Historical Tax Law Changes
Individual Income Tax

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

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

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 The law was subsequently repealed before the election could be held.

Laws 1933, lst Special Session, Chapter 8 repealed the law passed in the regular session and imposed a tax that was substantially the same in its place.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

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

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

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

Laws 1954, Chapter 65 repealed the Income Tax Act of 1933 and all amendments to the act. The 1954 act imposed a new income tax closely patterned after the Federal Income Tax. The law authorized taxpayers to use a

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

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

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

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

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

Laws 1965, Chapter 79 placed a restriction upon tax credits allowed for taxes paid to other states or foreign countries. (Effective to Taxable Years Beginning From and After December 31, 1964)

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

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

Laws 1967, 3rd Special Session, Chapter 7 increased the income tax rates. The rate changes are illustrated in Exhibit I. Tax Liability under the optional tax table was also increased. (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 assets used in trade or business, the law authorized taxpayers to claim 20% of the cost of the asset as the first year's depreciation. The maximum amount that could be claimed as first year depreciation under this provision was limited to $10,000 or $20,000 for married taxpayers filing jointly. The provision that allowed businesses to carry back net operating losses was repealed and taxpayers were authorized to carry net operating losses forward for a period of five years. The law also changed the amount withheld from employee paychecks to equal 10% of the amount withheld by the federal government for income tax purposes (Effective January 1, 1970).

Laws 1971, Chapter 128 allowed single individuals, heads of households, trusts, estates, or married individuals filing jointly to claim a $1,000 capital loss deduction in addition to the amount offset by capital gains. A similar

deduction of $500 was also allowed for married individuals filing separately. (Effective for Tax Years Beginning From and After December 31, 1970)

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

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

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

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

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

Laws 1973, Chapter 182 established an income tax credit for property taxes or rent constituting property taxes when paid by residents 65 years of age or older. The credit was not available to taxpayers who owned property with an assessed valuation of $5,000 or more or to taxpayers who exceeded certain income levels. (Effective for Property Taxes Accrued during Calendar Year 1974)

Laws 1974, 1st Special Session, Chapter 2 changed the percentage of tax proceeds deposited in the Income Tax Fund from 25% to 12.5%. The remainder of income tax collections (after deducting urban revenue sharing) was deposited in the state General Fund. This provision was to be effective July 1, 1974.

Laws 1974, Chapter 63 allowed a taxpayer to amortize and claim deductions over a 5-year period for the purchase or construction of child care facilities for the children of the taxpayer's employees. The deductions authorized by this law were in lieu of an allowance for depreciation. (Effective From and After January 1, 1974)

Laws 1974, Chapter 165 allowed a taxpayer to amortize and claim deductions over a 5-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, 1973)

Laws 1974, Chapter 166 established an income tax credit for the portion of rent paid by taxpayers that represents property tax payments on the rental unit. The credit equaled $25 or 10% of rent paid, whichever was less. (Effective From and After December 31, 1973) In addition, the amount of tax revenue deposited in the Income Tax Fund was raised from 12.5 to 16%. The balance of income tax collections (after deducting urban revenue sharing) was placed in the state General Fund (Effective August 9, 1974)

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

Laws 1975, Chapter 49 required non-residents and part-year residents to prorate certain exemptions and deductions when computing taxable Arizona income. In particular, this provision applied to personal exemptions,

and special deductions for blind persons, dependents and persons age 65 or older. These items were prorated based on the percent of gross income received by the taxpayers during the year, which was derived from sources within Arizona. (Effective From and After December 31, 1975)

Laws 1975, Chapter 77 increased the number of households eligible to receive an income tax credit for property taxes paid by persons 65 years of age or older. This was accomplished by redefining the measure of income used to determine eligibility for the credit. The new definition excluded railroad retirement, federal social security, state unemployment, veterans' disability and cash public assistance, workmen's compensation, loss of time insurance, gifts, and in-kind transfers. (Effective September 12, 1975)

Laws 1975, Chapter 121 provided for the payment of income taxes in two installments instead of three. The first installment was due on the fifteenth day of the fourth month following the close of the tax year and the second installment was due six months later. (Effective September 12, 1975)

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

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

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

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

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

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

Under the new schedule, the credit allowed for a <u>person living alone</u> with an income of less than $3,751 was determined as follows (Effective From and After December 31, 1976):

