STATE OF ARIZONA

2002
Tax Handbook

JLBC

Prepared by the Staff
of the Joint Legislative Budget Committee

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FORWARD

The 2002 Tax Handbook provides Legislators and the interested public with collection and distribution numbers for the taxes levied by the state, as well as summaries of all tax law revisions enacted in the 1996 through 2002 legislative sessions. A listing of tax law changes prior to the 1996 legislative session is available on the Joint Legislative Budget Committee (JLBC) web-site located at www.azleg.state.az.us/jlbc.htm.

The 2002 version of the Tax Handbook makes some changes to the format used in previous editions. Foremost among these is an emphasis on describing and displaying the dollar impact of tax law changes. In the 2002 Tax Handbook, we attempt to describe in the narrative the impacts, if quantifiable, of tax law changes passed in recent sessions. In addition, an itemized list of incremental tax law changes has been included for every tax category that experienced a tax law change with an incremental impact in FY 1996 through FY 2002. By including this information we hope the handbook will be more useful to readers.

The organization of the 2002 Tax Handbook has been revised from earlier handbooks. The chapters are organized by revenue category under General Funds and Other Funds. The sections within each chapter are generally organized from the largest revenue category to the smallest.

Each entry in the handbook has been organized into a consistent format which includes the following sections (where applicable):

- Description – a comprehensive narrative description of the tax or revenue source.
- Distribution – a 20-year history of collections and a description of how the tax is distributed by fund, or shared with other jurisdictions such as cities and towns.
- Who Pays the Tax – a description of who is legally responsible for the payment of the tax or fee.
- Tax Base and Rate – a definition of the tax base, a discussion of exemptions if any, and a description of the tax rate(s).
- Tax Refunds and/or Credits – a description of circumstances under which tax refunds are made, and/or credits are allowed.
- Payment Schedule – due dates, delinquency dates, and payment schedules, as well as an explanation of how the tax or fee is remitted to the state.
- Impact of Tax Law Changes – includes tax law changes from 1996 through 2002. As noted above, tax law changes prior to 1996 are available on the JLBC web-site.

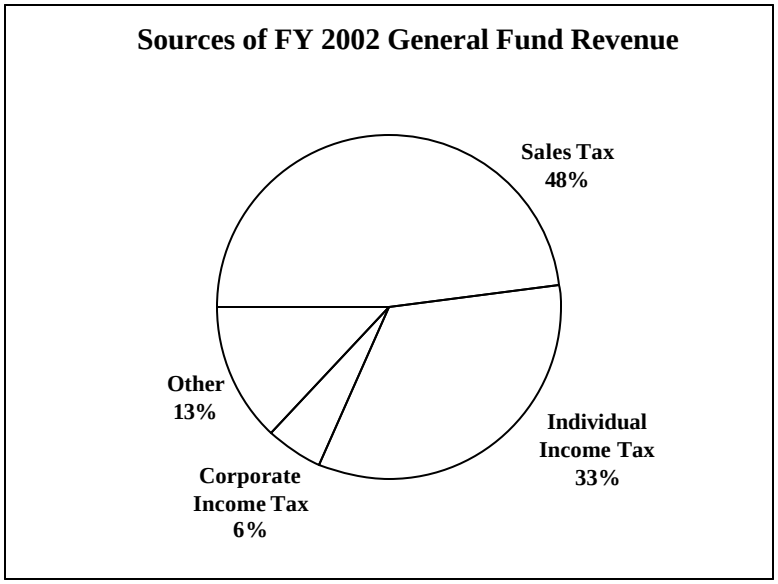
Finally, because fiscal year 2002 only recently ended, actual revenue collections for FY 2002 are unavailable, and are not included.

OVERVIEW OF ARIZONA TAXES

Taxes represent the most visible and important revenue source for Arizona. Other forms of revenue such as fees, assessments, and federal grants do exist, but taxes are the primary method by which the state provides goods and services to its citizenry.

