

CORPORATE INCOME TAX

DESCRIPTION

The corporate income tax is levied on corporations that engage in business within Arizona. Through December 31, 1999, the tax rate of 8% will be levied on corporations' Arizona taxable income. Beginning in 2000, the rate will drop slightly to 7.968%. In addition, a series of conditional tax cuts may reduce the corporate income tax rate if specified revenue collection requirements are met. However, these "triggered" tax cuts would not become effective until FY 2001.

TAX YIELD

| <u>Fiscal Year</u> | <u>Net Collections</u> |
|--------------------|------------------------|
| 1997-98 | \$528,061,073 |
| 1998-99 Est. | \$545,388,138 |

DISTRIBUTION: See Individual Income Tax

1999 TAX LAWS

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

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

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

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

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

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

(Continued)

Corporate Income Tax

Laws 1999, Chapter 325 reduced from 15.8% to 15% 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 1999, 1st Special Session, Chapter 5 provided a series of conditional tax rate reductions that are dependent on the level of FY 1999 General Fund revenues. Included in these "triggered" tax cuts are 4 corporate income tax rate reductions at 0.25% intervals. If all 4 corporate income tax rate reductions are ultimately implemented, the tax rate would fall to 7%. (Effective January 1, 2001)

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