Household Income	Tax Credit	Household Income	Tax Credit
$ -0- - $1,750	$225	$2,751 - 2,850	$115
1,751 - 1,850	215	2,851 - 2,950	105
1,851 - 1,950	205	2,951 - 3,050	95
1,951 - 2,050	195	3,051 - 3,150	85
2,051 - 2,150	185	3,151 - 3,250	75
2,151 - 2,250	175	3,251 - 3,350	65
2,251 - 2,350	165	3,351 - 3,450	55
2,351 - 2,450	155	3,451 - 3,550	45
2,451 - 2,550	145	3,551 - 3,650	35
2,551 - 2,650	135	3,651 - 3,750	25
2,651 - 2,750	125	--	--

The credit allowed for a person living with one or more persons with a combined household income of less than $5,501 was determined as follows (Effective From and After December 31, 1976):

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

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

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

Laws 1978, Chapter 213 established a new income tax code for the State of Arizona which was to take effect beginning with the 1979 income tax year (1980 filing year). Under the new tax code, Arizona gross income would equal federal adjusted gross income and be adjusted to allow for state exemptions, deductions and credits. The

optional tax table and short income tax reporting form were extended to all incomes below $20,000 or $40,000 for married couples filing jointly.

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

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

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

Laws 1979, Chapter 146 extended the income tax credit for residential insulation through 1989. The tax credit for solar energy devices was also extended through 1989. The annual reduction in the solar energy credit, which was originally scheduled to begin in 1979, was delayed until 1984. The law also expanded the definition of solar energy devices that are covered by the credit. (Effective July 21, 1979)

Laws 1979, Chapter 164 extended the provisions for inflation indexing of exemptions, deductions and credits through the 1979 income tax year. Inflation indexing was first authorized by Laws 1978, Chapter 211. The Department of Revenue was authorized to modify the optional tax table to reflect the effects of inflation indexing. (Effective to Taxable Years Beginning From and After December 31, 1978)

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

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

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

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

Laws 1980, Chapter 240 changed the Arizona Income Tax Code to conform with certain changes to the Federal Internal Revenue Code adopted during the period ending April 7, 1980. The changes to the Federal Income Tax Code must be adopted or rejected annually since Arizona uses federal adjusted gross income or federal taxable

income as the starting point for calculating Arizona income tax liability (Effective July 31, 1980 and Applicable to Tax Years From and After December 31, 1979)

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

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

(1) Conformed Arizona's policy of taxing income from dividends and interest with the Federal Income Tax Code, by allowing taxpayers to claim a deduction for the first $200 of dividends and interest on single tax returns and the first $400 for joint tax returns. (Effective From and After December 31, 1980)
(2) Removed the requirement that 16% of income tax collections be placed in the Income Tax Fund and replaced it with a requirement that amounts placed in the Income Tax Fund must be sufficient to cover refunds issued to taxpayers. (Effective From and After October 1, 1981)
(3) Provided that taxpayers at their option, set their state withholding at a level equal to 15% of federal withholding, in addition to the existing options of 10% and 20%. (Effective From and After January 1, 1982)
(4) Changed the Arizona Income Tax Code to conform with certain changes to the Federal Internal Revenue Code adopted during 1980. The changes to the Federal Income Tax Code must be adopted or rejected annually since Arizona uses federal adjusted gross income or federal taxable income as the starting point for calculating Arizona income tax liability. (Effective From and After December 31, 1980)
(5) Authorized Arizona taxpayers to subtract from their gross income any taxes withheld from their earnings by a foreign government. (Effective From and After December 31, 1980)

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

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

(1) Eliminated the option of paying Individual Income Taxes in two installments. (Effective From and After December 31, 1981)
(2) Required Arizona employers to transfer employee withholding taxes to the state on a monthly basis, instead of a quarterly basis, if the amount of withholding taxes collected by the employer in the previous calendar quarter exceeds $9,000 (Effective April 1, 1982)
(3) Changed the Arizona Income Tax Code to conform with certain changes in the Federal Income Tax Code passed in the U.S. Economic Recovery Tax Act of 1981. Among other effects, these changes permitted individual taxpayers to claim increased exemptions for contributions to retirement accounts and authorized new exclusions for interest income from selected forms of saving. Adopting the new federal provisions also permitted business owners who file on individual returns to take advantage of accelerated depreciation rates in computing their taxable Arizona Income. The state did not adopt the federal provision which established a deduction for married couples with two incomes. This deduction was established by the federal government to offset the higher tax rates levied on these couples at the federal level. The state's tax rates do not discriminate against married couples. (Effective February 19, 1982)

