Historical Tax Law Changes
Corporate Income Tax

Laws 1933, Chapter 39 imposed the first Arizona State Corporate Income Tax. The tax was levied on the Arizona Taxable Income of each corporation. Arizona Taxable Income was determined by subtracting authorized deductions from the taxpayer's gross income. If the income of the corporation was derived from sources both within and outside the state, the tax was levied on the portion of income derived from sources within the state. The State Tax Commission was responsible for collecting the Corporate Income Tax levied by this law. The tax was payable on March 15 of each year or 75 days after the close of the taxpayer's fiscal year. If the tax was paid in two installments, the second installment came due 90 days after the original due date. For the 1933 calendar year, the tax was based on one-half of the net income for 1932 and was due and payable on June 15, 1933 or 75 days after the close of the taxpayer's fiscal year. This law became effective June 13, 1933. Due to a referendum filed on June 10, 1933, the effective date was postponed until the law could be approved by the voters at the next general election. Although the law was repealed before the election could be held, a similar law was enacted in its place.

Laws 1933, 1st Special Session, Chapter 8 repealed the law passed in the regular session and enacted a new corporate income tax that was substantially the same. The tax rates imposed on each level of corporate income were reduced by one-half to 1% (see Arizona Historical Corporate Income Tax Rates Chart). Collections from the tax were remitted to the State Treasurer who deposited all contested payments in an Income Tax Suspense Fund. 10% of the remaining collections, or a maximum of $20,000, was dedicated to the Suspense Fund. (Effective June 26, 1933)

Laws 1935, Chapter 80 allocated a share of the income tax revenues (not to exceed 4%) to the State Tax Commission for administration of the tax. The unexpended balance of this amount reverted to the state General Fund on December 31 of each year. (Effective July 1, 1935)

Laws 1943, Chapter 11 imposed a separate income tax on the income of banking institutions. The distribution of revenues from this source was 50% to the state General Fund, 25% to the counties and 25% to the cities and towns in which bank offices were located. If the bank office was located in an unincorporated city or town, the city's share of the income tax was deposited in the county general fund instead. (Effective for Tax Years Beginning After December 31, 1943)

Laws 1945, Chapter 40 imposed a separate tax upon the income of savings and loan associations. The distribution of revenues from this tax was 50% to the state General Fund, 25% to the counties, and 25% to the cities and towns in which the loan associations were located. (Effective for Tax Years Beginning After December 31, 1945)

Laws 1951, Chapter 106 imposed a separate tax on the income of investment companies. The distribution of revenues from this tax was 50% to the state General Fund, 25% to the counties and 25% to the cities and towns in which the investment companies were located. (Effective for Tax Years Beginning After December 31, 1950)

Laws 1952, Chapter 136 changed the due date for payment of the corporate income tax. For taxpayers who keep records on a calendar year basis, the due date was changed from March 15 to April 15. For taxpayers who keep records on a fiscal year basis, the due date was extended to 105 days after the close of the taxpayer's fiscal year. For taxpayers paying in two installments, the due date for the second installment was changed to 75 days after the original due date. (Effective March 16, 1952)

Laws 1954, Chapter 65 repealed the Income Tax Act of 1933 and all amendments to the Act. The 1954 act imposed a new income tax closely patterned after the Federal Income Tax. The new law made significant modifications to the tax base but the tax rates applied to corporate income were not changed. The due date for paying the Corporate Income Tax was changed for taxpayers who file on a fiscal year basis. The new due date was the 15th day of the fourth month following the close of the fiscal year. All corporations were authorized to pay the tax in two installments. If the tax was paid in two installments, half of the tax was due on the 15th day of the fourth month following the close of the income year and the remainder was due on the 15th day of the sixth month

following the close of the income year. The gross proceeds from the new Corporate Income Tax were distributed as follows:

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

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

Laws 1965, 3rd Special Session, Chapter 10 increased the tax rates imposed on corporate income. See Arizona Historical Corporate Income Tax Rates Chart. (Effective July 1, 1965)

Laws 1967, 3rd Special Session, Chapter 7 again increased the tax rates on corporate income. The rate changes are illustrated in the Arizona Historical Corporate Income Tax Rates chart. (Effective January 1, 1968)

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

Laws 1969, Chapter 130 conformed state law with existing federal provisions for determining depreciation allowances. For certain assets used in trade or business, the law authorized taxpayers to claim 20% of the cost of the asset as the first year's depreciation. The maximum cost of assets subject to this provision was limited to $10,000 in any one year. The provision that allowed businesses to carry back net operating losses was also repealed and taxpayers were authorized to carry net operating losses forward for a period of five years. (Effective January 1, 1970)

Laws 1970, Chapter 170 repealed the separate income taxes imposed on banks, investment companies and savings and loan associations. This act provided that such financial institutions would be taxed as other corporate income taxpayers. (Effective From and After January 1, 1970)

Laws 1971, Chapter 61 excluded from gross income dividends received by a corporation from another corporation which is owned or controlled directly or indirectly by the recipient corporation. (Effective for Taxable Years Beginning From and After December 31, 1970)

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

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

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

Laws 1974, 1st Special Session, Chapter 2 changed the Corporate Income Tax rates from and after December 31, 1973. The new rates established by this law are shown in the Arizona Historical Corporate Income Tax Rates chart). The percentage of tax proceeds deposited in the Income Tax Fund was reduced from 25% to 12.5%. The remaining income tax collections (after deducting urban revenue sharing) were deposited in the state General Fund. This provision was effective July 1, 1974.

