400,000)
Subtotal FY 2006		$(14,200,000)
FY 2005		
L 04, Ch 196	Internal Revenue Code Conformity	$(1,800,000)
L 04, Ch 214	Stillborn Children Exemption	(34,000)
Subtotal FY 2005		$(1,834,000)

1/ Laws 2005, Chapter 303 provided a one-time exemption from state income tax for active duty military pay for tax year 2006. Laws 2006, Chapter 342 made the exemption permanent.

2009 TAX LAWS

Laws 2009, 1st Special Session, Chapter 3 established a state and county tax amnesty program, which ran from May 1, 2009 through June 1, 2009. The program allowed DOR to abate or waive all or part of penalties and to impose reduced interest payments for tax liabilities for all qualifying taxpayers. To qualify for the program, a taxpayer must have filed a return, and paid any balance due by June 1, 2009. The one-month amnesty program generated a total of $31.8 million, including $16.7 million in corporate income taxes, $2.1 million in individual income taxes, and $13.0 million in sales tax revenue. After accounting for sales taxes collected on the behalf of counties, and revenue sharing to cities and counties, a total of $27.3 million was deposited into the state's General Fund The one-time revenue impact of the tax amnesty program has not been included in the tax law changes table at the beginning of this section.

Laws 2009, Chapter 2 modifies the definition of the Internal Revenue Code (IRC) for tax year 2009 to the federal IRC in effect on January 1, 2009. This includes changes adopted by Congress in the Economic and Stimulus Act of 2008, the Heartland, Habitat, Harvest and Horticulture Act of 2008, the Heroes Earnings Assistance and Relief Tax Act of 2008, the Housing Assistance Tax Act of 2008, the Emergency Economic Stabilization Act of 2008, the Fostering Connections to Success and Increasing Adoptions Act of 2008, and the Worker Retiree, and Employer Recovery Act of 2008. The conformity provisions of Chapter 2 were estimated to reduce individual income tax collections by $(4.0) million in FY 2010 and $(880,000) in FY 2011, and increase collections by $9.34 million in FY 2012.

Chapter 2 also makes adjustments to Arizona withholding rates, and decouples the state's withholding rates from federal withholding. The state withholding rate changes were adopted to offset the federal withholding reductions under the American Recovery and Reinvestment Act of 2009.

The new state withholding rates (expressed as a percentage of federal withholding) under Chapter 2 are shown in the table below.

Arizona Withholding Rates and Effective Dates

1/1/05 to 4/30/09	5/1/09 to 12/31/09	1/1/10 to 6/30/10
0.0%	0.0%	0.0%
10.0%	11.5%	10.7%
19.0%	21.9%	20.3%
23.0%	26.5%	24.5%
25.0%	28.8%	26.7%
31.0%	35.7%	33.1%
37.0%	42.6%	39.5%

Chapter 2 effectively decouples Arizona's withholding rates from federal withholding as of July 1, 2010. Instead, state withholding amounts will be determined based on withholding tables established by the Department of Revenue, which the department is required to submit to JLBC by March 15, 2010. (Emergency measure became effective April 9, 2009)

Laws 2009, Chapter 32 repeals the current income tax review schedule and creates a new automatic schedule based on the current 5-year review schedule. (Effective September 30, 2009)

Laws 2009, Chapter 80 eliminates the requirement for a taxpayer to establish a baseline year to qualify for the tax credit for cash contributions to charitable organizations that provide assistance to the working poor. Chapter 80 expands the credit to also include contributions to organizations that serve chronically ill or physically disabled children. The act is estimated to reduce individual income tax revenues by $(5.0) million in FY 2010, $(5.9) million in FY 2011, and $(7.0) million in FY 2012. (Effective retroactively from January 1, 2009)

Laws 2009, Chapter 96 provides income and property tax incentives for qualifying renewable energy companies that build headquarter or manufacturing facilities in the state from tax year 2010 to 2014. An income tax credit is allowed for up to 10% of the capital investment, with an aggregate ceiling, including individual and corporate income tax credits, of $70 million annually. The credit is refundable and must be received in 5 equal portions over a period of 5 consecutive tax years. Qualifying properties will also receive a class 6 property designation, which reduces the assessment ratio to 5% instead of the class 1 assessment ratio of 22% (declining to 20% over the next 2 years). The class 6 property designation remains in effect for 10 or 15 years, depending on the level of wages paid to employees of the facility in relation to the median wage of the state.

Laws 2009, Chapter 167 provides that individual income taxpayers be allowed to authorize their employers to reduce their withholding tax amounts in order to make contributions to a school tuition organization, charitable organization or public school. (Effective January 1, 2010)

2008 TAX LAWS

Laws 2008, Chapter 94 modified the definition of the Internal Revenue Code (IRC) for tax year 2008 to the federal IRC in effect on January 1, 2008. This included changes adopted by Congress in the Small Business and Work Opportunity Tax Act of 2007, the Energy Independence and Security Act of 2007, Prevent Taxation of payment to Virginia Tech Victims and Families of 2007, Mortgage Forgiveness Debt Relief Act of 2007 and the Tax Technical Corrections Act of 2007. The conformity provisions of Chapter 94 were estimated to reduce individual income tax collections by $(970,000) in FY 2009, $(830,000) in FY 2010, and $(280,000) in FY 2011.

Laws 2008, Chapter 220 clarified for both residents and nonresidents the definition of "entire income" as adjusted gross income for the purpose of determining the credit for income taxes paid to other states. (Effective retroactively from January 1, 2008)

Laws 2008, Chapter 290 contained several budget reconciliation provisions related to revenues that were necessary to implement the FY 2009 budget. One of the provisions established a minimum distribution amount for all cities and towns that equals at least the amount a city or town with a population of 1,500 or more persons would receive

from the Urban Revenue Sharing Fund. Another provision contained in the measure increases the amounts of the corporate and individual income research and development (R&D) tax credits that are allowed to be claimed. The R&D credit is calculated based on the amount of qualified research expenses that exceeds a base amount (which is defined in the Internal Revenue Code). The changes to the R&D credit contained in Chapter 290 are summarized in the table below.

Tax Year	If Qualified Expenses exceed Base Amount by $2.5 million or less, R&D Credit is equal to:	If Qualified Expenses exceed Base Amount by more than $2.5 million, R&D Credit is equal to:
2009 (current law)	20% of excess amount	$500,000 + 11% of excess amount over and above $2.5 million
2010	22% of excess amount	$550,000 + 13% of excess amount over and above $2.5 million
2011 – 2017	24% of excess amount	$600,000 + 15% of excess amount over and above $2.5 million
2018 – and beyond	20% of excess amount	$500,000 + 11% of excess amount over and above $2.5 million

As noted in the table above, the changes to the R&D credit under Chapter 290 will occur in 3 stages. The first increase of the credit is implemented in tax year 2010, followed by a second increase in tax years 2011 to 2017. Beginning in tax year 2018, the credit will revert to the amounts allowed under current law. The act is estimated to reduce corporate and individual income taxes by a total of $(5.7) million in FY 2011 and $(11.2) million in FY 2012.

2007 TAX LAWS

Laws 2007, Chapter 1 was an emergency measure that established a standard procedure regarding income tax filing and payment deadlines. Specifically, the measure stipulated that when the original deadline for filing and paying income tax falls on a Saturday, Sunday, or legal holiday, the deadline is automatically moved to the next business day. (Contains an emergency clause)

The filing and payment deadline for both federal and state income tax is April 15. At the federal level, if the deadline falls on a Saturday, Sunday or legal holiday, the due date is extended to the next business day. "Legal holiday" under the Internal Revenue Code (IRC) means a legal holiday as observed in the District of Columbia. The April 15 filing deadline for 2007 fell on a Sunday and the next business day was Monday, April 16. However, since the District of Columbia observed the Emancipation Day (legal holiday) on April 16, the federal deadline for 2007 was moved to Tuesday, April 17. Under Chapter 1, Arizona's filing and payment due date for 2007 was also extended to April 17.

Chapter 1 conformed the Arizona statutory definition of the Internal Revenue Code (IRC): (1) for tax year 2007 to the United States IRC in effect as of January 1, 2007, and (2) for tax year 2006 to all IRC provisions passed with retroactive federal effective dates between December 31, 2005 and December 31, 2006. This included changes adopted by Congress in the Tax Increase Prevention and Reconciliation Act of 2005, the Pension Protection Act of 2006, and the Tax Relief and Health Care Act of 2006. The conformity provisions of Chapter 1 were estimated to reduce individual income tax collections by $(1.3) million in FY 2008, and $(980,000) in FY 2009, resulting in an incremental increase in FY 2009 of $320,000.

Laws 2007, Chapter 112 provided that an individual who is both a resident of Arizona and a statutory resident of another state is allowed to claim an Arizona income tax credit for income taxes paid to the other state (for more details, see A.R.S. §43-1071). Laws 1999, Chapter 250 authorized such taxpayers to claim the credit for tax years 1989 through 2001. Since Laws 2007, Chapter 112 is retroactive from January 1, 2002, the measure extended the provisions enacted by Laws 1999, Chapter 250. Any refunds resulting from Laws 2007, Chapter 112 must be filed no later than December 31, 2011. According to DOR, the fiscal impact of the bill is expected to be small.

Laws 2007, Chapter 160 provided a statutory definition of "final determination" for the purpose of adjusting Arizona gross income due to changes in federal taxable income. Under Arizona law, if a taxpayer's federal taxable income is altered by the Internal Revenue Service (IRS) or changes as a result of a renegotiation of a contract with the federal government, the taxpayer is required to either file the final determination of the change with the Arizona

Department of Revenue (DOR) or file an amended return within 90 days. Prior to Laws 2007, Chapter 160, there was no definition of "final determination" in statutes. (Effective retroactively from January 1, 2007)

Laws 2007, Chapter 180 broadened the solar energy income tax credit by permitting it to be transferred to third party organizations that have installed or manufactured a solar energy device. Previously, the tax credit was available only to taxpayers installing solar energy devices or to entities that financed the purchase of a qualifying device. (Effective retroactively from January 1, 2006)

Laws 2007, Chapter 225 provided several changes to the Motion Picture Production Tax Incentive Program established by Laws 2005, Chapter 317. The maximum credit allowed each year by the original legislation remains unchanged. Beginning with the 2008 income tax credit allocation, 5% must be set aside for commercial advertisements and music video productions. A company that is certified to receive income tax credits for commercials and music videos must spend a minimum of $250,000 in production costs within 12 months. Motion picture production companies must spend at least $250,000 on each qualifying motion picture production in order to be eligible for the income tax credits. Previously, a company could become eligible by incurring $250,000 in costs for one or more motion picture productions. Motion picture productions with qualified expenses of $250,000 to $1 million in a 12-month period now may receive a tax credit equal to 20% of production costs (increased from 10%); production expenses from $1 million to $3 million may be credited for 30% of production costs (increased from 15%), while productions spending more than $3 million in the state also may claim a credit equal to 30% of production costs (increased from 20%). The maximum credit for any single motion picture production, previously capped at $5 million, is increased to $7 million in 2008, $8 million in 2009, and $9 million in 2010. Beginning October 31, 2007 through December 31, 2010, the Department of Commerce is required to certify motion picture infrastructure projects, including soundstages and support and augmentation facilities, for income tax credits. The maximum credit amount is 15% of the total base investment. Tax credits for soundstage investments are capped at $5 million per year in 2008, 2009 and 2010. Tax credits for associated support and augmentation facilities are capped at $7 million in 2009 (if at least one soundstage project was certified in 2008) and $9 million in 2010 (if one or more soundstage projects were certified in 2008 or 2009). (Various effective dates)

Laws 2007, Chapter 258 created an income tax subtraction for contributions to qualified 529 college savings plans and an income tax credit for donations to the Military Family Relief Fund.

529 College Savings Plan Income Tax Subtraction

The bill allows, for tax years 2008 through 2012, an individual income tax subtraction for contributions by Arizona residents to any college savings plan (whether operated in Arizona or elsewhere in the U.S.) established under Section 529 of the Internal Revenue Code. A 529 plan is an education savings plan operated by a state or educational institution designed to help families set aside funds for future college costs. The income tax subtraction is limited to $750 for taxpayers filing as single or head of household and to $1,500 for married couples. There currently is no deduction allowed for a 529 plan at the federal level.

Under federal tax code, earnings generated from contributions to 529 Plans are allowed to grow tax-free. The same tax advantage applies to state income tax since federal adjusted gross income is the starting point for determining Arizona income tax liability. Thus, besides the already favorable tax treatment of 529 Plans described above, Laws 2007, Chapter 258 provides an additional exemption not available at the federal level. Beginning in FY 2009, the act is estimated to reduce General Fund revenues by $2.5 million.

Military Family Relief Fund Tax Credit

The bill allows, for tax years 2008 through 2012, an individual income tax credit for cash contributions by individuals to the Military Family Relief Fund. The fund, which is also established by Laws 2007, Chapter 258, consists of private donations, grants, bequests, and other monies that are administered by the Arizona Department of Veterans' Services for the purpose of providing financial assistance to family members of Arizona military personnel injured or killed during their service. The maximum credit is $200 for taxpayers filing as single or head of household and $400 for married couples. The credit is not allowed to exceed the taxpayer's tax liability. While the Fund may receive donations in any amount, only the first $1,000,000 in donations in any calendar year qualify for the credit. Beginning in FY 2009, the act is estimated to reduce General Fund revenues by $1.0 million.

2006 TAX LAWS

Laws 2006, Chapter 102 allowed a taxpayer to voluntarily designate an amount to donate from his refund to the Veterans' Donation Fund. The fund is used to provide health care and education to veterans as well as provide for the maintenance of the State Veteran's Home, memorials, and cemeteries. (Effective January 1, 2007)

Laws 2006, Chapter 222 modified the certification of motion picture production costs and the qualification for motion picture production tax incentives that were enacted in Laws 2005, Chapter 317. In addition to making several technical changes to the legislation passed in 2005, Chapter 222 authorized the Arizona Department of Commerce (ADOC) to begin accepting tax credit applications beginning October 31 for the following year if ADOC has pre-approved the maximum calendar year credit for the current year. (Effective retroactively from January 1, 2006)

Laws 2006, Chapter 262 provided that an estate is allowed to subtract the amount of federal estate taxes paid when computing its Arizona taxable income. (Effective retroactively from January 1, 2006)

Laws 2006, Chapter 333 required the Arizona Department of Commerce to establish a solar energy income tax credit program, established solar energy tax credits for commercial and industrial projects, removed the $5,000 tax exemption limitation for retail and prime contracting classifications under the transaction privilege tax (TPT), and prohibited solar energy systems from being added to property value. The income tax credit portion of this credit was capped at $1.0 million per calendar year, which was expected to reduce corporate and individual income tax revenue by approximately $(500,000) each in FY 2007. The elimination of the sales tax cap was expected to result in an additional $(0.5) million revenue loss. The total estimated impact of provisions of this legislation for FY 2007 was $(1.5) million. (Effective retroactively from January 1, 2006)

Laws 2006, Chapter 342 made permanent the state income tax exemption of military income for active duty members of the U.S. Armed Forces that was established by Laws 2005, Chapter 303 for the 2006 tax year. In addition, the act expanded the exemption to also include military income for active service in the National Guard or the Reserves. This bill was estimated to reduce General Fund revenues by $(12.2) million in FY 2008. (Effective January 1, 2007)

Laws 2006, Chapter 354 reduced individual income tax rates by 5% for tax year 2006 and 10% for tax year 2007. *(See Property Tax section for other changes.)* (Contains various effective dates). These rate reductions were estimated to reduce General Fund revenues by $(156.1) million in FY 2007, and an additional $(177.9) million in FY 2008.

Laws 2006, Chapter 357 conformed the Arizona statutory definition of the Internal Revenue Code (IRC) for tax year 2006 to the United States IRC in effect as of January 1, 2006, excluding those provisions where Arizona did not previously conform to federal tax law changes (bonus depreciation and business expensing).

The federal government enacted 3 tax bills during 2005: the Energy Tax Incentives Act; the Katrina Emergency Tax Relief Act; and the Gulf Opportunity Zone Act. The conformity bill was estimated to reduce FY 2007 individual and corporate income tax revenues by $(700,000) each, for a total of $(1.4) million.

Laws 2006, Chapter 358 provided that the education grant under the newly established Displaced Pupils Choice Grant Program does not count as income for purposes of state income tax. (Effective September 21, 2006)

Laws 2006, Chapter 387 extended the Enterprise Zone Program until June 30, 2011, and modified some of its qualification requirements. The fiscal impact of this bill is unknown. (Effective retroactively from July 1, 2006)

2005 TAX LAWS

Laws 2005, Chapter 115 established the National Guard Relief Fund (NGRF) to provide financial assistance to families of Arizona National Guard members who are serving on active duty in a combat zone. The bill allowed taxpayers to donate to the NGRF from their tax refund or from additional funds included with their tax return. (Effective January 1, 2006)

Laws 2005, Chapter 148 clarified the definition of pollution control equipment for income tax credits on pollution controls. (Effective August 12, 2005)

Laws 2005, Chapter 264 created an individual and corporate income tax credit of $1,000 per employee for businesses that employ Arizona National Guard members who are called to active duty. The bill was expected to reduce corporate income tax collections by an estimated $(250,000) in FY 2006. (Effective January 1, 2006)

Laws 2005, Chapter 278 made technical changes to the Healthy Forest initiative passed in 2004 and provided some additional tax incentives. It reduced from 10 to 3 the number of full-time employees a business must have in order to qualify for income tax incentives, and it reduced the number of work hours defining full-time employment from 1,750 hours to 1,500 hours per year. The amount of required health insurance coverage for employees of a qualified business was also reduced. (Effective August 12, 2005)

Laws 2005, Chapter 292 created individual and corporate income tax credits for the installation of water conservation systems and a corporate income tax credit for the installation of water conservation system plumbing stub-outs. A water conservation system uses "graywater" or waste water from a home for irrigation purposes. The individual income tax credit is equal to 25% of the cost of the water conservation system up to a maximum of $1,000. The bill limits the maximum aggregate amount of the individual income tax credit to $250,000 per year. The credits are effective from tax years 2007 through 2014.

Laws 2005, Chapter 303 provided active military service income to be subtracted from the gross income on income taxes for individuals or estates in tax year 2006. The bill was estimated to have a one-time impact of $(10.3) million in FY 2007.

Laws 2005, Chapter 311 provided for employers the option to <u>not</u> withhold income tax during the month of December. If an employer elects to not withhold tax in December, he is required to notify the Department of Revenue and his employees of such decision. Employees must be notified in writing by October 1, 2005 and by July 1 each year thereafter. This bill has no fiscal impact. (Effective September 1, 2005)

Laws 2005, Chapter 316 established an individual income tax credit for investments in qualified small businesses from tax years 2007 through 2014. The allowable credit is 30% of the investment over a 3-year period and is increased to 35% if the investment is made in a bioscience company or a company located in a rural county. The credit is allowed to be carried forward to the next 3 consecutive taxable years. The credit, which is administered by the Department of Commerce, is capped at $20 million over the life of the program. (Effective August 31, 2005)

Laws 2005, Chapter 317 established individual and corporate income tax credits for businesses that produce motion pictures in Arizona. Motion picture productions with qualified expenses of $250,000 to $1 million in a 12-month period may receive a tax credit equal to 10% of production costs; production expenses from $1 million to $3 million may be credited for 15% of production costs, while productions spending more than $3 million in the state may claim a credit equal to 20% of production costs. The total amount of income tax credits approved may not exceed $30 million in 2006, $40 million in 2007, $50 million in 2008, $60 million in 2009 and $70 million in 2010. The tax credits may be sold or transferred, in whole or in part, to other taxpayers. The law requires taxpayers claiming the credits to meet various reporting requirements and for film companies to recruit Arizona residents to hold 25% of full-time positions in 2006, 35% in 2007 and 50% in 2008 and after. It is estimated to reduce income tax collections by $(9) million in FY 2007. (Effective July 1, 2006, retroactive to January 1, 2006)

Laws 2005, Chapter 334 provided the following changes to Arizona income tax statutes: (1) Internal Revenue Code (IRC) conformity, (2) marriage penalty elimination, and (3) standard deduction inflation indexing.

<u>IRC Conformity</u>
Federal adjusted gross income (FAGI) forms the basis for the computation of Arizona individual income tax. For this reason, changes to FAGI will also affect the state's income tax collections. The federal government enacted 2 bills during 2004 (the Working Families Tax Relief Act and the American Jobs Creation Act) to which Laws 2005, Chapter 334 conformed. The cost of conforming Arizona individual income tax statutes to the Internal Revenue Code is estimated to be $(5.4) million in FY 2006 and $(5.1) million in FY 2007.

<u>Elimination of "Marriage Penalty"</u>
Laws 2005, Chapter 334 provided that certain tax credits for married filers will become twice that of single filers. Included are the credits for contributions to charitable organizations, contributions to qualifying school tuition organizations, and contributions to public school extracurricular activities. The combined cost of these provisions is estimated to be $(6.4) million in FY 2006 and $(13) million in FY 2007.

The individual cost for each of the 3 tax credits amended under this bill is shown below.

- Charitable Organizations - $(0.1) million in FY 2006 and $(0.2) million in FY 2007
- Private School Tuition Organizations - $(3.2) million in FY 2006 and $(6.4) million in FY 2007
- Public School Extracurricular Activities - $(3.1) million in FY 2006 and $(6.4) million in FY 2007

Inflation-Indexing of Standard Deduction
Laws 2005, Chapter 334 provided that the standard deduction for individual income tax filers be indexed for annual cost of living changes. This provision is estimated to cost the General Fund $(2.4) million in FY 2006 and $(4.8) million in FY 2007.

2004 TAX LAWS

Laws 2004, Chapter 196 was the annual bill that conformed the Arizona statutory definition of the Internal Revenue Code (IRC) to the United States IRC, as amended, in effect on January 1, 2004, including federal provisions that became effective during 2003.

The federal government enacted 3 tax bills during 2003: the Jobs and Growth Tax Relief Reconciliation Act; the Military Family Tax Relief Act; and the Medicare Prescription Drug, Improvement, and Modernization Act. The Legislature conformed to all tax law changes in these federal acts except the provisions related to additional bonus depreciation allowances and investment deductions by small businesses. According to DOR, the conformity bill is estimated to reduce individual income tax revenues by $(1,800,000) in FY 2005. (Contained various effective dates, including an emergency clause)

Laws 2004, Chapter 214 expanded the $2,300 tax exemption for persons 65 years or older, and dependents to also include stillborn children. The exemption can only be claimed in the year in which the stillbirth occurred. The bill is estimated to reduce individual income tax revenues by $(34,000) in FY 2005. (Effective retroactively from January 1, 2003)

Laws 2004, Chapter 284 increased state withholding rates to correct a rate adjustment error included in Laws 2003, Chapter 263. The Legislature increased the state withholding rates as of July 1, 2003 to prevent a state income tax loss due to a reduction in federal withholding resulting from the enactment of the Jobs and Growth Tax Relief Reconciliation Act of 2003. These rate adjustments, as reflected in Laws 2003, Chapter 263, proved later to be insufficient since they failed to account for certain provisions in the federal tax legislation.

The new state withholding rates, which are shown in the table below, became effective on January 1, 2005.

Old Withholding Rates	New Withholding Rates
0.0%	0%
10.0%	10%
18.2%	19%
21.3%	23%
23.3%	25%
29.4%	31%
34.4%	37%

The new withholding percentages are estimated to provide a one-time revenue increase of $76 million in FY 2005. This amount is equal to the one-time revenue loss incurred in FY 2004 as a result of the insufficient rate adjustments included in Laws 2003, Chapter 263.

Laws 2004, Chapter 289 made several changes to tax statutes:

1. Updated the income tax credit review schedule to add those credits that were reviewed in 2003 to the review schedule for 2008.

2. Repealed the individual and corporate income tax credits for costs incurred in corrective actions for releases from underground storage tanks.

3. Allowed the enterprise zone job creation tax credits to be claimed for the second and third years of qualified employment even if the credits for the first year were not claimed on the original tax return. The jobs must have been created before January 1, 2002 and certified by the Arizona Department of Commerce.

4. Clarified that a business may remain eligible for enterprise zone tax credits if retail sales accounted for less than 10% of the business conducted at the zone location.
5. Provided a retail sales tax exemption for sales of food, beverages and promotional items to employees and occasional guests of businesses within enterprise zones.
6. Made technical and conforming changes and made the tax law amendments retroactive to tax years beginning from and after December 31, 2003.

There was no estimate of the legislation's fiscal impact. (Effective August 25, 2004)

Laws 2004, Chapter 326 provided for the state Department of Commerce to certify businesses that process and add value to biomass from Arizona's forest areas. Qualified businesses are eligible for individual and corporate income tax credits based on net increases in employment, and sales and use tax exemptions for qualified construction and equipment. A business can claim a credit for up to 200 new jobs. The bill provided for income tax credits and sales tax exemptions to be forfeited, or "clawed back," if a business' certificate is revoked. The legislation's fiscal impact could not be determined. (Effective June 3, 2004)

2003 TAX LAWS

Laws 2003, 1st Special Session, Chapter 1 appropriated an additional $3,275,800 from the General Fund to DOR for a revenue generating plan. See Laws 2003, Chapter 262 for a more complete explanation of this issue. The program was projected to generate $5,838,000 in additional General Fund revenues in FY 2003, of which $2,252,000 was attributable to individual income tax. (Contained various effective dates)

Laws 2003, 2nd Special Session, Chapter 1 repealed the minimum withholding requirement of $5 per month or a proportionate rate for any shorter pay period enacted under Laws 2003, Chapter 263. The act included an emergency clause.

Laws 2003, Chapter 61 repealed the credit for donations of motor vehicles to the "Wheels to Work Program." According to DOR, since this program was already eliminated in 2002, this bill had no fiscal impact. (Effective September 18, 2003)

Laws 2003, Chapter 68 was the annual bill that conformed the Arizona statutory definition of the Internal Revenue Code (IRC) to the 2003 United States IRC. According to DOR, the fiscal impact of this bill was negligible. (Contained various effective dates)

Laws 2003, Chapter 105 was the annual tax correction bill that made technical, conforming, and clarifying changes to the Arizona tax statutes. (Contained various effective dates)

Laws 2003, Chapter 119 provided cities, towns and counties additional alternatives to obtain population estimates for the distribution of state shared tax revenues. There was no General Fund impact associated with this bill. (Effective September 18, 2003)

Laws 2003, Chapter 122 repealed the recycling equipment income tax credit retroactive to January 1, 2003. The legislation did not affect previous tax credit carry forward. The fiscal impact of this legislation could not be determined. However, according to DOR, this credit had a carry-forward amount of $21,700 in tax year 2000, the last year for which such data existed. The bill also required that income tax credits that are reviewed and retained by the Joint Legislative Income Tax Credit Committee will be reviewed again in 5 years. (Contained various effective dates)

Laws 2003, Chapter 169 provided that every school tuition organization and public school that receives a contribution that can be claimed as an individual income tax credit must report certain information to DOR by February 28 each year. There was no fiscal impact associated with this bill. (Effective September 18, 2003)

Laws 2003, Chapter 219 expanded the definition of the income tax credit for extra-curricular activities in public schools to also include school trips in or out of state for competitive events, but excluded any senior trips or recreational, amusement or tourist activities. The bill provided that school site councils determine the use of any undesignated funds received through the tax credit. The fiscal impact could not be determined. (Effective September 18, 2003)

Laws 2003, Chapter 262, appropriated $6,552,000 from the General Fund to DOR for a revenue generating program. The program was projected to generate new revenue through increased audit and collections activity. It was expected to generate $53,249,000 in additional General Fund revenues in FY 2004, of which $18,667,000 was attributable to the individual income tax. This act represented the annualization of the revenue generating program begun by Laws 2003, 1st Special Session, Chapter 1. (Contained various effective dates)

Laws 2003, Chapter 263 established a tax amnesty program, which allowed DOR to abate or waive all or part of penalties and to impose reduced interest payments for tax liabilities for all qualifying taxpayers. To qualify for the program, a taxpayer must have paid at least one-third of the total amount due by October 31, 2003 and the entire balance due by May 1, 2004. The amnesty program was projected to generate $25,000,000 in additional General Fund revenues in FY 2004, of which $6,250,000 was attributable to individual income tax. The actual amount of tax amnesty monies reported for FY 2004 was $47,125,500, of which approximately $2,800,000 was attributable to individual income tax. The tax amnesty monies included $4,000,000 in on-going collections and $43,125,500 in one-time revenues. The provision was repealed July 1, 2004. The one-time revenue impact of the tax amnesty program was not included in the tax law changes table at the beginning of this section.

The bill required employers to withhold (for state income tax purposes) a minimum amount of $5 per month for each employee on their payroll. This provision, which was retroactive from June 30, 2003, was expected to increase individual income tax collections by $5 million in FY 2004. See Laws 2003, 2nd Special Session, Chapter 1.

Another provision of the bill adjusted state income tax withholding rates to compensate for an estimated $(14) million impact of reduced federal withholding from the Jobs and Growth Tax Relief Reconciliation Act of 2003. Retroactive from June 30, 2003, the withholding rates were changed as follows (see table below):

Old Withholding Rates	New Withholding Rates
0.0%	0.0%
10.0%	10.0%
18.0%	18.2%
21.0%	21.3%
23.0%	23.3%
29.0%	29.4%
34.0%	34.4%

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR

		2007	2006	2005	2004	2003	2002	2001	2000
Agricultural	# of claims						6	9	9
Pollution	credit available	Data Not	Data Not	Data Not	Data Not	Data Not	$47,706	$54,870	$77,096
Control	credit used	Available	Available	Releasable	Releasable	Releasable	$32,542	$17,500	$15,218
Equipment	carry forward						$15,164	$37,370	$61,878
Agricultural	# of claims			0	0	0	0	0	
Preservation	credit available			$0	$0	$0	$0	$0	
District	credit refunded			$0	$0	$0	$0	$0	
REFUNDABLE	carry forward								
Agricultural	# of claims		*79*	*132*	141	154	133	136	130
Water	credit available	Data Not	*$5,517,175*	*$8,533,211*	$10,366,257	$9,170,688	$7,984,544	$8,442,943	$8,157,000
Conservation	credit used	Available	*$967,778*	*$1,829,142*	$2,784,783	$1,611,457	$1,256,346	$1,484,014	$1,578,411
	carry forward		*$4,061,315*	*$6,143,531*	$6,855,589	$7,273,813	$6,157,459	$6,160,791	$6,527,281
Alternative	# of claims				0	0	0		
Fuel Delivery	credit available				$0	$0	$0	Data Not	Data Not
System	credit used				$0	$0	$0	Releasable	Releasable
NONREFUNDABLE	carry forward				$0	$0	$0		
Alternative	# of claims								19
Fuel Delivery	credit available							Data Not	$2,863,157
System	credit used							Releasable	$192,848
REFUNDABLE	credit refunded								$2,670,309
	carry forward								$0
Alternative	# of claims				26	50	74	111	162
Fuel	credit available				$251,238	$407,905	$605,422	$2,231,236	$2,770,835
Vehicles	credit used				$34,972	$60,504	$104,771	$199,273	$364,450
NONREFUNDABLE	carry forward				$0	$347,401	$500,944	$2,036,270	$2,412,885
Alternative	# of claims							158	4,905
Fuel	credit available							$2,694,618	$94,544,474
Vehicles	credit used							$325,684	$13,251,856
REFUNDABLE	credit refunded							$2,368,934	$81,240,048
	carry forward							$0	$52,570
Clean Elections	# of claims		32,563	31,075	32,338	32,042	33,470	26,757	23,717
	credit available	Data Not	$811,908	$811,007	$748,343	$746,749	$725,230	$639,427	$564,312
	credit used	Available	$801,655	$801,435	$739,774	$727,224	$688,864	$599,485	$537,345
	carry forward								
Commerical &	# of claims								
Industrial Solar	credit available	Data Not	Data Not						
Energy Credit	credit used	Available	Available						
	carry forward								
Construction	# of claims						0		
Materials	credit available				Data Not	Data Not	$0	Data Not	Data Not
	credit used				Releasable	Releasable	$0	Releasable	Releasable
	carry forward						$0		
Contributions	# of claims		*29,202*	25,587	20,736	17,467	14,226	12,538	10,654
To Charities	credit available	Data Not	*$7,988,039*	$6,637,500	$3,884,600	$3,283,100	$2,687,900	$2,257,673	$1,829,205
Providing Help	credit used	Available	*$7,939,507*	$6,589,000	$3,851,700	$3,259,400	$2,676,900	$2,196,043	$1,792,123
To Working Poor	carry forward		*$48,532*	$48,500	$32,900	$23,700	$11,000	$41,852	$35,581

INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR

		2007	2006	2005	2004	2003	2002	2001	2000
Defense Contracting	# of claims		0	0	0	0	0	0	0
	credit available	Data Not	$0	$0	$0	$0	$0	$0	$0
	credit used	Available	$0	$0	$0	$0	$0	$0	$0
	carry forward		$0	$0	$0	$0	$0	$0	$0
Donation of Motor Vehicles To Work Program	# of claims						41	163	464
	credit available						$54,025	$213,200	$615,576
	credit used						$40,261	$173,319	$549,223
	carry forward								
Employer Dependent Day Care	# of claims								
	credit available								
	credit used								
	carry forward								
Employing National Guard Members	# of claims								
	credit available	Data Not	Data Not						
	credit used	Available	Releasable						
	carry forward								
Employment of TANF Recipients	# of claims		0		0			0	0
	credit available	Data Not	$0	Data Not	$0	Data Not	Data Not	$0	$0
	credit used	Available	$0	Releasable	$0	Releasable	Releasable	$0	$0
	carry forward		$0		$0			$0	$0
Enterprise Zone	# of claims		188	191	165	202	176	228	200
	credit available	Data Not	$2,057,273	$2,280,001	$2,204,199	$2,981,234	$2,838,420	$4,038,179	$3,669,226
	credit used	Available	$1,569,267	$1,441,581	$1,339,705	$1,713,943	$1,602,832	$2,370,519	$2,123,440
	carry forward		$370,370	$713,499	$738,055	$1,190,859	$1,289,247	$1,667,790	$1,553,807
Environmental Technology	# of claims		0	0	0	0	0	0	0
	credit available	Data Not	$0	$0	$0	$0	$0	$0	$0
	credit used	Available	$0	$0	$0	$0	$0	$0	$0
	carry forward		$0	$0	$0	$0	$0	$0	$0
Family Tax Credit	# of claims		448,960	439,056	425,484	417,451	427,798	402,094	335,253
	credit available	Data Not	$37,349,413	$36,737,292	$35,617,953	$35,068,208	$36,064,781	$33,377,585	$28,924,670
	credit used	Available	$6,867,294	$7,661,867	$7,709,270	$7,445,937	$7,382,178	$7,356,939	$7,799,840
	carry forward								
Healthy Forest Enterprises	# of claims		0	0					
	credit available	Data Not	$0	$0					
	credit used	Available	$0	$0					
	carry forward		$0	$0					
Income Taxes Paid To Other States or Countries	# of claims	26,637	34,880	34,664	29,956	25,722	24,909	29,007	27,831
	credit available	$62,776,751	$124,937,274	$119,416,310	$80,229,015	$62,484,651	$52,843,508	$58,777,258	$57,403,404
	credit used	$62,776,751	$124,937,274	$119,416,310	$80,229,015	$62,484,651	$52,843,508	$58,777,258	$57,403,404
	carry forward								
Increased Excise Taxes Paid	# of claims	579,464	536,940	546,678	555,762	548,831	529,265	428,189	
	credit available	$30,444,007	$28,751,332	$29,358,243	$29,924,907	$29,581,905	$28,403,741	$22,612,548	
	credit used	$30,444,007	$28,751,332	$29,358,243	$29,924,907	$29,581,905	$28,403,741	$22,612,548	
	carry forward								
Investment in Qualified Small Business	# of claims	26							
	credit available	$141,408							
	credit used	$89,101							
	carry forward	$52,307							

Office of Economic Research and Analysis
Arizona Department of Revenue

11/21/08

INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR

		2007	2006	2005	2004	2003	2002	2001	2000
Military	# of claims		0	0	0	0	0	0	0
Reuse Zone	credit available	Data Not	$0	$0	$0	$0	$0	$0	$0
	credit used	Available	$0	$0	$0	$0	$0	$0	$0
	carry forward		$0	$0	$0	$0	$0	$0	$0
Motion Picture	# of claims		0						
Production and	credit available	Data Not	$0						
Infrastructure	credit used	Available	$0						
	carry forward		$0						
Neighborhood	# of claims			348	737	1,203	1,740	2,614	4,199
Electric Vehicle	credit available	Data Not	Data Not	$3,694,940	$4,680,700	$5,982,883	$9,157,613	$16,275,159	$40,162,384
	credit used	Available	Available	$739,258	$1,119,036	$1,583,287	$2,493,296	$5,716,267	$22,266,522
	carry forward			$2,955,682	$3,549,623	$4,293,334	$6,653,392	$10,600,815	$17,885,862
Pollution	# of claims			21	28	9	13	18	
Control Device	credit available	Data Not	Data Not	$78,948	$40,676	$32,062	$18,562	$31,624	Data Not
	credit used	Available	Available	$71,440	$16,385	$31,239	$18,525	$31,624	Releasable
	carry forward			$7,508	$24,291	$823	$37	$0	
Private School	# of claims	76,065	73,617	69,239	63,830	58,122	52,161	46,755	38,249
Tuition	credit available	$54,303,282	$51,011,815	$42,194,898	$31,871,474	$29,445,494	$26,482,993	$24,924,656	$17,701,284
Organization	credit used	$54,303,282	$51,011,815	$42,194,898	$31,871,474	$29,445,494	$26,482,993	$24,924,656	$17,701,284
	carry forward								
Property	# of claims	16,810	13,247	13,943	14,786	15,028	14,991	15,218	14,593
Tax	credit available	$5,979,296	$4,776,863	$4,977,070	$5,242,685	$5,301,879	$5,106,544	$5,015,318	$4,653,837
	credit used	$5,979,296	$4,776,863	$4,977,070	$5,242,685	$5,301,879	$5,106,544	$5,015,318	$4,653,837
	carry forward								
Public School	# of claims	211,270	218,664	215,369	213,987	201,407	143,697	166,468	149,215
Extra	credit available	$43,934,799	$43,230,433	$35,416,279	$30,958,872	$27,753,764	$22,455,129	$20,004,715	$17,526,299
Curricular	credit used	$43,934,799	$43,230,433	$35,416,279	$30,958,872	$27,753,764	$22,455,129	$20,004,715	$17,526,299
Activity	carry forward								
Recycling	# of claims		0	0		4	5	6	6
Equipment	credit available	Data Not	$0	$0	Data Not	$3,891	$7,945	$9,309	$26,303
	credit used	Available	$0	$0	Releasable	$2,380	$3,267	$2,928	$4,605
	carry forward		$0	$0		$1,511	$4,678	$6,381	$21,698
Renters	# of claims								
Tax Credit	credit available								
	credit used								
	carry forward								
Research &	# of claims		223	165	143	121	99	56	
Development	credit available	Data Not	$7,497,115	$6,675,395	$4,747,079	$3,378,030	$1,732,996	$911,273	
	credit used	Available	$3,617,562	$2,963,936	$1,452,305	$1,109,211	$783,928	$506,038	
	carry forward		$3,879,553	$3,711,459	$3,294,774	$2,268,819	$949,068	$405,235	
School Site	# of claims		87	79	100	45	66	59	
Donation	credit available	Data Not	$9,993,552	$8,544,342	$5,341,784	$2,924,583	$3,711,546	$4,572,656	
	credit used	Available	$7,702,030	$6,027,400	$3,511,441	$2,048,930	$2,380,444	$2,869,356	
	carry forward		$2,086,350	$2,517,033	$1,830,343	$716,187	$1,331,022	$1,704,381	
Solar	# of claims				1,979	1,171	2,303	2,330	2,660
Energy	credit available	Data Not	Data Not	Data Not	$862,935	$549,069	$775,830	$901,836	$935,627
	credit used	Available	Available	Available	$817,331	$480,091	$977,721	$868,225	$924,231
	carry forward				$157,555	$108,286	$119,708	$135,943	$141,204

INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR

		2007	2006	2005	2004	2003	2002	2001	2000
Solar Hot Water	# of claims			23	17		15	18	35
Plumbing Stub	credit available	Data Not	Data Not	$12,795	$15,220	Data Not	$4,920	$16,951	$21,308
Outs & Electric	credit used	Available	Available	$10,437	$5,677	Releasable	$3,312	$7,804	$11,566
Vehicle Recharge	carry forward			$4,551	$9,543		$1,608	$9,147	$9,742
Summer	# of claims								
School	credit available								
& Jobs	credit used								
	carry forward								
Technology	# of claims			*0*	0	0			
Training	credit available			*$0*	$0	$0	Data Not	Data Not	
REFUNDABLE	credit refunded			*$0*	$0	$0	Releasable	Releasable	
	carry forward								
Underground	# of claims				0	0	0	0	0
Storage Tanks	credit available				$0	$0	$0	$0	$0
	credit used				$0	$0	$0	$0	$0
	carry forward								
Vehicle Refueling	# of claims					5	9	22	127
Apparatus &	credit available				Data Not	$13,872	$20,519	$39,953	$297,382
Infrastructure	credit used				Releasable	$8,960	$3,531	$16,440	$238,139
NONREFUNDABLE	carry forward					$4,912	$16,988	$23,513	$59,243
Vehicle Refueling	# of claims							12	676
Apparatus &	credit available							$33,750	$3,204,789
Infrastructure	credit used							$25,456	$364,288
REFUNDABLE	credit refunded							$8,294	$2,840,501
	carry forward							$0	$0
Water Conservation	# of claims	0							
Systems Credit	credit available	$0							
	credit used	$0							
	carry forward	$0							
TOTAL	# of claims	*910,272*	*1,388,650*	1,376,577	1,360,221	1,319,043	1,245,202	1,132,973	613,117
	credit available	*$197,579,543*	*$323,922,192*	$305,369,883	$247,173,004	$219,253,308	$201,734,348	$209,467,397	$287,487,436
	credit used	*$197,527,236*	*$282,172,810*	$259,516,031	$201,618,616	$174,664,076	$155,745,107	$156,146,378	$149,352,466
	credit refunded	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$2,384,317*	*$86,750,858*
	carry forward	*$52,307*	*$10,446,120*	$16,150,052	$16,547,091	$16,359,166	$17,050,315	$24,168,090	$30,247,482

Notes:

1. Shaded areas indicate that the credit was not in effect during the tax year.
2. "No Information" indicates that the Office of Economic Research and Analysis has no information that any taxpayers claimed the credit during the tax year.
3. "Not Releasable" indicates that the credit information cannot be released due to confidentiality restrictions.
4. "Total" includes credits for which information was "not releasable" individually.
5. DATA IN *ITALICS* ARE PRELIMINARY.

CORPORATE INCOME TAX

DESCRIPTION

The corporate income tax is levied on corporations that engage in business within Arizona. The tax rate currently is 6.968% of taxable income. A multi-state company must allocate a portion of its income to Arizona based on its Arizona property, payroll, and sales.

The corporate income tax is an important revenue source for the state, representing approximately 10% of forecasted General Fund revenues. A portion of corporate income tax collections (along with individual income tax collections) is shared with incorporated cities and towns within the state.

COLLECTIONS

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

Table 1

CORPORATE INCOME TAX COLLECTIONS

Fiscal Year	State General Fund	Fiscal Year	State General Fund
FY 2009	$592,157,255	FY 1999	$545,389,000
FY 2008	$784,510,885	FY 1998	$535,295,300
FY 2007	$986,169,564	FY 1997	$600,890,500
FY 2006	$874,219,473	FY 1996	$448,039,400
FY 2005	$701,859,285	FY 1995	$419,690,900
FY 2004	$494,044,869	FY 1994	$331,395,000
FY 2003	$389,406,300	FY 1993	$263,242,400
FY 2002	$346,280,400	FY 1992	$211,445,600
FY 2001	$541,173,600	FY 1991	$191,672,500
FY 2000	$523,180,000	FY 1990	$178,067,100

SOURCE: Department of Revenue annual reports - amounts are net of refunds and charge-offs. A portion of corporate income tax collections is shared with incorporated cities and towns – see Table 2 in Individual Income Tax section.

DISTRIBUTION

Based on an initiative measure approved by the voters in 1972, an Urban Revenue Sharing Fund was established. The initiative provided that a percentage of income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and towns within the state. Currently, 15% of net income tax revenues from 2 years prior is distributed to cities and towns. This distribution is based on the last U.S. decennial census, a special census, or revised population figures approved by the Department of Economic Security (DES). Table 3 (Distribution of Individual and Corporate Income Tax) in the Individual Income Tax section provides historical urban revenue sharing distributions [A.R.S. § 42-206].

WHO PAYS THE TAX

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

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

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

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

Small business corporations which make a "subchapter S" election for a taxable year under the Internal Revenue Code are not subject to the corporate income tax. The income of these corporations is generally passed through to each shareholder, who is then taxed under the state's individual income tax [A.R.S. § 43-1126].

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

EXEMPTIONS

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

(1) Labor, agricultural, and horticultural organizations except for cooperative organizations.
(2) Fraternal beneficiary societies, orders, or organizations that both: (a) operate under the lodge system or for the exclusive benefit of the members of a fraternity, and (b) provide for the payment of life, sick, accident, or other benefits to their members or their dependents.
(3) Cemetery companies that are owned and operated exclusively for the benefit of their members or are not operated for profit.
(4) Corporations that are organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children and animals.
(5) Business leagues, chambers of commerce, real estate boards, and boards of trade that are not organized for profit.
(6) Civic leagues or organizations that are not organized for profit.
(7) Clubs that are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes.
(8) Corporations that are organized for the exclusive purpose of holding title to property, collecting income from such property, and turning over the entire net income to an organization which itself is exempt from income tax.
(9) Voluntary employees' beneficiary organizations that provide for the payment of life, sick, accident or other benefits to their members or their dependents, if both of the following apply: (a) no part of their net earnings inures to the benefit of any private shareholder or individual, and (b) 85% or more of the income consists of monies collected from members and contributions by the employer of the members.
(10) Teachers' or public employees' retirement fund organizations that are of a purely local character, if both of the following apply: (a) no part of their net earnings inures to the benefit of any private shareholder or individual, and (b) the income consists solely of monies received from public taxation, assessments on the salaries of members, and income from investments.
(11) Religious or apostolic organizations or corporations, if such organizations or corporations have a common treasury or community treasury.
(12) Voluntary employees' beneficiary organizations that provide for the payment of life, sick, accident or other benefits to their members, their dependents or designated beneficiaries, if both of the following apply: (a) admission to membership is limited to individuals who are officers or employees of the United States Government, and (b) no part of the net earnings inures to the benefit of any private shareholder or individual.
(13) Corporations classified as diversified management companies under Section 5 of the federal Investment Company Act of 1940.
(14) Insurance companies that are subject to the insurance premium tax.

(15) 15)Mutual ditch, irrigation or water companies or similar nonprofit organizations if 85% or more of their income consists of amounts collected from members for the sole purpose of meeting losses and expenses.
(16) Workers' compensation pools established pursuant to A.R.S. § 23-961.01

TAX BASE AND RATE

The tax base for the corporate income tax is defined as "Arizona taxable income", which is further defined as the "Arizona gross income" (equal to a corporation's federal taxable income), adjusted by a series of additions and subtractions as specified in Title 43, Article 3 of the Arizona Revised Statutes (A.R.S. § 43-1121 - A.R.S. § 43-1130.01) [A.R.S. § 43-1101].

The tax rate for corporate income tax is 6.968% of a corporation's net Arizona taxable income or $50, whichever is greater [A.R.S. § 43-1111]. The 6.968% flat tax rate has been in effect since January 1, 2001. The $50 minimum tax was effective beginning January 1, 1988.

Table 2

HISTORICAL CORPORATE INCOME TAX RATES 1/2/

Taxable Income	TY 1965	TY 1967	TY 1974 2/	TY 1990	TY 1994	TY 1998	TY 2000	TY 2001
$ 0 - 1,000	1.30%	2.00%	2.50%	9.30%	9.00%	8.00%	7.968%	6.968%
$ 1,001 - 2,000	2.60%	3.00%	4.00%	9.30%	9.00%	8.00%	7.968%	6.968%
$ 2,001 - 3,000	3.30%	4.00%	5.00%	9.30%	9.00%	8.00%	7.968%	6.968%
$ 3,001 - 4,000	4.00%	5.00%	6.50%	9.30%	9.00%	8.00%	7.968%	6.968%
$ 4,001 - 5,000	4.60%	6.00%	8.00%	9.30%	9.00%	8.00%	7.968%	6.968%
$ 5,001 - 6,000	5.90%	7.00%	9.00%	9.30%	9.00%	8.00%	7.968%	6.968%
$ 6,001 & over	6.60%	8.00%	10.50%	9.30%	9.00%	8.00%	7.968%	6.968%

1/ For tax rates prior to 1965, see page 119 of the 1990 Tax Handbook.
2/ From January 1, 1986 through December 31, 1987, corporate net capital gains were taxed at a 6.4% flat rate.

Corporations which have income from both within the state and outside of the state are required to allocate their Arizona taxable income according to the type of income as follows: [A.R.S. § 43-1132]

- *Business income*. Allocated to Arizona by multiplying the income by a factor which weights the value of the taxpayer's property in Arizona at 25%, the value of the taxpayer's payroll at 25%, and the value of sales within the state at 50%. Beginning in tax year 2006, Laws 2005, Chapter 289 allows corporations, when certain conditions are met, to elect an alternative computation that increases the sales factor weight to 60% in 2006, 70% in 2007, and 80% in 2008 and after [A.R.S. § 43-1139 - A.R.S. § 43-1145].

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

- *Sale of other than tangible personal property*. Allocated to Arizona if the income producing activity is performed within the state, or, if the activity is performed both inside and outside of the state, if the greater proportion of the activity is performed within the state [A.R.S. § 43-1147].

- *Sale of tangible personal property*. Allocated to Arizona if the property is delivered or shipped to a purchaser within the state [A.R.S. § 43-1146].

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

TAX REFUNDS AND/OR TAX CREDITS

Tax credits are either refundable or non-refundable. Unlike refundable credits, non-refundable credits can never exceed a taxpayer's tax liability. However, many of the non-refundable tax credits allow the unused amounts to be carried forward to future years. Under current statutes, only the following credits are refundable: the property tax credit, agricultural preservation district credit, technology training credit, and the low-income credit for increased excise taxes paid.

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

Corporate income tax credits available to taxpayers that reduce their liability or make them eligible for refunds are described below. The value of tax credits used and carried forward through calendar year 2006 (the latest year available) is summarized by the Arizona Department of Revenue summary report attached at the end of this section.

Current statutes include the following tax credits:

Agricultural Pollution Control Equipment. A tax credit is allowed for taxpayers engaged in agriculture to reclaim 25% of the cost of real property or equipment, not to exceed $25,000 in a taxable year, that is used to control, prevent, monitor or reduce air, water or land pollution. The credit can be carried forward for 5 years [A.R.S. § 43-1170.01].

Agriculture Preservation District. For tax years from and after December 31, 2000, a refundable credit is allowed for an agricultural property owner that conveys ownership or development rights to an agricultural preservation district. No district can award credits exceeding $10 million. The credit is equal to the appraised value of owned property transferred to the district or the difference between the appraised value of undeveloped land and the appraised value of the land for development purposes. No individual credit can exceed $33,000 in a calendar year [A.R.S. § 43-1180].

