

AMENDED

ARIZONA STATE SENATE

RESEARCH STAFF



TO: MEMBERS OF THE SENATE

DATE: February 17, 2012

SUBJECT: Strike everything amendment to S.B. 1155, relating to taxation

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Purpose

Requires the Department of Revenue to reduce state income tax to prevent a net increase in aggregate state tax revenues if any law is enacted to increase the transaction privilege tax after May 31, 2013 to exceed the rates that were effective on May 31, 2010.

Background

According to statute, there shall be levied, collected and paid for each taxable year upon the entire taxable income of every resident of this state and upon the entire taxable income of every nonresident which is derived from sources within this state taxes determined as prescribed by statute (A.R.S. § 43-1011).

According to the Department of Revenue, the Arizona transaction privilege tax is commonly referred to as a sales tax; however, the tax is on the privilege of doing business in Arizona and is not a true sales tax. Although the transaction privilege tax is usually passed on to the consumer, it is actually a tax on the vendor.

Arizona transaction privilege taxes are imposed on persons engaged in certain business classifications, including retail sales. What this means is that various business activities are subject to state, county and/or city transaction privilege tax (TPT).

Types of business activities subject to the transaction privilege tax include, but are not limited to: retail sales, restaurants/bars, hotel/motel, commercial leasing, advertising, amusements, personal property rentals, real property rentals, construction contracting, owner/builders, manufactured building, severance, transportation, printing, publishing, utilities, communications, air/railroad, private cars/pipelines and use tax.

The Department of Revenue collects the tax for the counties and most cities; however, some of the cities license and collect their tax independently. Tax rates vary depending on the type of business activity, the city and the county.

There is no anticipated impact to the state General Fund associated with this legislation.

Provisions

1. Requires the Department of Revenue, if any law is enacted to increase the TPT after May 31, 2013 to exceed the rates that were effective on May 31, 2010, to reduce state income tax to prevent a net increase in aggregate state tax revenues during the first 12 months that the increased TPT rate is in effect.
2. Requires the income tax reductions to be applied proportionately across the respected income brackets and to apply retroactively to the beginning of the first full taxable year.
3. Becomes effective on the general effective date.

Amendments Adopted by Committee

- Adopted the strike everything amendment.

Senate Action

GR 2/15/12 DPA/SE 4-2-1-0

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