Laws 1974, Chapter 63 allowed a taxpayer to amortize and claim deductions over a five-year period for the purchase or construction of child care facilities for the children of the taxpayer's employees. The deductions authorized by this law were in lieu of an allowance for depreciation. (Effective From and After January 1, 1974)

Laws 1974, Chapter 165 allowed a taxpayer to amortize and claim deductions over a five-year period for the installation of a solar energy device designated to produce heat or electricity. The deductions authorized by this law were in lieu of an allowance for depreciation. The provisions of this act expired after December 31, 1984. (Effective From and After December 31, 1983)

Laws 1974, Chapter 166 increased the amount of tax revenue deposited in the Income Tax Fund from 12.5% to 16%. The balance of income tax collections (after urban revenue sharing) was placed in the state General Fund. (Effective August 9, 1974)

Laws 1974, Chapter 187 provided than an employer may not deduct the cost of providing medical care to employees unless the medical plans which the employer provides to his employees include catastrophic medical costs as part of the coverage. (Effective on January 1, 1975)

Laws 1976, Chapter 129 allowed for the amortization of a qualified solar device in 36 months instead of 60 months. This provision expired from and after December 31, 1984. (Effective June 27, 1976)

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

Laws 1978, Chapter 213 established a new income tax code for the State of Arizona which became effective beginning with the 1979 income tax year (1980 filing year). Under the new tax code, Arizona Gross Income would equal Federal Taxable Income and would be adjusted to allow for state exemptions and deductions.

Laws 1979, Chapter 14 changed the method of taxing small business corporations (commonly referred to as subchapter S corporations) to conform with federal law. Under this law, qualifying corporations are not required to pay Corporate Income Taxes; instead, the income of the corporation is distributed to shareholders and is taxed on each shareholder's individual return. (Effective for Tax Years Beginning From and After December 31, 1978)

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

Laws 1979, Chapter 145 changed the Arizona Income Tax code to conform with changes to the Federal Internal Revenue Code adopted during 1978. This bill was necessary since Federal Taxable Income is the starting point for calculating Arizona income tax liability. (Effective for Tax Years Beginning From and After December 31, 1978)

Laws 1979, Chapter 146 authorized corporations to claim the following income tax credits:

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

These credits can be taken in lieu of the tax deduction for solar energy devices authorized by Laws of 1974, Chapter 165. The credits were based on a percentage of the cost of the device. Taxpayers were allowed to claim 35% of the cost of the device through December 31, 1983. After 1983, the percentage claimed was reduced in increments of 5% per year. The credit for solar energy devices installed in residential housing was not to exceed $1,000 per house. The provisions of this law were scheduled to expire from and after December 31, 1989. (Effective July 21, 1979)

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

Laws 1980, Chapter 215 established a voluntary withholding system for corporations. Under the law, corporations may submit estimated income tax payments in advance of the due date. (Effective for Tax Years Beginning From and After October 1, 1981)

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

Laws 1980, Chapter 240 changed the Arizona Income Tax Code to conform with certain changes to the Federal Internal Revenue Code that were adopted during the period ending April 7, 1980. The changes to the Federal Income Tax Code must be adopted or rejected annually since federal taxable income is the starting point for calculating Arizona income tax liability. (Effective July 31, 1980)

Laws 1980, 2nd Special Session, Chapter 8 established an income tax credit for certain cash registers and related equipment used by grocery businesses. The credit encouraged businesses to upgrade equipment or purchase new equipment that was capable of separately calculating the tax on food and non-food items. The law was intended to facilitate implementation of the food sales tax repeal. (Effective From and After June 30, 1980)

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

Laws 1981, Chapter 297 changed the Arizona Income Tax Code to conform with certain changes to the Federal Internal Revenue Code that were adopted during 1980. These changes were effective from and after December 31, 1980. The changes to the federal code must be adopted or rejected annually since Federal Taxable Income is the starting point for calculating Arizona income tax liability. The law also removed the requirement that 16% of income tax collections be placed in the Income Tax Fund and replaced it with a requirement that amounts placed in the Income Tax Fund must be sufficient to cover refunds issued to taxpayers. This provision was effective from and after October 1, 1981.

Laws 1982, Chapter 2 changed the Arizona Income Tax Code to conform with certain changes in the Federal Code that were passed in the U.S. Economic Recovery Tax Act of 1981. (Effective February 19, 1982) Among other provisions, this law permitted corporations to take advantage of accelerated depreciation rates in computing their Taxable Arizona Income. The law also eliminated the option of paying the Corporate Income Tax in two installments. (Effective for Tax Years Beginning From and After December 31, 1981)

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

Laws 1982, Chapter 256 (as amended by Laws 1982, 6th Special Session, Chapter 2) changed the expiration date on corporate income tax credits for solar energy devices. Formerly, these credits were to expire at the end of 1989. Under this law, the credits will expire from and after December 31, 1987.