Laws 1982, Chapter 75 provided for inflation indexing of individual income tax brackets beginning with tax year 1983. Under the provisions of this law, the upper and lower income limits of each rate bracket will be increased annually by a percentage equal to the growth in the state consumer price index. The Department of Revenue is

authorized to modify the optional tax table each year to reflect the effects of this provision. (Effective From and After December 31, 1982)

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

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

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

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

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

(1) Required individual taxpayers who file for an extension of the due date, to pay 90% of their tax liability before an extension may be granted. This provision was effective beginning with tax year 1983. For the 1982 tax year, individuals filing for an extension were required to pay 75% of their liability before June 15, 1983.
(2) Accelerated the schedule for submitting withholding taxes to the state. Under this provision, employers were required to forward withholding taxes to the state in accordance with the federal payment schedule whenever their withholding collections exceeded $1,500 in each of the four preceding calendar quarters. The due date for other employers was changed from the 20th day of the month following the end of each quarter to the last day of the month following the end of each quarter. (Effective From and After December 31, 1982 however penalties were waived on amounts due under this law until March 13, 1983)
(3) Required certain individuals to make estimated tax payments to the state during tax years 1983 and 1984. Individuals were only required to pay estimated taxes if they were required to make estimated tax payments to the federal government and if 10% of their federal tax liability was at least $1,000. In making this calculation, federal tax liability does not include liability from the tax on income that is exempt from Arizona's tax laws. (Effective From and After December 31, 1982)
(4) Provided that lottery winnings of $5,000 or more per year were subject to the Individual Income Tax; the law also established a withholding tax on certain gambling and lottery winnings which are subject to federal withholding laws. (Effective February 11, 1983)
(5) Changed the interest rate on deficient and delinquent tax payments to equal the rate of interest established by Section 6621 of the Internal Revenue Code, compounded annually. (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. Among other effects, these changes permitted the taxation of unemployment benefits to the extent that income (including unemployment benefits) exceeds $12,000 ($18,000 on a joint return). Before passage of this law, unemployment benefits were only taxable to the extent that income (including unemployment benefits) exceeded $20,000 ($25,000 on joint returns). This law became effective April 25, 1983 and applied to returns beginning with tax year 1982.

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

Laws 1983, Chapter 305 extended the withholding tax to additional types of gambling winnings that are subject to federal withholding. The law also provided that any winnings from state lotteries conducted prior to March 22, 1983 are not subject to the income tax. (Effective July 27, 1983)

Laws 1984, Chapter 4 provided for the forgiveness of penalties imposed on delinquent individual estimated income tax payments for the 1983 taxable year if the liability was paid in full by January 31, 1984.

Laws 1984, Chapter 11 provided that outstanding interest accrued to tax accounts may be compounded by the Department of Revenue in the same manner as prescribed by section 6621 of the Internal Revenue Code.

Laws 1984, Chapter 15 prescribed the amount of transportation expenses allowed for purposes of deduction from income taxes for charitable contributions. The allowed deduction is equal to the state employee transportation allowance (which is also equal to the I.R.S. business transportation allowance).

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

Laws 1984, Chapter 27 provided for the order of crediting tax payments. The Department of Revenue shall credit payments against a taxpayer's unpaid tax liability before crediting payments against any interest or penalties.

Laws 1984, Chapter 33 concerns taxpayers who operate a child care facility primarily for the children of employees of the taxpayer. In computing Arizona Adjusted Gross Income, the taxpayer is allowed to amortize and subtract ratably over a 24 month period any expenditures made to acquire, construct, renovate or remodel the child care facility or equipment thereto.