Agricultural Water Conservation System. A tax credit can be claimed for 75% of the qualifying expenses in purchasing and installing an agricultural water conservation system. This credit is in lieu of itemized deductions for such expenses, in which case, the taxpayer must add the credit back into Arizona gross income in computing taxable income. This non-refundable tax credit can be carried forward for no more than 5 years [A.R.S. § 43-1172].

Alternative Fuel Delivery System Credit. A taxpayer may claim a credit for the costs to construct or operate an alternative fuel delivery system (AFDS) in Arizona that is capable of dispensing alternative fuel to an alternative fuel vehicle. Laws 2000, 7th Special Session, Chapter 1 limited the credit for AFDS to those individuals who had a purchase order or contract for the system before October 20, 2000 and for which actual construction began before November 9, 2000. The credit is equal to 100% of costs incurred up to a maximum of $400,000. For alternative fuel delivery systems not satisfying the requirements of the previous system, the credit is 50% of costs up to a $200,000 maximum [A.R.S. § 43-1174.02].

Alternative Fuel Vehicles Credit. A contract or purchase order for the vehicle must have been entered into prior to October 21, 2000. No refundable credit is allowed after December 31, 2001. The non-refundable credit was repealed, but the carry-forward for the non-refundable credit can still be used after December 31, 2001 [A.R.S. § 43-1174].

Arizona National Guard Employees. A tax credit of $1,000 per employee is allowed for businesses that employ Arizona National Guard members who are called to active duty [A.R.S § 43-1167.01].

Construction Materials. A non-refundable credit is allowed for new construction materials incorporated into a qualifying facility located entirely in Arizona. Construction must have begun on or after January 1, 1994 and be completed on or before December 31, 1999. The credit is 5% of the purchase price for materials used to construct buildings costing more than $5 million that are predominately used for manufacturing, mining, refining, satellite/data transmission, and research and development [A.R.S § 43-1171].

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

Corporate Consolidated Credit. Prior to the enactment of Laws 1994, Chapter 41, if a group of corporations demonstrated a large degree of interdependence, the Department of Revenue (DOR) would require the group to file its Arizona income tax return as a combined or unitary entity. After the law's passage, a group of corporations could elect to file a consolidated return in Arizona for the same corporations that filed a federal income tax return as a consolidated group. DOR could no longer require alterations of the component firms even if DOR did not agree with the consolidated grouping. Prior to the law's passage, DOR generally required a combined return that was different than the federal consolidated return in order to more accurately reflect income derived from Arizona sources. Effective July 17, 1994, corporations could elect to form a consolidated group that would contain the same members at the federal level. Consolidated returns could be filed from tax year 1994 forward and amended returns could be filed for tax years 1986 through 1993 if they were filed before January 1, 1995. The amended returns yielded credits for previous tax payments as well as interest accrued through December 31, 1994. Total tax credit established for 1986 through 1993 plus interest was $115 million. The tax credits were nonrefundable and the total was to be spread over 10 years. In the 11th year, DOR was required to refund all unused credit, even if it exceeds the corporation's tax liability in that year. DOR estimated that the remaining credits to be claimed will result in refunds of $(4.0) million in FY 2007 and $(55.5) million in FY 2008.

Defense Contractor Employment. The credit applies to defense contractors certified by the Arizona Department of Commerce. The non-refundable credit is for net increases in employment due to full-time equivalent (FTE) positions being transferred from exclusively defense-related activities to exclusively private commercial activities. A tax credit is also allowed for a portion of property taxes paid on class 3 (commercial or industrial) property. For each FTE net employment increase, $2,500 is credited in the first year, $2,000 in year 2, $1,500 in year 3, $1,000 in year 4 and $500 in year 5. Property tax credits depend on the number of FTE Positions created (see below) [A.R.S § 43-1165].

Defense Contractor Property Taxes. The credit for property tax paid is: 40% if more than 900 FTE Positions are created; 30% for 601 to 900 positions; 20% for 301 to 600 positions; and, 10% for up to 300 positions. The credits can be carried forward for 5 years [A.R.S. § 43-1166].

Enterprise Zones. To qualify, at least 35% of the full time equivalent employees claimed must reside in an enterprise zone. For non-retail businesses, the credit is equal to 25% of the taxable wages paid to a qualified FTE employee in the first year of employment, 33% in the second year of continuous employment, and 50% in the third year, not to exceed $500, $1,000, and $1,500 respectively. The credit may not be taken for more than 200 employees [A.R.S. § 43-1161].

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

Healthy Forests. To qualify, a business must be engaged in harvesting, transportation or initial processing of forest products, including biomass. Products must contain at least 50% biomass, and at least half of the biomass must be from Arizona sources. The business must have at least 3 permanent full-time employees and must be engaged in enhancing forest health, watersheds or public safety. The credit is equal to 25% of the taxable wages paid to a qualified FTE employee in the first year of employment, 33% in the second year of continuous employment, and 50% in the third year, not to exceed $500, $1,000, and $1,500 respectively. The credit may not be taken for more than 200 employees and may be carried forward for 5 years [A.R.S. § 43-1162].

Motion Picture Productions. An income tax credit is available to businesses that produce motion pictures in Arizona. Motion picture productions with qualified expenses of $250,000 to $1 million in a 12-month period may receive a tax credit equal to 20% of production costs, while productions with qualified expenses exceeding $1 million may be credited for 30% of production costs. The total amount of income tax credits approved for all qualifying productions and investments may not exceed $30 million in 2006, $40 million in 2007, $50 million in 2008, $60 million in 2009, and $70 million in 2010. The income tax credits may be claimed for expenses incurred

in the production of commercial advertisements, and music videos, with 5% of the income tax credit available to be set aside for these productions. Income tax credits also may be claimed for expenses incurred for the construction of soundstages and associated support and augmentation facilities. Tax credits for soundstage investments are capped at $5 million per year in 2008, 2009 and 2010. Tax credits for associated support and augmentation facilities are capped at $7 million in 2009 (if at least one soundstage project was certified in 2008) and $9 million in 2010 (if one or more soundstage projects were certified in 2008 or 2009). The tax credits may be sold or transferred, in whole or in part, to other taxpayers. The law requires taxpayers claiming the credits to meet various reporting requirements and for film companies to recruit Arizona residents to hold 25% of full-time positions in 2006, 35% in 2007, and 50% in 2008 and after [A.R.S. § 43-1163].

Military Reuse Zones. A non-refundable credit is allowed for net full-time equivalent (FTE) employment increases in a military re-use zone. The employees must be engaged in aviation or aerospace manufacturing or services. Credits also are allowed for dislocated civilian military base employees. For net FTE increases, a credit is allowed for each newly created position of $500 to $3,000, depending on whether or not the employee is a dislocated military base employee, and the number of years of employment (1-5 years). The credits can be carried forward for 5 years [A.R.S. § 43-1167].

Pollution Control Equipment. The credit is allowed for purchases of real or personal property used to control or prevent pollution. The qualifying facilities must be built or purchased to comply with U.S. Environmental Protection Agency or Arizona Department of Environmental quality regulations. The credit amount is equal to the lesser of 10% of the purchase price or $500,000 in a taxable year. It was capped at $750,000 in 1995 and 1996. The credits can be carried forward for 5 years [A.R.S. § 43-1170].

Renewable Energy Industry. A credit is allowed on new renewable energy capital investments in manufacturing or company headquarters for up to 10% of the taxpayer's total capital investment. The credit is refundable, with the combined total of individual and corporate income tax credits capped at $70.0 million annually. Recipients must receive their credit in 5 equal portions over 5 consecutive tax years.

The taxpayer must create at least 1.5 new full-time positions for each $500,000 in capital investment in a manufacturing facility and 1.0 new full-time position for each $200,000 in capital investment at a headquarters. The amount of the credit is reduced if the above minimum requirements are not met and is instead equal to 10% of $500,000 for every 1.5 new full-time positions at a manufacturing facility or 10% of $200,000 for each new full-time position at a headquarters.

The credit is dependent upon the taxpayer paying 51% of new full-time employees a rate exceeding 125% of the median annual wage in the state and paying 80% or more of the premium for all full-time employees' health insurance. The taxpayer must also stay in operation within the state for 5 years after receiving post-approval for the credit or face recapture of any credits received. The tax credit is only available for tax years 2010 to 2014 [A.R.S. § 43-1083.01].

Research and Development (R&D). A taxpayer may take a credit of 20% of qualified research expenses over a "base amount" (defined in the Internal Revenue Code) for expenses up to $2.5 million ($500,000 credit), plus 11% of expenses over $2.5 million. Laws 2008, Chapter 290 expands the tax credit in tax years 2010 through 2017 by allowing for a larger percentage of qualified R&D expenses to be used to offset an individual's tax liability (for more details, refer to the 2008 tax law changes under *Impact of Tax Law and Revenue Changes*). The credit was capped at $1.5 million for CY 2001 and $2.5 million for CY 2002. The R&D credit became available as an individual income tax credit for the first time in tax year 2001. A 15-year carry forward of the credit is allowed [A.R.S. § 43-1168].

School Site Donation. The credit is allowed for donations of real property and improvements to a school district or charter school as a school construction site. The credit is for 30% of the value of real property and improvements donated and can be carried forward for 5 years [A.R.S. § 43-1181].

School Tuition. A taxpayer may claim an income tax credit, up to the full amount of the donation, for contributions made to a school tuition organization that provides education scholarships and tuition grants to children of low-income families. If the taxpayer is an insurer, the credit may be applied against their insurance premium tax liability. The full amount of tax credit approved by the Department of Revenue is capped at $10 million per year,

with the cap increasing by 20% per year beginning in FY 2008. A taxpayer may carry forward the unused portion of the tax credit for 5 years [A.R.S. § 43-1183].

Solar Energy Devices for Commercial and Industrial Purposes. A taxpayer can claim a credit equal to 10% of the installed cost of a solar energy device used in their trade or business. The credit cannot exceed $25,000 for the same building in the same year or $50,000 in total in any year. The credit is available between tax years 2006 and 2012. This income tax credit may be claimed by a taxpayer purchasing a solar energy device, or a taxpayer that finances the purchase of a qualifying device. The credit also may be transferred to a third party that manufactures or installs a qualifying device. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [A.R.S. § 43-1164].

Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets Installed in Houses Constructed by Taxpayer. An income tax credit of up to $75 is available for each installation of a qualifying device for each separate house or dwelling unit. The credit may be transferred to the purchaser of the house or dwelling [A.R.S. § 43-1176].

Technology Training. A refundable credit is allowed for providing technological skills training to not more than 20 of the taxpayer's employees. The credit is equal to 50% of the amount spent, but not more than $1,500 per employee. The credits, which are capped at $2.5 million, are certified through the Arizona Department of Commerce [A.R.S. § 43-1179].

Temporary Assistance for Needy Families Employment. For net increases in employment, a credit for each newly created position of 25% of the taxable wages paid in the first year of employment, 33% in the second year of continuous employment, and 50% in the third year, not to exceed $500, $1,000, and $1,500 respectively [A.R.S. § 43-1175].

Vehicle Refueling Apparatus. The refundable credit is for the cost of the vehicle refueling equipment, while the non-refundable credit was equal to the greater of $2,000 or the cost of the equipment. The credit can be carried forward for 5 years [A.R.S. § 43-1174.01].

Water Conservation Systems. The credit is for the installation of water conservation system plumbing stub-outs to encourage the reuse of "graywater," or waste water. It provides a tax credit of up to $200 per installation, with a 5-year carry-forward period, and caps the total amount of tax credit issued at $500,000 per year. The credit will be available for 5 years, beginning in 2008 [A.R.S. § 43-1182].

Vehicle Refueling Apparatus. The refundable credit is for the cost of the vehicle refueling equipment, while the non-refundable credit was equal to the greater of $2,000 or the cost of the equipment. The credit can be carried forward for 5 years [A.R.S. § 43-1174.01].

PAYMENT SCHEDULE

A corporation that anticipates an Arizona income tax liability over $1,000 is required to pay estimated tax payments during the year. Generally, the estimated payments must equal the lesser of 90% of the tax liability for the current year, or 100% of the tax liability for the prior year. Large corporations (defined as having federal tax liability of $1 million or more for any 1 of the preceding 3 years) are required to pay estimated payments of 90% of the current year tax liability. Estimated payments are required in 4 installments based on the Internal Revenue Code. A taxpayer that does not make required estimated payments, or underpays the required payment, is subject to a penalty [A.R.S. § 43-582].

The balance of the tax, after accounting for taxpayer's estimated payments, is due by April 15 following the close of the calendar year; or, the 15th day of the 4th month following the close of the fiscal year, if the taxpayer files a tax return on a fiscal year basis [A.R.S. § 43-501].

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

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003. The estimated initial dollar impact of these changes is summarized by fiscal year in Table 3 below.

Table 3

ANNUAL INCREMENTAL DOLLAR IMPACT OF TAX LAW AND REVENUE CHANGES

Session/Chapter	Description	Revenue Impact
FY 2010		
L 09, Ch 2	Internal Revenue Code Conformity	$(4,410,000)
FY 2009		
L 08, Ch 94	Internal Revenue Code Conformity	$(80,000)
FY 2008		
L 07, Ch 1	Internal Revenue Code Conformity	$(300,000)
L 07, Ch 317	Motion Picture Tax Incentives	(1,200,000)
L 07, Ch 357	Internal Revenue Code Conformity	(100,000)
L 06, Ch 325	Corporate Income Tax School Tuition Credit	(2,000,000)
L 05, Ch 289	Corporate Sales Factor	(32,000,000)
L 05, Ch 292	Water Conservation Systems Credit	(500,000)
L 05, Ch 334	Internal Revenue Code Conformity	4,200,000
L 94, Ch 41	Corporate Consolidated Credit	(55,500,000)
Subtotal FY 2008		(87,400,000)
FY 2007		
L 06, Ch 14/325	Corporate Income Tax School Tuition Credit	(10,000,000)
L 06, Ch 333	Solar Energy Devices – Commercial Applications	(500,000)
L 06, Ch 357	Internal Revenue Code Conformity	(700,000)
L 05, Ch 317	Motion Picture Tax Incentives	(8,000,000)
L 05, Ch 334	Internal Revenue Code Conformity	8,210,000
L 94, Ch 41	Corporate Consolidated Credit	(4,000,000)
Subtotal FY 2007		(14,990,000)
FY 2006		
L 05, Ch 264	Arizona Nation Guard Employment Credit	$ (250,000)
L 05, Ch 334	Internal Revenue Code Conformity	(3,000,000)
Subtotal FY 2006		(3,250,000)
FY 2005		
L 04, Ch 196	Internal Revenue Code Conformity	$(1,850,000)
L 04, Ch 289	Enterprise Zone Tax Credits and Exemptions	(200,000)
L 04, Ch 326	Healthy Forests	Unknown
Subtotal FY 2005		(2,050,000)
FY 2004		
L 03, Ch 262	DOR Revenue Generating Proposal	$9,130,000
Subtotal FY 2004		9,130,000
FY 2003		
L 03, 1st SS, Ch 1	DOR Revenue Generating Proposal	$418,000
L 02, Ch 50	Repeal Dividends Income Tax Subtraction	11,200,000
L 02, Ch 344	Internal Revenue Code Conformity	5,610,000
Subtotal FY 2003		17,228,000

2009 TAX LAWS

Laws 2009, 1st Special Session, Chapter 3 established a state and county tax amnesty program, which ran from May 1, 2009 through June 1, 2009. The program allowed DOR to abate or waive all or part of penalties and to impose reduced interest payments for tax liabilities for all qualifying taxpayers. To qualify for the program, a taxpayer must have filed a return, and paid any balance due by June 1, 2009. The one-month amnesty program generated a total of $31.8 million, including $16.7 million in corporate income taxes, $2.1 million in individual income taxes, and $13.0 million in sales tax revenue. After accounting for sales taxes collected on the behalf of counties, and revenue sharing to cities and counties, a total of $27.3 million was deposited into the state's General Fund The one-time revenue impact of the tax amnesty program has not been included in the tax law changes table at the beginning of this section.

Laws 2009, Chapter 2 modifies the definition of the Internal Revenue Code (IRC) for tax year 2009 to the federal IRC in effect on January 1, 2009. This includes changes adopted by Congress in the Economic and Stimulus Act of 2008, the Heartland, Habitat, Harvest and Horticulture Act of 2008, the Heroes Earnings Assistance and Relief Tax Act of 2008, the Housing Assistance Tax Act of 2008, the Emergency Economic Stabilization Act of 2008, the Fostering Connections to Success and Increasing Adoptions Act of 2008, and the Worker Retiree, and Employer Recovery Act of 2008. The conformity provisions of Chapter 2 were estimated to reduce corporate income tax collections by $(4.41) million in FY 2010, $(100,000) in FY 2011, and $(1.42) million in FY 2012.

Laws 2009, Chapter 96 provides income and property tax incentives for qualifying renewable energy companies that build headquarter or manufacturing facilities in the state from tax year 2010 to 2014. An income tax credit is allowed for up to 10% of the capital investment, with an aggregate ceiling, including individual and corporate income tax credits, of $70 million annually. The credit is refundable and must be received in 5 equal portions over a period of 5 consecutive tax years. Qualifying properties will also receive a class 6 property designation, which reduces the assessment ratio to 5% instead of the class 1 assessment ratio of 22% (declining to 20% over the next 2 years). The class 6 property designation remains in effect for 10 or 15 years, depending on the level of wages paid to employees of the facility in relation to the median wage of the state.

Laws 2009, Chapter 168 allows insurers to take a tax credit against their insurance premium tax liability for donations to Student Tuition Organizations (STO). Previously, the credit was only allowed for corporate income taxes. Also, the law eliminates the sunset date of June 30, 2011 for the credit. The credit was capped at $10 million in FY 2007, increasing by 20% in each successive year. There is no fiscal impact as a result of this law as the inclusion of insurance premium tax liability did not alter the cap for the credit.

STO contributions are used to fund scholarships or grants for students of low-income families. The students must have transferred from a public school in the previous year to a qualified private school, enrolled in a private school kindergarten program or received a grant scholarship from the STO program in the previous year.

2008 TAX LAWS

Laws 2008, Chapter 94 modified the definition of the Internal Revenue Code (IRC) for tax year 2008 to the federal IRC in effect on January 1, 2008. This includes changes adopted by Congress in the Small Business and Work Opportunity Tax Act of 2007, the Energy Independence and Security Act of 2007, Prevent Taxation of payment to Virginia Tech Victims and Families of 2007, Mortgage Forgiveness Debt Relief Act of 2007 and the Tax Technical Corrections Act of 2007. The conformity provisions of Chapter 94 were estimated to reduce individual income tax collections by $(80,000) in FY 2009, $(170,000) in FY 2010, and $(160,000) in FY 2011.

Laws 2008, Chapter 290 contained several budget reconciliation provisions related to revenues that were necessary to implement the FY 2009 budget. One of the provisions established a minimum distribution amount for all cities and towns that equals at least the amount a city or town with a population of 1,500 or more persons would receive from the Urban Revenue Sharing Fund. Another provision contained in the measure increase the amounts of the corporate and individual income research and development (R&D) tax credits that are allowed to be claimed. The R&D credit is calculated based on the amount of qualified research expenses that exceeds a base amount (which is defined in the Internal Revenue Code). The changes to the R&D credit contained in Chapter 290 are summarized in the table below.

Tax Year	If Qualified Research Expenses exceed Base Amount by $2.5 million or less, R&D Credit =	If Qualified Expenses exceed Base Amount by more than $2.5 million, R&D Credit =
2009 (current law)	20% of excess amount	$500,000 + 11% of excess amount over and above $2.5 million
2010	22% of excess amount	$550,000 + 13% of excess amount over and above $2.5 million
2011 – 2017	24% of excess amount	$600,000 + 15% of excess amount over and above $2.5 million
2018 – and beyond	20% of excess amount	$500,000 + 11% of excess amount over and above $2.5 million

As noted in the table above, the changes to the R&D credit under Chapter 290 will occur in 3 stages. The first increase of the credit is implemented in tax year 2010, followed by a second increase in tax years 2011 to 2017. Beginning in tax year 2018, the credit will revert to the amounts allowed under current law. The act is estimated to reduce corporate and individual income taxes by a total of $(5.7) million in FY 2011 and $(11.2) million in FY 2012.

2007 TAX LAWS

Laws 2007, Chapter 1 contained an emergency measure that establishes a standard procedure regarding income tax filing and payment deadlines. Specifically, the measure stipulates that when the original deadline for filing and paying income tax falls on a Saturday, Sunday, or legal holiday, the deadline is automatically moved to the next business day.

The filing and payment deadline for both federal and state income tax is April 15. At the federal level, if the deadline falls on a Saturday, Sunday or legal holiday, the due date is extended to the next business day. "Legal holiday" under the Internal Revenue Code (IRC) means a legal holiday as observed in the District of Columbia. The April 15 filing deadline for 2007 fell on a Sunday and the next business day was Monday, April 16. However, since the District of Columbia observed the Emancipation Day (legal holiday) on April 16, the federal deadline for 2007 was moved to Tuesday, April 17. Under Chapter 1, Arizona's filing and payment due date for 2007 was also extended to April 17.

Chapter 1 conforms the Arizona statutory definition of the Internal Revenue Code (IRC): (1) for tax year 2007 to the United States IRC in effect as of January 1, 2007, and (2) for tax year 2006 to all IRC provisions passed with retroactive federal effective dates between December 31, 2005 and December 31, 2006. This includes changes adopted by Congress in the Tax Increase Prevention and Reconciliation Act of 2005, the Pension Protection Act of 2006, and the Tax Relief and Health Care Act of 2006. The conformity provisions of Chapter 1 are estimated to reduce corporate income tax collections by $(300,000) FY 2008, and to increase corporate income tax collections by $60,000 in FY 2009, resulting in an incremental increase for FY 2009 above FY 2008 of $360,000. (Effective April 4, 2007)

Laws 2007, Chapter 180 broadened the solar energy income tax credit by permitting it to be transferred to third party organizations that have installed or manufactured a solar energy device. Previously, the tax credit was available only to taxpayers installing solar energy devices or to entities that financed the purchase of a qualifying device. (Effective retroactively from January 1, 2006)

Laws 2007, Chapter 225 made several changes to the Motion Picture Production Tax Incentive Program established by Laws 2005, Chapter 317. The maximum credit allowed each year by the original legislation remains unchanged. Beginning with the 2008 income tax credit allocation, 5% must be set aside for commercial advertisements and music video productions. A company that is certified to receive income tax credits for commercials and music videos must spend a minimum of $250,000 in production costs within 12 months. Motion picture production companies must spend at least $250,000 on each qualifying motion picture production in order to be eligible for the income tax credits. Previously, a company could become eligible by incurring $250,000 in costs for one or more motion picture productions. Motion picture productions with qualified expenses of $250,000 to $1 million in a 12-month period now may receive a tax credit equal to 20% of production costs (increased from 10%); production expenses from $1 million to $3 million may be credited for 30% of production costs (increased from 15%), while productions spending more than $3 million in the state also may claim a credit equal to 30% of

production costs (increased from 20%). The maximum credit for any single motion picture production, previously capped at $5 million, is increased to $7 million in 2008, $8 million in 2009, and $9 million in 2010. Beginning October 31, 2007 through December 31, 2010, the Department of Commerce is required to certify motion picture infrastructure projects, including soundstages and support and augmentation facilities, for income tax credits. The maximum credit amount is 15% of the total base investment. Tax credits for soundstage investments are capped at $5 million per year in 2008, 2009 and 2010. Tax credits for associated support and augmentation facilities are capped at $7 million in 2009 (if at least one soundstage project was certified in 2008) and $9 million in 2010 (if one or more soundstage projects were certified in 2008 or 2009). (Various effective dates)

2006 TAX LAWS

Laws 2006, Chapter 14 established a corporate income tax credit for contributions made to a school tuition organization that provides education scholarships and tuition grants to children of low-income families. Chapter 14 established a cap on this credit of $5 million per year. A taxpayer may carry forward the unused portion of the tax credit for 5 years.

Laws 2006, Chapter 325 increased the cap to $10 million per year, and provides that the cap will increase by 20% annually beginning in FY 2008. (Effective September 21, 2006)

Laws 2006, Chapter 222 modified the certification of motion picture production costs and the qualification for motion picture production tax incentives that were enacted in Laws 2005, Chapter 317. In addition to making several technical changes to the legislation passed in 2005, Chapter 222 authorizes the Arizona Department of Commerce (ADOC) to begin accepting tax credit applications beginning October 31 for the following year if ADOC has pre-approved the maximum calendar year credit for the current year. (Effective retroactively from January 1, 2006)

Laws 2006, Chapter 333 required the Arizona Department of Commerce to establish a solar energy income tax credit program, establishes solar energy tax credits for commercial and industrial projects, removes the $5,000 tax exemption limitation for retail and prime contracting classifications under the transaction privilege tax (TPT), and prohibits solar energy systems from being added to property value. The income tax credit portion of this credit is capped at $1.0 million per calendar year, which is expected to reduce corporate and individual income tax revenue by approximately $(500,000) each in FY 2007. The elimination of the sales tax cap is expected to result in an additional $(0.5) million revenue loss. The total estimated impact of provisions of this legislation for FY 2007 is $(1.5) million. (Effective retroactively from January 1, 2006)

Laws 2006, Chapter 357 conformed the Arizona statutory definition of the Internal Revenue Code (IRC) for tax year 2006 to the United States IRC in effect as of January 1, 2006, excluding those provisions where Arizona did not previously conform to federal tax law changes (bonus depreciation and business expensing).

The federal government enacted 3 tax bills during 2005: the Energy Tax Incentives Act; the Katrina Emergency Tax Relief Act; and the Gulf Opportunity Zone Act. The conformity bill is estimated to reduce FY 2007 individual and corporate income tax revenues by $(700,000) each, for a total of $(1.4) million. (Effective September 21, 2006)

Laws 2006, Chapter 387 extended the Enterprise Zone Program until June 30, 2011, and modifies some of its qualification requirements. The fiscal impact of this bill is unknown. (Effective retroactively from July 1, 2006)

2005 TAX LAWS

Laws 2005, Chapter 148 clarified the definition of pollution control equipment that would qualify for the related individual and corporate income tax credits. While the changes were expected to have a positive impact on future corporate tax collections, the amount of the savings is unknown. (Effective August 12, 2005)

Laws 2005, Chapter 249 increased the termination date and subsequent renewal terms for military reuse zones from 5 years to 10 years and clarified the information that must be provided to the Department of Commerce in order to qualify for income tax credits claimed for net increases in employment. (Effective August 12, 2005)

Laws 2005, Chapter 264 created a tax credit of $1,000 per employee for businesses that employ Arizona National Guard members who are called to active duty. The credit is estimated to reduce corporate income tax collections by $(250,000) in FY 2006. (Effective January 1, 2006)

Laws 2005, Chapter 278 made technical changes to the Healthy Forest initiative passed in 2004 and provided some additional tax incentives. It reduced from 10 to 3 the number of full-time employees a business must have in order to qualify for income tax incentives, and it reduced the number of work hours defining full-time employment from 1,750 hours to 1,500 hours per year. The amount of required health insurance coverage for employees of a qualified business also was reduced. (Effective August 12, 2005)

Laws 2005, Chapter 289 allows a multi-state corporation, after certain conditions are met, to elect an enhanced sales factor formula to compute its Arizona income tax liability. The corporation may elect the existing double-weighted (50%) sales factor or an 80% sales factor, to be phased in from 60% in tax year 2007, 70% in tax year 2008, and 80% in tax year 2009. The enhanced sales factor formula is allowed only if one or more corporations announce, on or after June 1, 2005, that one or more capital investment projects in the state, individually or collectively, exceed $1 billion. The corporations are required to notify the Joint Legislative Budget Committee (JLBC) and the Governor's Office of Strategic Planning and Budgeting (OSPB) of their intent to make these investments. In July 2005, one corporation notified JLBC and OSPB of its intent to invest approximately $3 billion in a new manufacturing facility. The corporations are also required to notify JLBC and OSPB by December 15, 2007 that the projects have commenced and are estimated to cost more than $1 billion. JLBC and OSPB are required to jointly publish a list in 2006, 2007 and 2008 of corporations that have reported on their projects and to notify the Department of Revenue and Legislative Council that the conditions for the enhanced sales factor have been met by December 31, 2007. Any corporation that elects the enhanced sales factor formula is required to participate in an economic impact analysis to be conducted by JLBC, which is required to produce a report of the analysis by July 1, 2011. On or before December 31, 2005, 2006, 2007 and 2008, each corporation that made capital investment commitments is required to report on each project's status, projected costs, the amounts actually spent to date, and any changes and updates in the project. The enhanced sales factor formula is estimated to reduce tax corporate income tax collections by $(32.0) million in FY 2008. The fiscal impact of the enhanced sales factor formula is estimated to increase to $(120.0) million when fully implemented in FY 2011. (Effective January 1, 2008, retroactive to January 1, 2007)

Laws 2005, Chapter 292 created a corporate income tax credit for the installation of water conservation system plumbing stub-outs to encourage the reuse of "graywater," or waste water. It provides a tax credit of up to $200 per installation, with a 5-year carry-forward period, and caps the total amount of tax credit issued at $500,000 per year. The credit is available for 5 years beginning in 2008. It is estimated to reduce corporate income tax collections by $(500,000) in FY 2008. (Effective January 1, 2007)

Laws 2005, Chapter 317 established individual and corporate income tax credits for businesses that produce motion pictures in Arizona. Motion picture productions with qualified expenses of $250,000 to $1 million in a 12-month period may receive a tax credit equal to 10% of production costs; production expenses from $1 million to $3 million may be credited for 15% of production costs, while productions spending more than $3 million in the state may claim a credit equal to 20% of production costs. The total amount of income tax credits approved may not exceed $30 million in 2006, $40 million in 2007, $50 million in 2008, $60 million in 2009, and $70 million in 2010. The tax credits may be sold or transferred, in whole or in part, to other taxpayers. The law requires taxpayers claiming the credits to meet various reporting requirements and for film companies to recruit Arizona residents to hold 25% of full-time positions in 2006, 35% in 2007 and 50% in 2008 and after. It is estimated to reduce corporate income tax collections by $(8.0) million in FY 2007. (Effective July 1, 2006, retroactive to January 1, 2006)

Laws 2005, Chapter 334 included changes to Arizona income tax statutes in order to conform to changes to the U.S. Internal Revenue Code (IRC). Arizona gross income (AGI) is the base amount apportioned from a corporation's federal gross income that is used to calculate Arizona corporate income tax liability. Changes to federal gross income affect the state's income tax collections. The federal government enacted 2 bills during 2004 (the Working Families Tax Relief Act and the American Jobs Creation Act) to which Laws 2005, Chapter 334 conformed. The net fiscal impact of conforming Arizona corporate individual income tax statutes to the IRC is estimated to be $(3) million in FY 2006 and $5.2 million in FY 2007. (Effective January 1, 2006)

2004 TAX LAWS

Laws 2004, Chapter 196 provided for partial conformity with the U.S. Internal Revenue Code and federal tax law changes that became effective during 2003. The federal government enacted 3 tax bills during 2003: the Jobs and Growth Tax Relief Reconciliation Act, the Military Family Tax Relief Act, and the Medicare Prescription Drug, Improvement, and Modernization Act. The Legislature conformed to the tax law changes in these federal acts except for the provisions related to additional bonus depreciation allowances and investment deductions by small businesses. According to the Department of Revenue, the fiscal impact to the General Fund is estimated to be $(800,000) in FY 2004, $(1,850,000) in FY 2005, and $(2,040,000) in FY 2006. (Various effective dates, including an emergency clause)

Laws 2004, Chapter 289 made several changes to tax statutes:

1. Updated the income tax credit review schedule to add those credits that were reviewed in 2003 to the review schedule for 2008.

2. Repealed the individual and corporate income tax credits for costs incurred in corrective actions for releases from underground storage tanks. Since this credit was not being used, there was no related fiscal impact.

3. Allowed the enterprise zone job creation tax credits to be claimed for the second and third years of qualified employment even if the credits for the first year were not claimed on the original tax return. The jobs must have been created before January 1, 2002 and certified by the Arizona Department of Commerce. According to the Department of Revenue, the fiscal impact of this provision could be $(200,000) to $(300,000) per fiscal year.
4. Clarified that a business may remain eligible for enterprise zone tax credits if retail sales accounted for less than 10% of the business conducted at the zone location. This is likely to have a very small fiscal impact.

5. Provided a retail sales tax exemption for sales of food, beverages and promotional items to employees and occasional guests of businesses within enterprise zones. This is also likely to have a very small fiscal impact.

6. Made technical and conforming changes and made the tax law amendments retroactive to tax years beginning from and after December 31, 2003.

(Effective August 25, 2004)

Laws 2004, Chapter 326 provided for the state Department of Commerce to certify businesses that process and add value to biomass from Arizona's forest areas. Qualified businesses are eligible for individual and corporate income tax credits based on net increases in employment, and sales and use tax exemptions for qualified construction and equipment. A business can claim a credit for up to 200 new jobs. The bill provides for income tax credits and sales tax exemptions to be forfeited, or "clawed back," if a business' certificate is revoked. The legislation's fiscal impact cannot be determined. This legislation may result in a reduction in revenue to the extent that businesses qualify for the job creation tax credits and sales tax exemptions. However, the secondary impact would include the positive effects from the jobs created and the related income and sales tax collections. (Effective June 3, 2004)

2003 TAX LAWS

Laws 2003, 1st Special Session, Chapter 1 appropriated $3,275,800 from the General Fund to DOR for a revenue generating plan. See Laws 2003, Chapter 262 for a more complete explanation of this issue. The program is projected to generate $5,838,000 in additional General Fund revenues in FY 2003, of which $418,000 is attributable to the corporate income tax. (Contained various effective dates)

Laws 2003, Chapter 61 eliminated the "Wheels to Work Program" and repealed the program's motor vehicle donation tax credit. (Effective September 18, 2003)

Laws 2003, Chapter 262 appropriated $6,552,000 from the General Fund to DOR for a revenue generating program. The program is projected to generate new revenue through increased audit and collections activity. It is expected to generate $53,249,000 in additional General Fund revenues in FY 2004, of which $9,130,000 is attributable to the corporate income tax. This act represents the annualization of the revenue generating program begun by Laws 2003, 1st Special Session, Chapter 1. (Contained various effective dates)

Laws 2003, Chapter 263 established a tax amnesty program, which allowed DOR to abate or waive all or part of penalties and to impose reduced interest payments for tax liabilities for all qualifying taxpayers. To qualify for the program, a taxpayer must pay at least one-third of the total amount due by October 31, 2003 and the entire balance due by May 1, 2004. The amnesty program is projected to generate $25,000,000 in additional General Fund revenues in FY 2004, of which $4,500,000 is attributable to corporate income tax. The actual amount of tax amnesty monies reported for FY 2004 was $47,125,500, of which approximately $31,575,000 was attributable to corporate income tax. The tax amnesty monies included $4,000,000 in on-going collections and $43,125,500 in one-time revenues. The provision is repealed after June 30, 2004. The one-time revenue impact of the tax amnesty program has not been included in the tax law changes table at the beginning of this section.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

CORPORATE INCOME TAX CREDITS CLAIMED BY TAX YEAR

		2006	2005	2004	2003	2002	2001	2000	1999
Agricultural	# of claims		0						
Pollution	credit available	Data Not	$0	Data Not	Data Not	Data Not	Data Not	Data Not	Data Not
Control	credit used	Releasable	$0	Releasable	Releasable	Releasable	Releasable	Releasable	Releasable
Equipment	carry forward		$0						
Agricultural	# of claims		0	0	0	0	0		
Preservation	credit available		$0	$0	$0	$0	$0		
District	credit used		$0	$0	$0	$0	$0		
REFUNDABLE	credit refunded		$0	$0	$0	$0	$0		
	carry forward								
Agricultural	# of claims		0						
Water	credit available		$0	Data Not	Data Not	Data Not	Data Not	Data Not	Data Not
Conservation	credit used		$0	Releasable	Releasable	Releasable	Releasable	Releasable	Releasable
	carry forward		$0						
Alternative	# of claims					3	3	5	8
Fuel Delivery	credit available			Data Not	Data Not	$457,906	$642,337	$1,998,651	$2,441,075
System	credit used			Releasable	Releasable	$1,039	$184,431	$1,167,282	$1,377,215
NONREFUNDABLE	carry forward					$456,867	$457,906	$831,369	$1,063,860
Alternative	# of claims						0	5	
Fuel Delivery	credit available						$0	$679,992	
System	credit used						$0	$314,676	
REFUNDABLE	credit refunded						$0	$363,316	
	carry forward						$0	$0	
Alternative	# of claims			3	*5*	7	7	13	24
Fuel	credit available			$659,570	*$645,555*	$678,479	$740,566	$1,116,853	$1,402,495
Vehicles	credit used			$2,837	*$1,726*	$32,924	$2,882	$342,351	$283,160
NONREFUNDABLE	carry forward			$0	*$643,829*	$645,555	$737,674	$774,502	$1,119,335
Alternative	# of claims						12	182	
Fuel	credit available						$218,560	$15,666,027	
Vehicles	credit used						$25,200	$491,057	
REFUNDABLE	credit refunded						$193,360	$15,163,095	
	carry forward						$0	$11,875	
Clean	# of claims	*126*	102	93	111	102	97	57	0
Elections	credit available	*$784*	$2,019	$597	$1,778	$646	$2,913	$13,911	$0
	credit used	*$784*	$2,019	$597	$1,773	$646	$2,913	$13,911	$0
	carry forward								
Commerical &	# of claims								
Industrial Solar	credit available	Data Not							
Energy Credit	credit used	Releasable							
	carry forward								
Consolidated	# of claims	*41*	28	32	34	32	35	42	48
Filer	credit available	*$32,171,333*	$36,852,226	$39,159,738	$41,459,037	$43,667,809	$47,172,277	$50,602,546	$53,566,563
	credit used	*$0*	$4,680,893	$2,307,512	$2,299,299	$2,208,772	$3,504,468	$3,430,269	$2,964,017
REFUNDABLE	credit refunded	*$30,677,747*							
	carry forward	*$1,493,586*	$32,171,333	$36,852,226	$39,159,738	$41,459,037	$43,667,809	$47,172,277	$50,602,546
Construction	# of claims					3	3	4	7
Materials	credit available			Data Not	Data Not	$426,692	$426,792	$630,976	$1,161,103
	credit used			Releasable	Releasable	$100	$100	$204,184	$414,824
	carry forward					$426,592	$426,692	$426,792	$746,279

CORPORATE INCOME TAX CREDITS CLAIMED BY TAX YEAR

		2006	2005	2004	2003	2002	2001	2000	1999
Contributions to School Tuition Organizations	# of claims	*53*	4						
	credit available	*$6,120,990*	$529,000						
	credit used	*$5,818,438*	$526,210						
	carry forward	*$302,552*	$2,790						
Correctional Industries	# of claims								0
	credit available								$0
	credit used								$0
	carry forward								$0
Defense Contracting	# of claims							3	4
	credit available	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	$43,361,299	$47,790,421
	credit used							$1,859,951	$833,724
	carry forward							$32,832,511	$36,297,743
Donation of Motor Vehicles To Work Program	# of claims					0	0	0	0
	credit available					$0	$0	$0	$0
	credit used					$0	$0	$0	$0
	carry forward					$0	$0	$0	$0
Employer Dependent Day Care	# of claims								
	credit available								
	credit used								
	carry forward								
Employing National Guard Members	# of claims								
	credit available	Data Not Releasable							
	credit used								
	carry forward								
Employment of TANF Recipients	# of claims	*8*	13	14	9	8	7	7	5
	credit available	*$46,062*	$124,397	$491,175	$472,478	$184,997	$99,360	$47,869	$49,653
	credit used	*$34,304*	$99,575	$485,190	$466,392	$173,600	$57,901	$27,648	$47,189
	carry forward	*$11,758*	$24,822	$5,985	$6,086	$11,397	$41,459	$20,221	$2,464
Enterprise Zone	# of claims	*80*	118	119	124	130	142	136	138
	credit available	*$8,625,351*	$11,668,068	$12,931,456	$14,608,076	$15,125,769	$18,137,283	$17,118,891	$19,416,575
	credit used	*$6,960,866*	$7,620,213	$7,642,213	$6,685,926	$6,509,250	$7,043,744	$8,747,723	$12,621,497
	carry forward	*$1,571,913*	$3,568,964	$4,706,746	$7,866,218	$8,616,519	$11,093,539	$8,371,168	$6,795,178
Environmental Technology Facility	# of claims	*0*					3	3	3
	credit available	*$0*	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	$37,088,205	$36,766,914	$36,836,791
	credit used	*$0*					$1,084,588	$26,658	$69,877
	carry forward	*$0*					$36,003,617	$36,740,256	$36,766,914
Gray Water Plumbing Stub Outs	# of claims								
	credit available								
	credit used								
	carry forward								
Healthy Forest Enterprises	# of claims	*0*	0						
	credit available	*$0*	$0						
	credit used	*$0*	$0						
	carry forward	*$0*	$0						
Military Reuse Zone	# of claims						3	3	3
	credit available	Data Not Available	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	$131,312	$113,702	$175,336
	credit used						$109,373	$97,440	$170,634
	carry forward						$21,939	$16,262	$4,702

CORPORATE INCOME TAX CREDITS CLAIMED BY TAX YEAR

		2006	2005	2004	2003	2002	2001	2000	1999
Motion Picture	# of claims								
Production and	credit available	Data Not							
Infrastructure	credit used	Releasable							
	carry forward								
Neighborhood	# of claims		4	10	13	17	19	47	53
Electric Vehicles	credit available	Data Not	$680,915	$791,263	$820,049	$903,497	$991,555	$2,431,532	$1,858,593
	credit used	Releasable	$3,041	$11,380	$29,085	$60,175	$69,701	$1,368,929	$1,406,907
	carry forward		$677,874	$779,883	$790,964	$843,322	$921,854	$1,062,603	$451,686
Pollution	# of claims	*15*	23	23	29	31	35	39	36
Control Device	credit available	*$2,018,837*	$6,797,788	$6,169,361	$7,554,913	$6,660,082	$7,041,120	$11,289,394	$12,259,058
	credit used	*$1,344,448*	$2,100,899	$1,174,943	$2,412,182	$1,716,687	$2,696,972	$3,860,440	$6,879,188
	carry forward	*$522,734*	$4,144,624	$4,669,445	$4,989,084	$4,943,395	$4,344,148	$7,428,954	$6,362,017
Recycling	# of claims				4	4	4	5	4
Equipment	credit available		Data Not	Data Not	$192,332	$197,477	$218,919	$238,422	$250,210
	credit used		Releasable	Releasable	$3,426	$5,145	$21,442	$15,626	$16,028
	carry forward				$188,906	$192,332	$197,477	$222,796	$234,182
Research &	# of claims	*141*	180	185	168	155	145	128	140
Development	credit available	*$208,304,493*	$195,381,898	$120,949,126	$88,439,855	$50,992,744	$42,353,063	$24,812,543	$20,552,034
	credit used	*$46,676,231*	$47,414,678	$36,733,974	$31,696,851	$11,812,734	$11,088,820	$9,458,919	$10,457,350
	ltd carry forward.	*$404,464,102*	$516,738,487	$531,442,391	$534,322,933	$527,738,348	$482,291,261	$427,234,696	$295,172,070
	unltd carry forward	*$167,774,458*	$143,953,501	$92,691,456	$41,532,599				
School Site	# of claims	*5*	5	3					
Donation	credit available	*$2,401,469*	$1,273,681	$616,473	Data Not	Data Not	Data Not		
	credit used	*$2,400,337*	$1,272,504	$616,473	Releasable	Releasable	Releasable		
	carry forward	*$1,137*	$1,177	$0					
Solar Hot Water	# of claims	0	0	0	0	0	0		0
Plumbing Stub	credit available	$0	$0	$0	$0	$0	$0	Data Not	$0
Outs & Electric	credit used	$0	$0	$0	$0	$0	$0	Releasable	$0
Vehicle Recharge	carry forward	$0	$0	$0	$0	$0	$0		$0
Summer	# of claims								
School	credit available								
& Jobs	credit used								
	carry forward								
Taxes Paid for	# of claims	3	3	3	3	3	3	3	4
Coal Consumed	credit available	$3,245,536	$3,051,885	$3,038,101	$3,145,343	$3,064,674	$2,755,471	$1,617,039	$1,305,513
In Generating	credit used	$929,098	$843,909	$908,990	$1,229,020	$1,504,851	$1,556,016	$778,015	$803,476
Electrical Power	carry forward	$1,956,070	$1,870,939	$1,799,254	$1,744,443	$1,559,823	$1,199,455	$839,024	$502,037
Technology	# of claims		3	3	3	4	11		
Training	credit available		$46,356	$39,963	$33,426	$41,083	$46,286		
	credit used		$46,356	$36,268	$33,006	$30,000	$35,010		
REFUNDABLE	credit refunded		$0	$3,695	$420	$11,083	$11,276		
Underground	# of claims			0	0		0	0	0
Storage	credit available			$0	$0	Data Not	$0	$0	$0
Tanks	credit used			$0	$0	Releasable	$0	$0	$0
	carry forward								

CORPORATE INCOME TAX CREDITS CLAIMED BY TAX YEAR

		2006	2005	2004	2003	2002	2001	2000	1999
Vehicle Refueling	# of claims							4	7
Apparatus &	credit available			Data Not	Data Not	Data Not	Data Not	$8,712	$29,765
Infrastructure	credit used			Releasable	Releasable	Releasable	Releasable	$2,180	$13,630
NONREFUNDABLE	carry forward							$6,532	$16,135
Vehicle Refueling	# of claims						0	12	
Apparatus &	credit available						$0	$138,940	
Infrastructure	credit used						$0	$46,332	
REFUNDABLE	credit refunded						$0	$92,608	
	carry forward						$0	$0	
TOTAL	# of claims	*480*	488	502	*520*	519	543	706	494
	credit available	*$284,655,844*	$296,696,969	$251,867,670	$227,204,965	$199,437,416	$202,521,111	$214,323,138	$205,131,311
	credit used	*$72,459,868*	$64,610,435	$50,391,684	$45,624,468	$28,273,150	$27,994,624	$32,294,394	$38,625,512
	credit refunded	*$30,677,747*	$0	$3,695	$420	$11,083	$204,636	$15,619,019	
	ltd carry forward	*$422,988,178*	$591,040,760	$637,986,502	$655,001,698	*$652,292,918*	*$619,363,063*	*$567,418,551*	*$441,813,059*
	unltd carry forward	*$167,774,458*	$143,953,501	$92,691,456	$41,532,599	$0	$0		

Notes:

1. Shaded areas indicate that the credit was not in effect during the tax year.
2. "No Information" indicates that the Office of Economic Research and Analysis has no information that any taxpayers claimed the credit during the tax year.
3. "Not Releasable" indicates that the credit information cannot be released due to confidentiality restrictions.
4. "Total" includes credits for which information was "not releasable" individually.
5. DATA IN *ITALICS* ARE PRELIMINARY.

PROPERTY TAXES

PROPERTY TAX

DESCRIPTION

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

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

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

Property in Arizona is classified for assessment purposes into 9 legal classes, with sub-classifications in many of those classes. The classification is based on the current use of the property by its owner, such as commercial, agricultural, or residential. Each legal class has an assessment ratio, which is specified by statute. The assessment ratio, which currently ranges from 1% to 23%, is used to calculate the assessed value of a property. (For more details, see *Tax Rate* section.)

DISTRIBUTION

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

Table 1

STATE GENERAL FUND PROPERTY TAX COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2009	$20,041,338	FY 1999	$36,121,502
FY 2008	$20,041,338	FY 1998	$38,136,020
FY 2007	$24,486,025	FY 1997	$51,211,398
FY 2006	$24,998,760	FY 1996	$188,296,312
FY 2005	$25,245,622	FY 1995	$178,657,831
FY 2004	$33,266,987	FY 1994	$186,193,174
FY 2003	$19,433,856	FY 1993	$203,240,399
FY 2002	$29,153,274	FY 1992	$179,858,169
FY 2001	$32,942,815	FY 1991	$169,251,570
FY 2000	$34,682,874	FY 1990	$130,199,755

SOURCE: Department of Revenue and State Treasurer's Office.

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

Table 2

PRIMARY AND SECONDARY COMBINED PROPERTY TAX LEVIES

Jurisdiction	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005
State [1/]	$20,315,435	$20,427,985	$28,598,308	$ 229,726,774	$219,257,315
Counties	$1,314,798,367	$1,219,491,080	$1,109,777,038	$1,013,506,749	$930,149,677
Cities & Towns	$ 669,894,083	$ 585,007,416	$ 477,666,274	$440,141,556	$401,628,757
School Districts	$3,627,361,076	$3,453,670,969	$3,183,287,861	$2,941,648,887	$2,800,785,175
Special Districts	$ 454,657,720	$ 383,556,449	$ 317,032,610	$275,872,938	$205,953,808
Community Colleges	$ 700,812,944	$ 637,813,033	$587,909,133	$527,682,509	$482,563,137
TOTAL	**$6,787,839,625**	**$6,299,966,932**	**$5,704,271,224**	**$5,428,579,413**	**$5,040,337,869**

1/ Although the state equalization assistance property tax is technically a school district tax (see A.R.S. § 15-994), ATRA lists it as a state tax for reporting purposes since the tax levy reduces Basic State Aid to schools by an equal amount. Pursuant to Laws 2006, Chapter 354, the state equalization tax was not levied in FY 2007, FY 2008 and FY 2009. Thus, all property tax revenues collected by the state in the period between FY 2007 and FY 2009 were from unorganized and MQTR districts (for more details, see *Tax Rate* section.)

SOURCE: Arizona Tax Research Association (ATRA).

WHO PAYS THE TAX

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

Tribal Members

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

TAX BASE

Article 9, Section 18 of the Arizona Constitution provides for the limitation of increases in property values from year to year. To implement the constitutional provision, the Legislature also adopted a set of statutes under which 2 separate tax bases are used to determine property taxes: full cash value (FCV) for secondary property tax purposes and limited property value (LPV) for primary property tax purposes.

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

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

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

Limited Property Value. A parcel's limited property value is the value determined as provided by the Arizona Constitution [Article 9, Section 18]. Arizona Revised Statutes further define the constitutional provision by providing 2 specific methods by which a parcel's limited property value can be increased from year to year [A.R.S. § 42-13302]. These methods are commonly referred to as "Rule A" and "Rule B."

- *Rule A* - For an existing property that has not been physically modified since the previous year's tax roll, the limited property value is the greater of (1) the previous year's limited property value increased by 10%, or (2) 25% of the difference between the current year's full cash value and the previous year's limited property value. The limited property value cannot exceed the full cash value [A.R.S. § 42-13301].

- *Rule B* - For a new property added to the current year's tax roll or for an existing property that has been physically modified, split, subdivided, consolidated, or erroneously omitted since the previous year's tax roll, the limited property value is established at a level or percentage that is commensurate to the relationship of LPV to FCV of other properties of the same or similar use or classification [A.R.S. § 42-13302].

The limit on increases in property values applies to real property and improvements. Properties exempted from the valuation limitation are: (1) personal property other than permanently affixed mobile homes and (2) most centrally valued property, such as electric and gas utilities [A.R.S. § 42-13304].

Net Assessed Valuation. Although the limited property value constitutes the tax base for primary property taxes, the actual amount to which primary tax rates are applied is less than that. This amount, referred to as primary net assessed valuation (NAV), is obtained by multiplying a parcel's limited property value by its assessment ratio. The assessment ratio depends on the legal classification of the property as shown in Table 3. Likewise, secondary NAV is determined by multiplying a property's full cash value by its assessment ratio. Table 4 below shows the total statewide primary and secondary NAV in the last few years.