Laws 1983, Chapter 4 made the following changes in the Corporate Income Tax:

(1) Required corporate taxpayers who file for an extension of the due date to pay 90% of their tax liability before an extension may be granted. This provision was effective beginning with tax year 1983. For the 1982 tax year, corporations filing for an extension were required to pay 75% of their liability on or before June 15, 1983.
(2) Required corporations to make estimated tax payments to the state if the corporation was required to make estimated tax payments to the federal government and if the corporation's state income tax liability was at least $1,000. Estimated taxes were paid to the state at the same time federal estimated taxes were paid. However, corporations were not required to make estimated tax payments during the period beginning July 1, 1983 and ending December 31, 1983. (Effective for Tax Years Beginning From and After December 31, 1982)
(3) Changed the interest rate on deficient and delinquent tax payments to equal the rate of interest established by section 6621 of the Internal Revenue Code, compounded annually (Effective February 11, 1983).

Laws 1983, Chapter 247 changed the Arizona Income Tax Code to conform with changes in the Federal Income Tax Code that were passed in the Tax Equity and Fiscal Responsibility Act of 1982. These changes effectively

reduced many of the tax benefits that were adopted in the Economic Recovery Tax Act of 1981. See Laws 1982, Chapter 2. (Effective April 25, 1983)

Laws 1983, Chapter 287 adopted the provisions of the Uniform Division of Income for Tax Purposes Act. (Effective From and After December 31, 1983) Although most forms of corporate income are already allocated to Arizona according to the provisions of this act, the law will change the method of allocating intangible income such as interest, dividends, rents and royalties. Specifically, companies that do not have their headquarters in Arizona will now be required to pay Arizona's income tax on certain forms of intangible income that were formerly exempt from Arizona's tax. In addition to adopting the provisions of UDITPA, this law also established a new means of determining the tax on net corporate capital gains. Under this provision, the tax on net capital gains may be determined separately using a tax rate of 6.4%. The new method of taxing capital gains is effective from and after January 1, 1986.

Laws 1985, Chapter 109 provided a new statutory definition of "foreign corporation" for purposes of Arizona corporate income taxation. "Foreign corporation" now includes domestic corporations which derive less than 20% of its Federal Gross Income from sources in the United States for the three year period ending with the close of the taxable year of the corporation preceding the current taxable year. The definitional change is significant because the net income of a "foreign corporation" is not allocated or apportioned to the state. (Effective April 17, 1985)

Laws 1986, Chapter 59 required the Department of Revenue to determine and report the level that Corporate Income Tax rates could be set if the Corporate Federal Income Tax deduction was eliminated yet maintaining the same corporate tax revenue as presently collected; the Department must report its finding by November 15, 1986. (Effective August 13, 1986)

Laws 1987, Chapter 361 established "enterprise zones" in economically depressed areas as an attempt to attract business to these locations. An income tax credit of $5,000 per employee is provided to corporations, provided at least 35% of the full-time employees are residents of the "zone" and were receiving public assistance prior to employment. (Effective June 30, 1988)

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

Laws 1988, Chapter 58 conformed to the federal treatment of corporate capital loss carryover. Existing carryover amounts up to $1,000 from tax years beginning prior to January 1, 1988 will continue as a subtraction from Arizona Gross Income. Carryover accumulated after this date are not deductible. (Retroactive to Taxable Years Beginning From and After December 31, 1987)

Laws 1988, Chapter 62 tax exempt organizations liable for income tax on its "unrelated business income" may now subtract from such income the federal income taxes paid during the taxable year. (Effective September 30, 1988)

Laws 1988, Chapter 271 was the Omnibus Revenue Bill for FY 1989. The following provisions applied to the Corporate Income Tax (Retroactive to Taxable Years Beginning From and After December 31, 1987):

(1) Removed the preferential tax rate of 6.4% for net corporate capital gains.
(2) Established a minimum corporate income tax of $50.
(3) Restricted the subtraction for dividends received from controlled corporations to parent corporations headquartered in Arizona only.
(4) Eliminated as an addition to income, any depreciation deductions for solar energy device or point of sale equipment taken on the federal income tax return, for corporations claiming a state income tax credit for such items.

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

(1) one-fourth of taxable wages paid to each qualified employee, not to exceed $1,000 per net new employee;
(2) one-third of taxable wages paid to each previously qualified employee, not to exceed $1,500 per employee in the second year of continuous employment;
(3) one-half of taxable wages paid to each previously qualified employee, not to exceed $2,500 per employee in the third year of continuous employment.

This credit is allowed for taxable years beginning from and after December 31, 1989.