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

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

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

Laws 1984, Chapter 371 amended the maximum amount of the credit allowed for residential rent constituting property taxes. For tax years ending before January 1, 1988 the maximum credit is $100 or 5% of rent paid,

whichever is less. Also, the dollar amounts of the credit will no longer be indexed to reflect changes in the rate of inflation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Laws 1987, Chapter 365 provided an income tax deduction for employers who pay for public transit of employees commuting to and from work. The employer is required to retain transportation receipts as evidence to qualify for this deduction. (Effective August 18, 1987)

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

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

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

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

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

(1) Continued the special windfall subtraction of federal income tax liability resulting from the U.S. Tax Reform Act of 1986, except the formula was changed to (1) 63% of the actual federal tax liability or $600, whichever is greater, and (2) the maximum subtraction was set at $20,000. This was effective for the 1988 tax year.
(2) Eliminated the itemized deduction for taxes paid on motor vehicle, use, and aviation fuel.
(3) The Arizona depletion allowance statutes are repealed, thus conforming to federal depletion allowances.
(4) Conformed the state income tax code to changes in Federal Internal Revenue Code during 1987.

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

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

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

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

Laws 1989, Chapter 239 exempted from state income taxation risk retention or workers' compensation pools by public agencies or contractors. (Retroactive From and After November 19, 1986)

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

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

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

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

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

Laws 1990, Chapter 63 conformed the state income tax code to changes in the U.S. Internal Revenue Code during 1989. (Effective From and After December 31, 1989)

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

Laws 1990, Chapter 255 eliminated the inclusion of installment income received upon the death of a taxpayer in computing Arizona Adjusted Gross Income, but continued the subtraction from Arizona adjusted gross income of such installments receivable that have already been taxed. (Retroactive to Taxable Years Beginning From and After December 31, 1989)

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

(1) The lesser of $15,000 or 50% of the cost incurred to acquire, construct, renovate or remodel dependent day care facilities. This credit is in lieu of any amortization of the facilities under A.R.S. § 43-1032 and any allowance taken for exhaustion, wear and tear of property under section 167 or 168 of the Internal Revenue Code.
(2) The lesser of $5,000 or 30% of the net costs to a) operate dependent day care facilities, b) provide such services or pay employees as reimbursement for day care expenses and c) provide information and referral assistance in obtaining dependent day care.

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

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

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

OLD LAW		NEW LAW	
Taxable Income 1/	Rate	Taxable Income 1/	Rate
$ 0 - $2,579	2%	$ 0 - $20,000	3.80%
2,580 - 5,159	3	20,001 - 50,000	4.40
5,160 - 7,739	4	50,001 - 100,000	5.25
7,740 - 10,319	5	100,001 - 300,000	6.50
10,320 - 12,899	6	300,001 and over	7.00
12,900 - 15,479	7		
15,480 and over	8		

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

(2) Conformed the state's itemized deductions to the same amounts taken on the federal income tax return.
(3) Raised the standard deduction to $7,000 for married filing jointly or head of household and $3,500 for single filers.
(4) Simplified the "Additions" and "Subtractions" to Arizona gross income by eliminating among others the subtraction for federal income taxes paid and the $1,000 military pay exclusion.
(5) New exemption amounts - $1,500 for 65 years of age or older or blind, $2,000 for personal or dependents.
(6) Eliminated the inflation indexing of exemption amounts, standard deductions, and taxable income brackets.
(7) Current tax credits and voluntary contributions remain, but the deductibility of voluntary contributions are permitted only as allowed and taken on the federal tax return.
(8) Limited the current renter's credit to those filers with Arizona gross income of $25,000 or less.
(9) The income withholding tax percentages were increased from 17% to 20%, 22% to 25%, and 25% to 29%. (Effective From and After December 31, 1990)

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

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

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

(1) All realized, recognized, or accrued income and deductions, depending on the method of accounting, for the period when the individual was a resident, and

(2) All income and deductions earned or derived from Arizona sources when the individual was a non-resident.

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

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

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

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

Laws 1991, Chapter 196 prohibited the distribution of any refunds of taxes imposed by a law that was declared invalid by a final court 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 1991, Chapter 264 established two income tax refund checkoffs on the income tax return for contributions into the following new funds: (1) The Special Olympics Tax Refund Fund - monies in this fund will be distributed to the Department of Economic Security (DES) to contract with Arizona Special Olympics programs. This checkoff will begin with the 1991 tax year. (2) The Neighbors Helping Neighbors Fund - monies will provide certain low income, elderly, or handicapped individuals assistance in paying utility bills, conserving energy, and weatherization. DES will administer this fund. This checkoff begins with the 1992 tax year, conditional on the continued phase-out of the renter's credit.