The actual tax liability is calculated by multiplying the tax rate by the assessed value of the property divided by 100. (Pursuant to A.R.S. § 42-17151, the tax rate is determined per $100 NAV.) This means that the property tax liability depends on 3 factors: (1) the full cash value as determined by the county assessor or the Department of Revenue, (2) the assessment ratio contingent upon property usage, and (3) the tax rate as set by the taxing jurisdiction (see *Tax Rate* section).

Table 3

PROPERTY TAX CLASSES AND TAX YEAR 2009 ASSESSMENT RATIOS

Class	Assessment Ratio	Property Usage
1	22%	Properties of mining, utility, and telecommunication companies, standing timber, airport fuel delivery, producing oil and gas property, pipeline property, shopping centers, golf courses, manufacturers and most other commercial property. [A.R.S. § 42-12001]. Note that Laws 2005, Chapter 302 reduced the assessment ratio by 0.5% in tax years 2006 and 2007. Laws 2007, Chapter 258 accelerated the reduction by decreasing the assessment ratio a full 1.0% in tax years 2008, 2009, 2010, and 2011, when it will reach 20%.
2	16%	Agricultural property, properties of nonprofit organizations, and vacant land. [A.R.S. § 42-12002].
3	10%	Residential property not used for profit. [A.R.S. § 42-12003].
4	10%	Leased or rented residential property and residential common areas. [A.R.S. § 42-12004].
5	18%	Airlines, railroad and private car company property. [A.R.S. § 42-12005].
6	5%	Noncommercial historic property, property located in a foreign trade, military reuse, or enterprise zone, property of a qualified environmental technology manufacturing facility. [A.R.S. § 42-12006].
7	22% or 1%	Property that meets the criteria for Class 1 property and also the criteria for commercial historic property. [A.R.S. § 42-12007].
8	10% or 1%	Property that meets the criteria for Class 4 property and also the criteria for commercial historic property. [A.R.S. § 42-12008].
9	1%	Improvements on federal, state, county, and municipal property. [A.R.S. § 42-12009].

Table 4

STATEWIDE PRIMARY AND SECONDARY NET ASSESSED VALUATION

Tax Year	Primary Net Assessed Valuation	Secondary Net Assessed Valuation
2009	$ 74,780,095,377	$ 86,525,272,506
2008	$ 67,518,882,239	$ 86,090,579,647
2007	$ 58,327,768,286	$ 71,837,099,233
2006	$ 50,641,124,400	$ 54,394,761,521
2005	$ 46,046,108,597	$ 48,931,946,145

SOURCE: Arizona Tax Research Association (ATRA) and Department of Revenue (DOR).

Real Property versus Personal Property. Real property is generally synonymous with real estate and includes land, buildings, and improvements to land. Personal property is property other than real estate and includes items such as manufactured housing, office furniture, business equipment, and tools. Personal property is usually movable and not permanently attached to real estate.

Centrally Valued Property. As noted previously, certain property is subject to valuation by the Department of Revenue (DOR). Such property, commonly referred to as "centrally valued property," is listed below.

- Mines, mills, and smelters [A.R.S. § 42-14051].
- Oil, gas, and geothermal properties [A.R.S. § 42-14101].
- Gas, water, electric, and sewer and wastewater utilities [A.R.S. § 42-14151].
- Pipelines [A.R.S. § 42-14201].
- Airline companies [A.R.S. § 42-14251].
- Private car companies [A.R.S. § 42-14301].
- Railroad companies [A.R.S. § 42-14351].
- Telecommunications companies [A.R.S. § 42-14401].
- Airport fuel delivery companies [A.R.S. § 42-14501].

Equalization of Valuations. The Department of Revenue is authorized by statute to examine property valuations for inequities between or within counties and classifications and to issue equalization orders to ensure that all property in the state is valued for tax purposes at its full cash value [A.R.S. § 42-13251]. To this end, DOR conducts sales ratio studies to determine whether properties are valued fairly or not [A.R.S. § 42-13005]. County assessors affected by an equalization order may appeal to the State Board of Tax Appeals [A.R.S. § 42-16159].

EXEMPTIONS

All property in Arizona is subject to taxation unless exempted by law. The exemptions are provided in Article 9, Sections 2, 2.1, and 2.2 of the Arizona Constitution and are summarized in Table 5 below. Arizona Revised Statutes further define the property tax exemptions provided by the Arizona Constitution. As a general rule, under Arizona law, property classification is based on the use of the property by the owner whereas property exemption is provided based on the ownership of the property. All exemptions currently listed in statutes are displayed in Table 6 below.

Table 5

PROPERTY TAX EXEMPTIONS AUTHORIZED BY THE ARIZONA CONSTITUTION

Article	Section	Exemption
9	2	Federal, state, county, and municipal properties
	2	Property owned by non-profit educational, charitable, and religious organizations
	2	Public debts (i.e., bonds of Arizona, its counties, municipalities, or other subdivisions)
	2	Household goods owned by the user and used solely for non-commercial purposes
	2	Inventory of materials, parts, and products owned by a retailer or wholesaler for resale purposes
	2	The first $50,000 of full cash value for business and agricultural personal property [1/]
	2	Property of cemeteries
	2	Property of widows
	2.1	Property of widowers
	2.2	Property of disabled persons

1/ Pursuant to A.R.S. § 42-11127(B), the maximum amount of the exemption is increased each year to account for inflation. For tax year 2009, the maximum amount of the exemption is $65,013.

Table 6

PROPERTY TAX EXEMPTIONS FURTHER DEFINED BY ARIZONA REVISED STATUTES

Title	Section	Exemption
42	11102	Government property
	11103	Government bonded indebtedness
	11104	Education and library property
	11105	Health care property
	11106	Apartments for elderly or handicapped residents
	11107	Institutions for relief of indigent or afflicted
	11108	Grounds and buildings owned by agricultural societies
	11109	Religious property
	11110	Cemeteries
	11111	Property of widows, widowers, and disabled persons
	11112	Observatories
	11113	Land and buildings owned by animal control and humane societies
	11114	Property held for conveyance as parkland
	11115	Property held to preserve or protect scientific resources
	11116	Property of arts and science organizations
	11117	Property of volunteer fire departments
	11118	Social welfare and quasi-governmental service property
	11119	Property of volunteer roadway cleanup and beautification organizations
	11120	Property of veterans' organizations
	11121	Property of charitable community service organizations
	11122	Trading commodities
	11123	Animal and poultry feed
	11124	Possessory interests for educational or charitable activities
	11125	Inventory, materials, and products
	11126	Production livestock and animals
	11127	Personal property
	11128	Personal property in transit
	11129	Property of fraternal societies
	11130	Property of public library organizations
	11131	Property providing low income rental housing for Indians
	11132	Property of religious or charitable associations or institutions leased to an educational institution
	11133	Low income housing projects.

As noted earlier, Article 20, Section 5 of the Arizona Constitution provides that property owned by Indians, when such property is located within an Indian reservation or has been acquired under an act of Congress, is exempted from taxation.

TAX RATE

The tax rates for primary and secondary property taxes are determined by each individual taxing jurisdiction. According to DOR, there were 3,249 taxing authorities statewide in FY 2009, of which 410 were primary taxing authorities and 2,839 secondary taxing authorities. (Under DOR's tabulation, each bond that has been approved is counted as a secondary taxing authority.) The tax rates among the taxing jurisdictions in the state tend to vary considerably, as reflected in the total average tax rate by county shown in Table 7 below. (Note that a taxing authority is required by statute to determine the tax rate, rounded to 4 decimal places, on each $100 dollars of net assessed value (NAV) [A.R.S. § 42-17151]).

Table 7

TOTAL COMBINED PRIMARY AND SECONDARY AVERAGE TAX RATE PER $100 NAV

County	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002
Apache	$7.05	$7.69	$6.87	$7.47	$7.12	$7.17	$7.99	$8.22
Cochise	$10.93	$12.16	$11.37	$12.40	$12.92	$12.85	$12.90	$13.09
Coconino	$7.29	$7.37	$8.22	$8.76	$8.73	$9.17	$9.41	$8.98
Gila	$11.08	$11.44	$11.99	$12.93	$13.10	$12.95	$13.14	$13.66
Graham	$9.11	$9.41	$10.04	$10.33	$10.49	$10.60	$10.52	$10.50
Greenlee	$2.74	$3.90	$4.18	$4.93	$6.52	$7.23	$5.79	$5.50
Maricopa	$8.64	$9.35	$10.50	$10.98	$11.27	$11.65	$11.95	$11.92
Mohave	$7.98	$8.65	$9.11	$9.94	$10.49	$10.95	$10.85	$11.44
Navajo	$8.31	$8.66	$9.10	$9.15	$8.87	$9.28	$9.88	$9.79
Pima	$12.87	$13.82	$14.61	$15.52	$15.73	$16.30	$16.72	$17.29
Pinal	$12.55	$14.49	$15.08	$15.77	$15.62	$15.98	$16.41	$16.60
Santa Cruz	$11.66	$12.23	$12.23	$12.86	$12.99	$13.23	$13.14	$13.37
Yavapai	$7.49	$8.62	$9.00	$9.81	$9.99	$10.06	$10.44	$10.75
Yuma	$11.00	$12.35	$12.67	$13.70	$13.10	$13.34	$14.23	$14.04
La Paz	$8.64	$9.37	$10.50	$11.87	$11.42	$11.41	$10.92	$11.27
State of Arizona	**$9.23**	**$10.04**	**$10.99**	**$11.56**	**$11.81**	**$12.18**	**$12.49**	**$12.55**

SOURCE: Department of Revenue (DOR)

Unlike local government entities, the state does not levy property taxes due to the repeal of the state property tax in 1996 [Laws 1996, 7th Special Session, Chapter 2]. However, primary property taxes levied and collected in certain districts are transmitted by the counties to the state in order to aid in school financial assistance.

The monies deposited into the state General Fund are from taxes levied on property not located within any school district, so-called unorganized districts [A.R.S. § 15-991.01], and on property in certain school districts ineligible for state aid, sometimes referred to as minimum qualifying tax rate (MQTR) districts [A.R.S. § 15-992]. The tax rates in such districts are based on the qualifying tax rate (QTR) used in the basic state aid funding formula, which is adjusted each year to comply with the truth-in-taxation provisions in statute. In addition, the basic state aid formula also includes a state-mandated "county equalization" tax collected by the counties [A.R.S. § 15-994]. This tax was renamed as the "State Equalization Assistance Property Tax" by Laws 2006, Chapter 354, which also set that rate at zero for FY 2007 through FY 2009. The K-12 tax rates (after truth-in-taxation rate adjustments) used in the Basic State Aid formula are shown in Table 8 below.

Table 8

K-12 TAX RATES PER $100 NAV

	Qualifying Tax Rate (QTR)		State Equalization Rate
Fiscal Year	Unified School Districts	Non-Unified School Districts	All School Districts 1/
2010	$2.7452	$1.3726	$0.3306
2009	$2.9244	$1.4622	$0.0000
2008	$3.2040	$1.6020	$0.0000
2007	$3.4788	$1.7394	$0.0000
2006	$3.6180	$1.8090	$0.4358
2005	$3.7862	$1.8931	$0.4560
2004	$3.9166	$1.9583	$0.4717
2003	$4.0592	$2.0296	$0.4889
2002	$4.1294	$2.0647	$0.4974
2001	$4.2530	$2.1265	$0.5123

1/ Note that pursuant to Laws 2006, Chapter 354, the state equalization rate is set at $0.0000 for FY 2007, FY 2008, and FY 2009 and has been renamed from the "County Equalization Assistance for Education Property Tax" to the "State Equalization Assistance Property Tax." As transmitted to the Governor, SB 1025 would have permanently repealed this tax. The Governor vetoed the bill, thereby allowing the rate to come back into effect as of this writing in September 2009.

A.R.S. § 15-971. *Equalization Assistance* ("*Basic State Aid*"). The purpose of the basic state aid formula is to establish a comparable funding amount per pupil in each school district. The funding formula consists of a local share and a state share. The local share represents the amount of budgeted expenditures financed by the district's own property tax. The state share is simply the amount of spending not covered by the district's property tax. This means that anything that causes the local share to decrease, such as a reduction in NAV or the QTR and/or State Equalization rate, will cause the state share (i.e., basic state aid) to increase by the same amount.

A.R.S. § 15-972. *Additional State Aid ("Homeowner's Property Tax Rebate"*). In return for reducing the tax year 2009 school district primary tax levy for owner-occupied residential properties (Class 3) by 39%, the state appropriates an amount equal to the tax rebate to the same districts. This aid, which is in addition to basic state aid, is limited to $580 per parcel in tax year 2009. Pursuant to Laws 2005, Chapter 302, both the rebate percentage and rebate cap will increase each year between tax years 2006 and 2010 (for more details, see section *2005 Tax Laws*). The tax rate levied by districts for primary property taxes is further reduced on individual parcels of residential property if the combined primary property tax levy exceeds 1% of the parcel's limited property value (see *Tax Limitations* section).

A.R.S. § 41-1276. *Truth in Taxation for Equalization Assistance.* Barring a tax rate reduction, a property owner's tax liability increases whenever the valuation of his property increases. The purpose of truth in taxation (TNT) is to prevent such a tax increase by reducing the tax rate commensurately. Prior to the enactment of TNT (Laws 1998, 2nd Regular Session, Chapter 153), the state received monies from a primary property tax rate of $2.20 per $100 NAV levied in unorganized districts and up to $2.20 per $100 NAV in MQTR districts. The county equalization tax rate was $0.53 per $100 NAV. However, starting in FY 2000, these tax rates have been lowered each year to offset the statewide appreciation of property, as reflected in Table 8 above. Note that since these tax rates are used both for collecting property taxes and for disbursing basic state aid, the TNT rate reductions result simultaneously in less revenues and more costs to the state General Fund.

TAX LIMITATIONS

The following constitutional provisions limit property taxation in Arizona:

- Arizona Constitution, Article 9, Section 8. *"Local Debt Limits."* The amount of General Obligation (GO) debt issued by a county, city, town, school district, or other municipal corporation is limited to 6% of the jurisdiction's secondary net assessed valuation (NAV). The voters of a county, elementary or high school district may authorize additional debt for up to 15% of secondary NAV. (Pursuant Article IX, Section 8.1, unified school districts are allowed additional debt for up to 30% of secondary NAV.) The voters of a city or

town may approve additional debt for up to 20% of secondary NAV for providing services such as water, artificial lights, sewers, and for the acquisition and development of land for open space preserves, parks, playgrounds, and recreational facilities. Proposition 104, which was approved by voters in November 2006, added the following list of items to be included within a city's or town's 20% debt limit: public safety, law enforcement, fire and emergency service facilities, and street and transportation facilities.

- Arizona Constitution, Article 9, Section 18. *"The 1% Cap."* The total amount of taxes collected on *residential* property (Class 3) for primary purposes is not allowed to exceed 1% of the parcel's limited property value. For this reason, the combined primary property taxes on a parcel of residential property exceeding this limit are reduced through an increase in additional state aid to schools [A.R.S. § 15-972].
- Arizona Constitution, Article 9, Section 18. *"Limited Property Valuation."* This constitutional provision imposes a limitation on increases in the value of real property and mobile homes, as described in the *Tax Base* section.
- Arizona Constitution, Article 9, Section 18. *"The Senior Property Valuation Freeze."* Arizona residents who meet the following requirements are eligible for a property valuation freeze on their home: (1) is 65 years of age or older, (2) the home is their primary residence, (3) has lived in their home for at least 2 years, and (4) their gross income does not exceed 400% of the supplemental security income benefit rate. If the homeowners meet these requirements, they can apply for a "property valuation protection option" from their county assessor. The county assessor then fixes the value of the home at the full cash value in effect during the year the application was filed. The value of the home will remain frozen for as long as the owner remains eligible for the protection option. To be eligible for the senior valuation protection option in 2008, the income could not exceed $30,576 for single owners and $38,220 for two or more owners.
- Arizona Constitution, Article 9, Section 19. *"The 2% Levy Limit."* A city, town, county or community college district is not allowed to levy primary property taxes on previously existing property in excess of a 2% increase from the maximum allowable amount in the preceding tax year unless approved in an override election, as prescribed by A.R.S. § 42-17201 through 42-17203. Proposition 101, which was approved by voters in November 2006, changed the base year used to calculate the levy limits of cities, towns, counties, and community colleges from 1980 to 2005. By resetting the base year to 2005, Proposition 101 eliminated any unused taxing capacity of such taxing jurisdictions as of tax year 2005. (Note that the 2% levy limit does not apply to school districts.)

The following statutory provisions limit property taxation in Arizona:

- *Truth in Taxation Levy for Equalization Assistance to Schools.* The qualifying tax rate (QTR) and the state equalization tax rate, the 2 statutory K-12 tax rates used to determine basic state aid for school districts, are required to be reduced each year to offset the statewide valuation increase of existing property. The statutory K-12 tax rates cannot exceed the truth-in-taxation (TNT) rates provided under this statute unless the Legislature overrides them by a two-thirds vote [A.R.S. § 41-1276].
- *Truth in Taxation Base Limit for School Expenditures outside the Budget Limit.* Each school district is required to determine a truth-in-taxation (TNT) base limit for expenditures (desegregation, dropout prevention, excess utilities, vocational education, and small school adjustments) not paid for by the statutory K-12 tax rates. Any school district that budgets an amount that exceeds its TNT base limit (or levies any amount for adjacent ways or liabilities in excess) is required to issue a special TNT notice that includes information on the resulting property tax increase [A.R.S. § 15-905.01].
- *Truth in Taxation Levy for Counties, Cities, and Towns.* Any county, city, or town that proposes a primary property tax levy, excluding amounts attributable to new construction, which exceeds the preceding year's levy, is required to issue a special TNT notice that includes information on the resulting property tax increase. If such taxing jurisdiction fails to comply with the requirements under this statute, it is not allowed to levy an amount that exceeds the preceding year's levy, except for amounts attributable to new construction [A.R.S. § 42-17107].
- *Truth in Taxation Levy for Community Colleges.* Any community college district that proposes a primary property tax levy, excluding amounts attributable to new construction, which exceeds the preceding year's levy, is required to issue a special TNT notice that includes information on the resulting property tax increase. If a district fails to comply with the requirements under this statute, it is not allowed to levy an amount that exceeds the preceding year's levy, except for amounts attributable to new construction [A.R.S. § 15-1461.01].

Note that while a county, city, town, or community college district may exceed its TNT levy, it can never exceed its constitutional levy limit.

TAX ADMINISTRATION

Valuation Year versus Tax Year. Under Arizona law, the valuation year for locally assessed real property and centrally valued property is the calendar year preceding the year in which the taxes are levied. In other words, the tax year lags the valuation year by 1 year. By contrast, for locally assessed personal property, the valuation year is the calendar year in which the taxes are levied [A.R.S. § 42-11001]. However, because of the payment schedule in Arizona (see *Payment Schedule* section below), real and personal property taxes are always collected in the fiscal year immediately following the tax year. For real property, this means that the valuation year precedes the tax year by 1 year and the fiscal year by 2 years. The relationship of the valuation year and tax year to FY 2010 is summarized in Table 9 below.

Table 9

PROPERTY VALUATION AND TAXATION CALENDAR

Type of Property	Valuation Year 2008 & 2009 (When Tax Base Is Determined)	Tax Year 2009 (When Tax Rate Is Determined)	Fiscal Year 2010 (When Tax Is Due and Payable)
Locally Assessed Real Property (Old Construction)	January 1, 2008	August 17, 2009	October 1, 2009 and March 1, 2010
Locally Assessed Real Property (New Construction)	October 1, 2007 through September 30, 2008	August 17, 2009	October 1, 2009 and March 1, 2010
Locally Assessed Personal Property	January 1, 2009	August 17, 2009	October 1, 2009 and March 1, 2010
Centrally Valued Property	January 1, 2008	August 17, 2009	October 1, 2009 and March 1, 2010

As shown in the table above, the valuation date for existing property is always January 1 of the valuation year [A.R.S. § 42-11001]. For new construction, the valuation date is between October 1 in the year preceding the valuation year and September 30 of the valuation year [A.R.S. § 42-15105]. The property tax rates are always set on or before the third Monday in August of the tax year.

DOR values all centrally valued properties such as utilities, mines, airlines, and railroads [A.R.S. § 42-14002]. DOR must notify the property owners by June 15 of the initial full cash value established. The property owner then has until July 15 to file an application to appear before DOR and be heard concerning the full cash value determined. If the property owner is not satisfied with DOR's valuation, he can appeal to either the State Board of Equalization [A.R.S. § 42-16158] by October 1 or directly to the Superior Court [A.R.S. § 42-16201] by December 15.

The county assessors are responsible for the valuation of all properties not valued by the state. The assessor must notify the real property owners by March 1 of the initial values of existing properties for the *following* tax year [A.R.S. § 42-15101]. The taxpayer then has 60 days to appeal to the assessor [A.R.S. § 42-16051]. The assessor must rule on these appeals by August 15 [A.R.S. § 42-16055]. The property owner then has 25 days to appeal to the State Board of Equalization for property located in Maricopa or Pima County or the County Board of Supervisors for property located in other counties [A.R.S. § 42-16105]. The county or state board must rule on these appeals by October 15 [A.R.S. § 42-16108]. If the taxpayers are still unsatisfied with the result, they may directly appeal to the state tax court within 60 days after the mailing of the decision, or by December 15, whichever is later [A.R.S. § 42-16202].

For new construction, the assessor establishes the initial value by September 30 [A.R.S. § 42-15105]. The taxpayer has 25 days to appeal to the Board of Equalization, which must rule by November 15. The taxpayer then has 60 days to appeal to the tax court.

On or before February 10, each county assessor is required to provide the staff of JLBC and OSPB the property values used to compute the Truth in Taxation (TNT) Rates for Equalization Assistance [A.R.S. § 42-17052C].

Collections. The lieu taxes on private car companies and airline flight property are collected by the Department of Revenue [A.R.S. § 42-14308 and § 42-14255]. All other property taxes are collected by the county treasurers [A.R.S. § 42-18001]. Property taxes collected by the county treasurers must be apportioned to the taxing districts at the end of each month. Any property taxes apportioned to the state must be remitted to the State Treasurer by the 15th day of the following month [A.R.S. § 35-145].

PAYMENT SCHEDULE

Normally, one-half of the tax on real and personal property is due and payable on October 1 of the tax year, unless the total amount of the tax due is $100 or less, in which case the full amount of the tax is due and delinquent after November 1. The remaining one-half of the tax is due on March 1 of the year following the tax year and delinquent after May 1 [A.R.S. § 42-18052]. Both of these payments fall in the same fiscal year.

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003. As noted previously, due to the repeal of the state property tax in 1996 (Laws 1996, 7th Special Session, Chapter 2), the state no longer levies a property tax. For this reason, property tax legislation primarily affects the state General Fund through its impact on Arizona Department of Education (ADE) expenditures. Under the K-12 funding formula, the state must offset any loss of local property tax revenue by a commensurate increase in ADE state aid to schools.

2009 TAX LAWS

Laws 2009, Chapter 87 provides that property leased to any non-profit charter school be classified for property tax purposes as class 9, with an assessment ratio of 1% of assessed value**.** (Effective September 30, 2009)

Laws 2009, Chapter 96 provides income and property tax incentives for qualifying renewable energy companies that build headquarter or manufacturing facilities in the state from tax year 2010 to 2014. An income tax credit is allowed for up to 10% of the capital investment, with an aggregate ceiling of $70.0 million annually. The credit is refundable and must be received in 5 equal portions over a period of 5 consecutive tax years. Qualifying properties will also receive a class 6 property designation, which reduces the assessment ratio to 5% instead of the class 1 assessment ratio of 22% (declining to 20% over the next 2 years). The class 6 property designation remains in effect for 10 or 15 years, depending on the level of wages paid to employees of the facility in relation to the median wage of the state.

Laws 2009, Chapter 101 modifies the existing guidelines for the standard appraisal of solar energy devices. The act provides that energy efficient buildings components, renewable energy equipment, and combined heat and power systems add no value to property. (Effective September 30, 2009)

Laws 2009, Chapter 118 establishes statutory levy limits for secondary property taxes levied by fire districts. The amount of the levy is limited to the lesser of: (1) 8% greater than the amount levied in the preceding year and (2) $3.25 per $100 net assessed valuation. For tax year 2010, fire districts are allowed to levy secondary property taxes that are 16% greater than the amount levied in tax year 2008.

Laws 2009, Chapter 169 reduces the minimum value of personal property owned by telecommunications companies from 20% to 10% of cost. The act also requires the Department of Revenue to compute the depreciation of telecommunications property on a straight line basis. Chapter 169 is estimated to increase General Fund costs by as much as $4.3 million beginning in FY 2011. (Effective retroactively from January 1, 2009)

2008 TAX LAWS

Laws 2008, Chapter 49 provided that up to 10 acres of land can be designated a homesite and assessed as Class 3 property. Additionally, if physical conditions or legal restrictions, including zoning, prevent a parcel from being subdivided, the act expanded the homesite designation to include up to 40 acres of land. Beginning in FY 2010, the act increases Arizona Department of Education (ADE) expenditures by an estimated $0.6 million. (Effective January 1, 2009)

Laws 2008, Chapter 65 clarified that interest begins to accrue on tax liens on the first day of the month following the purchase for both initial tax liens and subsequent tax liens. (Effective September 26, 2008)

Laws 2008, Chapter 83 clarified that historic private burial sites and historic private cemeteries are exempt from property tax assessments. (Effective September 26, 2008)

Laws 2008, Chapter 85 established financial mechanisms for a Flood Protection District to construct, reconstruct, replace, renovate, repair or acquire a flood protection facility. The financial mechanisms include property assessments and the authority to issue improvement bonds. (Effective September 26, 2008)

Laws 2008, Chapter 174 contained an emergency measure that allows a county board of supervisors to sell tax deeds of delinquent property held by the state to the owner of the adjoining property, under certain conditions. (Effective May 8, 2008)

Laws 2008, Chapter 178 increased the maximum number of rooms (from 4 to 6) that an owner-occupied bed and breakfast establishment is allowed to operate to qualify for the Class 4 assessment ratio. The fiscal impact is unknown. (Effective September 26, 2008)

Laws 2008, Chapter 252 clarified that property owned by a nonprofit charter school and used for educational purposes is exempt from property tax beginning on the date that the nonprofit organization acquired the property. (Effective September 26, 2008)

Laws 2008, Chapter 306 extended the valuation method for "renewable energy equipment" from 2011 to 2040. Additionally, the act provided that for residential properties (Class 3 and 4) that produce energy primarily for on-site consumption using "renewable energy systems," such devices will not be considered to add value to the property. (Effective September 26, 2008)

2007 TAX LAWS

Laws 2007, Chapter 37 increased the maximum per diem compensation from $150 to $300 for hearing officers employed by the State Board of Equalization. (Effective September 19, 2007)

Laws 2007, Chapter 104 modified the appeals process for agricultural land classification and changed the valuation determination for land splits or consolidations resulting from a government action. (Effective September 19, 2007)

Laws 2007, Chapter 117 prescribed the process for allocating the taxes due on a property that was split or consolidated after the tax roll was submitted to the county treasurer. (Effective September 19, 2007)

Laws 2007, Chapter 193 changed the requirements and process regarding the sale of land held by the state under a tax lien. (Effective September 19, 2007)

Laws 2007, Chapter 203 provided that the value of land used by an electric generation facility is to be determined by the Department of Revenue, as opposed to the county assessor, and that such value is the cost to the current owner as of December 31 of the preceding calendar year. The bill defined "electric generation facility" to include all land, buildings, and personal property used for generation of electric power. (Effective retroactively from January 1, 2007)

Laws 2007, Chapter 258 reduced property taxes paid by businesses by: (1) modifying the accelerated depreciation schedule for personal property and (2) accelerating the assessment ratio reduction of Class 1 property originally enacted under Laws 2005, Chapter 302.

Accelerated Depreciation of Business Personal Property

The new accelerated depreciation schedule under Laws 2007, Chapter 258, which is shown in the table below, applies to personal property initially classified during or after tax year 2008. Beginning in FY 2009, this provision of the act is expected to increase Arizona Department of Education (ADE) expenditures by an estimated $4.0 million.

Year of Assessment	Percentage of Scheduled Depreciated Value Under Current Law	Percentage of Scheduled Depreciated Value Under Previous Law
1st	30%	35%
2nd	46%	51%
3rd	62%	67%

4th	78%	83%
5th	94%	100%
6th	100%	100%

The term "scheduled depreciated value" refers to a personal property item's value after normal depreciation but before applying additional (or "accelerated") depreciation. For example, if DOR's valuation table indicates that a $2,000 personal computer has an economic life of 4 years and will depreciate by 50% in its first year of use, then the computer's scheduled depreciated value in the first year of its assessment is $1,000. Laws 2007, Chapter 258 accelerates the depreciation of the computer by reducing its full cash value to $300 (30% of its scheduled depreciated value of $1,000).

Acceleration of Class 1 Property Assessment Ratio Reduction

Laws 2005, Chapter 302 reduced the assessment ratio for Class 1 (commercial and industrial) property from 25% to 20% over 10 years. Laws 2007, Chapter 258 accelerates the scheduled Class 1 assessment ratio reduction by 4 years. Thus, the Class 1 assessment ratio phase-down will be completed in tax year 2011 as opposed to in tax year 2015, as shown in the table below. Beginning in FY 2009, this provision of the bill is expected to increase ADE expenditures by an estimated $3.0 million.

Tax Year	Class 1 Assessment Ratio Under Current Law	Class 1 Assessment Ratio Under Previous Law
2005	25.0%	25.0%
2006	24.5%	24.5%
2007	24.0%	24.0%
2008	23.0%	23.5%
2009	22.0%	23.0%
2010	21.0%	22.5%
2011	20.0%	22.0%
2012	20.0%	21.5%
2013	20.0%	21.0%
2014	20.0%	20.5%
2015	20.0%	20.0%

2006 TAX LAWS

Proposition 101, which was approved by voters in the November 2006 General Election, changed the base year used to calculate the levy limits of cities, towns, counties, and community colleges from 1980 to 2005. By resetting the base year to 2005, Proposition 101 eliminated any unused taxing capacity of such taxing jurisdictions as of tax year 2005. This measure was not expected to have any direct impact on the state General Fund.

Laws 2006, Chapter 38 required the Department of Revenue to consider obsolescence in the valuation of telecommunications property. (Effective September 21, 2006)

Laws 2006, Chapter 134 provided several changes to the procedures of county treasurers, including clarifying the legal interest rate the treasurer must pay on tax corrections, requiring electronic transmission of taxes for certain taxpayers and allowing personal property to be subject to abatement. (Effective September 21, 2006)

Laws 2006, Chapter 143 made several clarifications and changes regarding property valuation and appeals. For example, the bill clarified that county assessors cannot change the property values used for the calculation of levy limits and tax rates after February 10 without the approval of the Property Tax Oversight Commission. In addition, the bill established an Elderly Assistance Fund in Maricopa County for the purpose of reducing the primary property tax rates of all taxpayers who live in an organized district and are approved for the senior property valuation freeze. (Effective September 21, 2006)

Laws 2006, Chapter 170 required the county assessor to use the valuation or change in classification of a property for the next year's valuation if, upon judicial appeal, the property valuation is reduced. The assessor was already

required by statute to use the reduced valuation or change in classification upon administrative appeal. (Effective September 21, 2006)

Laws 2006, Chapter 285 required county assessors to include a separate statement as an addendum to the assessment notice informing property owners that if a property is used for residential rental purposes, the property must be listed as a class 4 and be registered with the county assessor or the owner may be subject to a penalty. (Effective September 21, 2006)

Laws 2006, Chapter 322 allowed county assessors to enter into intergovernmental agreements with the Department of Revenue (DOR) for a coordinated and comprehensive review of information regarding identification of properties that may be misclassified as Class 3 (owner-occupied residential) instead of Class 4 (rental residential). The bill required DOR to monitor and review procedures and practices used by the county assessors for the verification of Class 3 properties and to issue a report of its findings to the Governor and Legislature by November 15 each year. (Effective September 21, 2006)

Laws 2006, Chapter 323 provided a property tax exemption for permanent improvements constructed on property owned by and leased from an agricultural improvement district. The fiscal impact of this bill is unknown. (Effective September 21, 2006)

Laws 2006, Chapter 327 clarified the exemption for non-profit property used for health care and provided that the exemption is retroactive from January 1, 2000. The bill was estimated to result in increased Arizona Department of Education (ADE) expenditures of $60,000 in FY 2007. (Effective retroactively from January 1, 2000)

Laws 2006, Chapter 332 increased the membership of the State Board of Equalization (SBOE) from 17 to 33 members. The bill also prohibits a member of SBOE, other than the chairperson, from having been employed by a county assessor, county attorney, the Department of Revenue, or the Attorney General's Office within the last 2 years. (Effective September 21, 2006)

Laws 2006, Chapter 333 stipulated that solar energy devices are to be considered as adding no value to property. The amount of property tax revenue that will be foregone by state and local governments under this provision is unknown. The bill also contained provisions that will affect income tax and prime contracting tax revenues. (Effective retroactively from January 1, 2006)

Laws 2006, Chapter 354 suspended the state equalization assistance for education property tax for tax years 2006 through 2008. It also changed the base year for computing levy limits for primary property taxes from 1980 to 2005. This eliminated any unused growth in levy limit taxing capacity that had accumulated since 1980. In addition, Chapter 354 eliminated the use of "special elections" that are scheduled at times other than the November general election to authorize secondary property taxes and required publicity pamphlets for bond elections to provide an estimate of the tax impact of the bond both per year and also over the life of the bond (versus only per year currently). The act renamed the county equalization assistance for education tax rate as the "state equalization assistance property tax rate." (Contained various effective dates) See Individual Income Tax section for other changes.

The provision that suspended the state equalization property tax for 3 years was expected to increase Arizona Department of Education (ADE) expenditures by $215.2 million in FY 2007, $226.0 million in FY 2008, and $239.6 million in FY 2009.

Laws 2006, Chapter 387 extended the Enterprise Zone Program until June 30, 2011 and modified some of its qualification requirements. The fiscal impact of this bill is unknown. (Effective retroactively from July 1, 2006)

Laws 2006, Chapter 388 classified real and personal property and improvements used to produce bio-diesel fuel as Class 6 property, which qualifies for a 5% assessment ratio versus 25% for most commercial property. (Class 6 also includes properties such as noncommercial historic property, foreign trade zone property, and qualifying environmental remediation property.) The fiscal impact of this provision of the bill is unknown. (Effective January 1, 2007)

Laws 2006, Chapter 391 established a public hearing committee process for property tax guidelines, tables and manuals drafted, amended, or modified by the Department of Revenue. (Effective January 1, 2007)

Laws 2006, Chapter 392 exempted the following property from taxation: (1) property owned by a non-profit religious or charitable organization that is leased to a non-profit educational organization and is used for educational instruction in any grade or program through grade 12, and (2) rental property owned and operated by a non-profit organization that is used as an assisted living facility for low-income elderly residents. The fiscal impact of the 2 property tax exemptions is unknown. (Effective September 21, 2006)

2005 TAX LAWS

Laws 2005, Chapter 40 provided that the State Board of Equalization must review and consider all evidence, including similar property values, when hearing an appeal on a taxpayer's property valuation. (Effective August 12, 2005)

Laws 2005, Chapter 66 provided that DOR will exclude contributions in aid of construction (CIAC) when establishing the valuation of electric and gas utilities. CIAC is the amount an entity pays (e.g., a land developer) to a utility to cover the difference between what the construction cost would be for the utility, as directed by federal rules, and the construction cost actually incurred by the entity. (Effective retroactively from January 1, 2005)

Laws 2005, Chapter 131 provided several changes to county treasurers' procedures including clarifying that the county treasurer or board of supervisors will act as the agent for the state for the collection of property tax liens that are assigned to the state. (Effective August 12, 2005)

Laws 2005, Chapter 186 provided several changes to the application process for widows, widowers, and disabled persons to receive a property tax exemption. For example, the act eliminated the requirement that an applicant resubmits an annual affidavit for continued eligibility for the exemption. (Effective August 12, 2005)

Laws 2005, Chapter 276 provided a property tax exemption for property located outside an Indian reservation that is owned by an Indian tribe or tribally designated housing authority and that is used to provide low income rental housing for tribal members. (Note that property located within a reservation that is owned by Indian tribal members is currently exempted from taxation under Article 20, Section 5 of the Arizona Constitution.) The fiscal impact of this bill is unknown. (Effective August 12, 2005)

Laws 2005, Chapter 278 changed the requirements for a business to qualify for tax incentives relating to healthy forest enterprises, reduced the tax on fuel used in vehicles transporting forest products, and provided a property tax reduction for real and personal property used for qualified forest product harvesting and processing. The assessment ratio for such property was reduced from 25% to 5% for valuation years 2005 through 2010. The fiscal impact of the property assessment ratio reduction provision is not known.

Laws 2005, Chapter 302 reduced the assessment ratio for Class 1 (commercial and industrial) property from 25% to 20% over 10 years. The bill increased the "Homeowner's Rebate" from 35% to 40% of the primary school district tax levy while simultaneously raising the rebate cap from $500 to $600 over 5 years. In addition, the act updated the truth in taxation statutes regarding the qualifying tax rate and the state equalization tax rate to reflect the JLBC calculation for FY 2006. The bill also provided for county jail districts and county juvenile detention facilities to levy the same amount of secondary property taxes in 2006, 2007, and 2008 as in 2005. Starting in FY 2007, the bill would adversely affect the General Fund by increasing the expenditures for the Arizona Department of Education (ADE) by an estimated $12 million. In FY 2016, when the bill is fully phased in, the General Fund cost is expected to have grown to $140 million. (Effective August 12, 2005)

The table below summarizes the main changes under the bill by tax year.

Tax Year	Class 1 Assessment Ratio	Homeowner's Rebate	Homeowner's Rebate Cap
2005	25.0%	35%	$500
2006	24.5%	36%	$520
2007	24.0%	37%	$540
2008	23.5%	38%	$560
2009	23.0%	39%	$580
2010	22.5%	40%	$600
2011	22.0%	40%	$600
2012	21.5%	40%	$600
2013	21.0%	40%	$600
2014	20.5%	40%	$600
2015	20.0%	40%	$600

Laws 2005, Chapter 309 nearly doubled the income limits that are allowed for widows, widowers, and disabled persons to qualify for a property tax exemption. The bill also provided that the property tax exemption amount and income limits will be indexed to inflation. The fiscal impact of the bill is unknown. (Effective August 12, 2005)

2004 TAX LAWS

Laws 2004, Chapter 15 provided that county assessors are allowed to send a notice of an error that occurred during the current tax year and the 3 immediately preceding tax years regardless of what time of the year the notice was mailed or filed. (Effective August 25, 2004)

Laws 2004, Chapter 295 provided a property tax exemption for non-profit library organizations that provide supplemental financial support to public libraries. The act expanded the property tax exemption for charitable institutions that serve the "indigent or afflicted" to also include property used for the administration of relief. The act also amended statutes related to the appeals process, changes and corrections in the tax roll, and designation of taxpayer agents. The impact on the General Fund is unknown. (The effective date varies by the provisions of the act.)

Laws 2004, Chapter 329 increased the assessed valuation limit to qualify for the property tax exemption for widows, widowers, and disabled persons from $10,000 to $20,000. The act also requires the threshold amount to be adjusted annually to account for inflation as measured by the Gross Domestic Product (GDP) price deflator. The fiscal impact of this bill is unknown. (Effective August 25, 2004)

2003 TAX LAWS

Laws 2003, Chapter 16 raised the small claims ceiling for property tax appeals and the threshold at which the number of hearing officers must increase. (Effective September 18, 2003)

Laws 2003, Chapter 37 created a permanent method for allocating electric transmission, distribution, and generation values among taxing jurisdictions. The bill also provided statutory methods for valuing both new and existing generation facilities. The JLBC Staff estimated that this legislation would increase the cost for Arizona Department of Education Basic State Aid to schools by an amount between $0 and $12,921,000 in FY 2005. The impact on property tax General Fund revenues could not be determined, however.

Laws 2003, Chapter 41 provided that the purchaser of a tax lien agrees to acquire all outstanding certificates of purchase previously issued on the property as a condition of the sale. The bill also established a 10-year expiration date for tax liens purchased by August 31, 2002. (Effective September 18, 2003)

Laws 2003, Chapter 105 provided technical, clarifying and conforming changes to Arizona tax statutes. The changes were non-substantive, technical corrections intended to clean up the language in the tax statutes, as recommended by DOR and Legislative Council. (Effective September 18, 2003)

Laws 2003, Chapter 240 prohibited a community college district, county, city or town governing board to levy or assess primary property taxes higher than the prior year if the governing board failed to comply with truth in taxation noticing and hearing requirements. (Effective September 18, 2003)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

LUXURY TAXES AND LICENSES

LUXURY TAX ON CIGARETTES AND TOBACCO

DESCRIPTION

The luxury tax on cigarettes and tobacco is imposed on cigarettes, cigars, cavendish, and chewing tobacco. A luxury tax is a tax levied on items that are normally considered a luxury rather than a necessity. The tax rate varies by product, with the rate for the largest revenue producer, cigarettes, set at $2.00 per pack of 20. The majority of revenues from this tax are dedicated to health care programs.

DISTRIBUTION

Revenues from the luxury tax on cigarettes and tobacco are distributed as follows:

Tax on Cigarettes

Of the $2.00 tax, 18¢ is distributed for the following purposes:

- *Corrections Fund*. 2¢ of the 18¢ general tax rate per pack of 20 cigarettes is deposited in the Corrections Fund [A.R.S. § 42-3104].
- *General Fund*. The remaining 16¢ of the 18¢ general tax rate per pack of 20 cigarettes is deposited in the General Fund [A.R.S. § 42-3102].
- *State School Aid*. 19.44% of general cigarette tax collections is allocated to state school aid. The 16¢ General Fund distribution described above is presumed to contribute to the existing General Fund appropriation for state school aid [A.R.S. § 42-3103].

$1.00 of the $2.00 cigarette tax is dedicated to health care and distributed to the following funds and their subaccounts:

- *Tobacco Tax and Health Care Fund*. 40¢ is distributed to the following accounts of the Tobacco Tax and Health Care Fund [A.R.S. § 36-771, § 42-3251, § 42-3252, § 42-3302]:

  a. Medically Needy Account – 70% of revenues, to provide health care services for those who cannot afford these services [A.R.S. § 36-774].
  b. Health Education Account – 23% of revenues, for the prevention and reduction of tobacco use [A.R.S. § 36-772].
  c. Health Research Account – 5% of revenues, for research on preventing and treating tobacco-related disease and addiction [A.R.S. § 36-773].
  d. Corrections Fund Adjustment Account – 2% of revenues, to compensate the Corrections Fund for decreases in general cigarette tax revenues resulting from the levy of the cigarette tax dedicated to health care [A.R.S. § 36-775].

- *Tobacco Products Tax Fund*. 60¢ is distributed to the following accounts of the Tobacco Products Tax Fund [A.R.S. § 36-770, § 42-3251.01, § 42-3302]:

  a. Proposition 204 Protection Account – 42% of revenues, to implement and fund the programs established by Proposition 204 in the 2000 General Election [A.R.S. § 36-778].
  b. Medically Needy Account – 27% of revenues, to provide health care services for those who cannot afford these services [A.R.S. § 36-774].
  c. Emergency Health Services Account – 20% of revenues, to provide reimbursement of uncompensated care, primary care services, and trauma center readiness costs [A.R.S. § 36-776].
  d. Health Education Account – 2% of revenues, for the prevention and early detection of the 4 leading causes of death in Arizona [A.R.S. § 36-772].
  e. Health Research Fund – 5% of revenues, for health research [A.R.S. § 36-275].
  f. Health Care Adjustment Account – 4% of revenues, to compensate the subaccounts of the Tobacco Tax and Health Care Fund for decreases in cigarette tax revenues resulting from the levy of this portion of the cigarette tax [A.R.S. § 36-777].

Luxury Tax on Cigarettes and Tobacco

Of the $2.00 cigarette tax, 80¢ is dedicated to childhood development and health, which is deposited into the following fund and its subaccounts:

- *Early Childhood Development and Health Fund*. Monies are distributed to the following accounts of the Early Childhood Development and Health Fund [A.R.S. § 42-3371, A.R.S. § 8-1181]:

  a. Program Account – 90% of revenues, to improve the quality and availability of health and education programs for pre-kindergarten children and their families who otherwise have limited access to such services [A.R.S. § 8-1181, A.R.S. § 8-1171].
  b. Administrative Costs Account – 10% of revenues, to cover the administrative costs of the Arizona Early Childhood Development and Health Board [A.R.S. § 8-1181].

The remaining 2¢ of the $2.00 tax is distributed for the following purpose:

- *Smoke-Free Arizona Fund*. Revenues are used to enforce the provisions of the Smoke-Free Arizona Act with any unexpended monies being deposited in the Tobacco Products Tax Fund to be used for education programs to reduce and eliminate tobacco use [A.R.S. § 42-3251.02, A.R.S. § 36-601.01].

<u>Tax on Tobacco, Cavendish, and Cigars</u>

- *Corrections Fund*. 50% of all general tax rate collections from the tax on tobacco products is deposited in the Corrections Fund [A.R.S. § 42-3104].
- *General Fund*. The remaining general tax rate collections from the tax on tobacco products is deposited in the General Fund [A.R.S. § 42-3102].

Separate from the above distributions, all monies collected from the tobacco tax rates dedicated to health care are distributed as follows:

- *Tobacco Tax and Health Care Fund*. 40% is deposited in the Tobacco Tax and Health Care Fund. [A.R.S. § 36-771, § 42-3252, § 42-3302].
- *Tobacco Products Tax Fund*. 60% is deposited in the Tobacco Products Tax Fund. [A.R.S. § 36-770, § 42-3251.01, § 42-3302].

Also separate from the above distributions, all monies collected from the tobacco tax rates dedicated to early childhood development and health are distributed as follows:

- *Early Childhood Development and Health Fund*. 90% is deposited in the Program Account and 10% of the revenues are deposited in the Administrative Costs Account [A.R.S. § 42-3371, A.R.S. § 8-1181].

Table 1

CIGARETTE AND TOBACCO TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Corrections Fund	TTHCF 1/	TPTF 2/	ECDHF 3/	SFAF 4/	Total
FY 2009	$29,080,647	$5,129,852	$76,972,057	$108,934,079	$151,363,815	$2,868,990	$374,349,440
FY 2008	$32,467,344	$6,206,674	$83,868,465	$116,127,254	$164,805,113	$3,946,308	$407,421,158
FY 2007	$37,558,776	$6,206,673	$100,500,062	$137,624,178	$74,445,246	$1,778,847	$358,121,881
FY 2006	$39,578,709	$6,206,674	$106,821,045	$145,399,774			$298,006,202
FY 2005	$38,360,552	$6,206,608	$102,310,127	$138,521,611			$285,398,898
FY 2004	$36,757,081	$6,206,674	$ 98,163,310	$133,563,168			$275,104,562
FY 2003	$41,174,667	$6,206,674	$105,027,137	$ 59,938,321			$212,346,799
FY 2002	$43,206,460	$6,206,674	$108,177,154				$157,590,288
FY 2001	$43,124,883	$6,206,674	$108,709,176				$158,040,733
FY 2000	$43,446,233	$6,196,674	$109,786,025				$159,428,932
FY 1999	$43,895,551	$6,206,674	$112,735,957				$162,838,182
FY 1998	$44,443,108	$6,206,674	$114,104,507				$164,754,289
FY 1997	$43,676,616	$6,206,675	$115,961,006				$165,844,297
FY 1996	$45,461,621	$6,206,673	$119,127,689				$170,795,983
FY 1995	$47,728,667	$6,837,337	$ 54,623,325				$109,189,329
FY 1994	$46,870,529	$6,206,674					$ 53,077,203
FY 1993	$47,385,665	$6,261,724					$ 53,647,389
FY 1992	$46,419,433	$6,128,751					$ 52,548,184
FY 1991	$45,474,466	$6,321,584					$ 51,796,050
FY 1990							$ 46,942,200

1/ Tobacco Tax and Health Care Fund (November 1994).
2/ Tobacco Products Tax Fund (December 2002).
3/ Early Childhood Development and Health Fund (December 2006).
4/ Smoke-Free Arizona Fund (December 2006).
Note: Distribution amounts are not available for FY 1988 - FY 1990.

SOURCE: Department of Revenue, Luxury Tax Section.

WHO PAYS THE TAX

Licensed distributors of cigars and other tobacco products besides cigarettes submit tax payments together with a monthly return [A.R.S. § 42-3208]. Licensed distributors of cigarettes pay the tax through the purchase of tax stamps from the Department of Revenue.

Every pack of cigarettes sold in Arizona must bear a stamp as a method of providing proof that a retailer or distributor is in compliance with Arizona's luxury tax laws [A.R.S. § 42-3201 and § 42-3202]. There are 3 categories of stamps that are sold by the Department of Revenue to distributors, each with a different tax rate: Blue stamps are $2.00 and include all cigarette taxes; Red stamps cost $1.00 and include only the 40¢ and 60¢ health care taxes; and Green stamps cost $0.00. Green and Red Stamps are used only on tribal reservations.

The 40¢ tax (per package of 20 cigarettes) and the 60¢ tax per package are direct taxes on the consumer and are to be collected and paid to the Department of Revenue by the distributors [A.R.S. § 42-3303]. The 18¢ general tax rate per package is considered to be a tax on the seller. Every pack of cigarettes sold, except for those sold on Tribal Reservations, bears a Blue stamp.

The type of stamp sold to distributors on Tribal Reservations varies depending on two factors: 1) whether the consumer is an enrolled member of the Indian Tribe or the consumer is a member of the general public; 2) whether the seller is a tribal member of the reservation in which it is conducting business or the seller is a non-tribal member licensed by the federal government to sell goods and services on the reservation.

Cigarette purchases by tribal members on their own reservations are exempt from state taxes, regardless of seller classification. These sales require a Green stamp. Statute gives Indian tribes the ability to levy their own tax on tobacco sales. This provision allows the tribe to retain the funding collected from the optional tax and does not specify how the tribe should spend the revenues collected. If the tribe voluntarily elects to impose its own tax, a Red stamp purchase is required, with the purchase reimbursed to the tribe by the Department of Revenue.

Cigarette sales on Tribal Reservations to non-members require either a $2.00 Blue or $1.00 Red stamp, depending on the seller. Federally-licensed, non-tribal member sellers are required to purchase Blue stamps, meaning all $2.00 in state taxes are applied to packs of cigarettes sold by these vendors. Tribal member sellers are required to purchase Red stamps, meaning only $1.00 in state health care related cigarette taxes are included. If the tribe has elected to impose its own tobacco tax, the amount of the tax collected (up to $1.00) is retained by the tribe and not deposited into the state health care accounts. Tribal member sellers are exempt from paying the 18¢ general, the 80¢ Early Childhood Development, and 2¢ Smoke-Free Arizona tax rates when selling to non-tribal members. A December 2006 Attorney General Legal Opinion determined that the Early Childhood Development and Smoke-Free Arizona taxes could be levied on tribal reservation cigarettes sold only by federally-licensed, non-tribal member sellers, in addition to the general cigarette tax rate. Table 2 displays the stamp assignments by customer and seller classifications.

Table 2

CIGARETTE STAMP ASSIGNMENTS

Seller	Indian Tribe Member	All Other Consumers
All Vendors not on a Reservation	$2 Blue Stamp	$2 Blue Stamp
Tribal Member Retailer	$0 Green or $1 Red Stamp[1/]	$1 Red Stamp[1/]
Federally-Licensed Non-Tribal Seller	$0 Green or $1 Red Stamp[1/]	$2 Blue Stamp

1/ If the tribe has elected to impose its own tobacco tax, the amount of the tax collected (up to $1.00) is retained by the tribe and not deposited into the state health care accounts.

