INDIVIDUAL INCOME TAX

DESCRIPTION

The individual income tax is levied on the personal incomes of full-time residents and pro-rated for part-time residents of Arizona. Taxation of income by local entities is preempted by the state as long as the Urban Revenue Sharing Fund is maintained. The tax has a graduated rate structure which is based on federal adjusted gross income for most taxpayers. State income tax rates for tax year 1999 start at 2.87% for filers with incomes up to $10,000 and rise to 5.04% for filers with incomes of $150,001 or more.

TAX YIELD

Fiscal Year	Net Collections
1997-98	$1,862,514,798
1998-99 Est.	$2,097,629,461

DISTRIBUTION OF INDIVIDUAL AND CORPORATE INCOME

Fiscal Year	Total Net Collections	State General Fund	Urban Revenue Sharing	Voluntary Contribution Funds
1997-98	$2,390,575,871	$2,098,733,397	$291,243,578	$598,896
1998-99 Est.	$2,643,017,599	$2,302,026,675	$340,310,656	$680,268

1999 TAX LAWS

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

(Continued)

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)

Click here to return to contents page