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

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

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

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

Laws 1992, Chapter 15 adjusted the individual income tax filing thresholds to equal a zero state income tax liability. The changes are as follows (Effective Retroactively to Taxable Years Beginning From and After December 31, 1991):

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

Laws 1992, Chapter 16 allowed the Department of Revenue to require tax payments by electronic funds transfer or other immediately available monies from any taxpayer who had a tax liability of $20,000 or more (excluding individual income tax) in the preceding taxable year. This applied for tax years or reporting periods starting on or after January 1, 1993. Electronic funds transfer is required for the following (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 administrative costs associated with the Individual Income Tax checkoff for the Child Abuse Prevention Fund shall be determined by the Department of Revenue and transferred to the state General Fund. This bill does not contain any other substantive changes. (Effective September 30, 1991)

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

Laws 1992, Chapter 130 established an income tax credit for individuals or corporations who place recycling equipment in service after December 31, 1992, unless the taxpayer previously took an income deduction for

depreciation. The credit is equal to 10% of the installation cost of such equipment, not to exceed the lesser of 25% of the tax liability determined for the applicable tax year or $5,000. If the recycling equipment ceases operation or is transferred, then certain recapture provisions will apply. The unused credit can be carried forward for 15 years. (Effective September 30, 1992)

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

Laws 1992, Chapter 220 required the Department of Revenue (DOR) to notify employers who are not complying with timely monthly withholding payments because they were previously reporting on a quarterly basis. DOR cannot assess a penalty to such an employer if all filings and payments are brought into current compliance within 30 days after notification. In addition, employers may apply to DOR by December 31, 1992 for forgiveness of all penalties and interests for any prior such violations provided all withholding taxes due are paid by the date of application. This amnesty is repealed from and after June 30, 1993. (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 290 was 1 of 7 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 1993. Provisions affecting the Individual Income Tax are as follows:

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

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

(1) Qualified Defense Contractors (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 311 established an Individual Income Tax subtraction not to exceed $3,000 for nonreimbursed expenses related to adoption such as medical, hospital, counseling, and legal fees, etc. The subtraction may be taken for prior year costs, but the subtraction can only occur in the year in which the final adoption order is granted. (Effective to Taxable Years Beginning From and After December 31, 1992)

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

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

Laws 1993, Chapter 19 clarified the language and replaced the 10% penalty provisions related to estimated income tax payments. If a taxpayer now fails to pay the full amount of estimated income tax, a penalty will be assessed equal to the amount of interest that would accrue for the period of nonpayment, not to exceed 10% of the amount not paid. This act does not apply to or affect any amount of penalty that accrued on unpaid or underpaid estimated tax before the effective date of this act. (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 106 clarified and changes the defense restructuring incentives (Effective April 14, 1993):

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

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

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

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

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

(1) 25% of the purchase price, exclusive of taxes, interest and other finance charges, but not more than $5,000 per vehicle. The subtraction is not allowed for the purchase of a used alternative vehicle. One-third of the subtraction shall be allocated and applied to each of 3 consecutive years: except if the title is conveyed to another person, in which case the subtraction is not allowed for any subsequent taxable year.
(2) The cost of converting a conventional vehicle, exclusive of taxes, interest and other finance charges, but not more than $3,000 per vehicle. One-third of the subtraction shall be allocated and applied to each of 3 consecutive years: except if the title is conveyed to another person, in which case the subtraction is not allowed for any subsequent taxable year.
(3) The purchase price of refueling equipment installed on the taxpayer's property for private non-commercial use, exclusive of taxes, interest and other finance charges, but not more than $5,000.
(4) 50% of the interest paid or accrued by the taxpayer to purchase new alternative fuel vehicles, convert conventional vehicles, or to do both. One-third of the subtraction shall be allocated and applied to each of 3 consecutive taxable years, beginning with the taxable year in which the equipment is purchased and installed.

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

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

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

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

subtraction of 50% of the interest paid on indebtedness incurred by purchasing, converting, or both purchasing and converting vehicles.