If the tribe imposes its own tax on cigarettes, the taxes collected by the state for cigarette sales on reservations will be levied at a rate that is the difference between the rate the state would otherwise levy and what the tribe imposes [A.R.S. § 42-3302]. The offset applies only to the $1.00 in taxes collected for each pack sold that are dedicated to the Tobacco Tax and Health Care Fund (40¢) and to the Tobacco Products Tax Fund (60¢) [A.R.S. § 42-3302]. To date, 5 reservations have not enacted a tribal tax on cigarettes and 14 reservations have enacted taxes that offset all or a part of the $1.00 per pack of state cigarettes taxes dedicated to health care.

The tax treatment of other tobacco products is similar to the treatment of cigarettes described above, with the tax rates detailed below in Table 3.

TAX BASE AND RATE

The tax base consists of the following products [A.R.S. § 42-3052]:

- Cigarettes.
- Tobacco. Includes smoking tobacco, snuff, fine cut chewing tobacco, cut and granulated tobacco, shorts and refuse of fine cut chewing tobacco, and refuse, scraps, clippings, cuttings, and sweepings of tobacco.
- Cavendish. Includes plug or twist tobacco.
- Small cigars. Not weighing more than 3 pounds per 1,000.
- Large cigars 5¢ or less. Weighing more than 3 pounds per 1,000 and retailing at 5¢ or less.
- Large cigars more than 5¢. Weighing more than 3 pounds per 1,000 and retailing at more than 5¢ each.

The tax rates are as follows [A.R.S. § 42-3052, § 42-3251, § 42-3251.01, § 42-3251.02, and § 42-3371]:

Table 3

TOBACCO PRODUCT TAX RATES

Item	General Tax Rate	Tax Rates Dedicated to Health Care				Total Tax Rate
		TTHCF	TPTF	ECDHF	SFAF	
Cigarettes (per pack of 20)	18¢	40¢	60¢	80¢	2¢	$2.00
Tobacco per ounce	2¢	4.5¢	6.75¢	9¢	--	22.25¢
Cavendish per ounce	0.5¢	1.1¢	1.65¢	2.2¢	--	5.45¢
Small Cigars per 20	4¢	8.9¢	13.35¢	17.8¢	--	44.05¢
Large cigars 5¢ or less (per 3)	2¢	4.4¢	6.6¢	8.8¢	--	21.8¢
Large cigars more than 5¢	2¢	4.4¢	6.6¢	8.8¢	--	21.8¢

Tobacco powder or tobacco products used exclusively for agricultural or horticultural purposes and unfit for human consumption are exempt from this tax [A.R.S. § 42-3052].

PAYMENT SCHEDULE

Licensed distributors of cigarettes pay the luxury tax on cigarettes when they purchase a stamp from the Department of Revenue [A.R.S. § 42-3202]. Licensed distributors of cigars or tobacco products other than cigarettes must pay the tax to the Department of Revenue monthly on or before the 20th day of the next month succeeding the month in which the tax accrues. Failure to pay the tax within 10 days of the due date will result in penalty and interest charges from the time the tax was due until paid [A.R.S. § 42-3208].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in 2003, 2007, and 2009.

2008 TAX LAWS

Laws 2008, Chapter 38 provided clarification regarding the proper method for stamping cigarette packages. This law allows cigarette packs that do not have an affixed stamp but have legible serial numbers, are part of an unopened pallet or carton that contains properly stamped packets, or are accounted for through records to be in compliance with the law so long as the distributor is found to be substantially in compliance with the other provisions of Chapter 42 of the Arizona Revised Statutes.

2006 TAX LAWS

Proposition 201, passed by voters in the 2006 General Election, levied an additional tax on all cigarettes equivalent to 2¢ per pack of 20 cigarettes. The Proposition directed that revenue be deposited in the Smoke-Free Arizona Fund to be used by the Department of Health Services to enforce the Smoke-Free Arizona Act. Any unexpended monies from the Smoke-Free Arizona Fund are to be deposited in the Tobacco Products Tax Fund to be used for education programs to reduce and eliminate tobacco use. See *Table 1* for deposits into the Smoke-Free Arizona Fund since the implementation of this tax in December 2006. A subsequent Attorney General Opinion determined in December 2006 that the 2¢ per pack tax could be levied on tribal reservation cigarettes sold only by federally-licensed, non-tribal member retailers, thereby exempting tribal member sellers from the tax.

Proposition 203, passed by voters in the 2006 General Election, levied an additional tax on all cigarettes and tobacco equal to twice the tax prescribed in A.R.S. § 42-3251, paragraphs 1 through 5. This additional tax is equal to 80¢ per pack of 20 cigarettes. The Proposition directed that the revenues be deposited into the Early Childhood Development and Health Fund and its 2 subaccounts for the purpose of improving the quality and availability of health and education programs for pre-kindergarten children and their families who otherwise have limited access to such services. The revenues also cover the administrative costs of the newly-established Arizona Early Childhood Development and Health Board. See *Table 1* for deposits into the Early Childhood Development and Health Fund

since the implementation of this tax in December 2006. A subsequent Attorney General Opinion determined in December 2006 that the 80¢ per pack tax could be levied on tribal reservation cigarettes sold only by federally-licensed, non-tribal member retailers, thereby exempting tribal member sellers from the tax.

Laws 2006, Chapter 278 strengthened administrative and enforcement provisions of tobacco tax laws. The act increased civil penalties and elevated the severity of criminal offenses for tobacco tax evasion and fraud. The act likewise expanded the procedures governing the seizure and forfeiture of untaxed tobacco products, adding new license and license renewal requirements as well as expanding cigarette distributor, manufacturer and importer filing obligations and created requirements for maintaining storage and transaction records. The act also exempted the imposition of tobacco taxes on sales of tobacco products to the U.S. Veterans' Administration, U.S. military exchanges and commissaries, law enforcement agencies for use in criminal investigations, and common carriers engaged in foreign passenger service. (Effective September 30, 2006)

2005 TAX LAWS

Laws 2005, Chapter 11 eliminated a statutory conflict in the language of A.R.S. § 42-3251 which states how the State Treasurer receives tobacco tax proceeds. This act has no fiscal impact.

Laws 2005, Chapter 300 further extended the distribution of some luxury tax revenues to the Corrections Fund beyond the scheduled expiration date of June 30, 2005. The bill extended the lapsing date to June 30, 2010. (Effective retroactively from June 30, 2005)

2004 TAX LAWS

Laws 2004, Chapter 311 established requirements for tobacco product delivery sales. These are defined as sales in which the tobacco purchase order is placed remotely via telephone, Internet, mail, etc. and the product is delivered by mail or delivery service. The act requires sellers to verify the age of the purchaser and to collect and remit tobacco product taxes to the Department of Revenue. There is an indeterminate positive fiscal impact from this act due to the increased collection of taxes on tobacco product delivery sales. (Effective August 25, 2004)
. See *Table 1* for deposits into the Tobacco Products Tax Fund since the implementation of this tax.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

LUXURY TAX ON LIQUOR

DESCRIPTION

The luxury tax on liquor is levied on wholesalers of spirituous, vinous, and malt liquors.

DISTRIBUTION

Revenues from this tax are distributed among several funds, including:

State School Aid. 1.17% of spirituous liquor tax collections and 14% of tax collections from vinous liquor with a high alcohol content (over 24%) are allocated for state school aid. In practice, these monies are deposited in the General Fund, which in turn funds state school aid. [A.R.S. § 42-3103]

Corrections Fund. 20% of the monies collected from spirituous liquor, and 50% of the monies collected from vinous and malt liquors are deposited in the Corrections Fund, effective through June 30, 2010 [A.R.S. § 42-3104].

Wine Promotional Fund. The statute establishing this fund was repealed by Laws 2005, Chapter 11. (Effective August 12, 2005). Prior to that, the first $100,000 of monies collected from vinous liquor with low alcohol content attributable to domestic farm wineries or an in-state producer was deposited into the Wine Promotional Fund [A.R.S. § 42-3105].

Drug Treatment and Education Fund. 7% of the monies collected from spirituous liquor and 18% of the monies collected from vinous and malt liquors are deposited in the Drug Treatment and Education Fund of the Arizona Judiciary [A.R.S. § 42-3106A].

Corrections Revolving Fund. 3% of the monies collected from spirituous liquor and 7% of the monies collected from vinous and malt liquors are deposited in a revolving fund of the Department of Corrections [A.R.S. § 42-3106B].

General Fund. All remaining tax monies are deposited in the General Fund [A.R.S. § 42-3102].

WHO PAYS THE TAX

The luxury tax on liquor is added to the sales price of liquor items and is paid by:

- Wholesalers who purchase malt liquors for resale within Arizona [A.R.S. § 42-3353A].
- Wholesalers who sell spirituous liquors within Arizona [A.R.S. § 42-3354 A].
- Every domestic farm winery or microbrewery that sells vinous or malt liquor at retail or to certain licensees. [A.R.S. § 42-3355].
- Wholesalers who purchase vinous liquors for resale within Arizona before Jan. 1, 2007, and wholesalers who sell vinous liquors within Arizona beginning Jan. 1, 2007 [A.R.S. § 42-3353B and § 42-3354B].

TAX BASE AND RATE

The following is the tax base and rate for each liquor type [A.R.S. § 42-3052]. A proportionate rate is applied to each liquor type for greater or lesser quantities:

- *Spirituous liquor*. $3 per gallon. Examples of spirituous liquor include whiskey and vodka.
- *Vinous Liquor with High Alcohol Content*. $0.25 on each container of 8 ounces or less of vinous liquor having an alcohol content of greater than 24%. Containers exceeding 8 ounces are taxed at a rate of $0.25 per 8 ounces. An example of vinous liquor at this alcohol content level is brandy. According to the Department of Revenue, no revenue has been collected from this tax in recent years.
- *Vinous Liquor with Low Alcohol Content*. $0.84 per gallon on each container of vinous liquor with an alcohol content of 24% or less, except cider. An example of vinous liquor at this alcohol content level is white wine.
- *Malt Liquor*. $0.16 on each gallon of malt liquor or cider. Examples of malt liquor are beer and cider.

Table 1

TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund 1/	Corrections Fund	Wine Promotional Fund 2/	Corrections Revolving Fund	Judiciary Drug Treatment & Education Fund	Total Collections
FY 2009	$28,797,539	$23,587,644	$0	$3,358,868	$8,434,654	$64,178,705
FY 2008	$28,562,812	$23,976,492	$29,003	$3,411,936	$8,576,309	$64,556,552
FY 2007	$28,277,919	$23,273,991	$35,965	$3,313,708	$8,323,288	$63,188,906
FY 2006	$27,192,240	$22,636,747	$38,481	$3,221,929	$8,096,444	$61,147,360
FY 2005	$26,085,548	$22,068,568	$34,667	$3,139,770	$7,894,513	$59,223,067
FY 2004	$24,543,937	$20,938,588	$27,995	$2,978,318	$7,490,976	$55,979,814
FY 2003	$23,412,284	$20,419,376	$25,497	$2,902,721	$7,306,966	$54,066,844
FY 2002	$22,863,127	$19,836,567	$23,391	$2,820,269	$7,098,014	$52,641,368
FY 2001	$22,443,910	$19,294,778	$21,278	$2,743,924	$6,903,464	$51,407,354
FY 2000	$21,989,911	$19,274,703	$21,197	$2,739,633	$6,897,717	$50,923,161
FY 1999	$20,874,947	$18,176,293	$14,595	$2,583,453	$6,502,823	$48,152,111
FY 1998	$19,986,517	$17,435,389	$ 9,306	$2,477,227	$6,235,814	$46,144,253
FY 1997	$23,663,919	$17,051,956	$ 9,542	$1,242,158	$3,124,761	$45,092,336
FU 1996	$27,791,380	$16,947,743	$10,233			$44,749,356
FY 1995	$26,311,189	$15,714,326	$ 8,299			$42,033,814
FY 1994	$26,462,911	$15,792,486	$ 7,536			$42,262,933
FY 1993	$25,684,226	$15,166,158				$40,850,384
FY 1992	$25,839,029	$15,252,220				$41,091,249
FY 1991	$24,929,069	$14,880,014				$39,809,083
FY 1990 3/						$40,305,323

1/ Includes funds to be used for state school aid.
2/ Monies collected for this fund were transferred quarterly by the Government Accounting Office to the Department of Commerce to pay back an outstanding loan the now defunct Wine Commission had taken from the Commerce Economic Development Fund.
3/ Distribution amounts are not available for FY 1988-FY 1990.

SOURCE: Department of Revenue, Annual Reports.

PAYMENT SCHEDULE

Wholesalers, domestic farm wineries, and domestic microbreweries must submit a return and pay the luxury tax on liquor to the Department of Revenue monthly on or before the 20th day of the month following the month in which the tax accrues. The tax must be paid within 10 days of the due date to avoid penalty and interest charges [A.R.S. § 42-3353 and § 42-3354].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in 2003, 2007, and 2009.

2008 TAX LAWS

Laws 2008, Chapter 60 amends A.R.S. § 4-205.08 to state that microbreweries will be responsible for paying the relevant luxury tax on the liquor that is produced. This law clarifies A.R.S. § 42-3355, which requires microbreweries to pay luxury tax.

2006 TAX LAWS

Laws 2006, Chapter 302 bifurcates domestic microbrewery and farm winery regulatory provisions in statute. The licensing conditions and requirements for domestic microbreweries and farm wineries were previously contained in the same section of statute, A.R.S. § 4-205.04. The act deleted all references to domestic microbreweries in that section and added A.R.S. § 4-205.08 to specifically address domestic microbreweries. Within A.R.S. § 4-205.08 the act also amends regulatory provisions to allow domestic microbreweries licensed in Arizona to sell and deliver beer to entities licensed in other states and licensed retailers in Arizona. The act also halves the minimum amount of beer a microbrewery must produce annually to possess a microbrewery license and doubled the maximum amount of beer a microbrewery may produce without having to apply for a producer's license.

Laws 2006, Chapter 310 amended domestic farm winery regulations. The act eliminated the requirement that licensed domestic farm wineries produce wine containing 75% of grapes and other agricultural products grown in the state, allowing wineries to acquire agricultural ingredients from anywhere. The act reduced by almost half the annual amount of wine a domestic farm winery may produce without having to apply for a producer's license. The act also permits wineries that produce less than 20,000 gallons of wine a year to make sales and deliveries to retailers and consumers.

2005 TAX LAWS

Laws 2005, Chapter 11 repealed A.R.S. § 42-3105, which established the Wine Promotional Fund and directed the Department of Revenue to deposit the first $100,000 collected from domestic farm wineries or in-state wine producers to the Fund. These monies will now be distributed the same way that all remaining vinous liquor tax collections are distributed.

Laws 2005, Chapter 94 provided an exemption from the liquor tax for wine that is used in connection with a religious service or practice recognized by the United States Internal Revenue Service Code as a nonprofit religious organization. The fiscal impact of this provision is unknown. The bill also levies the tax on wine at the point of sale, rather than upon delivery from the wholesaler, which will tax wine in the same manner as other spirituous liquor. The estimated fiscal impact is to shift approximately $(1,142,000) in liquor tax collections from FY 2007 to FY 2008. (Effective January 1, 2007)

Laws 2005, Chapter 300 extended the distribution of revenues from luxury taxes on alcohol and tobacco products from June 30, 2005 to June 30, 2010. (Effective July 1, 2005)

2004 TAX LAWS

Laws 2004, Chapter 77 extended the hours that liquor can be sold at retail locations until 2:00 am and permitted on-site consumption until 2:30 am. Currently, liquor retailers must stop serving alcohol at 1:00 am and on-site consumption must stop by 1:15 am. This act is estimated to annually increase luxury tax collections by at least $250,000, which would offset the new regulatory requirements at the Department of Liquor Licenses and Control. (Effective August 25, 2004)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

ALCOHOLIC BEVERAGE LICENSE FEES

DESCRIPTION

Alcoholic beverage license fees are charged to sellers and producers of alcoholic beverages in Arizona as a means for the state to regulate the sale of such beverages. Fees are charged for original licenses, license renewals, and transfers of licenses. There is also an additional issuance fee for each original license issued. The number of original licenses granted per county is restricted according to county population. Fee amounts vary by type of fee and type of seller or producer (e.g., restaurant, hotel, microbrewery, etc.). The revenues from the license fees are distributed among several recipients.

DISTRIBUTION

Club Licenses and Applications. The revenues derived from club licensing and applications are dedicated to the Department of Economic Security's Department of Mental Retardation, Capital Investment Fund [A.R.S. § 4-116].

Special Event Licenses. Collections are dedicated to the Department of Health Services for use in the evaluation and treatment of alcoholics [A.R.S. § 4-203.02A].

Restaurant License. 5% of Revenues collected from fees related to the issuance of a maximum of 15 restaurant licenses in any fiscal year through FY 2013 to licensees who do not meet the definition of a restaurant are to be deposited into the Driving Under The Influence Abatement Fund [A.R.S. § 4-213J] with the remainder being deposited into the General Fund [A.R.S. § 4-213E]. Monies collected from all other restaurant issuance fees and annual license fees are deposited as outlined in the *All Other Licenses* explanation.

All Other Licenses. Except for the above club, special event, and some restaurant license fees, two-thirds of license fees are deposited in the state General Fund. One-third of the license fees collected in counties with a population of 500,000 or less are to be paid monthly by the director of Liquor Licenses and Control to the treasurer of those counties. For each county with a population of over 500,000, the director is to pay the county treasurer from the remaining one-third of license fees the amount of $3,000 for each new license issued for premises in unincorporated areas of that county, up to a maximum of $150,000. The remainder of the one-third of license fees collected in counties with a population of over 500,000 is deposited in the state General Fund [A.R.S. § 4-115].

WHO PAYS THE TAX

The tax is paid by manufacturers, wholesalers, out-of-state producers, exporters, importers or rectifiers, retailers of alcoholic beverages, businesses authorized by local governments to sell liquor, and domestic farm wineries or microbreweries. All sellers of alcoholic beverages, including Indian tribal members on reservations, are required to pay the license fees [A.R.S. § 4-209].

TAX BASE AND RATE

License and Permits. A flat fee is charged for an original license, annual license renewals, transfers of licenses, assignments of agents, and interim permits. Every license expires annually. In addition, for each additional original license issued there will be levied a separate issuance fee equal to the license's fair market value which will be deposited in the state General Fund [A.R.S. § 4-209, A.R.S. § 4-203.01, .02, and .03, and A.R.S. § 42-206.01].

Surcharges. Certain licenses are assessed various surcharges as part of the annual license renewal fee. The revenues from these surcharges are dedicated to costs associated with audit and support staff activities, and costs associated with an enforcement program to investigate licensees who have been the subject of multiple complaints to the department [A.R.S. § 4-209J&K].

Maximum Additional Licenses Per County. With the exception of bar, beer and wine bar, liquor store and some restaurant licenses issued pursuant to A.R.S. § 4-213E, there is no maximum number of licenses that can be issued. Restaurant licenses that do not meet the definition of a restaurant and receive permission from the Department of Liquor Licenses and Control to continue to operate as a restaurant are limited to a maximum of 15 restaurant licenses in any fiscal year. In FY 2013 and beyond, no additional licensees will be granted permission to continue to operate under A.R.S. § 4-213E.

Alcoholic Beverage License Fees

The total number of bar, beer and wine bar or liquor store licenses are limited in a single county through FY 2009 to:

- 1 license, of each type, in counties with a population of less than 100,000 persons.
- 3 licenses, of each type, in counties with a population of 100,000 or more persons but less than 500,000 persons.
- 5 licenses, of each type, in counties with a population of 500,000 or more persons but less than 1,000,000 persons.
- 10 licenses, of each type in counties with a population of 1,000,000 or more persons.

Beginning July 1, 2010, the Department of Liquor Licenses and Control shall issue 1 bar, 1 beer and wine bar and 1 liquor store license in each county for each 10,000 person increase over the population in that county as of July 1, 2010.

Exemptions:

- Drug stores selling spirituous liquors only upon prescription.
- Any confectionery candy with less than 5% by weight of alcohol.
- Manufacturers, wholesalers and retailers of ethyl alcohol used for scientific, chemical, mechanical, industrial, medicinal or other nonbeverage purposes.
- Individuals and establishments authorized by Congress to procure spirituous liquor or ethyl alcohol tax-free.
- Manufacturers of denatured alcohol produced under provisions established by acts of Congress [A.R.S. § 4-226].

Table 1

COLLECTIONS AND DISTRIBUTION

Fiscal Year	Total	General Fund	Department of Economic Security	Department of Health Services	Counties	Audit Surcharge	Enforcement Surcharge	Liquor Department [1/]
FY 2009	$6,559,069	$5,040,087	$56,400	$49,175	$530,252	$158,730	$724,425	-
FY 2008	$6,333,680	$4,871,121	$49,600	$45,775	$483,938	$162,186	$721,060	-
FY 2007	$6,042,559	$4,661,571	$47,750	$45,975	$448,928	$155,040	$683,295	-
FY 2006	$5,903,308	$4,431,909	$49,275	$51,250	$446,672	$152,580	$673,290	$98,332
FY 2005	$5,581,198	$4,206,281	$48,850	$47,775	$458,487	$151,650	$668,155	
FY 2004	$5,473,828	$4,219,995	$49,100	$44,500	$369,358	$147,180	$643,695	
FY 2003	$5,018,445	$3,826,968	$53,800	$42,350	$327,837	$143,480	$624,010	
FY 2002	$4,746,146	$3,776,390	$54,850	$40,100	$333,901	$97,380	$443,525	
FY 2001	$4,933,818	$3,876,428	$44,175	$47,950	$346,375	$93,840	$525,050	
FY 2000	$4,278,445	$3,323,418	$50,975	$41,050	$347,272	$93,080	$422,650	
FY 1999	$4,293,893	$3,365,016	$53,075	$39,550	$349,182	$83,520	$403,550	
FY 1998	$4,453,507	$3,698,779	$53,050	$38,500	$358,598	$88,880	$215,700	
FY 1997	$4,398,612	$3,634,188	$59,200	$40,150	$369,524	$86,600	$208,950	
FY 1996	$3,222,863	$3,222,863	$58,675	$38,425	$311,742	$82,920	$198,650	
FY 1995	$3,639,600	$2,404,500	$57,100	$34,400	$337,700			
FY 1994	$3,426,400	$2,577,500	$54,900	$36,100	$343,100			
FY 1993	$3,092,600	$2,034,000	$51,400	$33,400	$762,700			
FY 1992	$3,108,308	$2,166,604	$70,130	$30,575	$840,999			
FY 1991	$3,304,200	$2,385,400	$39,000	$29,300	$850,500			
FY 1990	$3,249,311							

1/ See Laws 2005, Ch.284 – department may retain costs associated with randomly selecting additional licensees.

Note: Distributions are not available for FY 1985 – FY 1990.
Note: From FY 1993 – FY 1995 some license fees were distributed to the "Automated File and Retrieval Fund" and "Surcharge on Renewals." These distributions no longer exist.
Note: 5% of the revenues generated from licensees that are permitted to continue operation as a restaurant pursuant to A.R.S. § 4-213E will be deposited into the Driving Under the Influence Abatement Fund beginning in FY 2009.

SOURCE: Department of Liquor Licenses and Control.

Alcoholic Beverage License Fees

Application Fees:

- Original license B $100
- Transfer of license B $100 [A.R.S. § 4-209A]

Issuance fees for original licenses:

Table 2

1.	In-state producers of spirituous liquors	$1,500
2.	Out-of-state producer's, exporter's, importer's, or rectifier's license, except an out-of-state winery selling 50 or fewer cases of wine in a calendar year	200
3.	Domestic microbrewery license	300
4.	Wholesalers of spirituous liquors	1,500
5.	Local government licenses	100
6.	On-sale retailers on all spirituous liquors and bar license	1,500
7.	On-sale retailers beer and wine bar license	1,500
8.	Railroads, airlines or boats, conveyance licenses	1,500
9.	Off-sale retailers on all spirituous liquors, liquor store license	1,500
10.	Off-sale retailers beer and wine store license	1,500
11.	Hotels and motels	1,500
12.	Restaurants	1,500
13.	Domestic farm winery	100
14.	Clubs	1,000
15.	Out-of-state winery selling 50 or fewer cases of wine in a calendar year	25

[A.R.S. § 4-209B]

Annual License Fees:

Table 3

1.	In-state producers of spirituous liquors	$50
2.	Out-of-state producer's, exporter's, importer's, or rectifier's license, except an out-of-state winery selling 50 or fewer cases of wine in a calendar year	50
3.	Domestic microbrewery license	300
4.	Wholesalers of spirituous liquors	250
5.	Local government licenses	100
6.	On-sale retailers on all spirituous liquors and bar license	150
7.	On-sale retailers beer and wine bar license	75
8.	Railroads, airlines or boats, conveyance licenses	225
9.	Off-sale retailers on all spirituous liquors, liquor store license	50
10.	Off-sale retailers beer and wine store license	50
11.	Hotels and motels	500
12.	Restaurants	500 1/
13.	Domestic farm winery	100
14.	Clubs	150
15.	Out-of-state winery selling 50 or fewer cases of wine in a calendar year	25

1/ If the restaurant is continuing to operate under A.R.S. § 4-213(E), an additional fee, to be determined by the Department of Liquor Licenses and Control will be levied. *(Please see 2006 Tax Laws section for additional information)*

Note: The Department of Liquor Licenses and Control may issue such licenses with staggered renewal dates. A license issued less than 6 months before the scheduled renewal date shall be charged only one-half of the annual license fee [A.R.S. § 4-209C].

Note: Establishments operating on a seasonal basis not exceeding 6 months in any year are subject to license fees equal to half the annual rate [A.R.S. § 4-209E].

[A.R.S. § 4-209D]

Transfer Fees for Spirituous Liquor Licenses:

(1) From Person to Person	$300
(2) From Location to Location	100

[A.R.S. § 4-209F-G]

Transfer of Licenses. Bar, beer and wine bar and liquor store licenses may temporarily be transferred from counties with a population of 500,000 or more persons to counties with a population of 500,000 or less persons between July 1, 2006 and December 31, 2007.

Assignment Fees. A $100 fee is charged for a change of agent. For a holder of multiple licenses, the fee is $100 for the first license and all remaining licenses transferred to the same agent shall be $50 each, with a maximum fee of $1,000 [A.R.S. § 4-209H].

NOTE: License transfers are not permitted for restaurants, hotels, motels, clubs or domestic farm wineries or microbreweries, except that clubs may transfer a license from location to location.

Interim Permit Fees. For original license pending or license transfer pending, the fee is $100 [A.R.S. § 4-203.01].

Other Licenses. In addition, special event licenses are issued on a daily basis at a fee of $25 per day. The domestic wine festival license fee is $15 per event [A.R.S. § 4-203.02 and § 4-203.03].

PAYMENT SCHEDULE

Original license fees, interim permit fees, and transfer fees are due upon application. Payments for annual license renewal are due in advance. A system of staggered renewal dates may be implemented by the Department. Licenses that are not renewed on the due date are subject to a penalty equal of $150 [A.R.S. § 4-209A].

The Department of Liquor Licenses and Control collects the tax [A.R.S. § 4-112].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in 2003, 2004, 2007 and 2009.

2009 TAX LAWS

Laws 2009, Chapter 50 allows the consumption of wine and beer from broken packages in public places where an event or festival is taking place as long as a special license has been obtained.

Laws 2009, Chapter 81 increases the amount of beer a microbrewery may produce in a calendar year from 620,000 to 1,240,000 gallons.

2008 TAX LAWS

Laws 2008, Chapter 256 extended the lapsing date of FY 2008 (Laws 2006, Chapter 383) to FY 2013 for the Department of Liquor Licenses and Control to permit up to 15 restaurant licensees to continue to operate as a restaurant, if: 1) the department has determined, either through audit or consent agreement, that the establishment's food sales to total sales are at least 30% but less than the statutory requirement of 40% required to be considered a restaurant; 2) a licensee requests to continue to operate and meets additional criteria established by the Laws 2006, Chapter 383; and 3) the licensee pays an additional annual fee, which is to be determined by the department, for the special license. Those receiving approval may continue to operate beyond FY 2013 should the establishment continue to meet the criteria established by this chapter. Prior to Chapter 383, if an audit revealed that the licensee did not meet the definition of a restaurant, the department would revoke the license. The establishment could then have attempted to secure a spirituous liquor license, which does not have the food sale requirement of a restaurant license.

Laws 2008, Chapter 256 also required that 5% of the revenues generated from licensees that are permitted to continue to operate as a restaurant pursuant to A.R.S. § 4-213(E) be deposited into the Driving Under The Influence Abatement Fund established by A.R.S. § 28-1304. The remaining 95% is to be deposited into the General Fund in accordance with A.R.S. § 4-209(D) paragraph 12.

2006 TAX LAWS

Laws 2006, Chapter 383 allowed the Department of Liquor Licenses and Control to permit up to 15 restaurant licensees to continue to operate as a restaurant in FY 2007 and FY 2008, if: 1) the department has determined, either through audit or consent agreement, that the establishment's food sales to total sales are at least 30% but less than the statutory requirement of 40% required to be considered a restaurant; 2) a licensee requests to continue to operate and meets additional criteria established by the Chapter 383; and 3) the licensee pays an additional annual fee, which is to be determined by the department, for the special license. Those receiving approval may continue to operate beyond FY 2008 should the establishment continue to meet the criteria established by this chapter. Prior to Chapter 383, if an audit revealed that the licensee did not meet the definition of a restaurant, the department would revoke the license. The establishment could then have attempted to secure a spirituous liquor license, which does not have the food sale requirement of a restaurant license.

Chapter 383 appropriated $450,000 and 5 FTE Positions from the General Fund in FY 2007 to the department to hire 3 investigators and 2 auditors to comply with the legislation. Additionally, revenues to the General Fund are estimated to increase as a result of an additional license annual fee, to be determined by the department. This new fee is to be deposited into the General Fund and is in addition to the $500 charged annually to those holding a restaurant license. In FY 2007, revenues from the new license fee are estimated to total $450,000, offsetting the cost of Chapter 383.

2005 TAX LAWS

Laws 2005, Chapter 284 required the Department of Liquor Licenses and Control to issue additional bar, beer and wine bar and liquor store licenses at fair market value each year beginning August 12, 2005 and continuing through FY 2010 according to a formula based on county size. If more applicants exist than the number of new licenses to be awarded in a given year, Chapter 284 authorized the department to use a random selection method to determine the priority of applicants and allows it to retain additional license fee revenues to cover related costs. The department estimates that it will issue an additional 40 licenses of each type (bar, beer and wine bar, and liquor store) annually through FY 2010 and will increase its annual licensing revenue by approximately $6,300,000. Of this amount, in FY 2006 and FY 2007, the bill appropriated $1,250,000 to the department to improve its data processing systems, $905,000 would be allocated to counties under the existing license fee revenue sharing formula in A.R.S § 4-115 and the remaining $4,145,000 (less any costs retained by the department in connection with a possible random selection method described above) would be deposited into the State General Fund. *(Please see Tax Base and Rate section for issuance guidelines and additional information.)* (Effective August 12, 2005)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

INSURANCE PREMIUM TAX

INSURANCE PREMIUM TAX

DESCRIPTION

The insurance premium tax is imposed on net insurance premiums received by insurance companies for risks that exist within the state. Included are premiums for life insurance, accident and health insurance, fire insurance, vehicle insurance, prepaid dental and legal insurance, and other property and casualty premiums such as homeowners and commercial insurance, medical malpractice, and fidelity and surety insurance.

The tax applies to insurance companies formed under the laws of this state ("domestic" insurance carriers), insurance companies formed under the laws of another state within the United States ("foreign" insurance carriers), and insurance companies formed under the laws of another country ("alien" insurance carriers).

Insurance premium tax also includes "retaliatory" taxes, which are taxes owed by foreign insurers to the extent that the sum of taxes an insurer pays in Arizona is less than what the sum of taxes would be if the same insurance business were transacted in the insurer's "home" state (state of domicile).

DISTRIBUTION

Except for a portion of the insurance premium tax on fire insurance premiums and an additional premium tax paid on vehicle insurance premiums, insurance premium tax revenues are deposited in the state's General Fund [A.R.S. § 20-227].

Eighty-five percent of the insurance premium tax on fire insurance premiums is transferred to cities and towns and legally organized fire districts which procure the services of private fire companies and to cities and towns which have their own fire department or legally organized fire district. The proceeds are to be used to assist in funding pension plans for fire fighting personnel. The other 15% is deposited into the state's General Fund [A.R.S. § 20-224, A.R.S. § 9-951, and A.R.S. § 9-952].

An additional premium tax of 0.4312% paid on insurance carried on vehicles is separately accounted for and transferred to the Public Safety Personnel Retirement System for deposit in the Highway Patrol Account to assist in funding the pension plan for highway patrol personnel [A.R.S. § 20-224.01].

Table 1 on the following page provides the distribution of insurance premium tax since FY 1988. It should be noted that the "total" column in the following table reflects net collections for the fiscal year, and in some cases, does not equal the amounts distributed to the General Fund, the Public Safety Personnel Retirement System, and to cities and fire districts. In these cases, some collections were carried forward into the next fiscal year and were distributed then.

WHO PAYS THE TAX

All authorized insurers and formerly authorized insurers (insurers not currently authorized, but continuing collection of premiums and servicing of existing policies in the state) are subject to the insurance premium tax. In addition, health care service organizations, prepaid dental plan organizations, and prepaid legal insurance corporations are subject to the tax [A.R.S. § 20-206, A.R.S. § 20-224, A.R.S. § 20-401.05, A.R.S. § 20-416, A.R.S. § 20-837, A.R.S. § 20-1010, A.R.S. § 20-1060, A.R.S. § 20-1097.07].

Table 1

INSURANCE PREMIUM TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Transfer to Public Safety Retirement System	Transfer to Cities and Fire Districts	Total
FY 2009	$411,370,853	$17,507,607	$12,480,006	$441,358,466
FY 2008	$407,035,082	$17,569,437	$13,361,461	$437,965,980
FY 2007	$399,850,367	$17,861,557	$12,652,891	$430,364,815
FY 2006	$373,703,789	$17,057,414	$11,842,931	$402,604,134
FY 2005	$358,752,402	$16,234,673	$12,459,164	$387,446,239
FY 2004	$308,967,921	$15,441,384	$11,677,878	$336,087,183
FY 2003	$226,648,800	$14,009,100	$10,588,600	$251,246,500
FY 2002	$195,036,900	$12,633,600	$8,148,700	$215,819,200
FY 2001	$183,394,700	$11,419,500	$7,187,100	$202,001,300
FY 2000	$160,723,567	$10,953,470	$5,670,876	$177,344,423
FY 1999	$150,697,201	$10,735,299	$5,178,291	$166,614,522
FY 1998	$124,603,122	$10,208,838	$5,090,836	$139,960,268
FY 1997	$120,518,800	$9,761,100	$5,418,300	$135,697,400
FY 1996	$114,153,900	$8,904,400	$5,627,300	$128,673,900
FY 1995	$111,102,609	$8,310,295	$5,181,985	$124,594,889
FY 1994	$110,731,681	$7,988,541	$5,018,862	$123,739,084
FY 1993	$103,002,519	$7,389,377	$4,773,301	$115,165,197
FY 1992	$100,543,557	$6,477,055	$4,664,253	$111,684,865
FY 1991	$92,533,400	$3,033,000	$4,736,200	$100,302,600
FY 1990	$116,424,400	$0 1/	$4,992,900	$121,347,300

1/ No money was transferred to the Public Safety Personnel Retirement System as a result of Laws 1989, Chapter 312, Section 21, which stipulated that revenues from vehicle risks be transferred to the General Fund rather than to the Law Enforcement Retirement System.

SOURCE: Department of Insurance.

TAX BASE AND RATE

The insurance premium tax applies to premiums paid for insurance covering liabilities that exist within the state. The tax is levied on the net premium income, which is defined as the total amount received from premiums after deducting cancellations, returned premiums, policy dividends, refund reductions, savings coupons, and similar amounts paid or credited to policyholders within the state, and not reapplied as premiums for new, additional, or extended insurance [A.R.S. § 20-224].

Except for fire insurance and surplus line insurance, the insurance premium tax rate for most types of insurance is 2% of net premium income [A.R.S. § 20-224].

The insurance premium tax rate for fire insurance is 0.66% for insurance on properties located in an incorporated city or town which procures the services of a private fire company. The rate on all other fire insurance is 2.2% [A.R.S. § 20-224].

The insurance premium tax rate on premiums paid to brokers selling surplus line insurance and industrial insurance contracts procured from unauthorized insurers is 3% of the net premium income [A.R.S. § 20-401.07 and A.R.S. § 20-416].

Certain types of insurers, employee benefit trusts, and voluntary employees' beneficiary associations are exempted from the insurance premium tax, including some hospital and medical service corporations, some fraternal benefit societies, and extended warranty insurers [A.R.S. § 20-108].

Title insurance premiums are also exempted from the insurance premium tax and are instead subject to the state income tax [A.R.S. § 20-224 and A.R.S. § 20-1566].

Premiums paid by government entities to non-profit hospitals and medical, dental, and optometric service corporations are exempt from the insurance premium tax [A.R.S. § 20-837].

TAX REFUNDS AND/OR TAX CREDITS

Enterprise/Military Reuse Zones Tax Credit
A tax credit against insurance premium tax liability is allowed for net increases in employment positions of residents of the state by an insurer that is located in an enterprise zone or a military reuse zone. A credit may not be claimed under both an enterprise zone and a military reuse zone for the same employee [A.R.S. § 20-224.03 and A.R.S. § 20-224.04].

The tax credit for insurers in an enterprise zone equals one-fourth of taxable wages (not to exceed $500) paid to an employee in a qualified employment position in the first year of employment, one-third of taxable wages (not to exceed $1,000) in the second year, and one-half of taxable wages (not to exceed $1,500) in the third year.

The tax credit for insurers in a military reuse zone equals $1,000 per year in the first year of employment, increasing by $500 per year up to $3,000 per year in the fifth year of employment for each dislocated military base employee, and $500 per year in the first year of employment, increasing by $500 per year up to $2,500 per year in the fifth year of employment for each employee other than a dislocated military base employee.

Health Insurance Premium Tax Credit
A premium tax credit is allowed for health care insurers that provide health insurance to qualified individuals and small businesses that are certified by the Arizona Department of Revenue (DOR). An application is required to DOR for the tax credit, which includes a written declaration subject to the penalties of perjury [A.R.S. § 20-224.05 and A.R.S. § 43-210].

An individual or small business must obtain health insurance to receive the credit. In order for the insurer to claim a credit on an individual, that individual must be a United States citizen or legally residing resident. The individual must also: 1) earn less than 250% of the federal poverty level, be a resident of Arizona, not have had health insurance for at least the past 6 consecutive months, and not be enrolled by any other state or federal government health insurance program; or 2) work for a small business that has been in existence for at least 1 calendar year and that has not provided health insurance to its employees for at least 6 months. A small business is defined as between 2 and 25 employees during the most recent calendar year.

The amount of the tax credit for individuals is the lesser of the following: $1,000 for single coverage, $500 for coverage of a child, or $3,000 for family coverage; or 50% of the health insurance premium. The amount of the tax credit for small businesses is the lesser of the following: $1,000 for single coverage or $3,000 for family coverage; or 50% of the health insurance premium.

Health insurers are required to deduct the amount of the tax credit from the premium paid by the small business for health insurance. In this way, the state effectively subsidizes the cost of the small business's health insurance in the amount of the premium tax credit. The maximum amount of tax credits allowed in a calendar year is capped at $5,000,000. The tax credits are administered by DOR.

PAYMENT SCHEDULE

Payment of the preceding calendar year's insurance premium tax liability is due on or before March 1 of each year [A.R.S. § 20-224].

Any insurer which paid or is required to pay a tax of $2,000 or more for the preceding calendar year is required to pay an "installment" payment of 15% of that amount on or before the 15th day of each month from March through August. These installment payments are then credited against the insurance premium tax due in March of the following year [A.R.S. § 20-224].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law and other revenue changes that have been enacted by the Legislature since 2003. The estimated dollar impact of these changes is summarized by fiscal year in Table 2 below:

Table 2

ESTIMATED DOLLAR VALUE OF TAX LAW AND REVENUE CHANGES

Session/Chapter	Description	Revenue Impact
FY 2010		
L 2009, Ch 168	Expands tax credits for Student Tuition Organization donations to include IPT	Undetermined
FY 2007		
L 2006, Ch 378	Establishes a premium tax credit for small business health insurers	$ 5,000,000
FY 2005		
L 2003, Ch 136	Remove Exemption for HMOs Contracting w/AHCCCS (annualize exemption impact)	$ 23,242,000
FY 2004		
L 2003, Ch 136	Remove Exemption for HMOs Contracting w/AHCCCS (3/4 year)	$ 69,728,100

There were no changes enacted to this tax in 2004, 2005, and 2009.

2009 TAX LAWS

Laws 2009, Chapter 135 requires the state fire marshall to certify and report which properties are located within an incorporated city or town that have service from a private fire company. The law prohibits action from being taken against an insurer that relies on the state fire marshall's report when calculating fire insurance premium taxes. Additionally, the law allows for a refund to be issued to fire insurance providers for any excess amount of premium tax paid.

Laws 2009, Chapter 168 allows insurers to take a tax credit against their insurance premium tax liability for donations to Student Tuition Organizations (STO). Also, the law eliminates the sunset date of June 30, 2011 for the credit. The credit was capped at $10.0 million in FY 2007, increasing by 20% in each successive year. Previously, the credit was only allowed for corporate income taxes. There is no fiscal impact as a result of this law as the inclusion of insurance premium tax liability did not alter the cap for the credit.

STO contributions are used to fund scholarships or grants for students of low-income families. The students must have transferred from a public school in the previous year to a qualified private school, enrolled in a private school kindergarten program or received a grant scholarship from the STO program in the previous year.

2008 TAX LAWS

Laws 2008, Chapter 118 clarified current statute by exempting accountable health plans from premium taxes for net premiums received for health benefits issued to small employers. The law also clarified current practice by exempting groups of small businesses that voluntarily pool their health plans from premium taxes [A.R.S. § 20-2304J].

2007 TAX LAWS

Laws 2007, Chapter 263 required an application to DOR for the health insurance premium tax credit to include a written declaration that it is made under the penalty of perjury. Chapter 263 also clarified that the individual or

small business must obtain health insurance to receive the credit, and applied a retroactive date of September 21, 2006.

2006 TAX LAWS

Laws 2006, Chapter 378 established a tax credit to health care insurers that provide health insurance to individuals and small businesses that have not had health insurance for the past 6 months. The tax credit began December 31, 2006, is capped at $5,000,000 per calendar year, and is administered by DOR.

2003 TAX LAWS

Laws 2003, Chapter 136 removed the special exemption from the insurance premium tax for health plans that contract with the Arizona Health Care Cost Containment System beginning October 1, 2003. These plans will be subject to the tax at the 2% rate. The estimated impact of this tax law change for FY 2004 is $69.7 million. The estimated full year impact of this legislation is an additional $23.2 million, or $93.0 million, beginning in FY 2005.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

ESTATE TAX

ESTATE TAX

DESCRIPTION

The estate tax is imposed on the transfer of wealth that occurs upon the death of an estate owner. The tax is also imposed on every generation-skipping transfer of property. The amount of the state estate tax is equal to the maximum allowable federal tax credit for state death taxes under Section 2011 of the Internal Revenue Code. (Note that since the state receives or picks up an amount equal to this federal tax credit, the state estate tax is also often referred to as a "pick-up" tax.) As a result of the federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, the state estate tax was repealed after December 31, 2004.

DISTRIBUTION

Estate tax revenues are distributed to the Tax Refund Account in amounts sufficient to meet tax refund requirements. All remaining amounts are deposited in the state General Fund [A.R.S. § 42-1116].

Table 1

TAX COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2009	$210,372	FY 1999	$87,250,096
FY 2008	$320,203	FY 1998	$62,904,674
FY 2007	$(550,764)	FY 1997	$65,432,336
FY 2006	$11,683,602	FY 1996	$54,207,976
FY 2005	$31,236,067	FY 1995	$48,771,386
FY 2004	$38,818,431	FY 1994	$40,616,732
FY 2003	$94,217,919	FY 1993	$39,714,304
FY 2002	$80,552,220	FY 1992	$25,652,448
FY 2001	$74,651,783	FY 1991	$29,001,249
FY 2000	$80,644,330	FY 1990	$23,916,529

SOURCE: Department of Revenue, Annual Reports. Figures are net of refunds.

EGTRRA reduced the state death tax credit by 25% in 2002, 50% in 2003, 75% in 2004, and 100% in 2005. The phase-out of this tax credit under EGTRRA is the reason for the large decline of state estate tax collections after FY 2003.

No state tax is owed on an estate of a person who died after December 31, 2004. However, the state General Fund still collected estate tax revenues in FY 2006 due to the filing of extensions and amended returns. Small amounts of state estate taxes were processed in the period between FY 2007 and FY 2009 due to the filing of amended returns.

WHO PAYS THE TAX

The estate tax is paid by the personal representative of an estate or generation-skipping trust. (Note that due to the repeal of the estate tax, it is no longer included under Arizona Revised Statutes.)

"Personal representative" is defined as the executor or administrator of a decedent's estate; trustee of a generation-skipping trust; or, in the absence of such executor or appointed trustee, any person in actual or constructive possession of any portion of the estate subject to the tax.

TAX BASE

The estate tax applies to transfer of a resident's gross estate to its beneficiaries as defined in Section 2031 of the Internal Revenue Code or a non-resident's Arizona estate that is included in the gross estate. The Arizona estate of non-residents includes (1) real property located in Arizona and (2) tangible personal property having actual situs in Arizona.

The generation-skipping tax applies to every transfer subject to the federal tax under Subtitle B, Chapter 13 of the Internal Revenue Code. The estate subject to such tax includes (1) real property located in Arizona, (2) tangible personal property having actual situs in Arizona, and (3) intangible personal property owned by a trust having its principal place of administration in Arizona at the time of transfer.

TAX RATE

The tax levied on residents' estates is equal to Arizona's share of the maximum allowable federal tax credit for death taxes paid to states. As noted above, the federal credit was phased out over a 4-year period that began in tax year 2002. In addition, the maximum federal credit is reduced by an amount that represents death taxes imposed on the estate by another state. The amount of the reduction allowed for death taxes paid to another state is equal to the lesser of:

(1) The amount of the death tax paid to the other state and credited against the federal estate tax.
(2) The amount of the federal tax credit that is apportioned to the other state based on the ratio of the value of the estate's property located in that state to the total value of the property of the estate.

The tax levied on non-residents' estates is equal to the amount of the federal tax credit that is apportioned to Arizona based on the ratio of the value of the estate's property located in Arizona to the total value of the property of the estate.

The tax levied on generation-skipping transfers of property is equal to Arizona's share of the maximum federal tax credit allowable under Section 2604 of the Internal Revenue Code. Arizona's share is based on the ratio of the value of the property located in Arizona to the total value of the property included in the generation-skipping transfer.

PAYMENT SCHEDULE

If the personal representative of an estate is required to file a federal estate tax return, then a state estate tax return is also required and due on or before the required federal filing date. An extension for filing a state estate tax return is granted automatically if the federal due date is extended. Also, the Department of Revenue may grant an extension up to 6 months for filing the Arizona estate tax return if good cause is shown.

The personal representative of the estate shall pay the state estate tax no later than the required filing date, including any extensions of such date. The Department of Revenue may, however, extend the time for payment if good cause is shown.

If federal estate tax payments are made in installments under Section 6166 of the Internal Revenue Code and the amount of the tax due exceeds $50,000, then the personal representative may elect to pay in the same installments as the federal tax. Note that interest is assessed until the balance is paid.

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax from 2003 to 2005. As noted below, the Arizona estate tax was permanently repealed in 2006.

2006 TAX LAWS

Laws 2006, Chapter 262 permanently repealed the Arizona estate tax. (Effective retroactively from January 1, 2006)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

OTHER GENERAL FUND REVENUE SOURCES

BINGO LICENSE AND LIEU TAX

DESCRIPTION

The bingo license and lieu tax consists of a license fee charged to qualified operators of bingo games and a bingo tax assessed on the receipts from bingo games. There are 3 license classifications for bingo operators based on the amount of gross receipts. The license fee and tax rate vary by classification, with a maximum tax rate of 2% of gross receipts. All bingo games in Arizona must be conducted by a licensed person. The Department of Revenue serves as the licensing authority in the state. The tax is in lieu of the transaction privilege tax.

DISTRIBUTION

All bingo tax revenue, administrative receipts, license fees, penalties and interest collections are deposited in the state General Fund [A.R.S. § 5-407H].

Table 1

BINGO LICENSE FEE AND LIEU TAX COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2009	$551,588	FY 1999	$717,830
FY 2008	$558,330	FY 1998	$750,970
FY 2007	$619,387	FY 1997	$774,129
FY 2006	$623,480	FY 1996	$791,848
FY 2005	$610,055	FY 1995	$909,562
FY 2004	$624,501	FY 1994	$923,834
FY 2003	$626,770	FY 1993	$922,180
FY 2002	$629,680	FY 1992	$907,278
FY 2001	$634,384	FY 1991	$850,228
FY 2000	$677,036	FY 1990 1/	$796,777

1/ The first full fiscal year in which all collections were deposited in the General Fund.

SOURCE: Department of Revenue, Tax Facts.

WHO PAYS THE TAX

The license fee and lieu tax is paid by persons and organizations that have been licensed by the Department of Revenue to conduct the game of bingo [A.R.S. § 5-403 and 5-407H].

TAX BASE

Licenses. A flat fee and a percentage of adjusted gross receipts or gross receipts are charged for bingo licenses, license renewals and games, depending on the license classification. Class A licenses are taxed on adjusted gross receipts, while Class B and Class C licenses are taxed on gross receipts. Adjusted gross receipts means gross receipts minus prize money paid [A.R.S. § 5-414].

License Classifications. There are 3 license classes based on the bingo game's gross receipts per year [A.R.S. § 5-413]:

- *Class A License*. Bingo games for which the gross receipts do not exceed $15,600. This license cannot be issued to persons holding a liquor license unless it is a club license. The reporting period is 1 year coinciding with the license's term.
- *Class B License*. Bingo games for which gross receipts do not exceed $300,000. There are 4 reporting periods coinciding with the quarters of the license's term.
- *Class C License*. Bingo games for which gross receipts exceed $300,000. There are 12 reporting periods coinciding with each month of the license's term.

TAX RATE

The following fees and tax are assessed for the different license classes [A.R.S. § 5-414]:

License Class	Local Governing Body Fee	License Fee	Bingo Tax
A	$ 5	$ 10	2.5% of Adjusted Gross Receipts
B	$25	$ 50	1.5% of Gross Receipts
C	$50	$200	2.0% of Gross Receipts

PAYMENT SCHEDULE

License Fee Due Date. The license fee, which is non-refundable, is due and paid at the time of application. Licenses expire 1 year from the issue date and must be renewed annually [A.R.S. § 5-403].

Bingo Tax. The tax is due at the time of each financial report submitted by the licensee according to the above-described schedule for the corresponding license class [A.R.S. § 5-407I].

License Fee Collection. The initial application for license is submitted to the local governing body along with the one-time local governing body fee and the license fee. The license fee and an original or certified copy of the application must be received by the Department of Revenue before a license is issued. Subsequent renewal fees, which are the same amount as the license fee, are paid to the Department of Revenue. A 30-day grace period from the expiration date is given for renewal with a penalty equal to the license fee; otherwise after such period a licensee must reapply for a new license [A.R.S. § 5-403].