There are many different types of taxes. Some are obvious and well known, such as the sales tax and the income tax. Others are more obscure, such as the telecommunication services excise tax and the intrastate utility corporation assessment. Taxes also vary widely in terms of their revenue generating capacity. The state sales tax produces $3 billion per year, while at the other end of the spectrum, voluntary contributions by the Game and Fish Department produce just $12,000 a year.

The revenues from Arizona's different taxes are deposited in a number of funds. The largest fund is the General Fund. In FY 2002, total General Fund revenue was $6.7 billion. The state budget is paid for from this fund. While revenues from numerous taxes are deposited in the General Fund, there are 3 taxes that constitute the bulk of General Fund collections: the sales tax, the individual income tax, and the corporate income tax. In FY 2002, the Big Three, as they are called, represented approximately 87% of General Fund revenues, which is lower than in the past few years. In FY 2002, the Legislature enacted approximately $500 million in non-tax revenue enhancements in order to overcome revenue shortfalls for the fiscal year, and to provide a balanced budget. These actions resulted in a higher relative percentage in the "other " category, and lower percentages in the individual and corporate income tax categories, where the primary shortfalls occurred. It also should be noted that the chart below does not include Proposition 301 sales tax revenues.



A discussion of Arizona's taxes usually begins with the Big Three, but it should not end there, for the state levies many other taxes. Some of the other taxes generate sizable amounts of revenue, but because their collections are not deposited in the General Fund there is a tendency for these taxes to get overlooked. For example, the motor vehicle fuel tax generated $436 million in FY 2001 and the unemployment insurance tax over $200 million. However, their collections were deposited in the Highway User Revenue Fund and the Unemployment Compensation Fund, respectively.

This handbook provides a listing and description of the taxes levied by the State of Arizona. It shows revenue collection amounts and tax distributions by fund. In addition, this year's book makes an effort to estimate the dollar impact of tax law changes that have incremental impacts in FY 2002 and FY 2003. The table below summarizes the impacts of these tax law changes.

ESTIMATED IMPACT OF TAX LAW CHANGES

Revenue Category	**FY 2002**	**FY 2003**
Sales and Use Tax	$ (1,764.6)	$ (40.0)
Individual Income Tax	$ 19,825.3	$ 4,434.5
Corporate Income Tax	$ (37,459.6	$ 22,267.0
Property Tax	$ (2,234.9)	$ (1,738.3)
Estate Tax	$ 0.0	$ (18,830.0)

GENERAL FUND

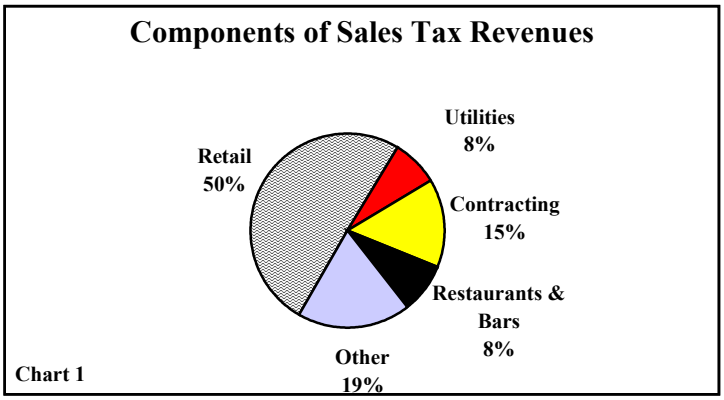
SALES AND USE TAXES

TRANSACTION PRIVILEGE TAX

DESCRIPTION

The transaction privilege tax is Arizona's version of a sales tax. Across the United States, there are 13 states that levy a transaction privilege tax, 17 states that employ a sales tax, and another 15 states that impose a hybrid tax. All three types of taxes are levied upon consumer spending, but they differ with regard to the legal burden of the tax. Under Arizona's transaction privilege tax, the seller is responsible for remitting to the state the entire amount of tax due based on the gross proceeds or gross income of the business. The seller may include the tax in the purchase price or absorb the tax. Because of its similarity to the sales tax, the transaction privilege tax is often referred to as a sales tax.