Laws 1989, Chapter 218 removed the requirement for "S" corporations to file a copy of its federal election form with the Department of Revenue. When a company files for an "S" corporation status, the Department of Revenue is automatically notified by the Internal Revenue Service. (Effective September 15, 1989)

Law 1989, Chapter 272 established an income tax credit to corporations that invest in qualified property and employ inmates on the grounds of correctional facilities. The credit is equal to the lowest of:

(1) The sum of 50% of any investment in qualified property and 25% of the wages paid to inmates during the tax year.
(2) $100,000.
(3) The amount of taxpayer's income tax liability.

A recapture tax applies if the qualified property is converted to any other use within three years after the credit was allowed. (Effective June 23, 1989)

Laws 1990, Chapter 296 established a Corporate Income Tax credit for dependent day care services provided by employers for their employees. This credit has the exact provisions as the credit under the Individual Income Tax. (Effective to Taxable Years Beginning From and After December 31, 1990)

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

(1) Redefined the qualifications for a domestic corporation to be considered as foreign corporation. It must have less than 20% of its property, payroll and sales in the United States for three consecutive years preceding the current taxable year or as long as the corporation's existence. The method for calculating the percentage is similar to the apportionment formula which takes the average of the ratios computed for the three factors. The prior definition required that less than 20% of its federal gross income be derived in the U.S.
(2) Extended the deduction for dividend income received from a controlled corporation to all corporations irrespective of the receiving corporation's place of domicile. Only 50% of the deduction for such dividends will be allowed for tax years beginning in 1990, but rises to 100% for taxable years beginning in 1991 and thereafter.
(3) Replaced the previous Corporate Income Tax brackets and rates with a flat rate of 9.3%, but retained the $50 minimum tax.
(4) Eliminated the subtractions for federal income tax paid and the amount of foreign tax credit.

All provisions are retroactive to tax years beginning from and after December 31, 1989.

Laws 1990, 3rd Special Session, Chapter 9 clarified that "S" corporations are entitled to income tax credits related to enterprise zones. This is applicable to tax years beginning from and after December 31, 1989.

Laws 1991, Chapter 146 adopted the 1990 changes to the U.S. Internal Revenue Code for Arizona Income and Estate Tax purposes. (Retroactive to Taxable Years Beginning From and After December 31, 1990)

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

Laws 1991, Chapter 189 established a double weighted sales factor for the allocation of corporate business income in the apportionment formula for multi-state corporations when computing state corporate income tax. The previous formula equally weighted the three factors of property, payroll, and sales. (Effective September 21, 1991)

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

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

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

Laws 1992, Chapter 18 conformed the state income tax code to 1991 changes in the U.S. Internal Revenue Code. (Retroactive to Taxable Years Beginning From and After December 31, 1991)

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

Laws 1992, Chapter 79 was the Tax Corrections Act for 1992. The bill rewrote the estimated tax payments required of regular and S corporations to clarify the annual and installment payment required, but no substantive changes were made. (Effective From and After December 31, 1992)

Laws 1992, Chapter 113 enacted enabling legislation for the establishment and organization of limited liability companies (LLC) in Arizona. This bill subjects a limited liability company to state income taxation as a partnership or a corporation as determined by the Internal Revenue Code. (Effective September 30, 1992)

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

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

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

(1) Qualified Defense Contractors (Effective to Taxable Years Beginning From and After June 30, 1993):
- Amortization of one-half the federal time period of capital investment in solely private commercial activity.

- A declining 5-year nonrefundable income tax credit for net defense employment increases or net private commercial employment increases, but not both.
- A nonrefundable income tax credit of up to 40% of the portion of property taxes paid during the taxable year.

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

Laws 1992, Chapter 296 provided a corporate income tax credit for qualified expenses, as defined in Section 41 of the U.S. Internal Revenue Code, from expanded research and development (R&D) conducted in Arizona. The provisions are:

(1) Clarification that qualified research includes university research paid for by the taxpayer.
(2) Phase-in of a maximum tax credit: (a) $25,000 for 1st tax year, (b) $50,000 for 2nd tax year, (c) $75,000 for 3rd tax year, (d) $150,000 for 4th tax year, and (e) $250,000 for tax years thereafter.
(3) 5-year carry forward of unused research expenses.

This credit applied only to expenses incurred from and after December 31, 1993. (Effective September 30, 1992)

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

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

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

Provisions affecting the corporate income tax allow for pro rata distribution of the recycling equipment tax credit by co-owners of a business, including partners in a partnership and shareholders of an S corporation. The total of credits allowed may not exceed what would have been allowed for a sole owner of the business. The bill prescribed that the credit for research and development expenses is based on the Internal Revenue Code in effect on June 30, 1992. (Effective July 17, 1993)

Laws 1993, Chapter 210 conformed the state income tax code to 1992 changes in the United States Internal Revenue Code. (Retroactive to Taxable Years Beginning From and After December 31, 1992)

Laws 1993, Chapter 239 Increased the maximum allowable income tax credit for research and development expenses, and increased the carry forward from 5 to 15 years as follows (Effective July 17, 1993):

(1) For the first taxable year from $25,000 to $100,000;
(2) For the second taxable year from $50,000 to $250,000;

(3) For the third taxable year from $75,000 to $400,000;
(4) For the fourth taxable year and every year thereafter, from $150,000 to $500,000.