The Department of Revenue collects the tax [A.R.S. § 5-407H].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax from 2003 to 2009.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

BOULDER CANYON PROJECTS - IN LIEU PAYMENTS

DESCRIPTION

These are payments made by the United States or its agencies or instrumentalities to the State of Arizona in lieu of taxes from the proceeds of any hydroelectric power development ("Boulder Canyon Projects") on the Colorado River [A.R.S. § 45-1331A].

DISTRIBUTION

Two-thirds of payments received are dedicated to the state General Fund. The remaining one-third of payments received are placed in a special fund of the county in which the hydroelectric power development is located and are used for recreational facilities, access roads, and public works [A.R.S. § 45-1331].

Table 1

TAX COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2009	$200,000	FY 1999	$200,000
FY 2008	$200,000	FY 1998	$400,000
FY 2007	$200,000	FY 1997	-
FY 2006	$200,000	FY 1996	$200,000
FY 2005	$200,000	FY 1995	$200,000
FY 2004	$200,000	FY 1994	$200,000
FY 2003	$200,000	FY 1993	$200,000
FY 2002	$200,000	FY 1992	$200,000
FY 2001	$200,000	FY 1991	$200,000
FY 2000	$200,000	FY 1990	$200,000

SOURCE: State Treasurer's Office. Total collections from Boulder Canyon Projects are derived by summing the payments to the state General Fund and to Mohave County.

WHO PAYS THE TAX

Department of the Interior - Bureau of Reclamation.

TAX BASE AND RATE

These are lump sum payments received from the Federal Government in lieu of taxes on the proceeds from the Boulder Canyon Projects.

PAYMENT SCHEDULE

Federal payments are normally in August of each year.

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in the period from 2003 to 2009.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

COMMERCIAL NUCLEAR GENERATING STATION ASSESSMENT

DESCRIPTION

The commercial nuclear generating station assessment is levied on each consortium of public service corporations engaged in operating a commercial nuclear generating station. In effect, only the Palo Verde nuclear generating station is assessed by this law. Collection amounts are used by the state to develop emergency response capabilities for accidents caused at a commercial nuclear generating station. The assessment is equal to the amount appropriated by the Legislature to the Nuclear Emergency Management Fund for nuclear emergency response.

DISTRIBUTION

Monies collected from the commercial nuclear generating station assessment are deposited in the General Fund [A.R.S. § 26-306.01D].

Table 1

COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2009	$1,523,108	FY 1999	$926,814
FY 2008	$1,440,492	FY 1998	$880,824
FY 2007	$1,367,248	FY 1997	$878,374
FY 2006	$1,198,087	FY 1996	$850,091
FY 2005	$1,168,550	FY 1995	$858,564
FY 2004	$1,036,085	FY 1994	$870,000
FY 2003	$1,012,992	FY 1993	$833,000
FY 2002	$940,611	FY 1992 1/	$1,613,000
FY 2001	$924,778	FY 1991	$651,200
FY 2000	$945,935	FY 1990	$635,100

1/ Two deposits were made in FY 1992. A deposit of $770,000 was made in July 1991 and another deposit of $843,000 was made in June 1992.

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

The assessment is paid by each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station [A.R.S. § 26-306.01D]. In practice, the assessment is only paid by the Palo Verde nuclear plant.

TAX BASE AND RATE

The amount of the assessment is equal to the biennial legislative appropriation from the state General Fund to the Nuclear Emergency Management Fund, plus an additional 10% per year for interest [A.R.S. § 26-306.01D]. However, any unexpended monies in the Nuclear Emergency Management Fund at the end of each fiscal year are used to offset the assessment in future years [A.R.S. § 26-306.02B]. The assessments are used to develop, maintain, and support the state plan for responding to accidents at a commercial nuclear generating station [A.R.S. § 26-306.01A].

PAYMENT SCHEDULE

The assessment is due to the Department of Revenue each year on the date that the appropriation to the Nuclear Emergency Management Fund becomes available for expenditure. If the assessment is not paid on this date, interest is charged at the rate of 10% per year until payment is received. If a consortium fails to pay the assessment within 1

year, the Legislature may require the director of Emergency Management to notify the United States Nuclear Regulatory Commission [A.R.S. § 26-306.01D&E].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in 2004, 2006, and 2008..

The following tax law changes levied biennial assessments against each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station. The assessment amounts were then appropriated from the state General Fund to the Nuclear Emergency Management Fund to develop and maintain the state response plan for an accident at a commercial nuclear generating station. The monies were allocated to various entities, including the Department of Emergency and Military Affairs, the Radiation Regulatory Agency, Maricopa County, and the town of Buckeye.

2009 TAX LAWS

Laws 2009, Chapter 73 levied an assessment of $1,523,108 in FY 2010 and $1,569,091 in FY 2011. (Effective July 10, 2009)

2007 TAX LAWS

Laws 2007, Chapter 25 levied an assessment of $1,367,248 in FY 2008 and $1,440,492 in FY 2009. (Effective April 10, 2007)

2005 TAX LAWS

Laws 2005, Chapter 184 levied an assessment of $1,168,550 in FY 2006 and $1,198,087 in FY 2007. (Effective April 25, 2005)

2003 TAX LAWS

Laws 2003, Chapter 91 levied an assessment of $1,012,992 in FY 2004 and $1,036,085 in FY 2005. (Effective April 23, 2003)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

IN LIEU TAX ON PRIVATE RAILROAD CAR COMPANIES

DESCRIPTION

This tax is imposed in lieu of all other taxes on the property and business of private railroad car companies in the state except for the annual license tax and registration fee [A.R.S. § 42-14308]. Private railroad car companies operate, furnish, or lease cars that transport people or freight over railroad lines located wholly or partially in the state, and that are not owned, leased, or operated by them [A.R.S. § 42-14301].

DISTRIBUTION

Table 1 below provides historical private railroad car company tax collections for the past 20 years. The Department of Revenue remits tax payments from private railroad car companies to the State Treasurer for deposit in the state General Fund [A.R.S. § 42-14308].

Table 1

TAX COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2009	$1,435,069	FY 1999	$1,441,440
FY 2008	$1,615,246	FY 1998	$1,494,821
FY 2007	$1,709,362	FY 1997	$1,525,854
FY 2006	$1,426,435	FY 1996	$1,641,634
FY 2005	$1,312,163	FY 1995	$1,240,453
FY 2004	$1,335,056	FY 1994	$1,036,897
FY 2003	$1,485,996	FY 1993	$894,851
FY 2002	$1,506,625	FY 1992	$878,618
FY 2001	$1,349,685	FY 1991	$824,207
FY 2000	$1,476,728	FY 1990	$702,678

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

The tax is paid by private railroad car companies in Arizona.

TAX BASE AND RATE

The tax base is the full cash value as determined by the Department of Revenue on or before June 15 each year [A.R.S. § 42-14305]. The assessed value of private railroad car property is derived by multiplying its full cash value by the Class 5 assessment ratio [A.R.S. § 42-12005]. The assessment ratio for Class 5 property is re-calculated each year based on a statutory formula [A.R.S. § 42-15005]. The assessment ratio for FY 2009 was 20%.

The tax rate for properties operated by private railroad car companies is equal to the sum of the average rates for primary and secondary property taxes in the taxing jurisdictions in this state for the current year [A.R.S. § 42-14308]. The statewide average tax rate in FY 2009 was $9.23 per $100 of assessed value.

PAYMENT SCHEDULE

This tax is due and payable on October 1 and delinquent after November 1. (Delinquent taxes bear interest at the rate determined pursuant to A.R.S. § 42-1123 for each subsequent month in which the tax remains unpaid.) The tax is levied and collected by the Department of Revenue for deposit in the state General Fund [A.R.S. § 42-14308].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in 2003, and 2005 to 2009.

2004 TAX LAWS

Laws 2004, Chapter 61 provided that the full cash values for private car companies that are used for tax purposes are a matter of public record. (Effective August 25, 2004)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

PARI-MUTUEL TAX

DESCRIPTION

The pari-mutuel tax is assessed on the amount of money wagered at horse and dog racing facilities and simulcasts in the state. The tax structure is separated according to the type of racing – horse or dog – and the population size of the county in which the facility is located. The Department of Racing also collects fees for licenses issued to facilities and personnel involved in the racing industry and receives a share of the unclaimed property monies annually collected by the Department of Revenue (DOR). Pari-mutuel taxes, license fees, and unclaimed property monies are distributed among several different funds.

The pari-mutuel tax does not include Indian gaming because the Indian tribes do not conduct pari-mutuel races. Also, the payments that the tribes make to the state pursuant to Proposition 202 are not taxes. The state cannot tax the tribes, payments that the tribes make to the state pursuant to Proposition 202 are not taxes, these contributions are "voluntary" payments made in exchange for substantial exclusivity in their gaming activities.

DISTRIBUTION

Table 1 below provides pari-mutuel tax and license fee collections for the past 20 years. Pari-mutuel revenues are distributed to several different funds.

Table 2 on the following page provides the distribution percentages and amounts for the various distributions in FY 2007 [A.R.S. § 5-113].

Table 1

PARI-MUTUEL COLLECTIONS

Fiscal Year	Pari-Mutuel Taxes	Licenses	Total Collections
FY 2009	$326,590	$80,356	$406,946
FY 2008	$429,600	$168,600	$598,200
FY 2007	$431,400	$53,500	$484,900
FY 2006	$527,860	$61,426	$589,286
FY 2005	$483,901	$194,954	$655,914
FY 2004	$565,204	$130,900	$696,104
FY 2003	$628,564	$111,750	$740,314
FY 2002	$750,354	$158,988	$909,342
FY 2001	$1,802,280	$91,558	$1,893,838
FY 2000	$2,549,046	$59,506	$2,608,552
FY 1999	$2,945,419	$166,829	$3,112,248
FY 1998	$2,943,787	$88,530	$3,032,317
FY 1997	$2,606,325	$58,126	$2,664,451
FY 1996	$2,802,122	$173,655	$2,975,775
FY 1995	$8,535,300	$87,100	$8,622,400
FY 1994	$8,507,000	$49,200	$8,556,200
FY 1993	$8,080,200	$184,400	$8,264,600
FY 1992	$8,085,200	$208,300	$8,293,500
FY 1991	$7,940,943	$63,408	$8,004,351
FY 1990	$9,348,552	$123,218	$9,471,770

SOURCE: Arizona Department of Racing.

The funds listed in Table 2 receive revenues from pari-mutuel taxes and license fees collected by the Racing Commission as well as a share of the unclaimed property monies annually collected by DOR [A.R.S. § 44-313]. Net of refunds and special distributions from unclaimed property monies, the Department of Racing receives 20% of the unclaimed property monies collected annually. Revenues from pari-mutuel taxes, license fees, and unclaimed property monies are distributed among the 8 funds displayed below, enabling the Department of Racing to reach the statutorily-authorized levels for each fund. Remaining monies are deposited into the General Fund. In FY 2009,

approximately $5,331,000 in revenues were distributed to the 8 funds, and $5,498,500 in revenues were deposited in the General Fund. If not for the minimum dollar caps established for the 8 funds' distribution formulas as noted in the table below, all of the department's pari-mutuel, license fee, and unclaimed properties monies would have been distributed to the 8 funds, and none would have been distributed to the General Fund.

Laws 2006, Chapter 363 raised the statutory amounts for 6 of the 8 funds that receive distributions from pari-mutuel taxes, license fees, and unclaimed property monies. The new distribution took effect in FY 2007.

Table 2

FY 2009 DISTRIBUTION OF PARI-MUTUEL REVENUES

Fund	FY 2009 Distribution	Formula
Arizona County Fairs Racing Betterment Fund	$1,200,000	$1,200,000 or 22%, whichever is less
County Fairs Livestock and Agriculture Promotion Fund	$1,800,000	$1,800,000 or 33%, whichever is less
Arizona Breeders' Award Fund	$1,200,000	$1,200,000 or 22%, whichever is less
Arizona Stallion Award Fund	$60,000	$60,000 or 1%, whichever is less
County Fair Racing Fund	$450,000	$450,000 or 9%, whichever is less
Agricultural Consulting and Training Fund	$154,034	1% of total pari-mutuel collections
Racing Administration Fund	$67,000	$67,000 or 1%, whichever is less
Arizona Exposition and State Fair Fund	$400,000	$400,000 or 11%, whichever is less
State General Fund	$5,498,526	Any remaining monies
Pari-mutuel Taxes, License Collections and Unclaimed Property Monies	$10,829,560	Total Distribution

The FY 2010 Revenues Budget Reconciliation Bill (BRB) (SB 1025, 3rd Special Session) would have required pari-mutuel proceeds and unclaimed property revenues to be distributed to the General Fund, rather than to Racing funds. This BRB, however, was vetoed by the Governor. The FY 2010 General Appropriation Act also appropriated General Fund monies to current Racing fund recipients to partially offset the loss of pari-mutuel taxes. As a result, the Department of Racing has both a General Fund appropriation and non-appropriated funds for the same purpose.

WHO PAYS THE TAX

The taxpayer is the person, firm, partnership, corporation, or association that holds a pari-mutuel permit. No single permittee may simultaneously own more than 4 racetracks within the state. No permittee which holds a permit in a county of over 300,000 persons may simultaneously hold a permit for the same kind of racing in another county having a population of over 300,000 [A.R.S. § 5-108.03].

TAX BASE AND RATE

The tax base is the "handle", which is defined as the total amount of money contributed to pari-mutuel pools by bettors [A.R.S. § 5-101 and A.R.S. § 5-111].

For dog racing, the state receives 5.5% of the total handle [A.R.S. § 5-111B].

For horse racing, the state receives 2% of the first $1,000,000 of the daily pari-mutuel pool, and 5% of the amount exceeding $1,000,000 of the daily pari-mutuel pool [A.R.S. § 5-111D].

Exemptions to the pari-mutuel tax include [A.R.S. § 5-111]:

- The portion of the handle for wagering on simulcasts of out-of-state races.
- Racing meetings conducted by county fair associations with the permission of the Racing Commission. This exemption is limited to one racing meeting each year.
- Monies received from horse and dog races held on charity days. Charity days are defined as days on which the net proceeds of the pari-mutuel pool are donated to non-profit organizations and corporations that benefit the general public.

Licenses. The Racing Commission issues licenses to facilities and personnel involved in the racing industry. The licenses are valid for a period not to exceed 3 years. The Racing Commission collects fees for the licenses it issues as described in Table 3 [A.R.S. § 5-104].

Table 3

RACING COMMISSION LICENSE FEES

Occupational licenses	Up to $50
Owner, trainer, veterinarian, authorized agent, officials, assistant trainer, stable or kennel name renewal	Up to $75
Owner-trainer, driver, jockey, jockey agent, or apprentice jockey	Up to $150
New stable name or new kennel name	Up to $500
Duplicate license	Up to $5
Temporary license	Up to $50
Greyhound racing kennels	Up to $100
Farms or other operations where greyhounds are raised for purposes of dog racing	Up to $100
Combination of greyhound racing kennels, farms, or other operations	Up to $100

Persons, firms, partnerships, corporations, or associations applying for a pari-mutuel permit are not charged a permit fee. Instead, the department charges a 3-year licensing fee of $15 to the following individuals representing permit applicants, where appropriate: racetrack owners with a stake of 10% or greater, corporate officers, racetrack general managers, and board members of county associations. However, prior to the issuance of a permit, each applicant must post a bond document of up to $100,000 for dog racing and up to $300,000 for horse racing payable to the department and the state [A.R.S. § 5-107D]. Each pari-mutuel permit holder must also make a refundable $5,000 deposit with the department 10 days prior to a racing meeting to insure payment of the amount of pari-mutuel tax due to the state [A.R.S. § 5-107C].

TAX REFUNDS AND/OR TAX CREDITS

Hardship Credit. On August 1 of each year, a permittee is eligible for a hardship tax credit determined as follows [A.R.S. § 5-111I]:

- Determine the percentage decrease in pari-mutuel wagering in the previous fiscal year compared to the base year. The base year is defined as the highest total pari-mutuel wagering at the racetrack and all additional wagering facilities owned by the permittee for FY 1990 through FY 1994.
- Multiply the total pari-mutuel tax liability for the current year by the percentage decrease determined above, and multiply the result by 3.
- Reduce the permittee's pari-mutuel tax due for the current period, and all future periods, by the result. The hardship tax credit can be used in addition to any other tax exemptions, rebates, and credits.

The revenue projections developed by the Department of Racing and included in the tables on the next page are based on historical levels and industry trends and assume the continued operation of each of Arizona's commercial race tracks. These tables indicate state pari-mutuel taxes from dollars wagered during FY 2009. The tables also provide actual and estimated amounts for the Hardship Tax Credit during FY 2010.

These revenue projections imply that as the pari-mutuel tax revenues continue to decline compared to prior fiscal years, the contributions pursuant to A.R.S. § 44-313 from the unclaimed property monies to each of the 8 funds listed in Table 2 above will increase due to the smaller amount of pari-mutuel tax revenues available to fulfill the 8 funds' statutory requirements. From FY 2001 to FY 2009, annual pari-mutuel tax collections declined by 82%. Since the portion of the unclaimed property monies remaining after its distribution to the 8 funds goes to the General Fund, if there are less of these monies remaining it will reduce the monies available for the state's General Fund. Therefore, the unclaimed property monies become increasingly important to the continuation of the programs supported by these 8 funds, particularly as Laws 2006, Chapter 363 raises the statutory distributions to 6 of the 8 funds.

FY 2009 Estimate Hardship Tax Credit

TRACK	BASE YEAR	BASE YEAR AMOUNT	ACTUAL FY 2009 AMOUNT WAGERED	ACTUAL FY 2009 PERCENT DECREASE	ACTUAL PARI-MUTUEL TAX DUE	TAX DUE BASED ON PERCENT DECREASE	ESTIMATED FY 2010 HARDSHIP CREDIT	CARRYOVER FROM FY 2009 HARDSHIP TAX CREDIT	FY 2010 TAX CREDIT WITH FY 2009 CARRYOVER
HORSE TRACKS:									
Fort Tuthill Downs	FY 1994	$798,671	$0	-100.00%	$0	$0	$0	$7,320	$7,320
Rillito Park	FY 1990	$3,887,981	$0	-100.00%	$0	$0	$0	$165,088	$165,088
Turf Paradise	FY 1994	$101,467,993	$107,997,451	6.43%	$335,084	$0	$0	$0	$0
Yavapai Downs	FY 1994	$17,490,826	$29,436,790	68.30%	$80,474	$0	$0	$0	$0
GREYHOUND TRACKS:									
Apache Greyhound Park	FY 1990	$12,262,396	$3,150,048	-74.31%	$0	$0	$0	$360,850	$360,850
Phoenix Greyhound Park	FY 1990	$49,391,582	$36,239,748	-62.13%	$1,297,201	$805,902	$2,417,705	$4,571,563	$6,989,268
	FY 1994	$46,293,967							
Tucson Greyhound Park	FY 1990	$38,110,346	$13,372,923	-64.91%	$232,750	$151,078	$453,234	$2,420,180	$2,873,414

Capital Improvements. The permittee's pari-mutuel annual tax liability may be reduced in order to fund capital improvements to racetracks. The reduction can be up to 1% of the total handle in counties having a population of 500,000 or more, and up to 2% in all other counties. The annual reduction continues until sufficient funds have been obtained for the completion of the capital improvement project. The projects must be approved by the Racing Commission. [A.R.S. § 5-111.02 and A.R.S. § 5-111.03].

The capital improvements provision expired on June, 30 1992 for counties with populations of 500,000 or more and on June 30, 1999 for all other counties. Projects approved prior to these dates may continue with the tax reduction until sufficient funds have been obtained for completion of the capital improvement.

PAYMENT SCHEDULE

Pari-mutuel taxes are paid daily during the racing season. The tax is collected by the Department of Racing.

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in the period from 2003 to 2005, 2007 to 2009.

2006 TAX LAWS

Laws 2006, Chapter 363 raised the statutory dollar amounts for funds that receive distributions from pari-mutuel taxes, license fees and unclaimed property monies. Of the 8 funds that receive distributions from these revenues, 6 funds were adjusted. For the 6 affected funds only the dollar limitation, not the percentage distribution, was raised. The law may impact the General Fund by decreasing distributions to it as distributions to the 8 funds are increased. (Effective Tax Year 2007)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

UNCLAIMED PROPERTY COLLECTIONS

DESCRIPTION

Unclaimed property includes intangible personal property such as traveler's checks, money orders, stocks or other equity interest, principal on debt, demand or savings deposits, customer credits, insurance settlements, property received or held by a court, wages, retirement accounts, and other miscellaneous types of property that are presumed abandoned according to the schedule set out in statute (A.R.S. § 44-302). Unclaimed property also includes tangible property held in a safe deposit box which remains unclaimed after the expiration of the lease on the box (A.R.S. § 44-303). Property is presumed abandoned and therefore unclaimed after it is held for an extended period of time with no owner contact and a "good faith" effort has been made to locate the owner. Abandoned property is transferred to the Arizona Department of Revenue (DOR) from many holders, including banks, credit unions, corporations, utilities, insurance companies, governmental entities, and retailers. DOR also establishes and maintains records of escheated estates. An escheated estate is created when a person dies without leaving a will and has no known heirs; the property reverts to the state after 5 years.

DOR acts as custodian of the property and administers a program to locate the owners. Once reported to DOR, unclaimed property is available for refund to the owners or their heirs indefinitely. Statute requires businesses and other organizations to review their records each year to determine whether they hold any funds, securities, or other property that have remained unclaimed for the statutory abandonment period. Holders file an annual report and transfer the property to the state. The holding period before property is considered unclaimed varies by type of property. If the properties received by DOR remain unclaimed within a specified time period, the properties are sold by DOR with the proceeds distributed to a number of state funds.

Although the collection and sale of unclaimed property held by the DOR does not constitute a tax, monies derived from this activity represent a significant state revenue source.

DISTRIBUTION

Monies from the sale of unclaimed property are deposited in the partially-appropriated Estate and Unclaimed Property Fund administered by DOR. The appropriated portion of the fund covers the department's administrative costs, including unclaimed property contract auditors and the handling, publicizing, and selling of abandoned property. DOR also retains not less than $100,000 to pay allowed claims while the state attempts to locate abandoned property owners. Revenues from the sale of escheated estates are deposited in the Escheated Estates Fund.

Monies received by DOR from the collection and sale of unclaimed properties and escheated estates are distributed as follows:

- Monies derived from unclaimed victim restitution payments are deposited in the Victim Compensation and Assistance Fund (VCAF) [A.R.S. § 44-313C and A.R.S. § 41-2407A].
- Monies from unclaimed shares and dividends of any corporation incorporated under the laws of Arizona, escheated estates, and unclaimed property in a self-storage unit are deposited in the Permanent State School Fund (PSSF) [A.R.S. § 44-313B, § 37-521A, § 12-885B, § 33-1704D].
- Unclaimed utility deposits are transferred to the Utility Assistance Fund (UAF) [A.R.S. § 46-731B].

The remaining monies are transferred to the following funds in the following percentages:

- 55% to the Housing Trust Fund, subdivided into 2 components. The first share, 35% of unclaimed property monies, is distributed for general Housing Trust Fund uses. The second share, 20% of unclaimed property monies, is distributed to the Housing Trust Fund exclusively for the development of housing in rural areas of the state [A.R.S. § 41-3955A and A.R.S. § 41-3956A].
- 25% to the General Fund. In addition, all unclaimed tax refunds arising from the case of Ladewig v. State of Arizona are transferred to the General Fund.
- 20% to the 8 funds administered by the Arizona Department of Racing, up to each fund's statutory funding cap. Distributions in excess of the funding caps are deposited in the General Fund [A.R.S. § 5-113A].

Table 1

Unclaimed Property Distributions

Fiscal Year	General Fund 1/2/	Housing Trust Fund	Racing Funds	VCAF 3/	UAF 4/	PSF 5/	Total
2009	$9,526,600	$28,554,100	$10,383,300	$144,600	$0	$9,100	$48,617,700
2008	$58,020,600	$33,684,300	$12,248,800	$173,100	$26,300	$11,200	$104,164,300
2007	$12,346,200	$40,972,900	$14,899,200	$1,250,300	$2,550,700	$408,600	$72,427,900
2006	$22,825,000	$26,004,600	$9,456,200	$128,300	$855,500	$408,700	$59,678,300
2005	$30,715,200	$23,942,700	$8,706,400	$299,600	$1,664,500	$426,100	$65,754,500
2004	$8,044,000	$20,708,300	$7,530,300	$547,300	$1,308,000	$397,200	$38,535,200
2003	$6,745,700	$17,950,700	$6,527,500	$2,128,000	$1,119,000	$214,100	$34,685,000
2002	$7,656,000	$19,761,600	$7,186,000	$0	$868,400	$0	$35,472,000
2001	$4,309,800	$11,733,800	$4,266,900	$17,000	$905,000	$77,800	$21,310,300
2000	$4,208,700	$11,421,700	$4,153,300	$0	$639,100	$13,000	$20,435,800
1999	$2,084,500	$6,791,800	$2,465,200	$0	$818,400	$217,300	$12,594,500
1998	$2,402,500	$7,380,800	$2,681,200	$0	$712,000	$55,200	$13,231,700
1997	$4,566,100	$3,655,100	$0	$0	$604,900	$342,700	$13,734,900
1996	$10,399,100	$6,024,100	$0	$0	$515,500	$362,000	$17,300,700
1995	$6,438,200	$3,899,500	$0	$0	$628,200	$335,700	$11,301,600
1994	$5,777,000	$3,181,700	$0	$0	$400,000	$57,500	$9,416,200
1993	$5,095,400	$2,932,600	$0	$0	$446,800	$211,700	$8,686,500

1/ Laws 2007, Chapter 260, as session law, requires that all proceeds from the sales of securities in FY 2008 be deposited into the General Fund, instead of the statutorily split among the General Fund, Department of Housing, and Department of Racing. This was estimated to generate increased revenue of $45 million to the General Fund in FY 2008; the actual amount was $47.2 million.

2/ FY 2005 – FY 2007 General Fund distributions include unclaimed monies arising from the cases of Ladewig v. State of Arizona and Kerr v. State of Arizona.

3/ Victim Compensation and Assistance Fund distributions became effective January 1, 2001, with the implementation of Laws 2001, Chapter 146.

4/ Utility Assistance Fund.

5/ Permanent School Fund.

SOURCE: Department of Revenue, Annual Reports. Figures are net of refunds and agency administrative expenses.

REVENUE BASE

Property is presumed abandoned and therefore unclaimed after it has been held for an extended period of time with no owner contact and a "good faith" effort has been made to locate the owner. The length of time for property to be presumed abandoned varies depending on the classification of property. The property classifications and presumption of abandonment timeframes are as follows [A.R.S. § 44-302]:

1 Year

- Wages or other labor compensation - 1 year from payment date.
- Property that is received by a court as proceeds of a class action suit and that is not distributed pursuant to the judgment - 1 year after the date the court distributed the proceeds.

2 Years

- A utility deposit that is paid in advance for utility services to be furnished - 2 years after termination of services.

3 Years

- Property that is held by a court or governmental entity - 3 years after the property becomes distributable.
- Property in any individual retirement account or defined benefit - 3 years after date of the required distribution.
- Any stock or other equity interest in a business association or financial organization, including security entitlements - 3 years after the most recent unclaimed dividend, stock split, or other distribution.
- The principal and interest on corporate bonds - 3 years after the maturity and after the last interest payment date.
- Dividend, profit, distribution, interest, redemption, payment on principal or other sum held or owing by a business to shareholders, bondholders, or other security holder who has not claimed it - 3 years after the date prescribed for payment or delivery.
- Tangible property held in safe deposit box - 3 years after expiration of safe deposit box lease or rental period.

- Excess proceeds from a trustee sale deposited with the county treasurer pursuant to A.R.S. § 33-812 - 3 years from the date of deposit.
- Monies deposited into the ASRS trust fund and the LTD trust fund established by A.R.S. § 38-797.02.

5 Years
- Check, or similar instrument, to include cashier's and certified checks - 5 years after the check or instrument was payable.
- Credits owed to a retail customer - 5 years after the obligation accrued.
- Demand, savings, or time deposit and any interest or dividends accrued by the accounts - 5 years after maturity.
- Life or endowment insurance policy or an annuity that has matured or terminated - 5 years after the obligation to pay arose.
- Escheated estate - 5 years without having identified an heir.
- All other property not otherwise specified - 5 years after the owner's rights to demand the property or after the obligation to pay or distribute the property arises, whichever occurs first.

7 Years
- Money Order - 7 years after issuance.

15 Years
- Traveler's Check - 15 years after issuance.

Property that is not covered under the Arizona Unclaimed Property Act includes gift certificates, electronic gift cards, nonrefundable tickets, prepaid phone cards, frequent flyer miles, stored value cards, merchandise points and business accounts of less than $50 [A.R.S. § 44-301].

A.R.S. § 44-304 provides further guidance on how to determine whether property is abandoned.

HOW REVENUES ARE COLLECTED

Holders of unclaimed property include banks, credit unions, corporations, utilities, insurance companies, governmental entities, and retailers. Each institution is required, except for state agencies, to annually report to DOR unclaimed property in its possession. Life insurance companies are required to file the report for each reporting year before May 1 of the succeeding year; all other holders of property presumed abandoned file the report before November 1 and the report covers the last twelve months before July 1 of that year. For the prior fiscal year, county treasurers must file the report on or before November 1. State agencies that hold monies for the payment of voided warrants report no later than the tenth day of each month [A.R.S. § 44-307].

Upon filing the report with DOR, the holder of unclaimed property shall pay or deliver it to DOR. On payment or delivery of property to DOR, the State of Arizona assumes custody and responsibility for the property. A holder who pays or delivers property to the department in good faith is relieved of all liability with respect to the property that arises after the payment or delivery [A.R.S. § 44-310].

Statute requires DOR to publish a notice at least semiannually of abandoned property that has been paid or delivered to the department. DOR's website must contain information about abandoned property no later than November 30 of the year after the year in which abandoned property was paid or delivered to the department [A.R.S. § 44-309].

Unclaimed securities may be sold upon receipt (see Laws 2007, Chapter 260 below). Within 3 years after receiving abandoned property other than securities, the department must sell the unclaimed properties to the highest bidder at a public sale. Before conducting a sale, the department publishes a notice at least 3 weeks before the sale in the county in which the sale will occur. A purchaser of property at a sale conducted by the department takes the property free of all claims of the owner or previous holder and of all persons claiming through or under the owner or previous holder. [A.R.S. § 44-312].

Securities that are listed on an established stock exchange are sold at prices prevailing on the exchange at the time of the sale. DOR may sell all other securities in the over-the-counter market at prices prevailing at the time of the sale. Except in a case of intentional misconduct or malfeasance by the department, a person claiming their property is not entitled to receive any appreciation in property value that occurred after the delivery to DOR [A.R.S. § 44-312].

Any person who claims property that was paid or delivered to DOR may file a claim to recover the property or its monetary value at the time the property was sold. Within 90 days after a claim is filed the department is required to allow or deny the claim. If the claim is denied, the department informs the claimant of the reasons for the denial and specifies what additional evidence is required before the claim will be allowed. Within 30 days after a claim is allowed the department must deliver the property or pay the net proceeds of a sale of the property to the claimant [A.R.S. § 44-317]. Table 2 displays refunds of unclaimed properties to its owners.

Table 2

Unclaimed Property Refunds

Fiscal Year	Refund	Fiscal Year	Refund
2009	$22,267,200	2000	$9,881,800
2008	$27,859,500	1999	$8,135,400
2007	$22,541,000	1998	$6,609,800
2006	$17,693,700	1997	$9,103,400
2005	$16,241,200	1996	$7,507,900
2004	$10,093,800	1995	$3,529,100
2003	$10,333,100	1994	$3,818,500
2002	$11,903,200	1993	$2,859,900
2001	$15,764,200	1992	$2,421,500

SOURCE: Department of Revenue, Annual Reports.

IMPACT OF STATUTORY AND REVENUE CHANGES

The following section is a summary by year of statutory and other revenue changes that have been enacted by the Legislature since 2003. There were no changes enacted in 2009. The estimated dollar impact of prior year tax law changes is summarized by fiscal year in Table 3 below:

Table 3

ESTIMATED DOLLAR VALUE OF TAX LAW AND REVENUE CHANGES

Session/Chapter	Description	Revenue Impact
FY 2008		
L 2007, 1st RS, Ch. 260	Transfers Securities Sales to the General Fund	$ 45,000,000
FY 2007		
L 2006, 2nd RS, Ch. 347	Transfers Kerr and Ladewig unclaimed monies to General Fund in FY 2007	$ 15,000,000
L 2005, 1st RS, Ch. 333	Transfers Ladewig unclaimed monies to General Fund in FY 2005 and FY 2006	$33,000,000

2008 LAWS

Laws 2008, Chapter 264 establishes that any monies left in a retirement account or benefit plan are presumed abandoned 3 years after the statutorily prescribed date of distribution. As holder of the property, ASRS is required to report and pay the property to the Department of Revenue. The impact to the General Fund has not been determined. (Effective July 1, 2009)

2007 LAWS

Laws 2007, Chapter 260 makes changes to abandonment periods for certain classifications of property and the timeframe that securities can be sold. The abandonment periods for corporate bonds and dividends on securities is reduced from 5 to 3 years. The law allows DOR to sell unclaimed securities upon their receipt, with the requirement that all proceeds from the sales of securities in FY 2008 be deposited into the state General Fund. The sale of all securities held by DOR was estimated to generate a one-time gain of $45 million to the General Fund and reduce DOR's $160,000 annual portfolio management costs by $60,000. Actual collections of $47.2 million from the sale of securities exceeded the original estimate by $2.2 million.

2006 LAWS

Laws 2006, Chapter 33 increases the abandonment period for tangible property that is held in a safe deposit box from 1 to 3 years after the expiration of the box's lease or rental period.

Laws 2006, Chapter 243 eliminates the statutory requirement that monies held for payment of void warrants by the State Treasurer of up to $1 million be transferred to the Homeless Trust Fund. A.R.S. § 44-302 stipulates that monies held by the State Treasurer for the payment of warrants by a state agency that remain unclaimed by the owner at the time of the void date printed on the warrant are presumed abandoned.

Laws 2006, Chapter 316 appropriates $135,000 from the Estate and Unclaimed Property Fund in FY 2006 to DOR for supplemental funding for unclaimed property printing and advertising costs.

Laws 2006, Chapter 347 requires DOR to deposit in FY 2007 any unclaimed property that is associated with the case of Ladewig v. State of Arizona and the case of Kerr v. State of Arizona in the General Fund.

2005 LAWS

Laws 2005, Chapter 333 requires DOR to deposit in FY 2005 and FY 2006 any unclaimed property that is associated with the case of Ladewig v. State of Arizona in the General Fund.

2004 TAX LAWS

Laws 2004, Chapter 135 establishes unclaimed property provisions related to deposits of trustees' sales with the county treasurer in the county in which the sale took place. The law stipulates that excess proceeds from the sale deposited with the country treasurer are presumed abandoned 3 years after deposit with the treasurer and no pending application for distribution has been made. The treasurer is required to report unclaimed monies to DOR for the prior fiscal year on or before November 1.

2003 1ST SPECIAL SESSION LAWS

Laws 2003, Chapter 2 requires the first $5,000,000 in unclaimed property revenues received in FY 2003 be deposited in the General Fund.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

PAYMENTS IN LIEU OF PROPERTY TAXES

AIRCRAFT LICENSE TAX

DESCRIPTION

Aircraft license tax is a tax imposed on aircraft based and registered in the state [A.R.S. § 28-8335].

DISTRIBUTION

Monies received from the aircraft license tax are deposited in the State Aviation Fund [A.R.S. § 28-8345].

Table 1

AIRCRAFT LICENSE TAX COLLECTIONS

Fiscal Year	Aviation Fund	Fiscal Year	Aviation Fund
FY 2009	$6,900,648	FY 1999	$2,365,498
FY 2008	$7,413,608	FY 1998	$2,043,058
FY 2007	$7,748,524	FY 1997	$1,825,858
FY 2006	$5,980,022	FY 1996	$1,800,630
FY 2005	$5,577,258	FY 1995	$1,507,555
FY 2004	$5,748,210	FY 1994	$1,461,259
FY 2003	$4,360,187	FY 1993	$1,429,867
FY 2002	$3,543,819	FY 1992	$1,404,933
FY 2001	$3,176,180	FY 1991	$1,361,153
FY 2000	$3,094,727	FY 1990	$1,288,750

SOURCE: Department of Transportation, Office of Financial Planning.

WHO PAYS THE TAX

The tax is paid by owners of aircraft registered in the state unless an exemption is provided [A.R.S. § 28-8324].

TAX BASE AND RATE

The tax base is aircraft based in the state and registered with the Arizona Department of Transportation (ADOT). ADOT is responsible for determining the fair market value of such aircraft each year as established by the dealer price guides or other recognized reliable source of information [A.R.S. § 28-8342].

The following are exempt from the aircraft license tax:

(1) Regularly scheduled aircraft operated by an airline company for hire [A.R.S. § 28-8322].
(2) Nonresident owned aircraft not used for intrastate commercial activities and not based in Arizona for more than 90 days per year [A.R.S. § 28-8322].
(3) Aircraft operated exclusively in the public service by the United States Government, the state, a political subdivision, or the Civil Air Patrol [A.R.S. § 28-8323].

The tax rate is 0.5% of the average fair market value of the aircraft, except that in no case shall the tax be less than $20 per year unless an exemption has been established [A.R.S. § 28-8335]. A nonresident who bases an aircraft in Arizona for more than 90 days but less than 210 days in any calendar year and is not engaged in intrastate commercial activity is subject to a tax rate equal to 0.1% of the average fair market value [A.R.S. § 28-8336].

The license tax for aircraft in storage or under repair is $20 per aircraft [A.R.S. § 28-8337]. The license tax for salvaged aircraft that is in storage or being restored is $5 per aircraft [A.R.S. § 28-8338]. The license tax for antique, classic, warbird, glider, experimental, homebuilt, or balloon aircraft is $20 per aircraft [A.R.S. § 28-8339]. The license tax for manufacturer's aircraft is $20 per aircraft [A.R.S. § 28-8340]. The license tax for maintenance aircraft owned by a nonresident is $20 per aircraft [A.R.S. § 28-8341].

The license tax for aircraft that was registered for the first time after the beginning of a calendar year is prorated [A.R.S. § 28-8324].

PAYMENT SCHEDULE

All aircraft based in the state, except those for which exemptions were provided, must be registered with ADOT within 60 days after the aircraft was brought into the state. The aircraft registration must be renewed each year on or before the last day of February [A.R.S. § 28-8322].

The registration fee is $5 per year [A.R.S. § 28-8325]. If the registration requirement is not met, then a penalty of $25 for the first month and $5 for each succeeding month of delinquency will be assessed [A.R.S. § 28-8329].

The aircraft license tax is payable to ADOT upon initial registration and annually by the last day of February [A.R.S. § 28-8335].

Owners of aircraft in storage or salvaged aircraft must notify ADOT within 10 days of the date the aircraft is returned to use and then pay the appropriate license tax, if any, on a pro rata basis [A.R.S. § 28-8337 and § 28-8338].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in 2003, and 2005 to 2009.

2004 TAX LAWS

Laws 2004, Chapter 302 changed the statutory definitions of "antique" and "classic" aircraft for purposes of qualifying for the special annual license tax of $20. Under the revised definition, an antique aircraft is one that is at least 50 years old, and a classic aircraft is one that is at least 40 years old but not more than 49 years old. (Effective August 25, 2004)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

FLIGHT PROPERTY TAX

DESCRIPTION

The flight property tax is assessed on the value of airline company aircraft operating in Arizona. The tax is in lieu of ad valorem property taxes on this type of property [A.R.S. § 42-14255].

DISTRIBUTION

Laws 2003, Chapter 263 provided that, beginning in FY 2005, 100% of flight property tax revenues are deposited in the Aviation Fund [A.R.S. § 42-14255].

Laws 1986, Chapter 369 shifted flight property tax revenues from the General Fund to the Aviation Fund over a phase-in period of 3 years. Beginning on January 1, 1987, 33% of total tax receipts were deposited in the Aviation Fund. On the same date the following 2 years, the distribution level to the Aviation Fund increased to 66% and 100%, respectively.

Laws 1997, 1st Special Session, Chapter 3 changed the distribution of flight property tax revenues so that, starting in FY 1998, 50% of total proceeds were deposited in the General Fund and the other 50% in the Aviation Fund.

Table 1

FLIGHT PROPERTY TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Aviation Fund	Total
FY 2009	$0	$11,975,326	$11,975,326
FY 2008	$0	$13,821,790	$13,821,790
FY 2007	$0	$15,300,127	$15,300,127
FY 2006	$0	$13,685,936	$13,685,936
FY 2005	$0	$13,180,039	$13,180,039
FY 2004	$6,320,722	$6,320,722	$12,641,444
FY 2003	$6,026,213	$6,026,213	$12,741,749
FY 2002	$6,528,347	$6,528,347	$13,056,694
FY 2001	$6,693,590	$6,693,589	$13,387,179
FY 2000	$6,709,385	$6,709,386	$13,418,771
FY 1999	$7,367,078	$7,489,832	$14,856,910
FY 1998	$7,582,939	$7,582,939	$15,165,878
FY 1997	$0	$17,679,764	$17,679,764
FY 1996	$0	$18,564,298	$18,564,298
FY 1995	$0	$13,803,042	$13,803,042
FY 1994	$0	$12,278,607	$12,278,607
FY 1993	$0	$11,329,977	$11,329,977
FY 1992	$0	$6,934,381	$6,934,381
FY 1991	$0	$10,619,885	$10,619,885
FY 1990	$0	$8,626,536	$8,626,536

SOURCE: Department of Transportation, Office of Financial Planning.

WHO PAYS THE TAX

The tax is paid by airline companies operating within the state [A.R.S. § 42-14255].

TAX BASE AND RATE

The Department of Revenue (DOR) determines the full cash value of flight property by August 31 each year. The full cash value is the value determined as of the prior January 1 of the valuation year [A.R.S. § 42-14254A]. DOR establishes the full cash value as follows [A.R.S. § 42-14254B]:

(1) determines the valuation of flight property by fleet type,
(2) determines the valuation of each fleet type by the original cost less depreciation,
(3) computes depreciation using 15-year straight-line depreciation to salvage value, and
(4) allows additional obsolescence if supported by market evidence.

Small flight property that is operated in the state in air commerce is valued at 30% of its original cost less depreciation [A.R.S. § 42-14254C]. (Small flight property is airline company aircraft with a maximum passenger capacity of less than 56 seats and a maximum payload capacity of less than 18,000 pounds [A.R.S. § 42-14251].)

Arizona's share of the total full cash value of flight property is determined by an apportionment formula, which depends on the number of minutes that flight property is on the ground and on the flight mileage scheduled within and outside Arizona [A.R.S. § 42-14254D].

Flight property is assessed as Class 5 property [A.R.S. § 42-12005]. The assessment ratio for Class 5 property is computed as follows [A.R.S. § 42-15005]:

- For secondary property taxes: The ratio that total *net assessed valuation* for secondary tax purposes of all taxable property in Class 1 and Class 6, paragraph 3, and personal property in Class 2 bears to the total *full cash value* of such property.
- For primary property taxes: The ratio that total *net assessed valuation* for primary tax purposes of all taxable property in Class 1 and Class 6, paragraph 3, and personal property in Class 2 bears to the total *limited valuation* of such property.

As the formulas above suggest, the assessment ratio for Class 5 property may change from one year to the next. In the period from 1991 to 2009, the assessment ratio has varied between 18% and 26%. The 2009 assessment ratio for Class 5 property is 18%.

The tax rate equals the sum of the average rates for primary and secondary property taxes in all taxing jurisdictions of the state in the current year [A.R.S. § 42-14255]. The historical flight property tax rates are shown in Table 2 on the following page.

The property tax liability is calculated in the same manner as other property (see *Property Tax* section), i.e., by multiplying the tax rate by the assessed valuation of the flight property and then dividing the product by 100.

PAYMENT SCHEDULE

The flight property tax is due and payable at the same time as real and personal property [A.R.S. § 42-14255]. This means that one-half of the tax is due and payable on October 1 of the tax year, unless the total amount of the tax due is $100 or less, in which case the full amount of the tax is due and delinquent after November 1. The remaining one-half of the tax is due on March 1 of the year following the tax year and becomes delinquent after May 1 [A.R.S. § 42-18052]. Both of these payments fall in the same fiscal year.

Table 2
HISTORICAL AVERAGE PROPERTY TAX RATES PER $100 OF ASSESSED VALUATION

Fiscal Year	Sum of Average State Tax Rates	Primary Tax Rate [1/]	Secondary Tax Rate
FY 2009	$9.23	$6.24	$2.99
FY 2008	$10.04	$6.75	$3.29
FY 2007	$10.99	$7.24	$3.75
FY 2006	$11.56	$7.81	$3.75
FY 2005	$11.81	$8.09	$3.72
FY 2004	$12.18	$8.36	$3.82
FY 2003	$12.49	$8.56	$3.93
FY 2002	$12.55	$8.54	$4.01
FY 2001	$12.68	$8.56	$4.12
FY 2000	$12.80	$8.67	$4.13
FY 1999	$12.79	$8.58	$4.21
FY 1998	$12.70	$8.57	$4.13
FY 1997	$12.52	$8.54	$3.98
FY 1996	$13.27	$9.45	$3.82
FY 1995	$12.78	$9.35	$3.43
FY 1994	$12.51	$9.00	$3.51
FY 1993	$12.19	$8.82	$3.37
FY 1992	$11.95	$8.53	$3.42
FY 1991	$11.44	$8.33	$3.11
FY 1990	$10.88	$7.96	$2.92

1/ State tax rate for 1990 to 1995 includes the minimum qualifying school tax rate.

SOURCE: Arizona Property Tax Rates and Assessed Valuations published by Arizona Tax Research Association (ATRA).

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003. There were no changes enacted to this tax between 2005 and 2009.

2004 TAX LAWS

Laws 2004, Chapter 61 provided that the full cash values for airline company aircraft that are used for tax purposes are a matter of public record. (Effective August 25, 2004)

2003 TAX LAWS

Laws 2003, Chapter 263 deferred the deposit of 100% of revenue from flight property tax from FY 2004 to FY 2005. This means that since FY 2005 all revenue from the flight property tax has been deposited into the state Aviation Fund. As a result, the General Fund lost an estimated $(7,000,000) in FY 2005. (Effective September 18, 2003)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

VOLUNTARY CONTRIBUTIONS BY DISTRICTS

DESCRIPTION

Certain districts in Arizona are authorized to make voluntary contributions to the state, county, city, town, school district, or other political subdivision instead of paying property taxes. The Legislature provided this incentive to encourage such districts to operate as multi-purpose reclamation projects to provide funds for water conservation and maintenance and development of their water distribution systems.

DISTRIBUTION

The County Treasurer is required to remit to the county, school districts, cities, towns, or other political subdivisions, and the state of Arizona, all monies received as *net voluntary contributions* (see definition under *Tax Base and Rate* below) from districts in the same manner as property taxes are distributed.

The monies deposited in the state General Fund are from voluntary contributions for properties not located within any school district, so-called unorganized districts [A.R.S. § 15-991.01], and for properties in certain school districts ineligible for state aid, sometimes referred to as minimum qualifying tax rate (MQTR) districts [A.R.S. § 15-992].

The amount of voluntary contributions by districts deposited in the General Fund is shown in Table 1 below.

Table 1

TAX COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2009	$708,972	FY 1999	$5,919,047
FY 2008	$1,053,210	FY 1998	$5,983,913
FY 2007	$2,037,640	FY 1997	$6,086,339
FY 2006	$2,490,685	FY 1996	$16,953,919
FY 2005	$2,653,117	FY 1995	$4,220,053
FY 2004	$1,769,124	FY 1994	$4,155,690
FY 2003	$2,030,685	FY 1993	$4,091,560
FY 2002	$3,431,652	FY 1992	$3,969,664
FY 2001	$4,606,361	FY 1991	$3,929,471
FY 2000	$5,315,929	FY 1990	$3,813,672

SOURCE: Arizona Department of Administration's Finance Division, Revenue Codes, the State Treasurer's Office, and the Salt River Project.

WHO PAYS THE TAX

Any irrigation district, power district, electrical district, or agricultural improvement district organized under Arizona law that is directly engaged in the sale of electrical power or energy other than for irrigation purposes [A.R.S. § 48-241]. Effectively, this law applies mainly to properties included within the Salt River Project.

TAX BASE AND RATE

The tax base is the *statewide total gross voluntary contribution*. This is the base from which to determine the *statewide net voluntary contribution*, which is the total amount of voluntary contributions paid to all taxing jurisdictions by the Salt River Project.

In determining the net voluntary contributions paid by the Salt River Project in lieu of property taxes, the following calculations are made [A.R.S. § 48-241 and § 48-242]:

(1) Calculate for all taxing districts combined the total property tax for which the Salt River Project would be liable if assessed by the same property tax procedures as other similar properties for the current tax year.
   (a) The method used would be the full cash value as determined by the Department of Revenue multiplied by the assessment ratio for Class 1 property.
   (b) The primary and secondary property tax rates for each taxing jurisdiction are then applied against the product calculated in (a) above to obtain the *statewide total gross voluntary contribution.*

(2) To obtain the *statewide net voluntary contribution*, subtract the following deductions from the total gross voluntary contribution determined above:
   (a) The tax on properties devoted to production of electricity for pumping groundwater. This amount is estimated by multiplying the total net property tax liability to which Salt River Project is subject by the percent that represents the portion of electricity produced by Salt River Project during the preceding 5-year period used specifically for pumping groundwater. (The maximum percent of electricity that may be claimed for pumping groundwater is 10%, unless the percent of kilowatt hours devoted to pumping groundwater exceeds 70% within a district.)
   (b) The annual average of total water costs incurred by Salt River Project in producing and distributing water for municipal use, as estimated by:
      (i) Summing for the previous 3-year period, the operating expenses (less depreciation) attributable to (1) protection of watersheds, water production, development, storage, distribution and conservation, and (2) any repayment of U.S. government debt obligations incurred by Salt River Project for water department construction and expenses related to the development of future water projects.
      (ii) Dividing this sum by 3 to arrive at the annual average of total water costs.
      (iii) Multiplying this total by the percent of total water produced by Salt River Project devoted to municipal use during the latest 3 calendar years. (The percentage of water devoted to municipal use is the ratio of total water for municipal uses for the past 3 calendar years to total water delivered for all uses during the same time period.)
   (c) Any taxes or assessments paid to the State of Arizona or its political subdivisions during the preceding calendar year other than transaction privilege taxes, highway taxes, unemployment taxes, equipment weight fees, improvement district assessments, and any other taxes paid by the district prior to effective date of this law.

The district is required to report to the county assessors and the Department of Revenue by May 1 of each year the factor used to compute each county's proportion of the total deductions taken by the district. The district is also required to submit to the Board of Supervisors at the same time as the submission of the assessment roll, an estimate for the net contributions in the following fiscal year.

PAYMENT SCHEDULE

One-half of the voluntary contribution is paid to the County Treasurer of the county in which the property is located on the first Monday in November of each year. The other half is due on the first Monday in May of the succeeding calendar year [A.R.S. § 48-242E]. Each County Treasurer is required to remit to the State Treasurer the state's portion of the net voluntary contribution.

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in the period from 2003 to 2007, and 2009.