The sales tax consists of many different tax categories. The largest of these, the retail sales tax, comprises half of total sales tax revenues. Other large sales tax categories include contracting, utilities, and restaurants and bars. Chart 1 illustrates the relative importance of the major categories. A full listing of all sales tax classifications is provided in Table 2.



The sales tax is the state's single largest revenue source, representing approximately 53% of total General Fund revenues in FY 2002 (including the sales taxes collected under Proposition 301). A significant portion of state sales tax revenues is shared with the counties and cities. This revenue sharing occurs through the distribution base, described in further detail in Distribution Section below.

Beginning in June, 2001, the sales tax rate for most categories rose from 5.0% to 5.6%, with the extra 0.6% being dedicated to education. This tax increase was approved by voters, and is commonly known as Proposition 301.

DISTRIBUTION

Transaction privilege tax revenues are shared with Arizona's counties and cities through a complex system of formulas established in statute. See Table 1 for amounts distributed. Legislative changes to the state sales tax usually have local government impacts, unless otherwise specified through hold harmless provisions (provisions designed not to harm local governments).

Distribution. The Department of Revenue transmits all sales tax revenues to the State Treasurer, separately accounting for payments of estimated taxes, the transient lodging tax, transaction privilege and severance taxes on mining and timber collected from businesses located on Indian reservations, and education sales taxes. The aforementioned tax collections have dedicated uses. All other transaction privilege tax revenues are credited to a clearing account. Revenues designated by statute for the distribution base (see Tables 1 and 2) are divided among the state, the counties and the cities. The remaining monies (non-shared) are directly credited to the General Fund, except as needed for school capital finance pursuant to A.R.S. § 42-5030.01, part of the Students FIRST legislation [A.R.S. § 42-5029].

Table 1

TAX COLLECTIONS AND DISTRIBUTION (20 year history)*

Fiscal Year	General Fund	Cities	Counties	Total
FY 2001	$2,984,082,031	$312,676,402	$506,661,075	$3,803,419,508
FY 2000	$2,829,307,415	$299,386,513	$485,126,158	$3,613,820,086
FY 1999	$2,577,768,324	$272,402,244	$441,400,596	$3,291,571,164
FY 1998	$2,367,883,017	$253,826,710	$411,300,801	$3,033,010,528
FY 1997	$2,211,158,987	$240,264,373	$389,324,389	$2,840,747,749
FY 1996	$2,103,275,229	$233,196,324	$377,871,323	$2,714,342,876
FY 1995	$1,968,613,472	$219,908,226	$356,339,289	$2,544,860,987
FY 1994	$1,787,609,451	$200,069,251	$304,745,483	$2,292,424,185
FY 1993	$1,626,535,290	$184,318,955	$280,754,631	$2,091,608,876
FY 1992	$1,503,124,515	$170,654,277	$259,940,595	$1,933,719,387
FY 1991	$1,447,942,088	$163,823,044	$249,535,260	$1,861,300,392
FY 1990	$1,442,587,551	$159,021,328	$242,221,287	$1,843,830,166
FY 1989	$1,340,809,656	$151,056,680	$230,089,535	$1,721,955,871
FY 1988	$1,249,832,747	$136,876,722	$208,490,623	$1,595,200,092
FY 1987	$1,199,589,750	$129,753,925	$197,641,179	$1,526,984,854
FY 1986	$1,150,175,481	$122,598,867	$186,674,822	$1,459,449,170
FY 1985	$1,070,654,725	$114,972,699	$174,179,683	$1,359,807,107
FY 1984	$ 854,824,687	$105,144,271	$181,255,017	$1,141,223,975
FY 1983	$ 616,291,719	$ 93,527,936	$135,951,094	$ 845,770,749
FY 1982	$ 580,882,821	$ 91,596,747	$129,829,407	$ 802,308,975

* The figures displayed in this table include revenues collected from the sales tax and its affiliated taxes – the use tax, mining and timber severance taxes, jet fuel taxes, and the rental occupancy tax.