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

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

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

Laws 1993, 6th Special Session, Chapter 2 conformed the Individual Income Tax to the United States Internal Revenue Code in effect on November 8, 1993, except for selected provisions which are offset by the following income tax subtractions (Effective November 12, 1993):

(1) For tax years beginning before January 1, 1994, taxpayers may subtract the following amounts from Arizona gross income:

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

        (I) The excess depreciation of nonresidential real property placed in service on or after May 13, 1993 determined by using a recovery period of 31 ½ years over the amount of the depreciation deduction computed pursuant to Section 168 of the Internal Revenue Code.
        (ii) The excess amortization of an intangible asset listed in Section 197 of the Internal Revenue Code amortized pursuant to the Internal Revenue Code in effect on January 1, 1993 over the amount of amortization computed pursuant to Section 197 of the Internal Revenue Code.
        (iii) The amount of gain recognized pursuant to Section 475 of the Internal Revenue Code by a dealer in securities for the taxable year.
    (b) The portion of any wages or salaries paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal targeted jobs credit that the taxpayer received under Section 51 of the Internal Revenue Code. This paragraph applies retroactively with respect to employees who began work for the taxpayer from and after June 30, 1992.
    (c) The portion of qualified clinical testing expenditures paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal orphan drug credit that the taxpayer received under Section 28 of the Internal Revenue Code. This paragraph applies retroactively to taxable years ending from and after June 30, 1992.
    (d) The portion of research and experimental expenditures paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal credit for research activities that the taxpayer received under Section 41 of the Internal Revenue Code. This paragraph applies retroactively to taxable years ending from and after June 30, 1992.

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

Code, that exceeds the net investment income but does not exceed the amount of the net capital gain from dispositions of property held for investment that the taxpayer did not elect to include in computing the allowable investment interest deduction under the Internal Revenue Code.

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

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

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

The act amends the Urban Revenue Sharing Fund which distributes, to incorporated cities and towns, an amount equal to 12.8% of the net proceeds of State Income Taxes for the fiscal year 2 years prior to the current fiscal year. Beginning in FY 1997, the amount distributed will be equivalent to 13.6% of the net proceeds. (Effective July 17, 1994)

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

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

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

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

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

(1) For tax year 1995, either:

   a. Not more than $2,000 for the account holder.
   b. Not more than $2,000 for the account holder plus not more than $1,000 for each of the account holder's dependents, up to a maximum of 2 dependents.

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

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

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

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

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

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

Laws 1994, Chapter 60 provided that confidential tax information may be disclosed to agencies, officials and organizations that grant substantially similar privileges to the Department of Revenue. Confidential tax information may be disclosed upon the establishment of a written agreement between the department and the following (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 adjusted gross income for individuals and Arizona taxable income for corporations any amount of agricultural water conservation expenses that were deducted pursuant to the Internal Revenue Code, for which a credit is claimed. The act provided a credit to both individuals and corporations, against taxes imposed for expenses the taxpayer incurred during the taxable year to purchase and install an agricultural water conservation system. The amount of credit is equal to 75% of the qualifying expenses. To qualify for the credit:

(1) The agricultural water conservation system must be primarily designed to substantially conserve water on land that is used by the taxpayer or the taxpayer's tenant to:

    a. Produce crops, fruits or other agricultural products.
    b. Raise, harvest or grow trees.
    c. Sustain livestock.

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

The tax credits for partnerships and S-corporations are to be pro-rated and there is a 5-year carry forward provision. The credit allowed by this section is in lieu of any allowance for state tax purposes for a deduction for

such expenses allowed by the Internal Revenue Code. (Retroactive to Taxable Years Beginning From and After December 31, 1993)

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

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

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

The Individual Income Tax credit for solar energy devices is equal to 25% of the cost of the device. The maximum credit in a taxable year may not exceed $1,000, and the aggregate credit over different tax years is $1,000 for the same residence. Taxpayers may carry forward the credit for not more than 5 consecutive tax years. A husband and wife who file separately may each claim half of the tax credit that would have been allowed on a joint return. (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 take corrective action certified by the Department of Environmental Quality as having been performed and meeting necessary requirements. The credit is not allowed for corrective action costs reimbursed by the Department of Environmental Quality. (Effective July 17, 1994)

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 clarified that an Individual Income Tax subtraction is available for expenses related to the purchase and installation of a qualified wood stove, wood fireplace or gas fired fireplace and non-optional equipment directly related to its operation. (Retroactive to Taxable Years Beginning From and After December 31, 1993)

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

Alternative fuel means:

(1) Liquified petroleum gas.
(2) Natural gas.
(3) Hydrogen.
(4) Electricity.
(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 1994, Chapter 354 clarified that when computing Arizona's 1990 adjusted gross income, the amount of the federal income tax refund received in 1990 shall be added to Arizona's gross income in 1990 only to the extent that the refund is attributable to a prior year's federal income tax subtraction which was in excess of that year's federal income tax. (Effective July 17, 1994)