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

Laws 1993, 6th Special Session, Chapter 1 contained the following provisions related to the corporate income tax for taxable years beginning from and after December 31, 1993. The bill provides a corporate income tax subtraction for alternative fuel vehicles and equipment. Alternative fuels are defined as liquified petroleum gas, compressed or liquefied natural gas, hydrogen, electricity, solar energy, or alcohol fuels that contain not less than 85% alcohol by volume. An alternative fuel vehicle is defined as a self-propelled vehicle for operation on the highways that is primarily propelled by an alternative fuel. The taxpayer may subtract an amount equal to the sum of the following: (Effective February 10, 1994)

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

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

The act reduced the Corporate Income Tax rate levied on Arizona's taxable income for every corporation, unless exempted, to 9% of taxable income or $50, whichever is greater. (Effective to Taxable Years Beginning From and After December 31, 1993)

The act allowed affiliated groups of corporations to elect to file income tax returns on a consolidated basis. (Retroactive to Taxable Years Beginning From and After December 31, 1985)

The act conformed the income tax for tax years 1994, 1992 and 1991 to the United States Internal Revenue Code in effect for those tax years. This act also conformed, except as provided in A.R.S. § 42-106, the income tax for tax year 1993 to the United States Internal Revenue Code in effect for tax year 1993.

The act added A.R.S. § 42-106 that contains the selective conformity provisions for tax year 1993. (Effective July 17, 1994)

Laws 1994, Chapter 46 provided that an overpayment of income tax due to an "S" corporation for any year that resulted from an improper inclusion of income can be used as an offset in computing any deficiency in an overlapping year for the shareholders of the "S" corporation. The offset provided for shall not be allowed after the expiration of 7 years from the due date of the return on which the overpayment is determined. (Retroactive to Taxable Years Beginning From and After December 31, 1986)

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

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

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

(1) The agricultural water conservation system must be primarily designed to substantially conserve water on land that is used by the taxpayer or the taxpayer's tenant to:
    a. Produce crops, fruits or other agricultural products.
    b. Raise, harvest or grow trees.
    c. Sustain livestock.
(2) The expense must be consistent with a water conservation plant that the taxpayer has filed and that is in effect with the United States Department of Agriculture Soil Conservation Service.

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

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

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

An Individual and Corporate Income Tax credit is established equal to 5% of the purchase price of materials used to build a new facility or expand an existing facility within the state that is predominantly used for manufacturing, mining, or research and development. The total cost of the construction must be in excess of $5 million and the construction must begin on or after January 1, 1994 and completed by December 3, 1999. Co-owners may each claim a pro rata share of the credit allowed and may carry the credit forward for not more than 5 taxable years' income tax liability. (Effective to Taxable Years Beginning From and After December 31, 1994)

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

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

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

Laws 1994, Chapter 248 provided Individual and Corporate Income Tax credits for expenses incurred by a taxpayer, who is not liable or responsible for a corrective action as an owner or operator of an underground storage tank, but takes corrective action with respect to the release of a regulated substance from an underground storage tank. The amount of the credit is equal to 10% of the total amount spent by the taxpayer to make corrective action certified by the Department of Environmental Quality as having been performed and meeting necessary requirements. The credit is not allowed for corrective action costs reimbursed by the Department of Environmental Quality. (Effective July 17, 1 994)

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

Laws 1994, Chapter 353 provided a Corporate and Individual Income Tax credit, in lieu of a subtraction, for the purchase of one or more new alternative fuel vehicles or expenses incurred from converting conventional vehicles. The credit is $1,000 per purchase or conversion for tax years 1994, 1995 and 1996; $500 for 1997; and $250 for 1998.

Alternative fuel means:

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

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

Laws 1995, Chapter 7 conformed the state income tax code to the United States Internal Revenue Code in effect on January 1, 1995. The conformity includes those provisions that became effective during 1994 with the specific adoption of their effective date, but excluding any change to code enacted after January 1, 1995. (Retroactive to Taxable Years Beginning From and After December 31, 1994 through December 31, 1995)

Laws 1995, 1st Special Session, Chapter 9 increased the distribution to the Urban Revenue Sharing Fund to 15% of the net proceeds of state income taxes beginning in FY 1998. Currently the distribution is 12.8% and is scheduled to increase to 13.6% in FY 1997. The increased distributions are to compensate incorporated cities and towns for reduced income tax revenues resulting from individual income tax rate reductions enacted in the 1994 and 1995 legislative sessions. (Effective June 15, 1995)

Laws 1995, Chapter 31 modified the definition of the eligible affiliated group and authorized elective filing of amended consolidated income tax returns for qualified affiliated groups for tax years 1986 through 1992. The amended returns are required to be filed by December 31, 1995.

Expanded the definition of an Arizona affiliated group to include corporations that would have been included in the federal consolidated group if the federal government had not allowed an exclusion for the 80% stock ownership test for Native Corporations established under the Alaska Native Claims Settlement Act and all convertible preferred stock of the corporation had been converted.