2008 TAX LAWS

Laws 2008, Chapter 60 specified that the values used to determine the net voluntary contributions would not be included in the publication of net assessed values. (Effective September 26, 2008)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

VOLUNTARY CONTRIBUTIONS BY THE GAME AND FISH COMMISSION

DESCRIPTION

The Game and Fish Commission may elect to make voluntary contributions to the state, county, municipality, school district, community college district, or other special taxing district in lieu of property taxes when purchasing real property within the district [A.R.S. § 17-272A].

DISTRIBUTION

The County Treasurer distributes the monies received to the various taxing jurisdictions in which the property is located in the same manner as property taxes are distributed (see *Distribution* under General Property Tax) [A.R.S. § 17-272E].

Table 1

TAX COLLECTIONS

Fiscal Year	Net Collections [1/]
FY 2009	$10,799
FY 2008	$10,369
FY 2007	$12,630
FY 2006	$12,382
FY 2005	$12,009
FY 2004	$12,229
FY 2003	$12,485
FY 2002	$12,485
FY 2001	$12,363
FY 2000	$11,910
FY 1999	$11,438
FY 1998	$12,000
FY 1997	$165,500
FY 1996	$183,500
FY 1995	$3,302
FY 1994 [2/]	$0

1/ Laws 1996, 7th Special Session, Chapter 2 repealed the state property tax. Beginning in FY 1998, amounts represent contributions which were collected for local jurisdictions. Amounts were distributed back to local jurisdictions and not retained by the state.

2/ The Act became effective July 17, 1993.

SOURCE: Arizona Game and Fish Department, Habitat Branch.

WHO PAYS THE TAX

The Game and Fish Commission may make voluntary contributions instead of paying property taxes if the Commission purchases the following types of real property [A.R.S. § 17-272A]:

(1) The property was subject to taxation, or
(2) The property was exempt from taxation at the time of purchase due to one of the following reasons:
- Held by a charitable organization as parkland and no rent or value was received by the charitable organization, or

- Held by a charitable organization to preserve and protect scientific, biological, geological, paleontological, natural, or archaeological resources.

The Game and Fish Commission is not required to make contributions with respect to lands acquired for fish hatcheries, game farms, firing ranges, reservoir sites, administrative sites, or rights-of-way to fishing waters [A.R.S. § 17-272F].

TAX BASE AND RATE

The Game and Fish Commission is required to consult with the assessor of the county in which the property is located and determine the assessed valuation as Class 2 agricultural property. The assessed valuation of the property cannot be increased from one year to the next by more than 2% [A.R.S. § 17-272B].

The tax rates are the same as those set for real and personal property for agricultural purposes or Class 2 property. The amount of the contribution is determined by applying the current aggregate property tax rate to the determined valuation [A.R.S. § 17-272C].

PAYMENT SCHEDULE

The County Treasurer collects the voluntary contributions from the Game and Fish Commission at the same time and in the same manner as ad valorem property taxes (see *Payment Schedule* under General Property Tax) [A.R.S. § 17-272D].

The voluntary contributions may be made by the Game and Fish Commission from the Game, Nongame, Fish and Endangered Species Fund, the Conservation Development Fund, the Waterfowl Conservation Fund, the Arizona Game and Fish Commission Heritage Fund, or any other source of monies available to and budgeted by the Commission [A.R.S. § 17-272A].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in the period from 2003 to 2009.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

WATERCRAFT LICENSE FEE

DESCRIPTION

The Arizona Constitution, Article 9, Section 15 exempts all watercraft registered for operation in the state, except those owned and operated for commercial purposes, from property taxes. Instead, watercraft is subject to the watercraft registration fee, which is a fee levied based on the length of a watercraft [A.R.S. § 5-321]. The watercraft registration fee replaced the former watercraft license tax in FY 2006 (Laws 2005, Chapter 318).

(Statute defines "watercraft" as any boat designed to be propelled by machinery, oars, paddles or wind for navigation on the water [A.R.S. § 5-301].)

DISTRIBUTION

Each month, watercraft license fee revenues are deposited as follows:

- 65% of revenues are transferred to the Watercraft Licensing Fund. (Prior to Laws 2005, Chapter 318, 45% of revenues were transferred to the Watercraft Licensing Fund.) Such monies are subject to legislative appropriation. Monies deposited in this fund are used for administration and enforcement of watercraft laws [A.R.S. § 5-323B]. (Prior to Laws 2004, Chapter 254, fund balances in excess of $290,000 in a fiscal year were used for an education program related to boating and boating safety.)
- The remaining 35% of revenues are deposited by Arizona Game and Fish Department as follows: (1) 15% to the State Lake Improvement Fund and (2) 85% to the Law Enforcement and Boating Safety Fund [A.R.S. § 5-323C]. (Prior to Laws 2005, Chapter 318, 55% of revenues were deposited by Arizona Game and Fish Department as follows: (1) 15% to the State Lake Improvement Fund and (2) 85% to the Law Enforcement and Boating Safety Fund.)

Total net collections from the watercraft license fee are shown in the table below.

Table 1

WATERCRAFT LICENSE FEE COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
FY 2009	$5,468,067	FY 1999	$1,735,862
FY 2008	$4,955,124	FY 1998	$1,683,698
FY 2007	$5,398,134	FY 1997	$1,634,369
FY 2006	$4,338,741	FY 1996	$1,596,016
FY 2005	$2,317,368	FY 1995	$1,543,993
FY 2004	$1,061,931	FY 1994	$1,316,700
FY 2003	$2,327,090	FY 1993	$1,618,546
FY 2002	$2,259,952	FY 1992	$1,141,849
FY 2001	$2,074,784	FY 1991	$1,139,446
FY 2000	$2,028,111	FY 1990	$1,079,180

SOURCE: Game and Fish Department.

WHO PAYS THE TAX

The fee is paid by the owner of each watercraft that requires numbering by the state [A.R.S. § 5-321]. Numbering is required for all undocumented watercraft underway, moored, or anchored on the waters of this state [A.R.S. § 5-322].

TAX BASE AND RATE

The watercraft registration fee is levied on watercraft based on 7 different watercraft length ranges [A.R.S. § 5-321].

The fees for watercraft are as follows:

	Resident	Non-residents
Twelve feet and less	$20.00	$100.00
Twelve feet one inch through sixteen feet	$22.00	$110.00
Sixteen feet one inch through twenty feet	$30.00	$222.00
Twenty feet one inch through twenty-six feet	$35.00	$259.00
Twenty-six feet one inch through thirty-nine feet	$39.00	$292.00
Thirty-nine feet one inch through sixty-four feet	$44.00	$330.00
Sixty-four feet one inch and over	$66.00	$495.00

In addition, owners of motorized watercraft may be charged a fee for the Lower Colorado River Multispecies Conservation Program (MSCP).

The main exemptions from the watercraft registration fee are [A.R.S. § 5-322A]:

(1) Foreign water watercraft temporarily using the waters of the state.
(2) Military or public vessels of the United States, except recreational type of public vessels.
(3) Watercraft used solely as lifeboats.
(4) Undocumented watercraft operating under a valid temporary certificate.

PAYMENT SCHEDULE

Watercraft registration fees are due at the time of application for watercraft registration with the Arizona Game and Fish Department [A.R.S. § 5-321A].

Laws 1982, Chapter 255 authorized the Arizona Game and Fish Commission to establish rules for registering watercraft on a staggered monthly basis. All registrations expire according to schedules established by the Commission [A.R.S. § 5-321.01].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this fee in 2003, 2006, and 2007.

2009 TAX LAWS

Laws 2009, Chapter 77 provides that monies in the Watercraft Licensing Fund can be used for an aquatic invasive species program. (Effective September 30, 2009)

2008 TAX LAWS

Laws 2008, Chapter 256 provided that the Arizona Game and Fish Commission would be allowed to register a watercraft for up to a period of 36 months, instead of 18. (Effective January 1, 2009)

2005 TAX LAWS

Laws 2005, Chapter 78 provided that the Arizona Game and Fish Commission be allowed to assess additional motorized watercraft registration fees collected solely for the purpose of funding the Lower Colorado River MSCP. The act requires that revenues from the registration of motorized watercraft be deposited in a Watercraft Registration Fee Clearing Account. The State Treasurer distributes all monies collected from motorized watercraft registration (except those collected specifically for the MSCP) into the Watercraft Licensing Fund. Those monies collected specifically for the MSCP are deposited by the State Treasurer into an account that is used solely for the MSCP. (Effective August 12, 2005)

Watercraft License Tax

Laws 2005, Chapter 318 retracted the license tax levied on watercraft. Replaced the registration fee formula based on watercraft length with a flat fee for 7 watercraft length ranges, with different fee schedules for Arizona residents and nonresidents.

The fees for watercraft are as follows:	Resident	Non-residents
Twelve feet and less	$20.00	$100.00
Twelve feet one inch through sixteen feet	$22.00	$110.00
Sixteen feet one inch through twenty feet	$30.00	$222.00
Twenty feet one inch through twenty-six feet	$35.00	$259.00
Twenty-six feet one inch through thirty-nine feet	$39.00	$292.00
Thirty-nine feet one inch through sixty-four feet	$44.00	$330.00
Sixty-four feet one inch and over	$66.00	$495.00

- Specified that watercraft are exempt from ad valorem property tax and from license taxes in lieu of property tax.
- Retracted exemption of commercial motorized watercraft from in lieu tax requirements when the commercial motorized watercraft is not exempted from the ad valorem property tax.
- Required registration fees received to be deposited each month in an account designated as the Watercraft Registration Fee Clearing Account.
- Required 65% of all watercraft registration fee revenues to be deposited in the Watercraft Licensing Fund.
- Required 35% of all watercraft registration fee revenues to be allocated as follows: 15% to the State Lake Improvement Fund and 85% to the Law Enforcement and Boating Safety Fund.
- Required all revenues collected from watercraft registration transfer fees to be deposited in an account designated by a multicounty water conservation district established solely for the Lower Colorado River MSCP. (Effective August 12, 2005)

2004 TAX LAWS

Laws 2004, Chapter 254 eliminated the requirement that monies in the Watercraft Licensing Fund that exceed $290,000 in a fiscal year are used for an education program related to boating and boating safety. (Effective August 25, 2004)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

GOVERNMENT PROPERTY LEASE EXCISE TAX

DESCRIPTION

The Government Property Lease Excise Tax (GPLET) was enacted in 1996 (Laws 1996, Chapter 349) to replace the tax on possessory interests that was repealed in 1995 (for a more detailed discussion, see below). GPLET is a local excise tax that is based on the square footage of a building rather than on its value. GPLET is levied on entities that lease the property of a city, town, county, or county stadium district for commercial or industrial purposes for at least 30 days [A.R.S. § 42-6201].

In 1985, the Arizona Legislature enacted legislation that provided a method for the taxation of possessory interests. A possessory interest is created when a private party is granted the exclusive use of real property owned by a non-taxable entity. Typically, possessory interests are created when private individuals, companies, or corporations lease, rent, or use federal, state, county, or municipal government owned facilities and land for their own benefit.

The tax on possessory interest was enacted in response to the extensive use of the property tax exemption for government owned property as an economic development tool. (Article 9 of the Arizona Constitution provides that all federal, state, county and municipal government property is exempt from taxation.) The new law specifically provided that possessory interests in federal, state, county and municipal government property would become subject to taxation. Additionally, the law established possessory interest tax exemptions and provided special valuation rules for possessory interests that were created prior to April 1, 1985.

Over time, the possessory interest tax was challenged in court in a number of cases. As a result, the court held that limiting the special valuation to possessory interests created before April 1, 1985 was in violation of the uniformity clause under the Arizona Constitution. The court also held that the possessory interest exemptions went beyond the constitutional tax exemptions and were therefore ruled invalid. The effect of these court rulings was that all possessory interests became taxed in the same manner as other properties.

In 1995, the Legislature repealed the possessory interest tax (effective retroactively from January 1, 1995). The intent statement expressed the Legislature's desire that possessory interests not be subject to ad valorem taxation until a new taxing mechanism was enacted. Laws 1996, Chapter 349 created such a taxing mechanism in the form of the Government Property Lease Excise Tax (GPLET), which was to serve as the successor to the possessory interest tax.

DISTRIBUTION

The government lessor is required to distribute the tax within 30 days of receipt as follows [A.R.S. § 42-6205]:

- 13% to the county general fund
- 7% to the city, if applicable
- 7% to the community college district, if applicable
- 73% to the school district not within a high school district (or 36.5% each to the high school and elementary district), if applicable.

If inapplicable, proceeds are split proportionally among the other entities.

Table 1

TAX COLLECTIONS

Fiscal Year	Net Collections [1/]
FY 2009	$3,200,000 (est)
FY 2008	$3,204,870
FY 2007	$3,108,195
FY 2006	$2,921,164
FY 2005	$2,696,092
FY 2004	$2,898,944
FY 2003	$3,013,352
FY 2002	$2,721,824
FY 2001	$2,230,063
FY 2000	$2,379,198
FY 1999	$1,935,671
FY 1998	$988,269
FY 1997	$977,226
FY 1996 [2/]	$0

1/ The state does not collect any monies from GPLET.
2/ The Act became effective December 1, 1996.

SOURCE: League of Arizona Cities and Towns.

WHO PAYS THE TAX

Government lessors collect the tax annually on prime lessees who use or occupy the government property [A.R.S. § 42-6202].

The following are exempt from GPLET [A.R.S. § 42-6208]:

1. Property used for government activity.
2. Property used for public housing.
3. Easements and rights-of-way of railroads and gas, electric, pipeline and telephone utilities.
4. Interests in a facility that is owned by the government lessor and used primarily for athletic, recreational, entertainment, artistic, cultural, or convention activities.
5. Property that is located on public airports and used for aviation-related purposes, including hangars, tie-downs, aircraft maintenance, commercial aircraft terminal franchises, parking facilities, restaurants, stores and other services located in a terminal.
6. The use by a commercial airline of the runways and terminal facilities of a state, city, town, or county airport.
7. Leases of property or interests in a transportation facility that is constructed or operated pursuant to Title 28, Chapter 22.
8. Interest in property held in trust for an Indian tribe by the United States government.
9. Interest in "contractor-acquired property" or government-furnished property" that is owned by the government and used to perform a government contract.
10. Property of a corporation that is organized or directed by a county, city or town to be used for public purposes and that such government entity pledges to lease or lease-purchase with county or municipal revenues.
11. Interest in property used by a chamber of commerce.
12. Interest in property used by tax-exempt organizations under 501(c)(3) of the Internal Revenue Code.
13. Interest in parking garages or decks owned and operated by the government lessor, or operated on behalf of the government lessor by an entity other than the prime lessee.
14. Residential rentals occupied by the prime lessee.

Tax Abatement

The government lessor is required to abate the tax on a government property improvement for a period of 8 years after the certificate of occupancy is issued if the following requirements are met [A.R.S. § 42-6209]:

1. The improvement is located in a single central business district in a "slum or blighted area" that is established pursuant to Title 36, Chapter 12, Article 3 and is subject to a lease or development agreement entered into on or after April 1, 1985.
2. The government property improvement resulted or will result in an increase in property value of at least 100%.

The tax abatement is restricted to government property improvements within a single central business district within the "slum and blighted area." Other improvements outside the single central business district but still within the "slum and blighted area" will pay 80% of the tax. The 8-year abatement includes periods of abatement under prior law. In addition, the law repealed the 1995 prohibition on political subdivisions from converting taxable property to nontaxable status for redevelopment purposes.

Park Property Lease Excise Tax

Each county is required to levy and collect an annual Park Property Lease Excise Tax on each prime lessee of a lease with the National Park Service of a property improvement located in that county [A.R.S. § 42-6210]. The tax is assessed, collected, and distributed in the same manner as the Government Property Lease Excise Tax, except that:

1. Each lease or development agreement is neither required to include a notice of tax liability nor a provision that failure to pay could result in divesting the prime lessee of any interest in the right of occupancy of the property.
2. The tax rate cannot be less than 20% of the Government Property Lease Excise Tax (see the *Tax Base and Rate* section below).

TAX BASE AND RATE

The tax rates are as follows [A.R.S. § 42-6203]:

$1.00 per square foot for one-story office buildings.
$1.25 per square foot for office buildings with 2 to 7 stories.
$1.75 per square foot for office buildings with 8 or more stories.
$1.50 per square foot for retail or hotel/motel buildings.
$0.75 per square foot for warehouse or industrial buildings.
$0.50 per square foot for residential rental buildings.
$100 per parking space for parking garages.
$1.00 per square foot for any other building.

Lessees pay a percentage of the above rates dependent on when the original certificate of occupancy was issued, according to the following schedule:

10- to 20-year-old leases: 80% of the rate.
20- to 30-year-old leases: 60% of the rate.
30- to 40-year-old leases: 40% of the rate.
40- to 50-year-old leases: 20% of the rate.
50- or more year-old leases: no tax.

The tax rate on a government property improvement subject to a lease or development agreement entered into after June 30, 1996 and that is located outside a "slum and blighted area" is 150% of the applicable rate listed above. The tax rate on a government property improvement subject to a pre-April 1, 1985 lease or development agreement, or on an improvement at a rural (county population under 400,000 prior to 1988) county or city airport is 20% of the applicable rate listed above.

PAYMENT SCHEDULE

The tax is due and payable annually on or before December 1 [A.R.S. § 42-6204].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in the period between 2005 and 2008.

2009 TAX LAWS

Laws 2009, 3rd Special Session, Chapter 12 provides that county assessors will be required to include all property subject to GPLET on their tax roll and report the assessed valuation of such property to the Arizona Department of Education. The act is expected to reduce the cost for Basic State to schools by $(4.0) million in FY 2010.

2004 TAX LAWS

Laws 2004, Chapter 341 established a new Park Property Lease Excise Tax, which a county is required to levy and collect on each prime lessee of a lease with the National Park Service of a property improvement in the county. The act also provided that the property tax levies used in budget overrides do not include levies of the Government Property Lease Excise Tax or the Park Property Lease Excise Tax. (Effective August 25, 2004)

2003 TAX LAWS

Laws 2003, Chapter 246 replaced all references in statute to "redevelopment area" with "slum and blight areas." (Effective September 18, 2003.)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

HIGHWAY USER TAXES

HIGHWAY USER REVENUE FUND OVERVIEW

DESCRIPTION

The State of Arizona taxes motor fuels and imposes various other fees related to the registration and operation of motor vehicles. Included are motor vehicle fuel taxes, use fuel taxes, vehicle license taxes, motor carrier fees, vehicle registration fees, and various other miscellaneous fees. Depending on the category, all, or a portion of these taxes and fees are used to fund the Arizona Highway User Revenue Fund (HURF). This *2009 Tax Handbook* contains individual sections on the major tax components of HURF, including Motor Vehicle Fuel Tax, Use Fuel Tax, Vehicle License Tax (VLT), and the Motor Carrier Fee (which replaced the Motor Carrier Tax in FY 1998). Vehicle registration fees and various other fees which are part of HURF are not included in the handbook.

HURF revenues are a major source of funding to the state for highway construction, highway maintenance and improvements, and other highway-related expenditures. A portion of HURF revenue is also distributed to Arizona cities, towns, and counties for highway-related purposes.

DISTRIBUTION

HURF collections totaled approximately $1.25 billion in FY 2009. This was a decrease of (6.7)% from FY 2008 collections. The bulk of HURF revenue comes from motor fuel, or gas taxes. The next biggest category is VLT, followed by use fuel tax, then the registration and other fees. As noted above, more detailed discussion of the tax categories is provided in subsequent sections of the handbook.

The following chart provides a graphic representation of the relative importance of each of the HURF revenue categories for FY 2009:

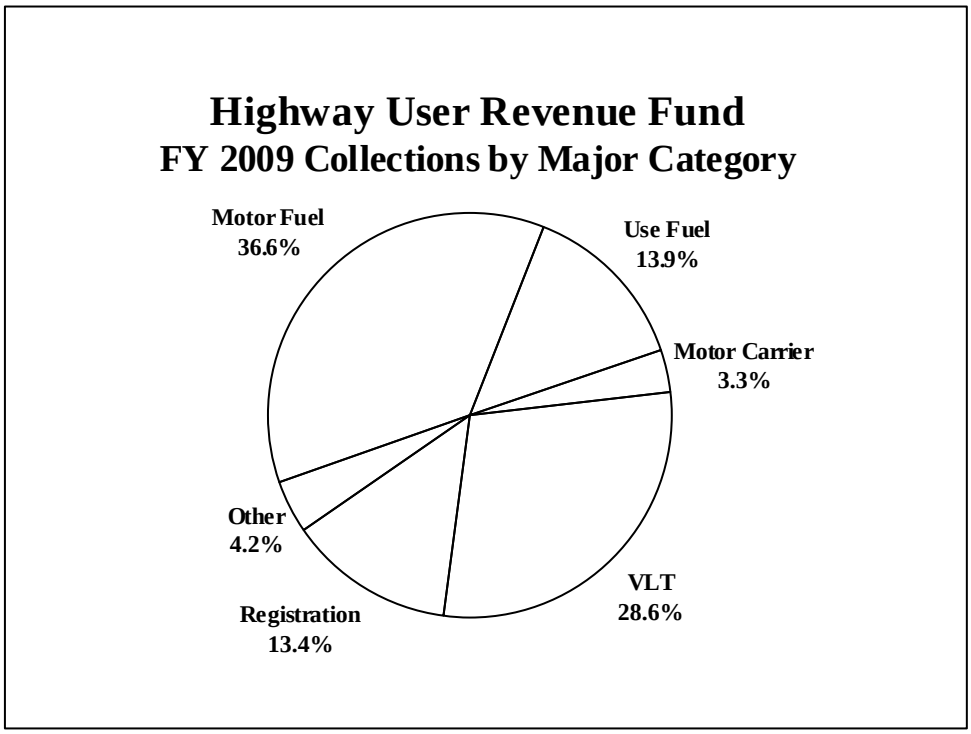


Table 1 below summarizes HURF collections by major category over the last 10 years.

Table 1

HURF COLLECTIONS
($ in Thousands)

Fiscal Year	Motor Vehicle Fuel Tax	Use Fuel Tax	Vehicle License Tax 1/	Motor Carrier Fee	Registration Fees	Other Fees	Total
FY 2009	$456,812	$173,931	$357,498	$40,483	$167,565	$52,294	$1,248,583
FY 2008	$492,536	$207,859	$385,186	$40,177	$162,765	$55,953	$1,344,477
FY 2007	$497,702	$210,282	$393,497	$45,226	$177,788	$57,979	$1,382,474
FY 2006	$489,081	$213,460	$373,864	$40,504	$158,805	$55,911	$1,331,625
FY 2005	$481,284	$194,368	$328,232	$37,980	$154,122	$49,567	$1,245,553
FY 2004	$463,531	$179,002	$312,262	$34,617	$146,638	$43,511	$1,179,561
FY 2003	$446,891	$166,744	$281,947	$32,856	$141,328	$41,490	$1,111,256
FY 2002	$434,818	$161,507	$270,641	$29,347	$138,210	$41,873	$1,076,395
FY 2001	$418,400	$155,859	$251,613	$32,678	$132,269	$40,147	$1,030,965
FY 2000	$409,137	$156,599	$236,547	$36,563	$140,345	$40,409	$1,019,599

1/ The amounts indicated reflect only the portion of VLT that is distributed to HURF.

SOURCE: Arizona Department of Transportation, Office of Financial Planning.

HURF may be expended for the following purposes (see Arizona Constitution, Article 9, Section 14):

(1) The cost of administering taxes that are deposited in the fund.
(2) Refunds and adjustments provided for by law.
(3) Payment of highway obligations.
(4) The cost of construction, reconstruction, maintenance and repair of public highways and bridges and county, city and town roads and streets.
(5) The cost of state enforcement of traffic laws.
(6) The cost of publication and distribution of Arizona Highways Magazine.
(7) Distribution to counties, incorporated cities and towns according to law.

HURF is distributed each fiscal year in the following manner [A.R.S. § 28-6533]:

(1) $1 million is allocated to the Economic Strength Project Fund [A.R.S. § 28-6534]
(2) Each fiscal year a portion of the monies in HURF is distributed to the Department of Public Safety (DPS) for funding a portion of highway patrol costs. The distribution is to be made in 8 installments in each of the first 8 months of the fiscal year, and is not to exceed $10,000,000 [A.R.S. § 28-6537] beginning in FY 2000. However, beginning in FY 2000, the Legislature has "notwithstood" the provisions of this statute, and has provided for the transfer of HURF monies to DPS as noted in Table 2 below.
(3) As noted in Table 3 below, the balance of collections after making the above distributions are allocated as follows [A.R.S. § 28-6538]:
    - 50.5% State Highway Fund (SHF)
      At least 12.6% of the monies distributed to SHF shall be distributed as follows [A.R.S. § 28-6538 (B)]:
      – 75% to counties with a population of 1,500,000 or more for design, right-of-way purchase, or construction of controlled access highways to be included as state routes or state highways in regional transportation plans and the state highway system.
      – 25% to counties with a population of more than 800,000 but less than 1,500,000 for design, right-of-way purchase, or construction of controlled access highways to be included as state routes or state highways in regional transportation plans and the state highway system.
    - 19% Counties
    - 27.5% Incorporated cities and towns
    - 3% Incorporated cities with population greater than 300,000

Table 2 below summarizes HURF distributions by major category over the last 10 years. Please refer to the table in the Summary of Highway Construction section of the Capital Outlay section in the *FY 2010 Appropriations Report*

for a more detailed explanation of the distribution of HURF revenues. It should be noted that the FY 2009 amounts in the table below vary slightly from those presented in the Appropriations Report. The numbers in Table 2 below reflect actual collections, while the numbers in the *FY 2010 Appropriations Report* were based on estimated collections.

Table 2

HURF DISTRIBUTION
($ in Thousands)

Fiscal Year	State Highway Fund	County Controlled Access	Cities and Towns	Counties	DPS	Economic Strength Project	Other	Total
FY 2009	$442,020	$79,229	$356,458	$222,056	$86,912	$1,000	$60,908 1/	$1,248,583
FY 2008	$565,381	$101,341	$404,434	$251,942	$12,913	$1,000	$7,465	$1,344,477
FY 2007	$584,531	$104,775	$418,114	$260,465	$12,983	$1,000	$607	$1,382,474
FY 2006	$539,865	$96,768	$386,128	$240,538	$66,693	$1,000	$633	$1,331,625
FY 2005	$410,362	$73,556	$363,535	$226,464	$52,216	$1,000	$118,420 2/	$1,245,553
FY 2004	$483,688	$86,699	$344,491	$214,601	$48,698	$1,000	$384	$1,179,561
FY 2003	$451,827	$80,988	$321,799	$200,465	$54,528	$1,000	$648	$1,111,256
FY 2002	$438,230	$78,551	$312,115	$194,433	$52,066	$1,000	-	$1,076,395
FY 2001	$433,248	$77,658	$308,567	$192,222	$12,500	$1,000	$5,770	$1,030,965
FY 2000	$430,668	$77,195	$306,729	$191,077	$12,500	$1,000	$430	$1,019,599

1/ Laws 2008, Ch. 285 and Laws 2009, 1st Special Session, Chapters 1 and 2 transferred $8.4 million and $58.6 million, respectively from the state highway fund share of HURF VLT to the General Fund in FY 2009. Laws 2009, 1st Special Session, Chapter 2 also reverted $6.7 million from SHF to HURF for 2 MVD facilities and 1 ADOT facility, based on Laws 2007, Chapter 257.

2/ Laws 2004, Ch. 282 provided for a one-time transfer of $118 million from the state highway fund share of HURF VLT to the General Fund in FY 2005.

SOURCE: Arizona Department of Transportation, Office of Financial Planning.

Table 3 below summarizes HURF actual distribution percentages for FY 2009 after the DPS, Economic Strength Project, and other distributions noted above.

Table 3

PERCENTAGE DISTRIBUTION OF HURF MONIES

Cities	32.4%
Counties	20.2%
Controlled Access	7.2%
State Highway Fund	40.2%
Total	100.0%

The tax base and tax rates, payment schedules, and the impact of tax law changes for the motor vehicle fuel tax, use fuel tax, VLT, and motor carrier fee are provided in the individual write-ups for each of the HURF revenue categories in the following section of the handbook.

MOTOR VEHICLE FUEL TAX

DESCRIPTION

The motor vehicle fuel tax is levied on each gallon of motor vehicle fuel, commonly known as gasoline, produced or imported into the state by a distributor. The tax rate is 18¢ per gallon, and the large majority of revenues are deposited in the Highway User Revenue Fund to pay for highway construction and maintenance.

DISTRIBUTION

The tax on motor vehicle fuel consumed in vehicles operated on Arizona roads and highways is deposited in the Highway User Revenue Fund [A.R.S. § 28-6533].

Tax collections are distributed on the following basis (see Table 2 on following page):

- *Watercraft.* Tax collections on fuel for watercrafts pay for the cost of conducting a survey to determine the percent of fuel taxes collected from watercraft. One percent of such collections are retained by the State Highway Department to defray administrative expenses. The remaining collections are deposited in the State Lake Improvement Fund [A.R.S. § 28-5926].
- *Off-Highway Vehicles.* Fifty-five one hundredths of 1% of the tax collections on motor vehicle fuel is transferred to the Off-Highway Vehicle Recreation Fund on a monthly basis [A.R.S. § 28-5927].
- *Aircraft.* Taxes collected from sales of motor vehicle fuel consumed in aircraft are deposited in the State Aviation Fund. However, if a refund is claimed, 5¢ on each gallon of tax collected remains in the State Aviation Fund and the balance is refunded to the taxpayer [A.R.S. § 28-5611].
- *Remainder.* The net collections remaining after refunds and the above distributions are deposited in the Highway User Revenue Fund [A.R.S. § 28-5925]. (See *Highway User Revenue Fund Overview* at the beginning of this section for distribution of the Highway User Revenue Fund.)

Table 1

MOTOR VEHICLE FUEL TAX COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
FY 2009	$474,018,669	FY 1999	$410,037,087
FY 2008	$512,094,400	FY 1998	$376,348,116
FY 2007	$516,208,893	FY 1997	$373,986,908
FY 2006	$503,210,580	FY 1996	$369,058,121
FY 2005	$496,340,649	FY 1995	$351,038,867
FY 2004	$478,829,323	FY 1994	$341,252,229
FY 2003	$463,864,197	FY 1993	$322,572,576
FY 2002	$452,550,965	FY 1992	$317,996,785
FY 2001	$436,073,531	FY 1991	$305,756,113
FY 2000	$424,486,824	FY 1990	$294,050,829

SOURCE: Department of Transportation, Office of Financial Planning.

WHO PAYS THE TAX

The motor vehicle fuel tax is presumed to be a direct tax on the consumer but is still collected and remitted to the Department of Transportation by suppliers for the purpose of convenience. In other words, the tax is collected and paid to the Department by a supplier, who then adds the tax to the price of motor vehicle fuel in order to recover it from the consumer [A.R.S. § 28-5606].

Table 2

DISTRIBUTION OF MOTOR VEHICLE FUEL TAX COLLECTIONS

Fiscal Year	Highway User Revenue Fund [1/]	Special Funds and Refunds
FY 2009	$456,811,694	$17,206,975
FY 2008	$492,536,307	$19,558,094
FY 2007	$497,702,087	$18,506,806
FY 2006	$489,080,644	$14,129,936
FY 2005	$481,284,019	$15,056,630
FY 2004	$463,530,904	$15,298,419
FY 2003	$446,890,929	$16,973,268
FY 2002	$434,817,721	$17,733,244
FY 2001	$418,399,657	$17,673,874
FY 2000	$409,137,312	$15,349,512
FY 1999	$397,463,146	$12,573,941
FY 1998	$366,376,609	$9,971,507
FY 1997	$363,953,161	$11,183,328
FY 1996	$358,961,177	$11,119,079
FY 1995	$342,229,293	$8,739,574
FY 1994	$334,643,264	$6,608,965
FY 1993	$315,227,469	$7,345,107
FY 1992	$307,879,175	$10,117,610
FY 1991	$296,316,495	$8,939,628
FY 1990	$286,237,290	$7,813,539

1/ Use Fuel Tax collections excluded.

SOURCE: Department of Transportation, Office of Financial Planning.

TAX BASE AND RATE

The tax base is motor vehicle fuel, which includes all products that are commonly or commercially known or sold as gasoline. This definition includes casinghead gasoline (unprocessed natural gas containing natural gasoline and other liquid hydrocarbon vapors produced from an oil well), natural gasoline and all flammable liquids composed of a mixture of selected hydrocarbons manufactured or blended for use in internal combustion engines. Motor vehicle fuel does not include transmix, jet or aviation fuel, or any fuels covered under the use fuel tax [A.R.S. § 28-101].

The following are exempted from the motor vehicle fuel tax [A.R.S. § 28-5610]:

- Motor vehicle fuel for which proof of export is available in the form of a terminal issued destination state shipping paper, and is either exported by a supplier that is licensed in the destination state, or sold by a supplier to a distributor for immediate export.
- Motor vehicle fuel that was acquired by a distributor on which the tax has previously been paid and was subsequently exported across the state border.
- Motor vehicle fuel sold on an Indian reservation to a tribal member.
- Motor vehicle fuel sold off an Indian reservation for purposes of operating a motor vehicle for the benefit of an Indian tribe.
- Motor vehicle fuel that is moving in interstate or foreign commerce and that is not destined or diverted to a point in this state.
- Motor vehicle fuel that is sold to the United States or its agencies or instrumentalities.

The tax rate is 18¢ per gallon [A.R.S. § 28-5606].

TAX REFUNDS AND/OR TAX CREDITS

A person who buys and uses motor vehicle fuel is entitled to a refund if he or she pays the tax on the fuel and either [A.R.S. § 28-5611]:

- uses the fuel for purposes other than for operating a motor vehicle or a watercraft in Arizona,
- buys aviation fuel for use in aircraft applying seeds, fertilizer, or pesticides, or
- loses the fuel by fire, theft or other accident.

PAYMENT SCHEDULE

The motor fuel tax that is accrued in any calendar month shall be paid on or before the 27th day of the succeeding calendar month to the Department of Transportation [A.R.S. § 28-5925].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in the period from 2003 through 2009.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

USE FUEL TAX

DESCRIPTION

The use fuel tax applies to diesel and other fuels, but not to gasoline and alternative fuels. For vehicles weighing less than 26,000 pounds, the tax rate is 18¢ per gallon. For vehicles weighing more than 26,000 pounds, the tax rate is 26¢ per gallon. Revenues from the tax are deposited in the Highway User Revenue Fund.

DISTRIBUTION

The use fuel tax is deposited in the Highway User Revenue Fund [A.R.S. § 28-5730]. (See *Highway User Revenue Fund Overview* at the beginning of this section for distribution of the Highway User Revenue Fund.)

Table 1

USE FUEL TAX COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
FY 2009	$173,930,895	FY 1999	$160,311,953
FY 2008	$207,859,050	FY 1998	$142,166,607
FY 2007	$210,281,755	FY 1997	$124,748,225
FY 2006	$213,460,036	FY 1996	$114,779,960
FY 2005	$194,368,181	FY 1995	$108,789,949
FY 2004	$179,002,025	FY 1994	$87,912,597
FY 2003	$166,744,147	FY 1993	$72,008,139
FY 2002	$161,507,309	FY 1992	$61,909,894
FY 2001	$155,859,243	FY 1991	$65,201,576
FY 2000	$156,598,568	FY 1990	$52,876,043

SOURCE: Department of Transportation, Office of Financial Planning.

WHO PAYS THE TAX

The use fuel tax is presumed to be a direct tax on the consumer but is still collected and remitted to the Department of Transportation (DOT) by suppliers for the purpose of convenience. In other words, the tax is collected and paid to the Department by a supplier, who then adds the tax to the price of use fuel in order to recover it from the consumer [A.R.S. § 28-5606].

TAX BASE AND RATE

The tax base is use fuel, which includes all gases and liquids used to propel motor vehicles that are not subject to the motor vehicle fuel tax [A.R.S. § 28-5601].

An interstate user of use fuel on which the use fuel tax has not been paid is required to remit an amount that is computed by multiplying the number of gallons of use fuel used by the tax rate per gallon. The taxable gallonage is computed on the basis of miles traveled in Arizona as compared to total miles traveled in and outside the state. The actual method of computation is decided by DOT [A.R.S. § 28-5720].

The following are exempted from the use fuel tax [A.R.S. § 28-5610]:

- Use fuel for which proof of export is available in the form of a terminal-issued destination state shipping paper, and is either exported by a supplier that is licensed in the destination state, or sold by a supplier to a distributor for immediate export.
- Use fuel that was acquired by a distributor on which the tax has previously been paid and was subsequently exported across the state border.
- Use fuel sold on an Indian reservation to a tribal member.

- Use fuel sold off an Indian reservation for purposes of operating a motor vehicle for the benefit of an Indian tribe.
- Use fuel that is moving in interstate or foreign commerce and that is not destined or diverted to a point in this state.
- Use fuel that has been accidentally contaminated by dye and hence rendered unsalable as highway fuel.
- Dyed diesel fuel.

NOTE: There is no use fuel tax on alternative fuels [A.R.S. § 28-5606].

The tax rate is 18¢ per gallon for vehicles weighing less than 26,000 pounds. The tax rate is 26¢ per gallon for vehicles weighing more than 26,000 pounds [A.R.S. § 28-5606], except as noted below in Laws 2005, Chapter 278.

PAYMENT SCHEDULE

Tax that is accrued in any calendar month shall be paid on or before the 27th day of the succeeding calendar month to DOT [A.R.S. § 28-5925].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in 2003, 2006, 2007, and 2009.

2008 TAX LAWS

Laws 2008, Chapter 51 clarifies that trucks that are at least 25 years old, are not used commercially, and have been issued a Historic Vehicle license plate are subject to the "light class" (less than 26,000 pounds) use fuel rate of 18¢ per gallon. The provisions of this bill are anticipated to result in an annual reduction of use fuel tax revenues of $(400,000) to $(800,000). (Effective September 26, 2008)

2005 TAX LAWS

Laws 2005, Chapter 278 decreased the use fuel tax from 26¢ to 13¢ per gallon for vehicles transporting forest products. The tax decrease is in effect from September 1, 2005 through December 31, 2010. It also allows a person to apply to DOT for a refund of the difference between the use fuel tax paid and the use fuel tax rate prescribed for a motor vehicle transporting forest products. This would apply to any person who pays the use fuel tax rate for a use fuel class vehicle but who actually uses the fuel for transporting forest products. (Effective August 12, 2005)

2004 TAX LAWS

Laws 2004, Chapter 249 required DOT to deduct a taxpayer's use tax liability from any use fuel tax refund. A use fuel tax of 26¢ per gallon is imposed on diesel fuel used in the state. Currently, if diesel fuel is consumed for a non-highway purpose, it is exempt from the use fuel tax and DOT refunds the taxes paid. However, diesel fuel that is consumed for a non-highway purpose is subject to the state's use tax (as opposed to the use fuel tax) at a rate of 5.6% (see Use Tax section on page 23). Under this legislation, DOT is prohibited from issuing use fuel tax refunds until the amount of use tax owed on the fuel is determined. DOT is then required to issue a refund of the use fuel tax net of any use tax owed. (Effective January 1, 2005)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

VEHICLE LICENSE TAX

DESCRIPTION

The Vehicle License Tax (VLT) is an ad valorem tax levied on registered vehicles in the state. The tax is levied per $100 of a vehicle's assessed value. For the first 12 months of the vehicle's life, the assessed value is 60% of the manufacturer's base retail price. For each subsequent year, the assessed value is 16.25% less than the previous year. The rate per $100 of assessed value is $2.80 for new vehicles and $2.89 for renewals.

DISTRIBUTION

Monies received by the Director of the Department of Transportation (DOT) from this tax are distributed as follows [A.R.S. § 28-5808]:

For monies collected from alternative fuel vehicles, car rental surcharges, and private ambulances, fire fighting vehicles, and school buses:

- 37.61% to the Highway User Revenue Fund (HURF)
- 20.45% to county general funds
- 4.91% to counties for transportation related purposes
- 20.45% to incorporated cities and towns
- 1.64% to the State Highway Fund, except if the department's share of Federal Surface Transportation Programs monies is greater than $42 million, the difference shall be deposited in the Local Transportation Assistance Fund for cities and towns
- 4.09% to the State Highway Fund
- 10.85% to the General Fund for school financial assistance

For monies collected from all other eligible vehicles:

- 45% to the HURF
- 24.6% to county general funds
- 5.7% to counties for transportation related purposes
- 24.6% to incorporated cities and towns

(See *Highway User Revenue Fund Overview* at the beginning of this section for distribution of the Highway User Revenue Fund.)

Table 1

VEHICLE LICENSE TAX COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
FY 2009	$796,683,787	FY 1999	$594,224,410
FY 2008	$858,975,998	FY 1998	$586,835,092
FY 2007	$875,746,210	FY 1997	$552,348,715
FY 2006	$831,950,743	FY 1996	$480,300,608
FY 2005	$747,013,406	FY 1995	$426,019,239
FY 2004	$695,325,929	FY 1994	$377,593,859
FY 2003	$628,207,211	FY 1993	$333,479,528
FY 2002	$601,666,653	FY 1992	$314,914,865
FY 2001	$570,769,364	FY 1991	$311,789,377
FY 2000	$583,199,118	FY 1990	$297,267,498

SOURCE: Department of Transportation, Office of Financial Planning.

Table 2

Distribution

Fiscal Year	State General Fund	State Highway Fund	MVD 3rd Parties 1/	Local Governments	DPS Parity Comp Fund
FY 2009 2/	$68,637,851	$129,031,249	$16,060,465	$580,992,141	$1,962,081
FY 2008 3/	$2,269,219	$175,782,821	$16,304,558	$661,705,985	$2,913,415
FY 2007	$684,102	$180,569,892	$15,524,579	$675,984,843	$2,982,792
FY 2006	$585,136	$172,515,319	$13,901,699	$642,162,540	$2,693,307
FY 2005 4/	$135,073,829	$36,758,445	$11,329,742	$563,851,390	
FY 2004	$800,278	$148,436,587	$9,667,114	$536,421,948	
FY 2003	$975,947	$134,596,889	$8,154,054	$484,480,321	
FY 2002	$70,213	$130,128,937	$6,571,119	$464,896,384	
FY 2001	$475,007	$130,047,925	$4,389,182	$435,857,252	
FY 2000	$24,265,823	$140,307,371	$3,899,329	$414,726,595	
FY 1999	$90,592,289	$132,866,068	$2,378,247	$368,387,805	

1/ Laws 1998, Chapter 200 and Laws 2001, Chapter 326 provide for the reimbursement of authorized MVD 3rd parties for their services performed. The majority of reimbursement monies come from the State Highway Fund.

2/ In FY 2009, there was a one-time distribution in the amount of $67 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund.

3/ Includes an allocation of $1,357,182 from the MVD registration compliance program to the General Fund per Laws 2002, Chapter 328 *(See Tax Law Changes section)*.

4/ In FY 2005, there was a one-time distribution in the amount of $118 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there was an allocation of $16.4 million from the MVD registration compliance program to the General Fund.

SOURCE: Department of Transportation, Office of Financial Planning.

The enacted FY 2006 budget included a provision that transfers 1.51% of vehicle license tax received for distribution to the State Highway Fund to the Parity Compensation Fund beginning in FY 2006.

WHO PAYS THE TAX

Owners of vehicles that are registered for operation on the highways of Arizona [Arizona Constitution, Article 9, Section 11].

TAX BASE AND RATE

Base

The VLT is levied on the assessed value of each vehicle. Effectively, the tax is levied on 10 classes of vehicles [A.R.S. § 28-5801]:

(1) Passenger vehicles.
(2) Commercial vehicles.
(3) Non-commercial one-half ton pick-ups and similar vehicles.
(4) Buses.
(5) Taxis.
(6) Travel trailers.
(7) Trailers.
(8) Motorcycles and scooters.
(9) Privately owned motor vehicles used exclusively as a school bus.
(10) Motor vehicles powered by alternative fuels.

The taxable value of vehicles in these classes is determined as follows:

Classes 1 through 8

During the first 12 months of the life of the vehicle (as determined by its initial registration) the assessed value of the vehicle is 60% of the manufacturer's base retail price. During each succeeding 12-month period, the assessed value of the vehicle is 16.25% less than the assessed value for the preceding 12-month period.

Class 9 and Class 10

During the first 12 months of the life of the vehicle (as determined by its initial registration) the assessed value of the vehicle is 1% of the manufacturer's base retail price. During each succeeding 12-month period, the assessed value of the vehicle is 15% less than the assessed value for the preceding period [A.R.S. § 28-5804, 28-5805].

If a Class 9 vehicle is temporarily used for purposes other than as a school bus, the taxable value is determined in the same manner as Class 1-8 vehicles. The tax is then assessed and collected monthly in an amount equal to one-tenth of the calculated annual VLT for each full month the vehicle is operated for other purposes [A.R.S. § 28-5804].

EXEMPTIONS

A veteran who is a resident of Arizona and whose vehicle or replacement of such vehicle is acquired by financial aid from the Veteran's Administration is exempt from this license tax [A.R.S. § 28-5802].

No license tax or registration fee shall be collected for a vehicle that is personally owned by a veteran, a veteran and another party, or the surviving spouse of a veteran, if such veteran is certified by the Veteran's Administration as 100% disabled and drawing compensation. Only one vehicle or its replacement may claim this exemption during each 12-month period.

A vehicle owned by a resident who receives disability payments under Title 16 of the Social Security Act is exempt from the VLT. Such resident must show satisfactory proof of such assistance [A.R.S. § 28-5803]. Only one vehicle may be claimed by a disabled resident.

Rate

For Classes 1 through 8, the VLT rate is $2.80 per $100 of assessed value for the first 12 months of the vehicle's life, and $2.89 per $100 of value thereafter. Exception: for noncommercial trailers that are not travel trailers and have a gross vehicle weight of less than 10,000 pounds, the VLT is a one-time tax of $105 on initial registration and is a one-time tax of $70 on renewal of registration [A.R.S. § 28-5801].

For Classes 9 and 10, the VLT rate is $4 per $100 of assessed value [A.R.S. § 28-5804, 28-5805].

For trailers and semitrailers that are not travel trailers over 10,000 pounds gross vehicle weight, the VLT is a one-time fee of $555 for trailers which have not previously been registered, $355 for trailers less than six years old which have been previously registered in another state, and $100 for trailers six or more years old which have been previously registered in another state.

Minimum Tax. For Classes 1 through 8, the minimum amount of the VLT is $10 per year for each vehicle subject to the tax [A.R.S. § 28-5801]. For Class 9 and Class 10 vehicles, the minimum VLT is $5 per year [A.R.S. § 28-5804, 28-5805].

PAYMENT SCHEDULE

The VLT is due and collected annually at the time of vehicle registration. Exception: depending on eligibility, owners of vehicles may participate in a two-year vehicle registration program and prepay the VLT for the following year [A.R.S. § 28-5801].

The Arizona Department of Transportation collects tax payments and fees.

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law and other revenue changes that have been enacted by the Legislature since 2003:

There were no changes enacted to this tax in 2003 and 2006.

2009 TAX LAWS

Laws 2009, 1st Regular Session, Chapter 187 raises the weight limit for noncommercial trailers or semitrailers from 6,000 to 10,000 pounds gross vehicle weight for registration, transfer fee, and VLT purposes. It also specifies that trailers and semitrailers that are not travel trailers are not subject to commercial registration fees.

Laws 2009, 1st Special Session, Chapter 3 allows DOT to offer an optional 5-year registration option for any vehicle not subject to an annual emissions inspection. Laws 2009, 1st Special Session, Chapter 1, transferred $2,333,300 in VLT monies for distribution to the State Highway Fund to the General Fund in FY 2009. This amount represents the estimated additional VLT revenue that the 5-year renewal registration option would have generated in FY 2009. The 5-year renewal option is expected to generate $28 million in additional VLT revenue in FY 2010. As transmitted to the Governor, SB 1025 would have transferred this additional revenue to the General Fund. The Governor vetoed the bill, so as of this writing in September 2009, the additional VLT revenue will be distributed as noted in the *Distribution* section above.

2008 TAX LAWS

Laws 2008, Chapter 291 Allowed county VLT monies to be used for any purpose related to transportation as determined by the Board of Supervisors instead of limiting the use of VLT monies to the same use as Highway User Revenue Fund monies. (Effective September 26, 2008)

Laws 2008, Chapter 294 reduced the VLT on all-terrain or off-highway vehicles to a flat rate of $3 per year. Chapter 294 further provided that these vehicles be subject to an off-highway user fee, which is to be determined by the Department of Transportation in cooperation with the Game and Fish Department and the Parks Board by January 1, 2009. This legislation was anticipated to result in a $(2.7) million reduction in VLT revenues in FY 2010, the first full year of implementation. Overall, the legislation was expected to result in net new revenues of $5.4 million, with the $(2.7) million loss in VLT revenues offset by $7.2 million in new user fee collections, and $1.4 million in new title and license plate fees. The majority of the new user fee revenues will be deposited into the Off Highway Vehicle Recreation Fund, with smaller portions allocated to the State Highway Fund and local governments for transportation funding.. (Effective December 31, 2008)

2007 TAX LAWS

Laws 2007, Chapter 239 made numerous changes to the existing VLT and vehicle registration fee exemption for members of the military who are deployed in support of a worldwide contingency operation of the United States armed forces. Changes included expanding the exemption to include newly acquired vehicles; limiting the exemption to military members who are residents of Arizona; providing that the exemption may only be taken one time; and limiting the exemption to no more than two vehicles. This bill was estimated to reduce VLT collections by approximately $(360,000) in FY 2008. This reduction will have no impact on the state's General Fund, but will impact the amount of VLT deposited into the State Highway Fund and distributed to local governments. (Effective September 19, 2007)

2005 TAX LAWS

Laws 2005, Chapter 306 established the Parity Compensation Fund consisting of VLT distributions and legislative appropriations to fund salaries and benefits for Department of Public Safety law enforcement personnel. This legislation redirected 1.51% of the portion of the VLT revenues for the entire month that would otherwise be deposited in the State Highway Fund to the Parity Compensation Fund. It also directed that the appropriation to the Parity Compensation Fund from the VLT revenues would not impact the distribution of those revenues to the state General Fund and to the counties, cities, and towns. The bill specified that the Parity Compensation Fund monies do

not revert to the state General Fund, are exempt from lapsing, and are subject to legislative appropriation. The bill became effective on the general effective date, retroactive to July 1, 2005.

2004 TAX LAWS

Laws 2004, Chapter 282 provided that the first $118,000,000 of VLT received in FY 2005, that would normally been deposited into the State Highway fund pursuant to A.R.S. § 28-6538, be instead deposited into the state General Fund.

Laws 2004, Chapter 306 provided that the surviving spouse of a 100% disabled veteran may continue to receive the exemption from this tax until remarriage or death. The fiscal impact of this change is unknown.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

MOTOR CARRIER FEE

DESCRIPTION

The motor carrier fee replaced the motor carrier tax with the enactment of Laws 1997, Chapter 8. The fee is annually imposed on vehicles with a weight in excess of 12,000 pounds for the use of public highways. The amount of the fee varies according to vehicle weight, with a maximum fee of $800 for vehicles that weigh up to 80,000 pounds. Collections from the motor carrier fee are dedicated to the Highway User Revenue Fund.

DISTRIBUTION

Table 1 shows a 20-year revenue history for this fee.