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

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 reduced Individual Income Tax rates for all income levels for the second year in a row. The combined 2-year rate reduction reduces Individual Income Tax liability for all taxpayers by approximately 20%. Established the following marginal income tax rates:

SINGLE OR MARRIED FILING SEPARATE			
Taxable Income	**1993 Tax Rate**	**1994 Tax Rate**	**1995 Tax Rate**
$0 - $10,000	3.80%	3.25%	3.0%
$10,001 - $25,000	4.40%	4.00%	3.5%
$25,001 - $50,000	5.25%	5.05%	4.2%
$50.001 - $150,000	6.50%	6.40%	5.2%
$150,001 and over	7.00%	6.90%	5.6%

MARRIED FILING JOINT OR SINGLE HEAD OF HOUSEHOLD			
Taxable Income	**1993 Tax Rate**	**1994 Tax Rate**	**1995 Tax Rate**
$0 - $20,000	3.80%	3.25%	3.0%
$20,001 - $50,000	4.40%	4.00%	3.5%
$50,001 - $100,000	5.25%	5.05%	4.2%
$100,001 - $300,001	6.50%	6.40%	5.2%
$300,001 and over	7.00%	6.90%	5.6%

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

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

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

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

Laws 1995, Chapter 182 authorized municipalities with a population less than 50,000 and counties with a population less than 125,000 to submit their July 1995 populations, as approved by the Director of the Department of Economic Security (DES) Population Statistics Unit, for state revenue sharing purposes without having to

contract with DES to conduct a sample survey verification. Allowed any city, town or county to submit a request that the 1990 Decennial Census, plus revisions due to annexation certified by the United States Bureau of the Census, continue to be used for the purposes of state revenue sharing, even if a special census has been conducted. (Effective July 13, 1995)

Laws 1995, Chapter 188 allowed the state to intercept a defendant's Arizona tax refund to pay a restitution order. (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 for tax year 1995 to employers who hire students enrolled in the Summer School and Jobs Program. The maximum credit is equal to one-half of the wages paid to the student up to a maximum of $3.00 per hour, with a maximum of 20 hours of work per week. To qualify for the credit the employer must be certified by the Department of Economic Security as employing one or more enrolled students, the wage must be paid on or before September 1, 1995, and the student must remain in summer school for the entire session. Co-owners of a business may each claim a pro rata share of the credit allowed based on ownership interest. Any deductions for wages allowed by the Internal Revenue Code shall be reduced by the amount of any credit taken. (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, then certain carry forward and carry back provisions are provided. Taxpayers normally barred from filing an amended return because of statute of limitation restrictions may file an amended return on or before December 31, 1995. Refund claims exceeding $1 million will be paid by credit voucher unless the taxpayer provides satisfactory proof there will be no future tax liability to the state. The bill contains a severability clause. (Retroactive to Taxable Years Beginning From and After December 31, 1985)

Also, this bill clarified that the family income tax credit applies to Arizona residents only. (Retroactive to Taxable Years Beginning From and After December 31, 1994)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Are eligible to use the optional tax tables developed by the department; do not have income from sources other than wages, salaries, tips, dividends, interest and tax refunds; have dividend and interest income not in excess of $400 from either of those sources; elect not to file for credits against income tax liability other than the tax credit allowed for property taxes, residents 65 years and older, and the family income tax credit; and do not have interest income over $500 from non-Arizona municipal bonds.
- Are eligible to use the optional tax tables developed by the department; do not have income from sources other than wages, salaries, tips, dividends, interest and tax refunds; are residents for the full taxable year and file as single individuals or married couples filing joint returns; are not 65 years of age or older or blind on January 1 of the taxable year and claim no dependents; elect to claim the optional standard deduction; are not required to

add any income to the taxpayer's Arizona gross income and do not elect to take any deduction or file for any credits; and do not elect to contribute or donate any portion of their tax refund to the programs designated on the current form. (Effective August 21, 1998)

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

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

Laws 1998, 4th Special Session, Chapter 3 contained a two-year phase-in of a $50 million cut to the personal income tax. The first phase of the cut, effective January 1, 1998, increased the family tax credit from $30 to $40 for each member in the family and allowed six family members to qualify for the credit (current law allows four). This change has the effect of raising the income thresholds where taxpayers have no tax liability.