Revenues collected from the 0.6% education tax go directly toward education programs. For a more extensive discussion of the specific uses of education tax revenues, please refer to pages 180-181 of the FY 2002 and FY 2003 *Appropriations Report*.

Monies in the distribution base are allocated on a monthly basis in the following way:

- 25% is paid to the cities in proportion to their population based on the last U.S. decennial or special census.
- 40.51% is paid to the counties according to the formula described below.
- The remaining 34.49% is retained by the state and used to make various allocations and appropriations specified by statute.

In total, the counties receive 40.51% of distribution base revenues. This amount is divided among the 15 counties in the following way:

1) 38.08% is paid by averaging:
   (a) The proportion that the population of each county bears to the total state population based on the most recent census, and;
   (b) The proportion that the distribution base monies collected during the month in each county bear to the total of distribution base monies collected statewide for the month.

2) 2.43% is distributed to counties receiving less under the population formula than under the old property valuation formula, to hold the counties harmless from the change in distribution methods that occurred with the passage of Laws 1994, 8th Special Session, Chapter 8. Any amount left after this distribution is distributed based on the new population formula.

The remaining 34.49% of distribution base revenues is allocated for various purposes, including school capital finance, multipurpose facilities, counties that enter into an intergovernmental agreement with the Department of

Transportation for construction of a bridge, and the Tourism and Sports Authority (TSA). The TSA's share of distribution base monies is equal to the amount of sales taxes collected at Arizona Cardinals football games. In addition, some monies are transferred to the Water Quality Assurance Revolving Fund, as required by A.R.S. § 49-282. After these distributions have been made, the remainder is credited to the General Fund. From this amount, the following distributions are subject to appropriation:

1) The Department of Revenue receives monies sufficient to cover administrative expenses.
2) The Department of Economic Security receives monies for the purposes stated in Title 46, Chapter 1 (public welfare, out-of-wedlock pregnancy prevention, and aging).
3) The Tourism Fund receives 3.5% of last year's gross transient lodging tax revenues, 3.0% of last year's gross amusement tax revenues, and 2.0% of last year's gross restaurant and bar tax revenues.
4) The Arts Endowment Fund receives the amount by which amusement tax revenues for the current fiscal year exceed the revenues that were derived from the amusement tax in FY 1994, up to a maximum of $2,000,000. This distribution will expire at the end of FY 2007.
5) The Shooting Range Relocation and Assistance Fund receives $50,000 derived from retail sales taxes collected during the current fiscal year.

WHO PAYS THE TAX

Persons or companies engaging in business in the state are legally responsible for payment of the tax. However, in practice transaction privilege taxes are passed on to consumers [A.R.S. § 42-5001].

TAX BASE AND RATE

In general, the tax base is the gross proceeds of sales or gross income derived by a person from a taxable business. However, there are variations between the tax bases of the different classifications of the transaction privilege tax, as specified in A.R.S. § 42-5061 – A.R.S. § 42-5077. Notably, the contracting tax has a unique tax base. The tax base for contractors is 65% of the value of a contract, based on the assumption that labor costs represent 35% of the value of a contract [A.R.S. § 42-5023].

Exemptions. There are numerous (over 100) sales tax exemptions provided in statute, such as exemptions for food and medicine. The effect of these exemptions is to reduce the size of the tax base. See Table 2 for specific tax exemption statutes for each sales tax classification. For a complete list of all sales tax exemptions, see the Department of Revenue's publication, *The Revenue Impact of Arizona's Tax Expenditures* [A.R.S. § 42-5002 and A.R.S. § 42-5061 – A.R.S. § 42-5077].