Net over payments arising from the filing of amended returns are required to be treated as credits against future tax liabilities for 10 consecutive years beginning in FY 1996. Annual credits are limited to 10% of the total with any residual amount refunded in the eleventh year.

Amended returns must be accompanied by written consents to the election be each new member of the consolidated group. (Effective July 13, 1995)

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

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

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

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

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

Laws 1996, Chapter 309 established Project Intervention to promote neighborhood rehabilitation. One aspect of this project involved funding summer employment programs for at-risk youth in which students attended school for half days and worked for private employers the other half of the day. The act allowed an income tax credit for employers in an amount equal to half the wages paid to the student employee up to a maximum of $3 per hour, with a maximum of 20 hours of work per week. A limit of $300,000 was placed on the total amount of wages paid by all employers that qualify for the tax credit. The act repealed the job tax credit on December 1, 1996. (Effective January 1, 1996)

Laws 1996, Chapter 317 stipulated that corporate income tax returns may be signed by any principal officer of the corporation, not only by the president or the treasurer. Verification of the return's validity may be in written or alternative form, as directed by the Department of Revenue. (Effective July 20, 1996)

Laws 1996, Chapter 344 allowed an income tax credit for businesses located in an enterprise zone that do not sell tangible personal property at retail. The credit amount for qualifying businesses is calculated based on the net increase in all full-time employment positions. The employment positions must be full time and include health insurance coverage for which the employer pays at least 50% of the premium or membership cost.

In addition, the act clarified that the Arizona corporate income tax credit for qualified research and development expenses incurred through December 31, 1998 in this state is not affected by the termination of the federal tax credit for research and development expenses. (Effective January 1, 1996)

Laws 1996, 6th Special Session, Chapter 1 expanded the individual and corporate income tax credit for new construction materials incorporated into a qualifying manufacturing, fabricating, or mining facility to include materials incorporated into a direct broadcast satellite or transmission services facility, provided that the facility is completed by December 31, 1996. The act permitted the partners in a partnership and the members in a limited liability company to allocate the credit among themselves according to the provisions in their partnership or operating agreement instead of requiring proration based on ownership interest. (Effective January 1, 1996)

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

Laws 1997, Chapter 238 authorized individual and corporate income tax subtractions to include wages and salaries that are equal to the amount of the federal work opportunity, empowerment zone employment, employer-paid Social Security taxes on employer cash tips, and Indian employment credits received by the taxpayer. It also clarified the determination of corporate net operating loss amounts for Arizona purposes. (Effective January 1, 1997)

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

Laws 1997, Chapter 282 conformed Arizona law to federal practice in allowing sole proprietorships to be taxed in accordance with limited liability company status. (Effective January 1, 1997)

Laws 1997, Chapter 287 assured $18 million annually in funding for the Water Quality Assurance Revolving Fund (WQARF) beginning July 1, 1999. This funding level is achieved by combining a transfer of $15 million from the corporate income tax with money collected from various fees and appropriations. At the end of the fiscal year, if the corporate income tax transfer together with the total of the fees and appropriations has not been sufficient to reach the $18 million level, the State Treasurer shall adjust the $15 million transfer of corporate income tax revenues upward by the necessary amount. If corporate income tax revenues are insufficient to supplement collected fees and appropriations, transaction privilege tax revenues are to be used. (Effective April 29, 1997)

Laws 1997, Chapter 300 established individual and corporate income tax credits for net increases in full-time employment of recipients of Temporary Assistance for Needy Families. The amount of the credit is equal to one-fourth of the employee's taxable wages in the first year, up to $500; one-third of the employee's wages in the second year, up to $1,000; and one-half of the employee's wages in the third year, up to $1,500. Wages that are subsidized through the Department of Economic Security's subsidized employment program are excluded. (Effective January 1, 1998)

Laws 1998, Chapter 11 changed the due dates of final payments for S corporations and tax-exempt organizations (on unrelated business income). S corporations' taxes are now due on the 15th day of the third month after the close of the taxable year; exempt organizations' taxes are due on the 15th day of the fifth month after the end of the year. Previously all final payments were due on the 15th day of the fourth month after the end of the year. (Effective January 1, 1998)

Laws 1998, Chapter 89 allowed corporations that assume certain liabilities to file consolidated returns, even if former subsidiaries that were not members of the corporation group at the end of 1994 have not provided written consent. (Effective August 21, 1998)

Laws 1998, Chapter 121 extended the deadline for businesses to qualify for existing enterprise zone tax incentives from July 1, 1998 to July 1, 2001. (Effective January 1, 1998)

Laws 1998, Chapter 122 extended the tax credit for research and development expenses, which was scheduled to expire on December 31, 1998, to December 31, 2003. (Effective August 21, 1998)

Laws 1998, Chapter 137 provided a tax credit equal to 30% of the sales tax or use tax levied on coal consumed in electrical power generation in Arizona. (Effective January 1, 1998)

Laws 1998, Chapter 221 expanded the existing deductions and credits for construction or operation of alternative fuel stations and for purchases of, or conversions to, alternative fuel vehicles. It also provided credits for leasing such vehicles, and established new credits for the purchase or lease of original-equipment-manufactured vehicles based on the vehicle's emissions. (Effective January 1, 1998)