Table 1

MOTOR CARRIER FEE COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
FY 2009	$40,483,421	FY 1999	$34,139,960
FY 2008	$40,177,453	FY 1998	$63,845,891
FY 2007	$45,226,185	FY 1997	$90,186,000
FY 2006	$40,504,406	FY 1996	$85,433,269
FY 2005	$37,980,023	FY 1995	$92,103,162
FY 2004	$34,617,452	FY 1994	$118,530,292
FY 2003	$32,856,325	FY 1993	$120,303,202
FY 2002	$29,346,709	FY 1992	$109,573,046
FY 2001	$32,677,923	FY 1991	$109,573,046
FY 2000	$36,562,768	FY 1990	$108,655,299

SOURCE: Department of Transportation, Office of Financial Planning.

Collections from the Motor Carrier Fee are deposited in the Arizona Highway User Revenue Fund. (See *Highway User Revenue Fund Overview* at the beginning of this section for distribution of the Highway User Revenue Fund.)

WHO PAYS THE FEE

A person who operates or causes to be operated a motor vehicle on a public highway [A.R.S. § 28-5851].

FEE BASE AND RATE

BASE

Motor vehicle means a motor driven vehicle that has a declared gross vehicle weight of more than 12,000 pounds (typically, a delivery type van, a large 1-ton pickup truck, or some recreational vehicles), and is subject to vehicle registration, excluding a vehicle that is exempt from gross weight fees [A.R.S. § 28-5851].

RATE

Motor carriers pay a flat fee that varies with the weight class of the motor vehicle, as shown in Table 2 [A.R.S. § 28-5854].

Table 2

FEE SCHEDULE

Vehicle Weight	Fee	Vehicle Weight	Fee
12,001 - 14,000 lbs.	$64.00	32,001 - 36,000 lbs.	$155.00
14,001 - 16,000 lbs.	$73.00	36,001 - 40,000 lbs.	$173.00
16,001 - 18,000 lbs.	$82.00	40,001 - 45,000 lbs.	$336.00
18,001 - 20,000 lbs.	$91.00	45,001 - 50,000 lbs.	$374.00
20,001 - 22,000 lbs.	$101.00	50,001 - 55,000 lbs.	$412.00
22,001 - 24,000 lbs.	$110.00	55,001 - 60,000 lbs.	$450.00
24,001 - 26,000 lbs.	$119.00	60,001 - 65,000 lbs.	$627.00
26,001 - 28,000 lbs.	$128.00	65,001 - 70,000 lbs.	$693.00
28,001 - 30,000 lbs.	$137.00	70,001 - 75,000 lbs.	$750.00
30,001 - 32,000 lbs.	$146.00	75,001 - 80,000 lbs.	$800.00

The following vehicles are exempt from this fee [A.R.S. § 28-5853]:

- School buses
- Motor vehicles used in the production of
  - motion pictures
  - industrial, training, and educational films
  - television commercials
  - video discs and video tapes

The director shall compute a reduced fee that is seven-tenths of the original fee if motor carrier pre-qualifies for a reduced fee prior to registration and if other specific circumstances regarding vehicle load status are met [A.R.S. § 28-5855; A.R.S. § 28-5856; A.R.S. § 28-5857].

The fee for a vehicle that weighs more than 26,000 pounds and is driven less than 2,000 miles each year is $80. The fee for a vehicle that weighs more than 26,000 pounds and is driven between 2,000 and 4,000 miles a year is $160 [A.R.S. § 28-5867].

Non-resident motor carriers or non-resident persons who operate a motor vehicle in this state may purchase a Single-Trip Motor Carrier Fee Permit instead of paying the regular Motor Carrier Fee. A Single-Trip Permit is only effective during the specific trip for which it is issued. The Motor Carrier Fee on a Single-Trip Permit is $12 for 50 miles or less or $48 for more than 50 miles traveled on the highways of this state [A.R.S. § 28-5863].

The Department of Transportation may also issue a Special 30-Day Motor Carrier Fee Permit for vehicles not in the commercial transportation business, only in the state for a limited period of time and will make limited use of Arizona's highways. The Motor Carrier Fee for a Special 30-Day Permit is $96 [A.R.S. § 28-5864].

TAX REFUNDS AND/OR TAX CREDITS

In the event the director determines that a motor carrier overpaid the fee, penalty, or interest, the director shall credit that amount on any current amount due or refund the excess amount [A.R.S. § 28-5859].

PAYMENT SCHEDULE

Fee is payable at the time the motor vehicle is registered with the state [A.R.S. § 28-5854(B)].

The collecting agency is the Arizona Department of Transportation [A.R.S. § 28-5854(B)].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in the period from 2003 through 2009.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

MISCELLANEOUS OTHER FUND REVENUE SOURCES

AVIATION FUEL TAX

DESCRIPTION

The aviation fuel tax is levied on each gallon of aviation fuel produced or imported into Arizona. Aviation fuel is defined as fuel that is expressly manufactured for use in an internal combustion engine of an aircraft. The tax rate is 5¢ per gallon, and revenues are deposited in the State Aviation Fund.

DISTRIBUTION

The tax on aviation fuel is deposited in the State Aviation Fund [A.R.S. § 28-8345]. The monies in the fund are dedicated to the construction, development, and improvement of airports in the state.

Table 1

AVIATION FUEL TAX COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
FY 2009	$380,429	FY 1999	$671,799
FY 2008	$420,915	FY 1998	$485,333
FY 2007	$460,470	FY 1997	$514,687
FY 2006	$462,598	FY 1996	$512,328
FY 2005	$499,136	FY 1995	$442,980
FY 2004	$572,686	FY 1994	$690,752
FY 2003	$646,314	FY 1993	$396,733
FY 2002	$510,378	FY 1992	$497,186
FY 2001	$456,476	FY 1991	$582,110
FY 2000	$481,594	FY 1990	$526,739

SOURCE: Department of Transportation, Office of Financial Planning.

WHO PAYS THE TAX

The aviation fuel tax is presumed to be a direct tax on the consumer but is still collected and remitted to the Department of Transportation by suppliers for the purpose of convenience. In other words, the tax is collected and paid to the Department by a supplier, who then adds the tax to the price of aviation fuel in order to recover it from the consumer [A.R.S. § 28-5606].

TAX BASE AND RATE

The tax base is aviation fuel, which means all flammable liquids composed of a mixture of selected hydrocarbons manufactured and blended for the purpose of operating an internal combustion engine in an aircraft. Aviation fuel does not include fuel used in jet or turbine powered aircraft [A.R.S. § 28-101].

The following are exempted from the aviation fuel tax [A.R.S. § 28-5610]:

- Aviation fuel for which proof of export is available in the form of a terminal issued destination state shipping paper, and is either exported by a supplier that is licensed in the destination state, or sold by a supplier to a distributor for immediate export.
- Aviation fuel that was acquired by a distributor on which the tax has previously been paid and that was subsequently exported across the state border.
- Aviation fuel that is moving in interstate or foreign commerce and that is not destined or diverted to a point in this state.
- Aviation fuel that is sold to the United States or its agencies or instrumentalities.

The tax rate is 5¢ per gallon [A.R.S. § 28-8344].

PAYMENT SCHEDULE

The tax that is accrued in any calendar month is to be paid on or before the 27th day of the next succeeding calendar month to the Department of Transportation [A.R.S. § 28-5925].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in the period from 2003 through 2009.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

INTRASTATE UTILITY CORPORATION ASSESSMENTS

DESCRIPTION

Two separate assessments are imposed on public service corporations to support the statutory duties of the Corporation Commission's Utilities Division and the Residential Utility Consumer Office.

DISTRIBUTION

Utilities Division. Proceeds from the Utilities Division assessment are dedicated to the Utility Regulation Revolving Fund to pay representing attorneys and the expenses of the Utilities Division of the Corporation Commission, including related expenses of the Corporation Commission's Legal, Administration, and Hearing Divisions [A.R.S. § 40-408B-C].

Residential Utility Consumer Office. Proceeds from the Residential Utility Consumer Office assessment are dedicated to the Residential Utility Consumer Office Revolving Fund for the operation of the Residential Utility Consumer Office [A.R.S. § 40-409B-C].

Disposition. Both funds are subject to legislative appropriation. Monies remaining in the funds at the end of the fiscal year do not revert to the state General Fund, but are used to calculate the annual assessments [A.R.S. § 40-408D-F and § 40-409D-F].

Table 1 below provides tax collections for the past 20 years. As noted above, the Utilities Division assessment is distributed to the Utility Regulation Revolving Fund, and the Residential Utility Consumer Office assessment is distributed to the Residential Utility Consumer Office Revolving Fund.

Table 1

TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	Utilities Division Net Collections	RUCO Net Collections	Total Collections
FY 2009	$14,702,300	$1,313,100	$16,015,400
FY 2008	$14,702,300	$1,313,100	$16,015,400
FY 2007	$13,787,200	$1,313,300	$15,100,500
FY 2006	$12,225,000	$1,184,000	$13,409,000
FY 2005	$11,100,900	$1,110,200	$12,211,100
FY 2004	$11,158,000	$1,131,700	$12,289,700
FY 2003	$8,418,500	$1,095,200	$ 9,513,700
FY 2002	$10,622,575	$1,045,200	$11,667,775
FY 2001	$8,882,000	$1,017,000	$9,899,000
FY 2000	$7,511,900	$1,068,700	$8,580,600
FY 1999	$7,237,090	$573,784	$7,810,874
FY 1998	$6,649,080	$938,274	$7,587,354
FY 1997	$6,021,300	$1,021,500	$7,042,800
FY 1996	$5,603,000	$933,600	$6,536,600
FY 1995	$5,439,400	$1,009,000	$6,448,400
FY 1994	$5,491,000	$925,300	$6,416,300
FY 1993	$5,688,327	$814,946	$6,502,273
FY 1992	$5,529,776	$880,198	$6,409,974
FY 1991	$6,405,140	$1,044,569	$7,449,709
FY 1990	$4,925,721	$932,737	$5,858,458

SOURCE: Corporation Commission, Annual Reports.

WHO PAYS THE TAX

Public service corporations with gross operating revenues exceeding $500,000 from intrastate operations during the preceding calendar year must pay the tax [A.R.S. § 40-401 and § 40-401.01]. (Prior to Laws 2005, Chapter 79, the qualifying level of revenues was $250,000.)

Exceptions. Corporations that are not required to hold certificates of convenience and necessity are exempted from this assessment [A.R.S. § 40-401A and § 40-401.01A]. In effect, this exception applies mainly to railroads [A.R.S. § 40-281A]. The Residential Utility Consumer Assessment also does not apply to member-owned nonprofit cooperative corporations. [A.R.S. § 40-461].

TAX BASE

Utilities Division. The assessment for the Corporation Commission's Utilities Division is levied on the gross operating revenue from each corporation's intrastate operations during the preceding calendar year [A.R.S. § 40-401(B)].

Residential Utility Consumer Office. The assessment for the Residential Utility Consumer Office is levied on the gross operating revenue during the preceding calendar year from each corporation's intrastate operations that served residential consumers [A.R.S. § 40-401.01B].

TAX RATE

Utilities Division. The assessment for the Utilities Division is set at a rate determined by the Corporation Commission that will raise monies equal to the amount determined as follows [A.R.S. § 40-401B]:

(1) Determine the amount appropriated by the Legislature to operate the Utilities Division, including related appropriations for the Corporation Commission’s Legal, Administration, and Hearing Divisions, for the following fiscal year.
(2) Multiply the amount determined in (1) by 1.2.
(3) Subtract the monies estimated to remain unexpended in the Utility Regulation Revolving Fund at the end of the current fiscal year. The difference computed is the amount to be raised by the assessment.

The assessment is allocated to each public service corporation with gross operating revenues exceeding $500,000 from intrastate operations during the preceding calendar year proportionate to each public service corporation’s share of the total amount of gross operating revenues earned by all such public service corporations.

Residential Utility Consumer Office. The assessment for the Residential Utility Consumer Office is set at a rate that will raise monies equal to the amount determined as follows [A.R.S. § 40-401.01B]:

(1) Determine the amount appropriated by the Legislature for operating the Residential Utility Consumer Office for the following fiscal year.
(2) Subtract the monies estimated to remain in the Residential Utility Consumer Office Revolving Fund at the end of the current fiscal year. The difference computed is the amount to be raised by the assessment.

The assessment is allocated to each public service corporation with gross operating revenues exceeding $500,000 from intrastate operations during the preceding calendar year proportionate to each public service corporation’s share of the total amount of gross operating revenues derived from serving residential consumers earned by all such public service corporations.

Maximum Combined Rate. Notwithstanding the assessment formulas, the combined assessment rates may not exceed 0.25% of any corporation's gross operating revenues from intrastate operations during the preceding calendar year [A.R.S. § 40-401C and § 40-401.01C]. (Prior to Laws 2005, Chapter 79, the combined assessment rates could not exceed 0.20%).

PAYMENT SCHEDULE

Due Date. The Corporation Commission must levy both assessments no later than June 15 of each year. Notice is then sent to each corporation by certified mail. The assessments are due within 15 days after such mailing [A.R.S. § 40-401D and § 40-401.01D].

Collecting Agencies. The Corporation Commission [A.R.S. § 40-408B and § 40-409B]. In the event a corporation fails or refuses to pay the amount assessed within 15 days without filing objections to the assessment statement with the Corporation Commission, the Corporation Commission shall transmit a certified copy of the statement of the assessment to the Department of Public Safety. Within 10 days after receipt of the copy of the statement, the Department of Public Safety shall proceed to collect the amount stated due, with legal interest, by seizure and sale of any goods or property in the state belonging to the public service corporation [A.R.S. § 40-407].

Filing Dates. Public service corporations with gross operating revenues exceeding $500,000 must file an estimate of their gross operating revenues from intrastate operations during the previous calendar year on or before January 10. All public service corporations must file a statement showing the amount of such revenues received during the prior calendar year by May 1, as well as a statement showing the gross operating revenues derived from intrastate operations during the preceding calendar year that were received from residential consumers. [A.R.S. § 40-401E-F, and § 40-401.01E]. (Prior to Laws 2005, Chapter 79, the threshold for the January 10 filing was $250,000).

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law and other revenue changes that have been enacted by the Legislature since 2003. The estimated dollar impact of these changes is summarized by fiscal year in the following table:

There were no changes enacted to this tax in 2004, and 2006 to 2009.

2005 TAX LAWS

Laws 2005, Chapter 79 raised the minimum gross operating revenue threshold that must be met by a company regulated by the Arizona Corporation Commission (ACC) to be subject to the assessment from $250,000 to $500,000. It also increased the statutorily established amount that the ACC may assess regulated companies from two-tenths of a percent (.002) to one quarter of one percent (.0025) of gross annual operating revenues for deposit into the Utility Regulation Revolving Fund and the Residential Utility Consumer Office Revolving Fund. (Effective August 12, 2005)

2003 TAX LAWS

Laws 2003, Chapter 263 further expanded the use of the Utility Regulation Revolving Fund to include Corporation Commissioners' expenses, which allowed an additional estimated $240,000 of expenses to be shifted from the General Fund beginning in FY 2004. This also had the result of increasing the base used in determining the Utilities Division assessment for these years.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

TAX ON WORKERS' COMPENSATION INSURANCE PREMIUMS

DESCRIPTION

The tax on workers' compensation insurance premiums is a tax on the premiums paid by employers to insurance carriers for workers' compensation insurance. This tax is in lieu of all other taxes on workers' compensation insurance [A.R.S. § 23-961].

The state requires most employers to obtain such insurance so that employees and their families are provided financial protection from industrial injuries or death. The tax rate may be a maximum of 3% of net premiums, and revenues are used for the administrative expenses of the Industrial Commission [A.R.S. § 23-961].

DISTRIBUTION

Administrative Fund. Tax collections for the Administrative Fund are used for all administrative expenses of the Industrial Commission. Expenditures from the Administrative Fund are subject to budgetary review and legislative appropriation. Tax collections to this fund are to be no more than necessary to cover actual expenses, and unless the Special Fund (see description below) is not on an actuarially sound basis, any surplus or deficit in revenue above or below the expenses shall be included in the calculation of the rate to be fixed the following year [A.R.S. § 23-1081].

Special Fund. Tax collections for the Special Fund provide additional compensation payments or awards to promote the rehabilitation of disabled workers. Since July 25, 1981, monies in the Special Fund may be allocated to acquire real property or construct and furnish or procure a new office building for the Industrial Commission. Since April 19, 1983, the Special Fund may also provide loans to the Administrative Fund [A.R.S. § 23-1065].

Net collections by fund are provided in Table 1 on the following page.

WHO PAYS THE TAX

The tax on workers' compensation insurance premiums is paid by insurance carriers issuing workers' compensation insurance, employers providing workers' compensation insurance through the self-insurance method, and the State Compensation Fund [A.R.S. § 23-961].

TAX BASE

The tax on workers' compensation insurance premiums is levied on total direct premiums paid or contracted for during the preceding calendar year minus deductions for cancellations, returned premiums, policy dividends, refunds and similar amounts paid or credited to policyholders within this state and not reapplied as premiums for new, additional or extended insurance [A.R.S. § 23-961]. The above applies to premiums paid to insurers or the State Compensation Fund. For self-insured employers, the tax is based on the premiums that would have been paid by the employer if fully insured under a plan available from the State Compensation Fund during the preceding calendar year. Employers of domestic servants are not subject to the "workmen's compensation" statutes [A.R.S. § 23-902].

TAX RATE

The total tax rate is composed of 2 separate rates:

(1) *Tax Rate for Administrative Fund*. 3% of net premiums, but for self-insured employers, not less than $250 annually [A.R.S. § 23-961].

(2) *Tax Rate for Special Fund*. 1.5% of net premiums is the maximum rate allowed but, for self-insured employers, the minimum annual payment is $250. The tax rate for the Special Fund may be adjusted downward by the Industrial Commission so that revenues received are no more than necessary to keep the Special Fund actuarially sound [A.R.S. § 23-1065]. According to the Industrial Commission, the base tax rate was set at 1.5% of net premiums in FY 2008.

Table 1

TAX COLLECTIONS

Calendar Year	Net Collections Administrative Fund 1/	Net Collections Special Fund 2/	Total Net Collections
2008	$30,558,100	$15,279,100	$45,837,200
2007	$31,786,900	$26,490,900	$58,277,800
2006	$28,382,700	$23,653,400	$52,036,100
2005	$24,647,200	$20,540,600	$45,187,800
2004	$21,758,100	$10,888,700	$32,646,800
2003	$20,117,300	$0	$20,117,300
2002	$15,716,000	$0	$15,716,000
2001	$16,257,700	$0	$16,257,700
2000	$13,894,800	$0	$13,894,800
1999	$14,792,900	$0	$14,792,900
1998	$15,600,000	$0	$15,600,000
1997	$ 9,600,000	$0	$ 9,600,000
1996	$12,300,000	$0	$12,300,000
1995	$10,513,000	$0	$10,513,000
1994	$11,653,700	$1,600	$11,655,300
1993	$20,728,400	$2,400	$20,730,800
1992	$19,384,800	$3,432,900	$22,817,700
1991	$16,244,400	$5,153,000	$21,397,400
1990	$15,657,900	$6,059,000	$21,716,900
1989	$12,840,500	$7,788,200	$20,628,700

1/ Laws 1993, 2nd Special Session, Chapter 9, provides that tax collections for the Administrative Fund will be no more than necessary to cover actual expenses.

2/ The base tax rate to the Special Fund is not to exceed 1.5% and is set at a rate no more than necessary to keep it actuarially sound. An additional 0.5% tax may be levied to cover Special Fund Liabilities in excess of $6 million, and a further 0.5% may be authorized to reimburse the State Compensation Fund.

SOURCE: Industrial Commission.

The Industrial Commission may, after notice and a hearing, levy an additional 0.5% of net premiums to meet liabilities of the Special Fund in excess of $6 million [A.R.S. § 23-1065(F)].

The Industrial Commission has the authority to increase the Special Fund tax assessment by up to 0.5% of that assessment in any one year. This additional assessment is to reimburse the State Compensation Fund for payments made to individuals whose self-insured employer or insurance carrier fails to pay a claim or comply with a commission order [A.R.S. § 23-966].

PAYMENT SCHEDULE

The tax is due annually, on or before March 31 for self-insured employers, and on or before March 1 for all other covered insurance carriers and the State Compensation Fund [A.R.S. § 23-961].

Since the 1983 tax year, insurance carriers and the State Compensation Fund are required to make quarterly payments on the tax for the Administrative Fund if their tax liability for the preceding calendar year was $2,000 or more. Quarterly payments are submitted to the state on or before the last day of the month following the close of each quarter. All quarterly payments are deducted from the tax that is payable on the regular March due date [A.R.S. § 23-961]. The quarterly payments are to equal one of the following:

(1) The tax due on net premiums collected or contracted for during the preceding calendar quarter, or
(2) 25% of the tax paid or required to be paid for the preceding calendar year.

Any overpayment of taxes resulting from the quarterly payments may be refunded by the Industrial Commission without interest [A.R.S. § 23-961].

The tax for the Administrative and Special Fund is paid to the State Treasurer through the Industrial Commission [A.R.S. § 23-961].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in 2003, and 2006 to 2009.

2005 TAX LAWS

Laws 2005, Chapter 213 authorizes the Industrial Commission to transfer a surplus of the Administrative Fund to the Special Fund if the Special Fund is not found to be actuarially sound. The bill stipulates that if the Special Fund is not actuarially sound, the tax rate for the Administrative Fund cannot be changed. (Effective August 12, 2005)

2004 TAX LAWS

Laws 2004, Chapter 307 requires the State Compensation Fund to meet the same requirements as other workers' compensation insurance providers with respect to the deposit of cash or securities with the State Treasurer. It expands the allowable use of the Special Fund to pay expenses related to determining liability, and allows the Special Fund to make claims against insurance carriers and employers for investigative costs. (Effective August 25, 2004)

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

TELECOMMUNICATIONS SERVICES EXCISE TAX

DESCRIPTION

The Telecommunications Services Excise Tax is composed of 2 separate taxes. The *Emergency Telecommunication Services* tax finances 911 emergency telecommunication services. Beginning in FY 2007, the *Telecommunications Provider Proceeds* tax solely provides funding for the Commission for the Deaf and the Hard of Hearing. The Poison Control System within the Department of Health Services (DHS), the Arizona State Schools for the Deaf and the Blind (ASDB), and the Teratogen Information Program administered by the University of Arizona Health Sciences Center previously received revenues from the *Telecommunications Provider Proceeds* Tax.

DISTRIBUTION

Table 1 below provides a history of the distribution of the Telecommunications Services Excise Tax.

Table 1

DISTRIBUTION OF TELECOMMUNICATIONS SERVICES EXCISE TAX COLLECTIONS

Fiscal Year	Emergency Telecomm. Svcs. Revolving Fund	Telecomm. Fund for the Deaf	Poison Control Fund	AZ State Schools for the Deaf & the Blind	Teratogen Information Program
FY 2009	$17,774,126	$6,274,404	-	-	-
FY 2008	$17,332,349	$6,581,940	-	-	-
FY 2007	$23,074,167	$6,744,231	-	-	-
FY 2006	$28,736,951	$3,860,508	$1,128,621	867,140	$48,678
FY 2005	$27,245,559	$4,035,765	$1,066,833	$1,363,179	$53,771
FY 2004	$25,691,865	$5,091,661	$1,437,566	$1,362,312	-
FY 2003	$23,510,706	$6,338,095	$2,340,528	-	-
FY 2002	$21,927,338	$6,395,057	$2,365,295	-	-
FY 2001	$11,337,064	$5,514,542	$2,039,625	-	-
FY 2000	$9,353,630	$4,960,224	$1,834,603	-	-
FY 1999	$9,266,210	$5,158,289	$1,907,860	-	-
FY 1998	$8,375,062	$4,908,914	$1,815,626	-	-
FY 1997	$6,668,099	$4,284,353	$1,584,624	-	-
FY 1996	$6,068,018	$5,355,897	-	-	-
FY 1995	$5,743,686	$4,943,715	-	-	-
FY 1994	$5,320,210	$3,395,370	-	-	-
FY 1993	$4,986,710	$3,091,965	-	-	-
FY 1992	$4,582,888	$2,234,417	-	-	-
FY 1991	$3,809,222	$1,797,501	-	-	-
FY 1990	$3,619,425	$1,654,601	-	-	-

SOURCE: Department of Revenue, Annual Reports (FY 2009 amounts are preliminary).

Emergency Telecommunication Services Revolving Fund. For fiscal years 2001 through 2006, each month a telecommunications provider shall pay 37¢ for each activated wire, Voice Over Internet Protocol (VoIP), and wireless service account into this fund. For FY 2007, this amount is reduced to 28¢. From and after FY 2007, the amount deposited in the fund shall be 20¢ per activated wire, VoIP and wireless service account [A.R.S. § 42-5252(A-1 through A-3)].

Telecommunication Fund for the Deaf. An amount equal to 1.1% of the provider's gross proceeds of sales or gross income from wired telephone lines. [A.R.S. § 42-5252(B)].

WHO PAYS THE TAX

Public service corporations offering telephone or telecommunications services which provide local exchange access services or two-way voice commercial mobile radio services, commonly called a "provider" or “wireless provider” [A.R.S. § 42-5251].

TAX BASE AND RATE

TAX BASE

The *Emergency Telecommunication Services* tax rate is imposed on each wire account, Voice over Internet Protocol (VoIP) account and wireless accounts [A.R.S. § 42-5252(A-1 through A-3)].

The *Telecommunications Provider Proceeds* tax rate is imposed on the provider's gross proceeds of sales or gross income from the business of providing exchange access services [A.R.S. § 42-5252(B)]. Exchange services are essentially wired telephone or telecommunication exchange lines that provide access from the customer to the local telecommunication network. This tax does not apply to wireless and VoIP.

TAX RATE

Emergency Telecommunication Services. For FY 2001-FY 2006, an amount equal to 37¢ for each activated wire and wireless service account. For FY 2007, the rate is 28¢ per activated service. Beginning from and after FY 2008, the rate is 20¢ per activated service [A.R.S. § 42-5252(A-1 through A-3)].

Telecommunications Provider Proceeds. An amount equal to 1.1% of the provider’s gross proceeds of sales or gross income from wired telephone lines [A.R.S. § 42-5252(B)].

PAYMENT SCHEDULE

Each provider remits the tax monthly, in the same manner and time as the Transaction Privilege Tax, to the Department of Revenue the amount due, accompanied by an information return.

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in 2007 to 2009.

2006 TAX LAWS

Laws 2006, Chapter 351 amended A.R.S. § 42-5252 to redistributed telecommunications services excise tax revenues from the ASDB, the Poison Control System, and the Teratogen Information Program to the Commission for the Deaf and the Hard of Hearing, leaving the commission with 100% of collections from the tax, or 1.1% provider’s gross proceeds of sales or gross income from wired telephone lines. (Effective July 1, 2006)

2005 TAX LAWS

Laws 2005, Chapter 328 amended A.R.S. § 42-5252 to reallocate a portion of the Telecommunications Provider Proceeds Tax from ASDB, which will now receive 0.16% of providers’ gross proceeds, to the Poison Control System within the DHS, which will now receive 0.25%, of providers’ gross proceeds. This will result in a shift of $400,000 from ASDB’s share of the tax revenues in FY 2006 to Poison Control. ASDB’s budget was backfilled with $400,000 from the General Fund in FY 2006 to replace the $(400,000) decrease in funding from the Telecommunications Services Excise Tax. The change in allocations addresses an estimated (10)% decline in revenue from the tax in FY 2006 primarily due to an increase in the amount of wireless telephone and Voice over Internet Protocol users. The decline in revenue would have caused a reduction in Poison Control activities. (Effective August 12, 2005)

2004 TAX LAWS

Laws 2004, Chapter 305 amended A.R.S. § 42-5252 to reallocate a portion of the Telecommunications Provider Proceeds Tax from the Telecommunication Fund for the Deaf, which now will receive 0.68% of providers' gross proceeds, to the Teratogen Information Program Fund, which will receive 0.01% of providers' gross proceeds. The Teratogen Information Program will include information on possible teratogen exposure, educational programs and materials, and a toll-free telephone number to provide information. (Effective June 30, 2004)

2003 TAX LAWS

Laws 2003, Chapter 263 amended A.R.S. § 42-5252 to expand the purposes for which this excise tax may be used to also include the Poison Control System and the operating costs of the ASDB. Of the 1.1% total surcharge on local phone bills, the act permanently allocated 0.69% to the Commission for the Deaf and the Hard of Hearing (Commission), 0.18% to DHS, and 0.23% to ASDB. In prior years 0.8% of the 1.1% tax was allocated to the Commission and the remaining 0.3% was allocated to DHS. The FY 2004 appropriations from the tax to the Commission and DHS were not reduced as a result of the statutory changes since the new allocations provided adequate funding for Commission and DHS operations. The act also established an ASDB Telecommunications Tax Fund consisting of monies received from the telecommunications tax.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

UNDERGROUND STORAGE TANK TAX

DESCRIPTION

The tax applies to certain petroleum products and hazardous substances regulated under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980. The tax finances the Assurance Account of the Underground Storage Tank Revolving Fund to provide partial coverage for corrective action costs incurred by the Department of Environmental Quality (DEQ) and owners, operators, or political subdivisions. This tax became effective from and after July 1, 1990.

Laws 2004, Chapter 273 repeals the Underground Storage Tank (UST) Program and the associated 1¢ excise tax on or after July 1, 2011. The program will be replaced by the Regulated Substance Fund (RSF). The legislation sets June 30, 2010 as the last date to make a claim against the Assurance Account. The UST Program and the 1¢ excise tax will be repealed once the RSF receives $60,000,000 from the Assurance Account, or until December 31, 2013, whichever comes first. Any amount in the Assurance Account in excess of $60,000,000 will go to the General Fund. The RSF will then be the funding source for underground storage tanks where the owner cannot be located.

DISTRIBUTION

The Director of the Arizona Department of Transportation (ADOT) acts as the collecting agent for the Director of DEQ and is required by the 20th day of each month to distribute the Underground Storage Tank (UST) Tax monies, net of administrative costs, received during the preceding calendar month to the Director of DEQ [A.R.S. § 28-6001]. The tax monies are then credited into the Underground Storage Tank Revolving Fund as follows [A.R.S. § 49-1036]:

- Nine-tenths to the Assurance Account.
- One-tenth to the Grant Account. When the balance exceeds $5,600,000, the excess amount is credited to the Assurance Account. The cap was reached in August 1994 and deposits are now credited to the Assurance Account.

No funding is currently credited to the Regulatory Account, which will consist of monies appropriated by the Legislature, expenses, costs and judgements recovered, fees, and gifts.

Monies generated and collected from Maricopa County are segregated from the monies collected and generated in other counties and are deposited in an Area A Account. [A.R.S. § 49-541]

Assurance Account. Tax monies in this account can be used in the following manner [A.R.S. § 49-1051]:

- Partial coverage for corrective action costs incurred by a political subdivision or an owner or an operator of an underground storage tank which is subject to the tax.
- Reimburse DEQ for costs in taking corrective actions [A.R.S. § 49-1017].
- Reimburse DEQ for "reasonable" administration costs.

Legislative Report. The Director of DEQ by December 1 each year shall report to the Legislature the Assurance Account activities and make recommendations for any revisions to the tax rate in order to maintain an average Assurance Account balance of $36,000,000 [A.R.S. § 49-1051D].

Reimbursable Costs. The Assurance Account may be used to reimburse costs of corrective actions incurred in soil and groundwater remediation. Effective July 1, 1996, groundwater and soil remediation coverage ceilings were raised to $1,000,000 from $225,000 for those persons with a $25,000 deductible policy [A.R.S. § 49-1054].

Grant Account Termination. The Grant Account and the DEQ's authority to issue grants terminated on December 22, 2002.

Grant Account Transfer. All unobligated monies remaining in the Grant Account on December 31, 2002 are transferred to the Municipal Tank Closure and Corrective Action Program Account [A.R.S. § 49-1073].

Table 1

UNDERGROUND STORAGE TANK TAX COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
FY 2009	$x	FY 1999	$27,761,117
FY 2008	$31,581,687	FY 1998	$26,829,641
FY 2007	$32,091,982	FY 1997	$23,056,300
FY 2006	$36,174,109	FY 1996	$24,624,400
FY 2005	$30,759,200	FY 1996	$24,624,400
FY 2004	$28,090,000	FY 1995	$23,125,400
FY 2003	$27,769,100	FY 1994	$24,785,500
FY 2002	$27,819,100	FY 1993	$18,572,600
FY 2001	$30,025,484	FY 1992	$18,405,130
FY 2000	$28,963,803	FY 1991	$17,284,600

SOURCE: Department of Environmental Quality.

WHO PAYS THE TAX

The operator and owner of an underground storage tank which serves as the final dispenser of motor vehicle fuel, aviation fuel, diesel and other regulated substances is responsible for payment of this tax. Underground storage tank means tank(s) used to contain regulated substances with at least 10% of its volume underground [A.R.S. § 49-1001 and 49-1031B].

Excluded are:
1) non-commercial types of tanks
2) certain regulated pipeline facilities
3) tanks owned and operated by Indian tribes
4) septic tanks or wastewater collection systems
5) surface water impoundment pit
6) tanks situated on the floor of an underground area such as a basement.

A separate license is not required for payment of this tax [A.R.S. § 28-6003B].

TAX BASE AND RATE

The tax rate is 1¢ per gallon of regulated substance placed in a tank in any calendar year [A.R.S. § 49-1031].

"Regulated substance" means petroleum or a substance defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, not including a substance regulated as hazardous waste under the Solid Waste Disposal Act of 1984 [A.R.S. § 49-1001].

The tax does not apply to (1) underground storage tanks operated by the Federal or State Government or (2) USTs used for jet fuel [A.R.S. § 49-1031C]. Indian tribes are also exempt but through an intergovernmental agreement may participate in the partial coverage by paying the UST Tax [A.R.S. § 49-1055].

Additional fees

Owners and operators subject to the UST Tax shall pay an annual registration fee of $100 for each tank [A.R.S. § 49-1020].

PAYMENT SCHEDULE

The tax is due and payable annually by March 31 for the proceeding calendar year and is delinquent if not postmarked or delivered in person by that same date. A return is required to be filed at this time [A.R.S. § 49-1032].

But most taxpayers make periodic payments to ADOT at the same time and manner as the Motor Vehicle Fuel Tax. This refers to those distributions of products that ADOT normally collects for, such as gasoline, aviation fuel, and diesel oxygenated fuel. Other regulated substances such as kerosene, new and used oil, and CERCLA hazardous substances shall be collected by DEQ at the annual March 31 date mentioned above [A.R.S. § 28-1599.45D].

The Director of DEQ may extend the filing time for "good cause" provided at least 90% of the tax liability is paid upon the extension request [A.R.S. § 49-1033].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in 2003, and 2006 to 2009.

2005 TAX LAWS

Laws 2005, Chapter 332 suspended the administrative cap established in A.R.S. § 49-1051B2 and B3, for FY 2006 and the Department of Environmental Quality may transfer $6,031,000 from the Assurance Account of the Underground Storage Tank Revolving Fund for administrative costs of the Underground Storage Tank Leak Prevention Program and funding for the Used Oil Program.

2004 TAX LAWS

Laws 2004, Chapter 280 suspended the administrative cap established in A.R.S. § 49-1051B2 and B3, for FY 2005 and the Department of Environmental Quality may transfer $6,930,900 from the Assurance Account of the Underground Storage Tank Revolving Fund for administrative costs of the Underground Storage Tank Leak Prevention Program, funding for the Used Oil Program and integrating the Assurance Account and UST databases into a single database.

Laws 2004, Chapter 273 repealed the Underground Storage Tank (UST) Program and the associated 1¢ excise tax on or after July 1, 2011. The program will be replaced by the Regulated Substance Fund (RSF). The legislation sets June 30, 2010 as the last date to make a claim against the Assurance Account. RSF is to receive $60,000,000 from the Assurance Account. Any amount in excess of $60,000,000 goes to the General Fund. If the Assurance Account total is less than $60,000,000, the 1¢ tax will continue to be imposed until a balance of $60,000,000 is accumulated in the RSF, or until December 31, 2013, whichever comes first. At that point, the UST Program and the tax will be repealed. The RSF will then be the funding source for underground storage tanks where the owner cannot be located.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

UNEMPLOYMENT INSURANCE TAX

DESCRIPTION

To reduce the economic insecurity due to unemployment, the Legislature enacted laws for the compulsory setting aside of unemployment reserves for the benefit of persons unemployed through no fault of their own. Thus, each employer is required to make contributions to the state based on wages paid for employment. These contributions are deposited in the Unemployment Compensation Fund and used to pay benefits to such unemployed persons.

Pursuant to Laws 2000, Chapter 383, the state began levying a new tax referred to as the Job Training Employer Tax as of January 1, 2001. This tax is imposed on each employer in the state at 0.1% of taxable wages. To hold employers harmless, the state also reduced the unemployment tax rate by the same percentage. The new tax is collected by the Department of Economic Security, and deposited in the Arizona Job Training Fund (for more information, see separate description under the *Job Training Employer Tax* section).

DISTRIBUTION

Contributions are deposited in the Unemployment Compensation Fund and are used for the benefit of persons unemployed through no fault of their own [A.R.S. § 23-701].

Table 1

UNEMPLOYMENT INSURANCE TAX COLLECTIONS

Fiscal Year	Total Collections	Unemployment Tax Contributions	Reimbursement Payments in Lieu of Tax	Federal Reimbursements
FY 2009	$587,359,403	$246,091,332	$21,889,172	$319,378,899 1/
FY 2008	$301,561,384	$282,038,804	$14,111,465	$5,411,115
FY 2007	$324,836,608	$304,835,124	$13,736,790	$6,264,694
FY 2006	$311,615,055	$288,389,906	$16,099,858	$7,125,290
FY 2005	$254,702,773	$228,222,848	$18,269,674	$8,210,251
FY 2004	$239,618,898	$162,309,395	$20,411,672	$56,897,831
FY 2003	$228,540,796	$135,055,266	$16,718,797	$76,766,733
FY 2002	$185,776,445	$137,021,529	$11,142,567	$37,612,349
FY 2001	$173,555,672	$161,067,162	$6,967,171	$5,521,339
FY 2000	$164,634,552	$153,057,470	$6,880,773	$4,696,309
FY 1999	$187,458,343	$175,626,310	$7,138,106	$4,693,927
FY 1998	$212,383,380	$199,086,932	$8,009,523	$5,286,925
FY 1997	$221,693,418	$206,596,749	$8,137,939	$6,958,730
FY 1996	$234,080,469	$216,800,153	$9,393,816	$7,886,500
FY 1995	$219,218,067	$200,018,374	$10,731,555	$8,468,138
FY 1994	$250,185,770	$177,017,525	$11,103,155	$62,065,090
FY 1993	$241,049,444	$124,839,134	$10,575,310	$105,635,000
FY 1992	$172,742,164	$ 99,307,405	$10,032,259	$63,402,500
FY 1991	$113,606,086	$ 99,799,840	$7,491,246	$6,315,000
FY 1990	$121,038,767	$105,222,899	$9,870,868	$5,945,000

1/ In FY 2009, the Federal Reimbursements include extensions of benefits authorized by the Emergency Unemployment Compensation program enacted in the federal Supplemental Appropriations Act of 2008, as well as additional extensions authorized by both the Unemployment Compensation Extension Act of 2008 and the American Recovery and Reinvestment Act of 2009 (ARRA) and a benefit increase also authorized by ARRA. All of these benefits extensions and increases are federally funded.

SOURCE: Department of Economic Security, Research Administration, Economic Analysis.

WHO PAYS THE TAX

The unemployment insurance tax is paid by Arizona employers or employing units [A.R.S. § 23-726]. (For definition of employer and employing unit see A.R.S. § 23-613.)

The following employers are excluded from the definition of employer and are therefore not subject to the unemployment insurance tax:

(1) Any employer who has not employed at least one individual for some portion of a day in each of 20 different calendar weeks during the current or preceding calendar year and has not paid $1,500 or more in wages in any calendar quarter of the current or preceding calendar year. This exclusion does not apply to an employer of the following services:
   (a) Services performed in the employ of this state or any of its instrumentalities, any political subdivisions of this state and their instrumentalities or any combination of these employing units with each other or with similar employing units in other states.
   (b) Services performed for an employing unit that volunteer for coverage.
   (c) Services that are subject to the Federal Unemployment Tax, when a credit may be taken against the federal tax for amounts paid into the State Unemployment Compensation Fund.
   (d) Services performed for an employing unit that acquires the business of a covered employer.
(2) Any employing unit that has not employed at least 10 individuals in each of 20 calendar weeks during the current or preceding calendar year and has not paid $20,000 or more in wages in any calendar quarter of the current or preceding calendar year for agriculture employment.
(3) An employing unit that has not paid $1,000 or more in wages in any calendar quarter of the current or preceding calendar year for domestic service in a private home, local college club, or local chapter of a college fraternity or sorority.
(4) An employer that has a quarterly Unemployment Insurance Trust Fund contribution amount of less than $10.

NOTE: Employers, once covered by unemployment insurance, are not permitted to terminate coverage simply by virtue of this exemption [A.R.S. § 23-725].

TAX BASE

The tax base is the wages from employment. The unemployment insurance tax is levied on the first $7,000 of wages paid by an employer to each employee during a calendar year. Wages means remunerations for services from whatever source including commissions, bonuses, fringe benefits and the cash value of remuneration in any medium other than cash [A.R.S. § 23-622]. (Exclusions from the statutory definition of wages are provided in A.R.S. § 23-622(B).)

The following services are not included in definition of employment [A.R.S. § 23-615 and § 23-617]:

(1) Service performed outside of the United States or in connection with a foreign vessel or aircraft.
(2) Service performed in the employ of a son, daughter or spouse.
(3) Service performed by an individual under the age of 21 in the employ of his father or mother.
(4) Service performed while in the employ of the United States Government.
(5) Service performed while in the employ of an instrumentality of the United States Government that is wholly or partially owned by the United States or is exempt from the tax imposed by Section 3301 of the Federal Internal Revenue Code, unless unemployment taxation by the states is permitted by federal law.
(6) Service performed entirely in the employ of another state or its political subdivisions or in the employ of an instrumentality that is wholly owned by one or more states or political subdivisions and which exercises only governmental as distinguished from proprietary functions.
(7) Services performed in the employ of political subdivisions or other states if exempt under the United States Constitution from the tax imposed by Section 3301 of the Federal Internal Revenue Code, unless performed in the employ of this state and one or more other states or their instrumentalities.
(8) Services performed in the employ of this state, its political subdivisions or any instrumentalities of this state and its subdivision in any of the following capacities:
   (a) As an elected official or member of a legislative body or the judiciary.
   (b) In a major non-tenure policy-making or advisory position or a policy-making or advisory position that does not require more than 8 hours per week to perform.

(c) As a member of the State National Guard or Air National Guard.
(d) On a temporary basis when an emergency has been declared.

(9) Services performed in the employ of this state or any of its instrumentalities, for a hospital or institution of higher education located in this state, or services performed for a religious, charitable, educational, or other organization exempt from the Federal Unemployment Tax Act under Section 3306(C) in any of the following capacities:
(a) As part of an unemployment work-relief or work-training program financed in whole or in part by a government entity.
(b) In connection with a rehabilitation program for individuals whose earnings capacity is impaired by age or physical or mental deficiency or injury.
(c) Services performed by inmates of custodial and penal institutions.
(d) Services performed in the employ of a church, convention or association of churches or an organization operated primarily for religious purposes under the direction of a church or convention or association or churches.
(e) Services performed by an ordained or licensed minister or by a member of a religious order in performance of duties required by the order.

(10) Service for which unemployment compensation is payable under a system established by an act of Congress unless a credit is offered against such payments for contributions to a State Unemployment Fund.

(11) Services performed in any calendar quarter in the employ of an organization exempt from income tax under Sections 501(a) or 521 of the Federal Internal Revenue Code, if remuneration for such service is less than $50. This exemption does not apply to organizations described in Section 401(a) of the Internal Revenue Code.

(12) Service performed in the employ of a school, college or university by a) a student regularly attending classes, or b) the spouse of a student, if the spouse is advised that the employment is provided under a program of financial assistance to the student and that the employment will not be covered by any program of unemployment compensation.

(13) Services performed in the employ of a non-profit religious, charitable, scientific, educational or literary organization or in the employ of societies for the prevention of cruelty to children or animals or organizations performing testing for public safety. This exemption does not apply to the following services:
(a) Services performed in the employ of an organization that had in its employ 4 or more individuals for some portion of a day in each of 20 weeks during the current or preceding calendar year, if these organizations are exempt from Section 3306(C) of the Federal Unemployment Tax Act.
(b) Services performed in the employ of an organization liable for any federal tax against which credit may be taken for contributions paid into the State Unemployment Insurance Fund.

NOTE: According to the Unemployment Insurance Administration within the Department of Economic Security, none of the organizations listed is exempt under this provision because of the effects of (a) and (b).

(14) Services performed by student nurses and interns while in the employ of a hospital or nurses training school.

(15) Service performed by an individual under the age of 18 in the distribution or delivery of newspapers to the ultimate consumer.

(16) Service performed by an individual in the sale of newspapers or magazines to the ultimate consumer, when the sales are made under an arrangement by which the employee's compensation is based on the retention of the amount he receives in excess of what was charged for the newspapers or magazines.

(17) Service performed in the employ of a foreign government.

(18) Service performed in the employ of an instrumentality wholly owned by a foreign government, if the foreign government grants an equivalent exemption to employees of the United States government for service of a similar nature.

(19) Service covered by an arrangement between the Department of Economic Security and agencies charged with the administration of any other state or Federal Unemployment Compensation Law when services performed for the agency are deemed to be performed within that agency's state.

(20) Casual labor not in the course of the employer's trade or business.

(21) Services performed by an individual for an employing unit as an insurance agent, insurance solicitor, licensed real estate salesman or broker, licensed cemetery salesman or broker or a securities salesman, if such service is performed for remuneration solely by way of commission.

(22) Services performed by an individual enrolled as a full-time student at a nonprofit or public educational institution in a program that combines academic instruction with work experience. This exemption does not apply to services subject to the Federal Unemployment Tax, when a credit may be taken against the federal tax for amounts paid into the State Unemployment Compensation Fund.

(23) Service performed by a patient in the employ of a hospital.
(24) Services performed by individuals engaged in door-to-door sales of consumer goods who receive commissions, overrides or profits based on such sales. This exemption does not apply to employees of nonprofit organizations or employees of this state or its political subdivisions or instrumentalities.
(25) Services performed by individuals in the preparation of tax returns, if the only remuneration received for such service is in the form of a commission. This exemption does not apply to employees of nonprofit organizations or employees of this state or its political subdivisions or instrumentalities.

TAX RATE

The standard rate of contribution is 5.40% of the wages paid by the employer during each calendar year [A.R.S. § 23-728].

An employer, whose account has not been chargeable with benefits during the 12 consecutive calendar month period ending June 30 of the preceding calendar year, pays a contribution rate of 2.70% [A.R.S. § 23-729].

A revised contribution rate is computed if the employer's account has been subject to charges for benefits for the above period. The revised rate will depend on the employer's reserve, which is the contributions received from the employer versus benefits charged [A.R.S. § 23-730]:

(1) If the employer's total contributions, paid on or before July 31 of the preceding calendar year from wages paid prior to July 1 of the preceding calendar year, equals or exceeds the total benefits chargeable to the employer's account prior to July 1 of the preceding calendar year with respect to weeks of unemployment beginning prior to July 1; the contribution rate for the ensuing calendar year is determined by the employer's Positive Reserve Ratio. An employer's reserve ratio is the percentage that results from dividing the reserve surplus (the excess of contributions paid to the Unemployment Fund over benefits charged to the employer's account) by the employer's average annual payroll. The new contribution rate is determined from the Positive Reserve Ratio as shown below:

Table 2

Positive Reserve Ratio	Contribution Rate
less than 3%	2.60%
3% to 4%	2.40%
4% to 5%	2.15%
5% to 6%	1.90%
6% to 7%	1.65%
7% to 8%	1.40%
8% to 9%	1.15%
9% to 10%	0.90%
10% to 11%	0.65%
11% to 12%	0.40%
12% to 13%	0.15%
13% or more	0.02%

(2) If an employer's reserve equals zero, the contribution rate for the ensuing calendar year shall be 2.70%.
(3) If the total of all employer's contributions, paid on or before July 31 of the preceding calendar year from wages paid by an employer prior to July 1 of such year, is less than the total benefits chargeable to the employer's account prior to July 1 of such year, with respect to the weeks of unemployment beginning prior to July 1, the employer's contribution rate for the ensuing calendar year shall be determined from the employer's Negative Reserve Ratio in accordance with the table provided below. An employer's Negative Reserve Ratio is the percentage resulting from dividing the employer's reserve deficit (the excess of benefits charged over contributions paid) by the employer's average annual taxable payroll.

NOTE: Benefits paid as a result of unemployment due to a labor dispute, strike or lockout is not used as a factor in determining the contribution rate of affected employers [A.R.S. § 23-777(C)].

The table applicable to rate computation for calendar year 2001 and thereafter is:

Table 3

Negative Reserve Ratio	Contribution Rate
less than 3%	2.85%
3% to 4%	3.05%
4% to 5%	3.35%
5% to 6%	3.55%
6% to 7%	3.80%
7% to 8%	4.05%
8% to 9%	4.30%
9% to 10%	4.55%
10% to 11%	4.80%
11% to 12%	5.05%
12% to 13%	5.30%
13% or more	5.40%

Employer contribution rates may be further adjusted depending on the level of assets in the Unemployment Compensation Fund [A.R.S. § 23-730]. The ratio of total assets of such fund on July 31 to the total taxable payrolls for the preceding year is designated as the Fund Ratio, and is used to determine the Required Income Rate in accordance with the following schedule:

Table 4

Fund Ratio	Required Income Rate
12.0% or more	0.40%
10.0% to 12.0%	0.50%
9.5% to 10.0%	0.60%
9.0% to 9.5%	0.70%
8.5% to 9.0%	0.80%
8.0% to 8.5%	0.90%
7.5% to 8.0%	1.00%
7.0% to 7.5%	1.10%
6.5% to 7.0%	1.20%
6.0% to 6.5%	1.30%
5.5% to 6.0%	1.40%
5.0% to 5.5%	1.50%
4.5% to 5.0%	1.70%
4.0% to 4.5%	1.80%
3.5% to 4.0%	2.00%
3.0% to 3.5%	2.20%
less than 3.0%	2.40%

Each year the department computes the Estimated Required Tax Yield from employers. This is the product of the total taxable payrolls for the preceding year multiplied by the Required Income Rate as determined from the Fund Ratio. The contribution rates are adjusted proportionately if the Estimated Required Tax Yield differs from the amount that would be collected using the contribution rates determined from the employer's Reserve Ratio. An employer's final rate of contribution is never less than 0.10% [A.R.S. § 23-730].

Certain non-profit organizations, this state or other states and their political subdivisions may elect to make payments in lieu of contributions equal to the regular benefits and one-half of the extended benefits paid [A.R.S. § 23-750].

Since 1982, certain employers who implement a Shared Work Plan have been assigned an extra contribution rate in addition to the regular unemployment contribution rate [A.R.S. § 23-765]. A Shared Work Plan is a written plan under which an employer arranges to secure unemployment benefits for a group of his employees working a reduced work week, as an alternative to a complete lay off of some or all these employees. The law provides that the

additional rate is paid by employers with Shared Work Plans only when they have a Negative Reserve Ratio as follows:

Table 5

Reserve Ratio	Percentage Added to Regular Contribution Rate for the Next Calendar Year
-.05 or less and greater than -.15	1%
-.15 or less	2%

The additional rate does not apply if any of the following conditions apply:

(1) The employer has a positive reserve ratio or a reserve ratio equal to zero.
(2) The employer's account has not been charged with shared work benefits during the prior 12-month period, if the employer's reserve ratio is more favorable than it was as of the least computation date.
(3) The employer's account has not been charged with shared work benefits during the prior 24-month period.