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

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

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

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

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

Laws 1999, Chapter 274 allowed taxpayers who have income from sources other than wages, salaries, tips, dividends, interest, and tax refunds to use the Arizona short form tax return. In addition, it eliminates the $400 maximum income requirement to use the short form and extends use of the optional tax tables to all taxpayers with incomes less than $50,000 regardless of filing status. These provisions are effective January 1, 1999. The act

also corrects individual income tax tables that may have been inadvertently amended by prior legislation. The correction is effective January 1, 1997. Finally, Arizona residents employed in another state may request their employer to withhold Arizona income taxes on wages earned outside the state. (This provision is effective August 6, 1999.)

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

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

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

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

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

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

2002, the first year credits are expected to reduce individual income tax revenues, was estimated to be $(100,000). (Effective January 1, 2001)

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

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

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

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

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

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

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

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

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

Laws 2001, Chapter 261 established a Refund Offset Program Fund. This fund enables the Department of Revenue (DOR) to offset federal tax refunds against state debts and other debts. Monies from the fund are then utilized for

administrative costs for the fund and any remaining monies go to the General Fund. This law also expands to whom DOR may disclose confidential information apart from the corporate principal officers. The act was estimated to result in additional individual income tax revenues of $1,400,000 in FY 2002 and $1,300,000 in FY 2003. (Effective August 9, 2001)

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

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

Laws 2001, Chapter 382 repealed laws against cohabitation, sodomy, and lewd and lascivious acts. The law also modified the definition of "dependent" for state income tax purposes. Arizona uses the same definition of dependent as the Internal Revenue Code (IRC). However, because a provision in the IRC prohibits taxpayers from claiming a dependent if local law is violated, individuals who violated the laws in Arizona prior to the enactment of Chapter 382 were not allowed to claim the dependent exemption. This act eliminated the "local law violation" qualifier from the definition of dependent for Arizona income tax purposes. The fiscal impact was estimated to be $(522,800) in both FY 2002 and FY 2003. (Contained various effective dates)

Laws 2001, 2nd Special Session, Chapter 2 adjusted state withholding rates to compensate for changes at the federal level. The withholding rates were changed, as of January 1, 2002, as shown in the table below:

Old Withholding Rates	New Withholding Rates
0%	0%
10%	10%
17%	18%
20%	21%
22%	23%
28%	29%
32%	34%

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

Laws 2002, Chapter 130 conformed Arizona's estate and trust taxation statutes to changes in the Internal Revenue Code. The Department of Revenue did not anticipate that individual income tax collections from estates and trusts would be affected by this legislation. (Effective January 1, 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 was unknown. (Effective retroactively from January 1, 2002)

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.

Laws 2002, Chapter 344 conformed Arizona tax statutes to the Internal Revenue Code. The act included 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. The JLBC Staff estimated that the conformity provisions would reduce individual income tax revenues by $(14,480,000) in FY 2003. (The corporate bonus depreciation provision was the only provision excluded from conformity. This provision did not affect individual income tax, however.)

The act also adjusted the Urban Revenue Sharing (URS) program from 15% to 14.8% for 2 years. The URS adjustments, however, were expected to increase the General Fund by $5,700,000. The URS changes are not included in Table 4. (Contained various effective dates)

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%

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)

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 was administered by the ADOC, 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.

IRC Conformity

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.

Elimination of "Marriage Penalty"

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.

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 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 ADOC 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, 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 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 appropriated $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 authorized a total URS distribution amount of $727.6 million for FY 2009.

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)

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 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 Arizona Department of Commerce (ADOC) was 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.

<u>529 College Savings Plan Income Tax Subtraction</u>

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.

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.

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.

Laws 2009, Chapter 2 modified the definition of the Internal Revenue Code (IRC) for tax year 2009 to the federal IRC in effect on January 1, 2009. This included 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 made 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 decoupled 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 the Joint Legislative Budget Committee by March 15, 2010. (Emergency measure became effective April 9, 2009)

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

Laws 2009, Chapter 80 eliminated 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 expanded 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 provided 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. The credit is expected to reduce General Fund revenues generated by the individual and corporate income tax by $(5.0) million in FY 2011. The cumulative $(5.0) million reduction is shown as a corporate income tax reduction for display purposes (see *Corporate Income Tax* section).

Laws 2009, Chapter 167 provided 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)