Laws 1998, Chapter 286 provided a tax credit equal to 25% of the cost of agricultural pollution control equipment, up to a maximum credit of $25,000 annually. The taxpayer claiming the credit must be engaged in commercial production of livestock, agriculture, horticulture, viticulture, or floriculture. (Effective January 1, 1999)

Laws 1998, 4th Special Session, Chapter 3 made several changes to the corporate income tax:

1. The tax rate was reduced from 9% to 8%.
2. Corporations were forbidden from taking as a deduction on their *state* tax return the amount of state income taxes they take for a deduction on their *federal* tax return.
3. The "throwback rule" used in the apportionment formula for the tax was modified. The term refers to sales in nontaxable jurisdictions being "thrown back" to Arizona. Sales to the federal government and to customers in states and countries with no corporate income tax will no longer be attributed to Arizona. (Effective January 1, 1998)

Laws 1999, Chapter 168 modified the individual and corporate income tax credits for the purchase of alternative fuel vehicles (AFVs), and modified the tax credits related to the construction of alternative fuel stations. The revised tax credits for AFVs are equal to a specified percentage of the purchase price of the vehicle. This percentage depends on the type of alternative fuel that the vehicle uses. Prior to the enactment of this legislation, AFV tax credits were equal to a fixed amount plus a percentage of the AFV's incremental cost above that of a regular fueled vehicle.

In addition, the tax credits related to alternative fuel stations were raised from 25-50% of costs to 50-100% of costs. However, the new legislation subtracts any grant money from the amount of the tax credit. Finally, the act removed the tax deductions related to AFVs and fueling stations for both the individual and corporate income tax. The tax credits for the purchase of an AFV and for the purchase of a refueling apparatus are effective January 1, 1999. The tax credit for the construction and operation of a fueling station is effective January 1, 1998.

Laws 1999, Chapter 190 established a separate corporate income tax apportionment formula for corporations engaged in air commerce. The act stipulates that multi-state airlines shall apportion income to this state by multiplying income by a fraction; the numerator is the revenue aircraft miles flown within this state for flights beginning or ending in Arizona, and the denominator is the revenue aircraft miles flown by the airline everywhere. (Effective January 1, 2001)

Laws 1999, Chapter 191 exempted from income allocation and apportionment corporate taxpayers that only hold contractual consignment inventory if a specific set of conditions is met. (Effective January 1, 1999)

Laws 1999, Chapter 317 conformed the Arizona statutory definition of the Internal Revenue Code (IRC) to the IRC definition. This provision is effective January 1, 1999. It also retroactively incorporates the Federal Tax and Trade Relief Extension Act of 1998, the Federal Internal Revenue Service Restructuring and Reform Act of 1998, and the Federal Surface Transportation Revenue Act of 1998. This provision is effective retroactive to January 1, 1998. The estimated impact is $(2.0) million per year.

Laws 1999, Chapter 318 reduced the corporate income tax rate from 8.0% to 7.968% and eliminated various corporate income tax credits. (Effective January 1, 2000)

Laws 1999, Chapter 325 reduced the Urban Revenue Sharing percentage from 15.8% to 15% starting in FY 2001. In FY 2001, $2,000,000 is appropriated from the General Fund to the State Treasurer for distribution to cities and towns having a population of 60,000 persons or less in order to mitigate the effect of a reduced Urban Revenue Sharing percentage. (Effective July 1, 2000)

Laws 1999, 1st Special Session, Chapter 5 provided a series of conditional tax rate reductions that are dependent on the level of FY 1999 General Fund revenues. Included in these "triggered" tax cuts are 4 corporate income tax rate reductions at 0.25% intervals. If all 4 corporate income tax rate reductions were ultimately implemented, the tax rate would fall to 7%. (Effective January 1, 2001). These triggered tax cuts were enacted.

Laws 2000, 6th Special Session, Chapter 1 imposed an immediate 1-year moratorium on income tax credits for alternative fuel vehicles, alternative fuel delivery systems and vehicle refueling apparatus. No purchases made after this date would qualify for a tax credit. (Effective October 20, 2000)

Laws 2000, 7th Special Session, Chapter 1 eliminated the alternative fuel tax credit program, modified eligibility, and allowed up to $200,000,000 from the Budget Stabilization Fund (BSF) to be used to reimburse the General Fund for the estimated lost tax revenues. It also provided for reimbursement of individuals and corporations that incurred a financial loss due to the modification of the program. Money will be transferred from the BSF to the Consumer Loss Recovery Fund to pay for the financial losses, and transferred from income tax losses.

The legislation also requires that the BSF be annually reimbursed no more than $16,000,000 from the General Fund until all outgoing payments related to the tax credit program are restored, including lost interest. The JLBC in June of each year will calculate a BSF repayment schedule. The Treasurer shall transfer money back to the BSF, without an appropriation, in the amounts identified in this annual JLBC report. The Legislature has already set aside $16,000,000 in FY 2001, FY 2002 and FY 2003 for this purpose.