PAYMENT SCHEDULE

Contributions are paid by employers on a quarterly basis with due dates determined by the Department of Economic Security [A.R.S. § 23-723]. The Department serves as the collecting agency [A.R.S. § 23-726(A)].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in 2003, 2006, and 2007.

2009 TAX LAWS

Laws 2009, Chapter 3 established that unemployment insurance benefits recipients who have exhausted their ordinary benefits may qualify for extended benefits for up to 13 weeks if the state unemployment rate is between 6.5% and 8% and for up to 20 weeks if the state unemployment rate exceeds 8%. These benefits are provided under the Extended Benefits program, an existing federal program in which Arizona has not historically participated. Funding for the program is ordinarily split 50-50 between state and federal funding sources, and in the past Arizona has not had the statutory triggers necessary to participate in the program.

The American Recovery and Reinvestment Act of 2009 temporarily provides 100% federal funding for these benefits instead of the normal 50-50 split. This legislation temporarily inserts the triggers necessary to participate in the Extended Benefits program into statute, and the change expires on either December 12, 2009 or on expiration of the 100% federal funding of the program, whichever comes first. As a result, the changes in the bill have no impact on the unemployment insurance tax rate.

2008 TAX LAWS

Laws 2008, Chapter 36 established a statutory time limit of 6 years for the Department of Economic Security to collect delinquent Unemployment Insurance contributions, payments in lieu of contributions, interest or penalties. The law suspends the 6-year time limit if the Department of Economic Security has initiated civil action to collect the debt. Laws 2008, Chapter 36 also repealed and rewrote statute relating to the authority of the Department of Economic Security to release, subordinate and withdraw liens.

2005 TAX LAWS

Laws 2005, Chapter 178 provided language for the state to comply with the federal State Unemployment Tax Act (SUTA) Dumping Prevention Act of 2004. SUTA dumping refers to a tax evasion scheme where shell companies

are formed and creatively manipulated to obtain low unemployment insurance tax rates. Laws 2005, Chapter 178 established rules and defined penalties intended to prevent SUTA dumping. (Effective August 12, 2005)

2004 TAX LAWS

Laws 2004, Chapter 251 made miscellaneous changes in beneficiary eligibility requirements and increased the maximum weekly benefit from $205 to $240 per week beginning July 1, 2004. Beginning January 1, 2005, an employer is not required to contribute to the UI Trust Fund or to pay the job training employer tax if its quarterly contribution amount is less than $10.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

JOB TRAINING EMPLOYER TAX

DESCRIPTION

The state established a job training program administered by the Department of Commerce in 1993. In order to receive state funding, employers had to provide at least 25% of the total program training costs.

As of January 1, 2001, the state began levying a new job training employer tax to provide job training for both new and existing employees. The tax is imposed on each employer in the state at 0.1% of taxable wages. The tax is collected by the Department of Economic Security and deposited in the Arizona Job Training Fund. To receive monies from the fund, employers are required to contribute a portion of the training costs, up to 50% of the total, depending on the type of worker receiving the training. The 0.1% job training tax was accompanied by a corresponding decrease in the unemployment tax rate in order to hold employers harmless to the new tax.

DISTRIBUTION

The job training employer tax is deposited in the Arizona Job Training Fund [A.R.S. § 23-769].

Table 1

JOB TRAINING EMPLOYER TAX COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
FY 2009	$14,878,923	FY 2004	$12,350,720
FY 2008	$16,226,493	FY 2003	$12,549,532
FY 2007	$15,973,538	FY 2002	$13,371,382
FY 2006	$14,653,279	FY 2001	$6,478,539
FY 2005	$13,317,153		

SOURCE: Department of Commerce.

The fund provides grants to train new and existing employees for new and expanding companies and companies undergoing economic conversion with the following conditions [A.R.S. § 41-1541 and A.R.S. § 41-1544]:

- Employers pay 50% of the costs associated with training existing workers and 25% of the cost to train new employees
- A minimum of 25% of the monies in the fund must be used to provide training to businesses employing less than 100 people
- A minimum of 25% must be used to train workers in rural areas of the state
- No more than 50% of the monies in the fund can be used for incumbent worker training
- Single grants do not make up more than 10% of the fund total

Training is provided by state community colleges, private post-secondary educational institutions, community colleges operated by a tribal government or another qualified training provider.

Laws 2003, Chapter 263 allowed the Legislature to appropriate monies from the Job Training Fund to help fund the Department of Economic Security's Job Opportunity and Basic Skills (JOBS) Program, which provides job training to welfare clients. Monies have been appropriated to the JOBS program twice, with $3,829,400 and $3,914,400 being appropriated in FY 2004 and FY 2005, respectively.

WHO PAYS THE TAX

The job training employer tax is levied on one-tenth of 1% of taxable wages paid to an employee each year [A.R.S. § 23-769].

The following employers are not subject to the job training employer tax pursuant to A.R.S. § 23-769:

(1) Employers who have elected to become liable for payment in lieu of contributions pursuant to A.R.S. § 23-750. These are generally non-profit agencies or governmental entities.
(2) Until the excise tax imposed pursuant to 26 United States Code section 3301 is reduced to 6% or less, companies:
   (a) With a positive reserve ratio of at least 13% pursuant to A.R.S. § 23-730
   (b) With a positive reserve ratio of at least 12% but less than 13%
   (c) That are assigned the contribution rate of 2% pursuant to A.R.S. § 23-729 or 2.7% pursuant to A.R.S. § 23-730. Contribution rates determined each year. Companies that paid 2.7% or above of an employee's salary towards Unemployment Insurance are exempt from contributing towards the job training tax.
   (d) With a negative reserve ratio pursuant to A.R.S. § 23-730

TAX BASE AND RATE

The tax base is the wages from employment. The tax rate is 0.1% of taxable wages paid to an employee each year.

PAYMENT SCHEDULE

The tax is collected quarterly by the Department of Economic Security with monies deposited to the Department of Commerce's Arizona Job Training Fund [A.R.S. § 23-769]. All monies deposited in the fund are to be expended for costs related to training, except for the Department of Commerce reimbursing the Department of Economic Security for the development costs of establishing the system to collect the job training employer tax and ongoing collection costs [A.R.S. § 41-1544]. Ongoing tax collection costs average $775,000 per year.

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

This tax was established in 2000 (effective January 1, 2001). There were no changes enacted to this tax in 2005, 2006, 2008, and 2009.

2007 TAX LAWS

Laws 2007, Chapter 293 delayed the date of repeal of the Job Training Tax and Job Training Fund from December 31, 2007 to December 31, 2011. The law also eliminated the provisions that allowed unawarded monies from the minimum percentages set aside for rural and small business job training grants to be awarded to any qualified applicant after June 15 of each fiscal year. Furthermore, the law enumerates employer costs that are ineligible for reimbursement from the Job Training Fund, increases business representation on the Governor's Council on Workforce Policy from 51% to 55% of the membership, and requires the Department of Commerce to create an online application system for the Job Training Fund.

2004 TAX LAWS

Laws 2004, Chapter 251 exempted an employer from paying the job training employer tax if its quarterly Unemployment Insurance Trust Fund contribution amount is less than $10. (Effective January 1, 2005)

2003 TAX LAWS

Laws 2003, Chapter 263 permitted the use of monies from the Job Training Fund to be used for Department of Economic Security's JOBS Program, which provides job training for welfare clients.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

WATER USE TAX

DESCRIPTION

The tax is applied on water use by a municipal water delivery system. The tax, together with various registration or license fees, provides a dedicated funding source for the Water Quality Assurance Revolving Fund (WQARF).

DISTRIBUTION

Table 1 below provides historical water use tax collections since FY 1991. Net tax collections (gross collections less collection fees) are deposited in WQARF by the State Treasurer. [A.R.S. § 42-5304]. Allowable uses of WQARF-monies are detailed in A.R.S. § 49-282E.

Table 1

WATER USE TAX COLLECTIONS

Fiscal Year	WQARF	Fiscal Year	WQARF
FY 2009	$2,375,423	FY 2000	$2,081,879
FY 2008	$2,920,293	FY 1999	$1,957,725
FY 2007	$2,449,270	FY 1998	$1,842,707
FY 2006	$2,403,644	FY 1997	$1,909,981
FY 2005	$2,156,683	FY 1996	$1,842,707
FY 2004	$2,195,590	FY 1995	$1,653,929
FY 2003	$2,150,995	FY 1994	$1,637,633
FY 2002	$2,214,093	FY 1993	$1,469,845
FY 2001	$2,120,483	FY 1992	$1,490,480

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

The tax is paid by the owners or operators of municipal water delivery systems [A.R.S. § 42-5302B].

A "municipal water delivery system" is an entity that distributes or sells potable water mainly through a pipeline system owned by either: [A.R.S. § 42-5301]

- An incorporated city or town.
- A private entity regulated as a public service corporation by the Arizona Corporation Commission.
- A special taxing district under Title 48, Chapter 6 of the Arizona Revised Statutes.
- An entity regulated as a water supply system by the Department of Environmental Quality.

TAX BASE AND RATE

The tax base is gallons of water delivered to customers of a municipal water delivery system. Water delivered to a customer for resale is exempt from this tax. The tax rate is 0.65 of one cent per 1,000 gallons of water delivered to customers [A.R.S. § 42-5302A].

PAYMENT SCHEDULE

Payment of the Water Use Tax, if the municipal water delivery system is also subject to the Transaction Privilege Tax, is reported and paid monthly to the Department of Revenue with the Transaction Privilege Tax. Otherwise, the due and delinquent date is the same as the Transaction Privilege Tax [A.R.S. § 42-5302B and A.R.S. § 42-5014].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 2003.

There were no changes enacted to this tax in the period from 2003 to 2009.

A listing of tax law changes prior to the 2003 legislative session is available on the JLBC Web site located at www.azleg.gov/jlbc/09taxbook/09taxbk.pdf.

APPENDIX

APPENDIX

FISCAL IMPACT OF STATUTORY TAX CHANGES

This report details the estimated dollar value of individual historical tax law changes enacted by the Legislature since FY 1989. The report is limited to tax law changes with a General Fund revenue impact.

The report includes individual tables for calendar years 1988 through 2009. The tables provide a listing of tax law changes for each calendar year, and the estimated dollar revenue impact of these changes for ensuing fiscal years. Also included is a one-page summary of the estimated impact of tax law changes for each fiscal year, which provides the estimated marginal dollar value of tax law changes relative to the prior year.

Since the repeal of the state property tax in 1996, the General Fund revenue impact of property tax legislation is often negligible. Instead, property tax law changes typically affect the General Fund by increasing Arizona Department of Education (ADE) expenditures. Generally, any legislation that reduces the local property tax base results in higher General Fund expenditures. Under the statutory K-12 funding formula, the state share of education funding increases whenever local property values decrease. This higher level of K-12 spending is not reflected in the following tables.

There are several caveats related to the estimated dollar impact of tax law changes included in this report. The impact of the 0.6% sales tax authorized by Proposition 301 in 2000 has not been included in the following tables. Also, the tobacco tax increases authorized by Proposition 303 in 2002 and Propositions 201 and 203 in 2006 have not been included. The revenues generated by these tax law changes were deposited into dedicated funds; therefore they did not have a General Fund impact.

Additionally, no inflation factors have been applied to the "out year" estimates, which may understate their impact. Also, the estimates do not include a "dynamic" component. The potential behavioral impact on taxpayers of tax cuts or tax increases has not been incorporated in the numbers. It is very difficult to estimate how inflationary changes, as well as changes in taxpayer behavior over a period of time, would have impacted the estimated dollar value of tax law changes enacted in prior years. As a result, cumulative totals for the marginal annual values of the tax law changes are not provided.

The estimated incremental value of tax law changes for FY 2010 is a $(42.4) million decrease. This amount includes the $(29.0) million incremental impact for tax law changes enacted in prior years, which is the third year of the implementation of the use of an optional enhanced sales factor in computing corporate income tax. In addition, it includes the $(8.4) million impact of 2009 legislation conforming to new Internal Revenue Service changes, and the $(5.0) million impact of eliminating the requirement for a taxpayer to establish a baseline year to qualify for the existing individual income tax credit for cash contributions to charitable organizations. Details of the tax law changes may be found in the *Economic and Revenue Forecast* section of the FY 2010 Appropriations Report.

JLBC Staff
September 2009

Estimated Incremental Dollar Value of General Fund Tax Changes [1/]
($ in Thousands)

Fiscal Year	Sales Tax	Individual Income Tax	Corporate Income Tax	Property Tax	Other Taxes	Total [2/] Annual Changes
1989	23,100.0	35,400.0	29,000.0	28,200.0	6,000.0	121,700.0
1990	7,000.0	63,900.0	-	22,600.0	15,800.0	109,300.0
1991	(4,404.0)	118,680.0	30,900.0	49,640.0	13,560.0	208,376.0
1992	(377.5)	9,200.0	400.0	-	485.0	9,707.5
1993	(7,972.1)	(13,500.0)	-	(1,343.0)	3,472.0	(19,343.1)
1994	(12,243.5)	(10,776.0)	-	(1,200.0)	(1,233.0)	(25,452.5)
1995	(21,217.0)	(102,826.0)	4,200.0	(850.0)	-	(120,693.0)
1996	(46,151.9)	(202,260.5)	(18,000.0)	(18,256.0)	-	(284,668.4)
1997	(23,449.3)	(950.0)	(60.0)	(150,078.0)	-	(174,537.3)
1998	(59,907.9)	(114,969.0)	2,601.9	-	(105.0)	(172,380.0)
1999	(3,684.2)	(51,091.5)	(7,015.2)	-	(80,000.0)	(141,790.9)
2000	(8,402.3)	(27,177.9)	(13,982.3)	(51.6)	(55,000.0)	(104,614.1)
2001	(3,392.0)	(82,895.0)	(46,486.1)	(30.0)	(25,000.0)	(157,803.1)
2002	(2.1)	9,825.3	(40,759.6)	(2,234.9)	-	(33,171.3)
2003	(2.2)	11,384.5	21,567.0	(1,738.3)	(18,830.0)	12,381.0
2004	-	-	-	7,000.0	50,418.1	57,418.1
2005	-	(1,834.0)	-	(7,000.0)	3,892.0	(4,942.0)
2006	(600.0)	(14,200.0)	(3,250.0)	-	-	(18,050.0)
2007	(1,678.6)	(176,090.0)	(10,990.0)	-	(5,000.0)	(193,758.6)
2008	(100.0)	(185,510.0)	(31,900.0)	-	-	(217,510.0)
2009	-	(4,470.0)	(30,080.0)	-	-	(34,550.0)
2010	-	(9,000.0)	(33,410.0)	-	-	(42,410.0)

1/ The estimates exclude one-time increases or decreases in revenue collections. The tax changes also exclude General Fund distribution formula changes and additional K-12 expenditures that were the direct result of property tax legislation.

2/ Each yearly amount represents the incremental dollar value of tax law changes relative to the prior year. For example, the total net tax reduction in FY 2008 relative to FY 2007 was $(217.5) million.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1988
($ in Thousands)

	FY 1988	FY 1989
INDIVIDUAL INCOME		
Elimination of Gasoline Deduction Ch. 271		10,000.0
Federal Income Tax Windfall Cap Ch. 271		25,400.0
TOTAL INDIVIDUAL INCOME		**35,400.0**
CORPORATE INCOME		
Elimin. of Lower Cap. Gains Rate Ch. 271		14,000.0
Controlled Corp. Dividends Conformed Ch. 271		13,000.0
Depletion Deduction Conformed Ch. 271		1,000.0
Elimination of Gasoline Deduction Ch. 271		1,000.0
TOTAL CORPORATE INCOME		**29,000.0**
SALES AND USE		
Accounting Allowance Cap. - $500 Ch. 271		3,000.0
No Exemption for Semi-conductors Ch. 271		1,700.0
Taxation of Casual Commercial Rents Ch. 271		3,300.0
Hotel/Motel Tax Increase to 5.5% Ch. 271		4,200.0
Rental Real Property Increase to 5% Ch. 271		10,900.0
TOTAL SALES AND USE		**23,100.0**
PROPERTY		
Assessment Ratio Freeze to 1987 Ch. 271		1,600.0
QTR for Homeowners Capped Ch. 271		9,300.0
State Education Rate Set at $0.09 Ch. 271		17,300.0
TOTAL PROPERTY		**28,200.0**
OTHER		
Increase Ins. Prem. Tax to 2.0% Ch. 4		6,000.0
TOTAL OTHER		**6,000.0**
TOTAL		**121,700.0**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1989
($ in Thousands)

	FY 1989	FY 1990
INDIVIDUAL INCOME		
Federal Conformity Ch. 211		1,900.0
Eliminate Deduction of Fed. Excise Tax Ch. 211		4,000.0
Federal Windfall Retention Ch. 312		16,800.0
Reduce Consumer Interest Deduction to 50% Ch. 312		39,000.0
Taxation of Previous Exempt Pensions		2,200.0
TOTAL INDIVIDUAL INCOME		**63,900.0**
CORPORATE INCOME		
None		
TOTAL CORPORATE INCOME		
SALES AND USE		
Taxation of Catalog Sales Ch. 312		7,000.0
TOTAL SALES AND USE		**7,000.0**
PROPERTY		
Minimum QTR School District Tax Ch. 312		26,000.0
Tax Reduction for Unorg. Districts Ch. 312		(3,400.0)
TOTAL PROPERTY		**22,600.0**
OTHER		
Minimum VLT to $30 Ch. 4		15,800.0
TOTAL OTHER		**15,800.0**
TOTAL		**109,300.0**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1990

($ in Thousands)

	FY 1990	FY 1991
INDIVIDUAL INCOME		
Federal Conformity Ch. 63		4,880.0
Tax Simplification - Widened Tax Base, Increased Tax Rates Ch. 3		110,000.0
Limitation of Renters Credit Ch. 3		3,800.0
TOTAL INDIVIDUAL INCOME		**118,680.0**
CORPORATE INCOME		
Federal Conformity Ch. 63		5,300.0
Tax Simplification - Widened Tax Base Ch. 3		25,600.0
TOTAL CORPORATE INCOME		**30,900.0**
SALES AND USE		
Elimination of Account Allowance Ch. 3		8,000.0
Tax Reduction - Rental Real Property Ch. 3		(1,800.0)
County Property Tax Relief Ch. 3		(10,000.0)
Rodeo Sales Exemption Ch. 239		(47.0)
Tax Suspension - Federal Bldgs. Ch. 251		(94.0)
Bed Tax to Tourism Ch. 391		(463.0)
TOTAL SALES AND USE		**4,404.0**
PROPERTY		
Minimum QTR School Dist. Tax Ch. 3		40,700.0
Assessment Ratio Changes Ch. 3		8,940.0
TOTAL PROPERTY		**49,640.0**
OTHER		
Minimum QTR School Dist. Tax = Salt River Ch. 3		7,000.0
Assessment Ratio Changes = Salt River Ch. 3		660.0
Minimum VLT Reduction Ch. 3		(3,600.0)
Cigarette Tax Increase Ch. 3		9,500.0
TOTAL OTHER		**13,560.0**
TOTAL		**208,376.0**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1991
($ in Thousands)

	FY 1991	FY 1992	FY 1993	FY 1994
INDIVIDUAL INCOME				
Federal Conformity Ch. 146		7,600.0	7,600.0	7,600.0
Eliminate Ret. Contrib. Subtraction Ch. 155		1,600.0	1,600.0	1,600.0
TOTAL INDIVIDUAL INCOME		**9,200.0**	**9,200.0**	**9,200.0**
CORPORATE INCOME				
Federal Conformity Ch. 146		400.0	400.0	400.0
TOTAL CORPORATE INCOME		**400.0**	**400.0**	**400.0**
SALES AND USE				
Membership Camping Tax Ch. 31		122.5	122.5	122.5
Medical Equipment Exemption Ch. 200		(500.0)	(500.0)	(500.0)
TOTAL SALES AND USE		**(377.5)**	**(377.5)**	**(377.5)**
PROPERTY				
Rental property; Assess. Reduction Ch. 134			(1,200.0)	(2,400.0)
TOTAL PROPERTY			**(1,200.0)**	**(2,400.0)**
OTHER				
Drano Tax Repeal Ch. 184		320.0	320.0	320.0
Groundwater Fees Ch. 211		165.0	165.0	165.0
TOTAL OTHER		**485.0**	**485.0**	**485.0**
TOTAL		**9,707.5**	**8,507.5**	**7,307.5**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1992
($ in Thousands)

	FY 1992	FY 1993
INDIVIDUAL INCOME		
Increased Exemptions Phase-in Ch. 290		(12,000.0)
Withhold Penalty Forgiveness Ch. 220		(1,500.0)
TOTAL INDIVIDUAL INCOME		**(13,500.0)**
CORPORATE INCOME		
None		
TOTAL CORPORATE INCOME		
SALES AND USE		
Church Leases Exemption Ch. 29		(50.0)
Restaurant Food: Use Tax Exemp. Ch. 32		(100.0)
Motion Picture Sales Tax Refund Ch. 96		(67.1)
Semi-Trailers, Bowl Games Exemption Ch. 135		(600.0)
Feed and Seed Exemption Ch. 162		(1,600.0)
Lessor Utility Exemptions Ch. 215		(1,921.0)
Manufactured Bldgs. Exemptions Ch. 217		(100.0)
Aircraft Sales Tax Exemptions Ch. 222		(300.0)
Microwave Systems Exemptions Ch. 237		(84.0)
R & D Equipment Exemptions Ch. 238		(250.0)
Repeal Aircraft Exemptions Ch. 290		(2,900.0)
TOTAL SALES AND USE		**(7,972.1)**
PROPERTY		
Widow/Widower Exemption Ch. 5		(50.0)
Local Telecom. Property Ch. 41		(70.0)
Pipeline Valuations Ch. 51		(50.0)
Sewer/Wastewater Prop. Cent. Valued Ch. 347		27.0
TOTAL PROPERTY		**(143.0)**

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1992
($ in Thousands)

	FY 1992	FY 1993
OTHER		
VLT: Rental Car Surcharge Ch. 219		600.0
Cigarette Luxury Stamps Ch. 55		(100.0)
Jet Fuel Reduction Ch. 221		(1,028.0)
Insurance Premium Tax Offset Ch. 290		4,000.0
TOTAL OTHER		**3,472.0**
TOTAL		**(18,143.1)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1993
($ in Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
INDIVIDUAL INCOME						
Increased Dependent Exemption Ch. 9		(5,600.0)	(5,600.0)	(5,600.0)	(5,600.0)	(5,600.0)
Increased Exemption - Elderly Ch. 9		(2,700.0)	(2,700.0)	(2,700.0)	(2,700.0)	(2,700.0)
Accelerate Medical Deductions Ch. 9		(2,300.0)	(2,300.0)	(2,300.0)	(2,300.0)	(2,300.0)
Alternative Fuel Vehicles Credit Ch. 160		(176.0)	(176.0)	(176.0)	(176.0)	(176.0)
TOTAL INDIVIDUAL INCOME		**(10,776.0)**	**(10,776.0)**	**(10,776.0)**	**(10,776.0)**	**(10,776.0)**
CORPORATE INCOME						
None						
TOTAL CORPORATE INCOME						
SALES AND USE						
Phase-out of Commercial Lease Tax Ch. 9		(8,100.0)	(26,300.0)	(47,300.0)	(70,600.0)	(96,300.0)
Feed Lots Exemption Ch. 64		(331.8)	(331.8)	(331.8)	(331.8)	(331.8)
Residential Care Homes - Use Exemp. Ch. 103		(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)
Motion Picture Tax Refund Ch. 104		(20.4)	(20.4)	(20.4)	(20.4)	(20.4)
Retail Classifications Changes Ch. 132		(138.3)	(138.3)	(138.3)	(138.3)	(138.3)
Health Care Centers - Exemptions Ch. 199		(227.0)	(227.0)	(227.0)	(227.0)	(227.0)
Alternative Use Fuel - Exemption Ch. 206		(50.0)	(50.0)	(50.0)	(50.0)	(50.0)
Nursing Care Leases Ch. 212		(976.0)	(976.0)	(976.0)	(976.0)	(976.0)
Sales Deductions - Telecomm. Charges Ch. 240		(1,100.0)	(1,100.0)	(1,100.0)	(1,100.0)	(1,100.0)
TOTAL SALES AND USE		**(12,243.5)**	**(30,443.5)**	**(51,443.5)**	**(74,743.5)**	**(100,443.5)**
PROPERTY						
None						
TOTAL PROPERTY						
OTHER						
Wine Commission Fees Ch. 40		(33.0)	(33.0)	(33.0)	(33.0)	(33.0)
Liquor License Fees Ch. 133		(1,200.0)	(1,200.0)	(1,200.0)	(1,200.0)	(1,200.0)
TOTAL OTHER		**(1,233.0)**	**(1,233.0)**	**(1,233.0)**	**(1,233.0)**	**(1,233.0)**
TOTAL		**(24,252.5)**	**(42,452.5)**	**(63,452.5)**	**(86,752.5)**	**(112,452.5)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1994
($ in Thousands)

	FY 1994	FY 1995	FY 1996
INDIVIDUAL INCOME			
IRS Conformity Ch. 41		6,200.0	6,200.0
Personal Income Tax Cut Ch. 41		(106,900.0)	(106,900.0)
Medical Savings Account Ch. 45			(175.0)
Water Conservation Inc. Tax Credit Ch. 90		(1,626.0)	(1,874.0)
Income Tax Benefit Rule Ch. 354		(500.0)	(500.0)
Pollution Control Credits Ch. 117			(1,500.0)
TOTAL INDIVIDUAL INCOME		**(102,826.0)**	**(104,749.0)**
CORPORATE INCOME			
IRS Conformity Ch. 41		10,000.0	10,000.0
Lower Corporate Rate Ch. 41		(5,800.0)	(5,800.0)
Consolidated Returns [1/] Ch. 41			(13,400.0)
Pollution Control Credits Ch. 117			(1,000.0)
TOTAL CORPORATE INCOME		**4,200.0**	**(10,200.0)**
SALES AND USE			
MITRA; Chemicals Ch. 41			(4,000.0)
Super Bowl Exemption Ch. 145			(481.9)
Personal Property Liquidators Ch. 174		(1,000.0)	(1,000.0)
Prison Food TPT Exemption Ch. 240		(80.0)	(80.0)
University Cars Exemption Ch. 305		(57.0)	(57.0)
Feed Exemption Ch. 307		(655.0)	(655.0)
Amusement/Instruc. Exemption Ch. 312		(825.0)	(825.0)
Tax Accounting Ch. 346			(11,870.0)
Omnibus Alternative Fuels Ch. 353		(400.0)	(400.0)
Government Contract Overhead Ch. 377			(8,000.0)
TOTAL SALES AND USE		**(3,017.0)**	**(27,368.9)**

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1994

($ in Thousands)

	FY 1994	FY 1995	FY 1996
PROPERTY			
MITRA; 1% Personal Prop./Phasedown Ch. 41			(16,496.0)
Livestock Ch. 102			(660.0)
Homeowners' Rebate Freeze Ch. 41 Not Included-Tax Cut as Spending Increase		0.0	0.0
Telecommunications Cos. Valuations Ch. 271		(850.0)	(850.0)
TOTAL PROPERTY		**(850.0)**	**(18,006.0)**
OTHER			
None			
TOTAL OTHER			
TOTAL		**(102,493.0)**	**(160,323.9)**

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Chapter 41 provided a tax credit totalling $115 million for certain consolidated returns, which was to be spread over 10 years. In the 11th year, DOR is required to refund any unused credit (refer to Calendar Year 2006 tax law changes page at the end of this section).

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1995
($ in Thousands)

	FY 1995	FY 1996	FY 1997
INDIVIDUAL INCOME			
Income Tax Reduction Ch. 9		(200,000.0)	(200,000.0)
Summer Schools and Jobs Ch. 236		(337.5)	(337.5)
TOTAL INDIVIDUAL INCOME		**(200,337.5)**	**(200,337.5)**
CORPORATE INCOME			
Consolidated Tax Returns Ch. 31		(400.0)	(400.0)
Lower Corporate Rate Ch. 41		(2,200.0)	(2,200.0)
Pollution Control Credits Ch. 117		(1,000.0)	(1,000.0)
TOTAL CORPORATE INCOME		**(3,600.0)**	**(3,600.0)**
SALES AND USE			
Motion Picture Tax Refund Ch. 98		(100.0)	(100.0)
Sales Tax Amenities Ch. 267		(700.0)	(700.0)
TOTAL SALES AND USE		**(800.0)**	**(800.0)**
PROPERTY			
Personal Property Tax Reductions Ch. 9			(17.3)
Property Tax Reduc. Min. Value Ch. 137			(78.0)
Possessory Interest; Repeal Ch. 294		(1,100.0)	(1,100.0)
TOTAL PROPERTY		**(1,100.0)**	**(1,178.0)**
OTHER			
None			
TOTAL OTHER			
TOTAL		**(205,837.5)**	**(205,915.5)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1996
($ in Thousands)

	FY 1996	FY 1997	FY 1998
INDIVIDUAL INCOME			
Income Tax Definitions Ch. 49		(860.0)	(860.0)
Neighborhood Protection Deductions Ch. 309		(90.0)	(90.0)
TOTAL INDIVIDUAL INCOME		**(950.0)**	**(950.0)**
CORPORATE INCOME			
Neighborhood Protection Act Ch. 309		(60.0)	(60.0)
Enterprise Zones: Tax Credits Ch. 344			(1,575.1)
TOTAL CORPORATE INCOME		**(60.0)**	**(1,635.1)**
SALES AND USE			
Arts Fund; Partnership Ch. 186			(1,475.9)
Prime Contracting Sales Tax Ch. 319			(30,000.0)
Movie Studios Incentives Ch. 322		(49.3)	(49.3)
Homeowners Organizations Ch. 326		(100.0)	(100.0)
TOTAL SALES AND USE		**(194.3)**	**(31,625.2)**
PROPERTY			
Property Tax Reductions Ch. 2 - Does not include $50M in spending		(150,000.0)	(150,000.0)
TOTAL PROPERTY		**(150,000.0)**	**(150,000.0)**
OTHER			
TOTAL OTHER			
TOTAL		**(151,159.3)**	**(184,210.3)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1997

($ in Thousands)

	FY 1997	FY 1998	FY 1999
INDIVIDUAL INCOME			
Tax Credit; School Tuition Organizations Ch. 48			(8,443.2)
Welfare Reform; Arizona Works Ch. 300			(8,030.8)
IRS Conformity Ch. 63		(3,330.0)	(3,330.0)
Energy Conservation Incentives Ch. 137			(34.1)
Income Adjustments Ch. 238		(749.0)	(749.0)
Air Quality Omnibus Ch. 274		(250.0)	(250.0)
Savings Account; Postsecondary Ed. Ch. 171			(20.4)
Tax Relief Act of 1997 - Rates Reductions Ch. 8		(110,800.0)	(110,800.0)
TOTAL INDIVIDUAL INCOME		**(115,129.0)**	**(131,657.5)**
CORPORATE INCOME			
IRS Conformity Ch. 62		4,177.0	4,177.0
Welfare Reform; Arizona Works Ch. 300			(585.2)
TOTAL CORPORATE INCOME		**4,177.0**	**3,591.8**
SALES AND USE			
Light Vehicle Fees Ch. 110		(2,000.0)	(2,000.0)
Used Oil Amendments Ch. 178		(92.2)	(92.2)
Use Tax Exemptions - Libraries Ch. 227		(36.9)	(36.9)
Sales Tax; Nursing Homes Ch. 245			(2,000.0)
Omnibus Tax Changes Ch. 274		(542.9)	(542.9)
TOTAL SALES AND USE		**(2,672.0)**	**(4,672.0)**
PROPERTY			
None			
TOTAL PROPERTY			
OTHER			
Agriculture Omnibus Ch. 228		(90.0)	(90.0)
Health Care Omnibus Ch. 268		(15.0)	(15.0)
TOTAL OTHER		**(105.0)**	**(105.0)**
TOTAL		**(113,729.0)**	**(132,842.7)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1998
($ in Thousands)

	FY 1998	FY 1999	FY 2000	FY 2001
INDIVIDUAL INCOME				
Prop. 200 - Campaign Finance			(1,279.1)	(1,279.1)
Alternative Fuels Ch. 221		(923.0)	(2,854.8)	0.0
Omnibus Taxation of 1998 Ch. 283	160.0	(3,240.0)	(6,410.0)	(6,410.0)
Tax Relief Act of 1998 - Rates Reductions Ch. 3		(30,000.0)	(50,000.0)	(50,000.0)
Wheels to Work Ch. 208			(1,140.0)	(1,140.0)
Tax Exemptions; Exempts; Credits Ch. 286			(1,347.0)	(1,347.0)
TOTAL INDIVIDUAL INCOME	**160.0**	**(34,163.0)**	**(63,030.9)**	**(60,176.1)**
CORPORATE INCOME				
Income Tax Credits; Coal Taxes Ch. 137		(1,600.0)	(1,600.0)	(1,600.0)
Tax Relief Act of 1998 - Rates Reductions and Deduction Elimination Ch. 3		(10,000.0)	(20,000.0)	(20,000.0)
Wheels to Work Ch. 208			(1,140.0)	(1,140.0)
Tax Exemptions, Deductions Ch. 286			(577.3)	(577.3)
TOTAL CORPORATE INCOME		**(11,600.0)**	**(23,317.3)**	**(23,317.3)**
SALES AND USE				
Sales and Use; Printing Ch. 132		(100.0)	(200.0)	(200.0)
Flight Property Exemptions Ch. 177		(110.0)	(30.0)	(30.0)
Alternative Fuels Ch. 221		(577.0)	(1,434.6)	(1,434.6)
Tax Exemptions, Deductions Ch. 286	(60.0)	(857.2)	(296.5)	(296.5)
TOTAL SALES AND USE	**(60.0)**	**(1,644.2)**	**(1,961.1)**	**(1,961.1)**
PROPERTY				
Telecommunications Ch. 220			(19.3)	(19.3)
Widow, Widowers Exemption Ch. 261			(32.3)	(32.3)
TOTAL PROPERTY			**(51.6)**	**(51.6)**
OTHER				
Tax Relief Act of 1998 - VLT Rate Reduction Ch. 3		(80,000.0)	(100,000.0)	(100,000.0)
TOTAL OTHER		**(80,000.0)**	**(100,000.0)**	**(100,000.0)**
TOTAL	**100.0**	**(127,407.2)**	**(188,360.9)**	**(185,506.1)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1999
($ in Thousands)

	FY 1999	FY 2000	FY 2001	FY 2002
INDIVIDUAL INCOME				
Public Retirement Benefits Ch. 50			(1,766.7)	(1,766.7)
Alternative Fuel Vehicles Ch. 168			(427.1)	
Taxpayer Bill of Rights Ch. 250		(200.0)	(600.0)	(400.0)
IRS Conformity Ch. 317	(240.0)	2,330.0	690.0	(3,190.0)
TOTAL INDIVIDUAL INCOME	**(240.0)**	**2,130.0**	**(2,103.8)**	**(5,356.7)**
CORPORATE INCOME				
Tax Relief and Fiscal Control (Trigger) Rate Reduced from 8.0% to 7.0%; R&D Cap. Removed Ch. 5			(37,000.0)	(74,000.0)
Income Allocation (Airline Bill) Ch. 190			(700.0)	(1,400.0)
Alternative Fuel Vehicles Ch. 168			(1,052.1)	
IRS Conformity Ch. 317	5,170.0	2,920.0	2,920.0	890.0
TOTAL CORPORATE INCOME	**5,170.0**	**2,920.0**	**(35,832.1)**	**(74,510.0)**
SALES AND USE				
Sales Tax Exemption; Expendables Ch. 153	(100.0)	(3,500.0)	(3,500.0)	(3,500.0)
Tax Relief and Fiscal Control (Trigger) Mining Severance Tax Reduction Ch. 5		(4,667.0)	(8,000.0)	(8,000.0)
TOTAL SALES AND USE	**(100.0)**	**(8,167.0)**	**(11,500.0)**	**(11,500.0)**
PROPERTY				
Omni. Reconciliation - Personal Property (Expend.) Ch. 5 Does not include $21.4M spending			(30.0)	(30.0)
TOTAL PROPERTY			**(30.0)**	**(30.0)**
OTHER				
Omni. Reconciliation - VLT Cut Ch. 5		(35,000.0)	(60,000.0)	(60,000.0)
TOTAL OTHER		**(35,000.0)**	**(60,000.0)**	**(60,000.0)**
TOTAL	**4,830.0**	**(38,117.0)**	**(109,465.9)**	**(151,396.7)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2000

($ in Thousands)

	FY 2000	FY 2001	FY 2002	FY 2003
INDIVIDUAL INCOME				
Renewable Energy Incentives Ch. 214				(57.0)
Technology Training Credit Ch. 239			(300.0)	(300.0)
IRS Conformity Ch. 252	(680.0)	(2,796.0)	(3,260.0)	(636.0)
Agricultural Preservation District Ch. 267			(100.0)	(100.0)
Character Instruction Tax Credit Ch. 313			(75.0)	(75.0)
Handicapped Preschoolers Tax Credit Ch. 394			(100.0)	(100.0)
Clean Air Act Ch. 405 (neighborhood electric vehicle credit)		(15,750.0)		
Clean Air Act [1/] Ch. 405 (alt fuel vehicle credit)		(59,100.0)	(26,700.0)	(3,100.0)
Alternative Fuels Program Changes Ch. 1 (7th Special Session)		(4,427.0)		
Low-income Tax Credit [1/] Ch. 1 (5th Special Session)			(20,100.0)	(20,100.0)
Tuition Tax Credit Ch. 1 (5th Special Session)			(3,750.0)	(3,847.5)
TOTAL INDIVIDUAL INCOME	**(680.0)**	**(82,073.0)**	**(54,385.0)**	**(28,315.5)**
CORPORATE INCOME				
Technology Training Credit Ch. 239			(2,500.0)	(2,500.0)
IRS Conformity Ch. 252	(15.0)	21.0	175.0	149.0
Clean Air Act Ch. 405			192.3	192.3
Clean Air Act [1/] Ch. 405 (alt fuel vehicle credit)		(7,300.0)	(6,600.0)	(1,600.0)
TOTAL CORPORATE INCOME	**(15.0)**	**(7,279.0)**	**(8,732.7)**	**(3,758.7)**
SALES AND USE				
Renewable Energy Incentives Ch. 214		(40.7)	(42.8)	(45.0)
Spaceport Launch Site Exemption Ch. 359	(18.4)	(36.7)	(36.7)	(36.7)
TOTAL SALES AND USE	**(18.4)**	**(77.4)**	**(79.5)**	**(81.7)**
PROPERTY				
Renewable Energy Incentives Ch. 214				(8.8)
Cemeteries; Property Tax Exemption Ch. 258				(7.3)
Electrical Generation Facilities Ch. 384			(2,234.9)	(3,957.1)
TOTAL PROPERTY			**(2,234.9)**	**(3,973.2)**
OTHER				
None				
TOTAL OTHER				
TOTAL	**(713.4)**	**(89,429.4)**	**(65,432.1)**	**(36,129.1)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Amounts for FY 2001, FY 2002, and FY 2003 represent actual impact rather than initial estimated impact. Totals do not include approximately $(12.7) million paid out for consumer loss recovery, for a total alternative fuel impact of approximately $(117) million.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2001
($ in Thousands)

	FY 2001	FY 2002	FY 2003
INDIVIDUAL INCOME			
Conditional Appropriations; Taxation (reduce standard deduction) Ch. 235		(15,000.0)	(15,000.0)
Department of Revenue; Confidentiality Ch. 261		1,400.0	1,300.0
IRS Conformity Ch. 296	(123.0)	(280.0)	(385.0)
Retirement Benefits; Defined Contribution Ch. 380		(300.0)	(300.0)
Equity Tax Act; Archaic Laws Ch. 382		(552.8)	(552.8)
TOTAL INDIVIDUAL INCOME	**(123.0)**	**(14,732.8)**	**(14,937.8)**
CORPORATE INCOME			
IRS Conformity Ch. 296	(470.0)	(1,098.0)	(1,315.0)
Enterprise Zone Program; Extension Ch. 370 (impact can not be determined)			
TOTAL CORPORATE INCOME	**(470.0)**	**(1,098.0)**	**(1,315.0)**
SALES AND USE			
None			
TOTAL SALES AND USE			
PROPERTY			
None			
TOTAL PROPERTY			
OTHER			
None			
TOTAL OTHER			
TOTAL	**(593.0)**	**(15,830.8)**	**(16,252.8)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2002 *

($ in Thousands)

	FY 2002	FY 2003	FY 2004	FY 2005
INDIVIDUAL INCOME				
IRS Conformity Ch. 344		(14,480.0)	(14,480.0)	(14,480.0)
TOTAL INDIVIDUAL INCOME		**(14,480.0)**	**(14,480.0)**	**(14,480.0)**
CORPORATE INCOME				
Repeal Dividends Income Tax Subtraction Ch. 50		11,200.0	11,200.0	11,200.0
IRS Conformity Ch. 344		5,610.0	5,610.0	5,610.0
TOTAL CORPORATE INCOME		**16,810.0**	**16,810.0**	**16,810.0**
SALES AND USE				
None				
TOTAL SALES AND USE				
PROPERTY				
None				
TOTAL PROPERTY				
OTHER				
IRS Conformity - Estate Tax Ch. 344		(18,830.0)	(38,140.0)	(57,740.0)
TOTAL OTHER		**(18,830.0)**	**(38,140.0)**	**(57,740.0)**
TOTAL		**(16,500.0)**	**(35,810.0)**	**(55,410.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

* Includes 45th Legislature, 2nd Special Session (December 2001), 3rd Special Session (March 2002), and 2nd Regular Session.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2003 *

($ in Thousands)

	FY 2003	FY 2004	FY 2005
INDIVIDUAL INCOME			
None			
TOTAL INDIVIDUAL INCOME			
CORPORATE INCOME			
None			
TOTAL CORPORATE INCOME			
SALES AND USE			
None			
TOTAL SALES AND USE			
PROPERTY			
Flight Property Tax Ch. 263		7,000.0	0.0
TOTAL PROPERTY		**7,000.0**	**0.0**
OTHER			
Remove Medicaid Exemption/Ins. Premium Tax Ch. 136		69,728.1	92,970.1
TOTAL OTHER		**69,728.1**	**92,970.1**
TOTAL		**76,728.1**	**92,970.1**

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

* Includes 45th Legislature, 6th Special Session (November 2002), and 46th Legislature, 1st Special Session (March 2003), and 1st Regular Session.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2004
($ in Thousands)

	FY 2004	FY 2005
INDIVIDUAL INCOME		
IRS Conformity Ch. 196		(1,800.0)
Stillborn Children Exemption Ch. 214		(34.0)
TOTAL INDIVIDUAL INCOME		**(1,834.0)**
CORPORATE INCOME		
None		
TOTAL CORPORATE INCOME		
SALES AND USE		
None		
TOTAL SALES AND USE		
PROPERTY		
None		
TOTAL PROPERTY		
OTHER		
Liquor Fees Ch. 275		250.0
TOTAL OTHER		**250.0**
TOTAL		**(1,584.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2005

($ in Thousands)

	FY 2005	FY 2006	FY 2007	FY 2008
INDIVIDUAL INCOME				
IRS Conformity Ch. 334		(5,400.0)	(5,090.0)	(7,950.0)
Elimination of "Marriage Penalty" Ch. 334		(6,400.0)	(12,800.0)	(12,800.0)
Index Standard Deduction to CPI Ch. 334		(2,400.0)	(4,800.0)	(7,200.0)
Active Duty Military Pay Exemption Ch. 303			(10,300.0)	1/
Graywater Tax Credit 2/ Ch. 292				(250.0)
Small Business Investment Credit Ch. 316				3/
TOTAL INDIVIDUAL INCOME		**(14,200.0)**	**(32,990.0)**	**(28,200.0)**
CORPORATE INCOME				
IRS Conformity Ch. 196		(3,000.0)	5,210.0	9,410.0
AZ National Guard Employment Credit Ch. 264		(250.0)	(250.0)	(250.0)
Motion Picture Tax Incentives Ch. 317			(8,000.0)	(9,200.0)
Graywater Tax Credit 2/ Ch. 292				(500.0)
Corporate Sales Factor 4/ Ch. 289				(32,000.0)
Corporate Consolidated Credit 5/ Laws 1994 Ch. 41				
TOTAL CORPORATE INCOME		**(3,250.0)**	**(3,040.0)**	**(32,540.0)**
SALES AND USE				
Motion Picture Tax Incentives Ch. 317		(600.0)	(1,200.0)	(1,300.0)
TOTAL SALES AND USE		**(600.0)**	**(1,200.0)**	**(1,300.0)**
PROPERTY				
Business Property Tax Reduction 6/ Ch. 302				
Increased Widows Property Tax Exemption 7/ Ch. 309				
TOTAL PROPERTY				
OTHER				
None				
TOTAL OTHER				
TOTAL		**(18,050.0)**	**(37,230.0)**	**(62,040.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Chapter 303 established a one-time active duty pay exemption. Laws 2006, Chapter 342 (see following page) made the exemption permanent, as well as expanding the exemption to National Guard or Reserves..
2/ Individual and corporate credit combined capped at $750,000 per year for 5 years beginning in FY 2008.
3/ Credit capped at $20 million for tax years 2007 through 2014. No estimates of impact by year.
4/ Estimated impact of $(32) million in FY 2008, $(62) million in FY 2009, $(91) million in FY 2010, and $(120) million when fully implemented in FY 2011.
5/ Legislation enacted in 1994 provided a tax credit totalling $115 million for certain consolidated returns which was to be spread over 10 years. In the 11th year, DOR is required to refund any unused credit. This legislation is estimated to have a one-time impact of $(4) million in FY 2007, and $(55.5) million in FY 2008.
6/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be $12.3 million in FY 2007, $26.6 million in FY 2008, $42.8 million in FY 2009, $61.5 million in FY 2010, $82.7 million in FY 2011, $102.8 million in FY 2012, $114.2 million in FY 2013, and $126.5 million in FY 2015. Full implementation in FY 2016 is expected to cost $140 million.
7/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be $500,000 in FY 2007 and $512,000 in FY 2008.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2006
($ in Thousands)

	FY 2006	FY 2007	FY 2008
INDIVIDUAL INCOME			
IRS Conformity Ch. 357		(700.0)	400.0
Individual Inccome Tax Rate Reduction Ch. 354		(156,100.0)	(334,000.0)
Solar Energy Device Credit Ch. 333		(500.0)	(500.0)
Active Duty Military Pay Exemption [1/] Ch. 342			(12,200.0)
TOTAL INDIVIDUAL INCOME		**(157,300.0)**	**(346,300.0)**
CORPORATE INCOME			
IRS Conformity Ch. 357		(700.0)	(800.0)
Solar Energy Device Credit Ch. 333		(500.0)	(500.0)
School Tuition Tax Credit [2/] Chs. 14 & 325		(10,000.0)	(12,000.0)
TOTAL CORPORATE INCOME		**(11,200.0)**	**(13,300.0)**
SALES AND USE			
Solar Energy Device Credit Ch. 333		(500.0)	(500.0)
Exemption for Purchase of Liquid Natural Gas Ch. 371		(378.6)	(378.6)
Tax Simplification-Eliminate 3 Categories Ch. 354		(200.0)	(200.0)
TOTAL SALES AND USE		**(1,078.6)**	**(1,078.6)**
PROPERTY			
State Equalization Rate Suspension [3/] Ch. 354			
Nonprofit Hospital Property Tax Exemption [4/] Ch. 327			
TOTAL PROPERTY			
OTHER			
Health Insurance Premium Tax Credit Ch. 378		(5,000.0)	(5,000.0)
TOTAL OTHER		**(5,000.0)**	**(5,000.0)**
TOTAL		**(174,578.6)**	**(365,678.6)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Chapter 342 made the one-time active duty pay exemption enacted by Laws 2005, Chapter 303 permanent. In addition, the act expands the exemption to include active National Guard or Reserves.
2/ Credit capped at $10 million for FY 2007. The cap will increase 20% annually beginning in FY 2008.
3/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be $215.2 million in FY 2007, $226.0 million in FY 2008, and $239.6 million in FY 2009
4/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be $60,000 per year beginning in FY 2007.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2007

($ in Thousands)

	FY 2007	FY 2008	FY 2009
INDIVIDUAL INCOME			
IRS Conformity Ch. 1		(1,300.0)	(980.0)
College Savings Plan Ch. 258			(2,500.0)
Military Relief Fund Ch. 258			(1,000.0)
TOTAL INDIVIDUAL INCOME		**(1,300.0)**	**(4,480.0)**
CORPORATE INCOME			
IRS Conformity Ch. 1		(300.0)	60.0
TOTAL CORPORATE INCOME		**(300.0)**	**60.0**
SALES AND USE			
None			
TOTAL SALES AND USE			
PROPERTY			
Business Property Tax Reduction [1/] Ch. 258			
Business Personal Property Accelerated Depreciation [2/] Ch. 258			
TOTAL PROPERTY			
OTHER			
None			
TOTAL OTHER			
TOTAL		**(1,600.0)**	**(4,420.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Laws 2005, Chapter 302 phased down the assessment ratio for business personal property over 10 years. Chapter 258 accelerates the phase down from the remaining 8 years to 4 years. Impact will occur as increased Arizona Department of Education expenditures. The incremental cost of the accelerated phase down is expected to be an additional $3.1 million in FY 2009.

2/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be $4.0 million per year beginning in FY 2009.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2008
($ in Thousands)

	FY 2008	FY 2009	FY 2010	FY 2011
INDIVIDUAL INCOME				
IRS Conformity Ch. 94		(970.0)		
College Savings Plan Ch. 258				
Military Relief Fund Ch. 258				
TOTAL INDIVIDUAL INCOME		**(970.0)**		
CORPORATE INCOME				
IRS Conformity Ch. 94		(80.0)		
Research and Development Credit Ch. 290				(5,700.0)
TOTAL CORPORATE INCOME		**(80.0)**		**(5,700.0)**
SALES AND USE				
None				
TOTAL SALES AND USE				
PROPERTY				
None				
TOTAL PROPERTY				
OTHER				
None				
TOTAL OTHER				
TOTAL		**(1,050.0)**		**(5,700.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2009
($ in Thousands)

	FY 2009	FY 2010	FY 2011	FY 2012
INDIVIDUAL INCOME				
IRS Conformity Ch. 2		(4,000.0)	(880.0)	9,340.0
Contributions to Charitable Organizations Ch. 80		(5,000.0)	(5,900.0)	(7,000.0)
Qualifying Renewable Energy Companies [1/] Ch. 96				
TOTAL INDIVIDUAL INCOME		**(9,000.0)**	**(6,780.0)**	**2,340.0**
CORPORATE INCOME				
IRS Conformity Ch. 2		(4,410.0)	(100.0)	(1,420.0)
Qualifying Renewable Energy Companies [1/] Ch. 96				
TOTAL CORPORATE INCOME		**(4,410.0)**	**(100.0)**	**(1,420.0)**
SALES AND USE				
None				
TOTAL SALES AND USE				
PROPERTY				
Qualifying Renewable Energy Companies [1/] Ch. 96				
TOTAL PROPERTY				
OTHER				
None				
TOTAL OTHER				
TOTAL		**(13,410.0)**	**(6,880.0)**	**920.0**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Chapter 96 provides income and property tax incentives for qualifying renewable energy companies that build headquarter or manufacturing facilities in the state from tax year 2010 to 2014. The income tax credits are refundable, and are capped at $70 million annually.