Laws 2000, Chapter 48 codified the “triggered” FY 2000 tax reductions in the vehicle license tax and the corporate income tax that were enacted as parts of Laws 1999, 1st Special Session, Chapter 5. The bill simply clarified the tax reductions from the prior year and there were no revenue reductions associated with the legislation.

Laws 2000, Chapter 239 provides employers a tax credit for employee technology skills training. The tax credit will be equal to 50% of the cost of the training but is capped at $1,500 per employee. The Arizona Department of Commerce will administer the program and certify eligible tax credits to be forwarded to the Department of Revenue.

The provisions of the legislation became effective on January 1, 2001. The tax credits associated with the training program were estimated to reduce corporate income tax collections by $(2,500,000) beginning in FY 2002.

Laws 2000, Chapter 252 conformed state income tax laws with the federal Internal Revenue Code, which determines the calculation of state personal and corporate income taxes. Changes to federal tax calculations affect state income tax revenues. Estimates of the dollar impact of both retroactive and prospective federal tax law changes are prepared by the Department of Revenue using estimates provided by the Bureau of the Census, U.S. Department of Commerce, Arizona Department of Economic Security, and other state and federal agencies. The estimated incremental General Fund cost of this act is $(15,000) in FY 2000, $36,000 in FY 2001, and $154,000 in FY 2002. (Effective January 1, 2000)

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

Laws 2000, Chapter 405 modified and expanded the tax credit incentives for the purchase of alternative fuel vehicles and fueling stations.

Laws 2001, Chapter 235 provides, if total General Fund revenues exceed projections in FY 2001 or FY 2002, a corporate income tax rate reduction from 6.968% to 6.8%. It also allows a corporate taxpayer to elect to use the current apportionment formula of 25% property, 25% payroll, and 50% sales, or a revised apportionment formula based on an increased sales factor, with weights of 17.5%, 17.5%, and 65% respectively. These tax reductions are estimated to cost a combined $(34 million) in FY 2003, based on an estimated cost of $(12 million) for the rate reduction and $(22 million) for the optional apportionment formula provision. These costs are not included in Table 2, since revenues did not exceed the projections.

Laws 2001, Chapter 296 conformed state income tax laws to the federal Internal Revenue Code, which provides the framework for calculating state personal and corporate income taxes. Changes to federal tax calculations affect state income tax revenues. Estimates of the dollar impact of both the retroactive and prospective federal tax law changes are prepared by the Department of Revenue using estimates provided by the Bureau of the Census, U.S. Department of Commerce, Arizona Department of Economic Security, and other state and federal agencies. The estimated incremental General Fund cost of this act is $(470,000) in FY 2001, $(628,000) in FY 2002, and $(217,000) in FY 2003. (Effective January 1, 2001)

Laws 2001, Chapter 370 extends the Arizona Enterprise Zone Program through June 30, 2006 and expands and modifies the program. The program includes a corporate income tax credit for increasing employment in an enterprise zone. The program segregates the minimum investment requirements for small manufacturers in rural areas into the following categories: $2 million for communities with a population of 80,000 or more persons; $1 million for communities with a population of 10,000 to 80,000 persons; and, $500,000 for communities with a population of less than 10,000 persons. The bill maintains the $2 million investment requirement for those cities/towns located in a county with a population of 250,000 or more that are located less than 25 air miles from the exterior boundary of the largest city in the county.

Laws 2002, Chapter 50 repeals the deduction of stock dividends, earned from Arizona companies, which are allowed in state corporate income tax calculations. Stock dividends from non-Arizona companies are currently not deductible. The repeal of this deduction applies retroactively to December 31, 2001. The legislation is estimated to have a positive impact on state General Fund revenues of $11,200,000 per year beginning in FY 2003.

Laws 2002, Chapter 237 provided modifications to the state's enterprise zone program both with respect to income tax credits and property reclassification. For example, the act clarified and narrowed the definition for the enterprise zone program with respect to retail activity. The act also limited the number of qualified employment positions that are eligible for the premium or income tax credits under this program. The fiscal impact of this act is unknown. (Effective retroactively from January 1, 2002)

Laws 2002, Chapter 344 conformed Arizona tax statutes to the current Internal Revenue Code. The act includes provisions relating to the Economic Growth and Tax Relief Reconciliation Act of 2001, the Fallen Hero Survivor Benefit Fairness Act of 2001 and the Job Creation and Worker Assistance Act of 2002, except for the bonus depreciation provision (which impacts the corporate income tax). The act also adjusted the Urban Revenue Sharing (URS) program from 15% to 14.8% for 2 years. The JLBC Staff estimated that the conformity provisions would increase corporate income tax revenues by $5.6 million in FY 2003. The URS adjustments are expected to increase the General Fund by $5.7 million. (Contained various effective dates)

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.

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 DOR, 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 DOR, 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)

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 ADOC 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 DOR 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)

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 School Tuition Tax Credit 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 authorized the ADOC to begin accepting tax credit applications beginning October 31 for the following year if the 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 ADOA 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)