Tax Rates. Once the net tax base is computed, it is multiplied by the applicable tax rate to derive the total tax due. The tax rates vary according to the business classification of the taxable activity. Most categories, however, are taxed at the rate of 5.6%. Table 2 on the following page lists the tax rates for each classification. In addition, a complete list of sales tax rates by all Arizona cities, including the tax rates levied by state, county, and city governments, is provided in *Attachment A* at the end of this section [A.R.S. § 42-5010].

TAX REFUNDS AND/OR TAX CREDITS

Motion Picture Production Tax Refund. Sales tax refunds are rare. However, statute does permit refunds for motion picture companies and commercial advertising production companies that satisfy certain criteria [A.R.S. § 42-5015].

Telecommunications Service Assistance Program. Local exchange telephone companies may claim a tax credit for rate reductions given to elderly low-income persons [A.R.S. § 42-5016].

Accounting Allowance. A taxpayer may claim a tax credit of 1% of the amount of tax due, not to exceed $10,000 in any calendar year. This credit is designed to reimburse taxpayers for expenses incurred in accounting for and reporting sales tax payments [A.R.S. § 42-5017].

PAYMENT SCHEDULE

Due Dates. Transaction privilege taxes are due to the Department of Revenue every month on or before the 20th day of the month after the month in which the tax accrues. For example, for taxable sales made in January, a tax payment is due to the Department of Revenue by February 20 [A.R.S. § 42-5014].

Table 2

TRANSACTION PRIVILEGE TAX CLASSIFICATIONS

Classification	A.R.S. Exemption Statute	Tax Rate	Distribution Base 1/	Non-Shared Base 2/	Education 3/
Retail	42-5061	5.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment
Transporting	42-5062	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Utilities	42-5063	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Telecommunications	42-5064	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Publication	42-5065	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Job Printing	42-5066	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Pipeline	42-5067	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Private Car Line	42-5068	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Transient Lodging	42-5070	5.5%	50%	50%	None
Personal Property Rental	42-5071	5.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment
Mining	42-5072	3.125%	100%	0%	None
Amusement	42-5073	5.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment
Restaurant and Bar	42-5074	5.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment
Prime Contracting	42-5075	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Owner Builder	42-5076	5.6%	20% of first 5.0%	80% of first 5.0%	0.6% Increment
Membership Camping	42-5077	5.6%	40% of first 5.0%	60% of first 5.0%	0.6% Increment

1/ Represents the portion of revenues that is designated for the distribution base.
2/ Represents the portion of revenues that is designated for the non-shared base.
3/ Represents the portion of revenues that is designated for education.

Delinquency Dates. Tax payments are delinquent if not postmarked on or before the 25th day of the month or received by the Department of Revenue on or before the next-to-last business day of the month.

Alternative Payment Schedules. The department may authorize different payment schedules depending on the taxpayer's estimated tax liability or transient nature of the business.

- Taxpayers with an estimated annual tax liability of $500 or less may pay on an annual basis.
- Taxpayers with an estimated annual tax liability of between $500 and $1,250 may pay on a quarterly basis.
- Taxpayers whose business is of a "transient character" may be required to pay on a daily, weekly, or transaction-by-transaction basis.

Estimated Tax Payments. Taxpayers who pay income taxes and whose business had an annual sales tax liability in the preceding calendar year of $100,000 or more must make a single estimated advance payment in June of each year. Normally, the full June tax bill would be due on July 20. This estimated payment is in addition to the regular June sales tax liability (which represents May sales).

The amount of the estimated payment is equal to either 1) one-half of what was owed in May of the current year, or 2) the actual tax liability for the first 15 days of June. Estimated payments are due by June 20. In July of each year, those taxpayers who made estimated payments in the preceding month may subtract the amount of June's estimated payment from their July tax bill.

When the estimated payments program was first enacted in 1989, the estimated payments provided a one-time boost to state revenues by advancing a portion of the next fiscal year's revenues into the current fiscal year. If the program is ever eliminated (as is periodically proposed), it would entail a one-time cost to state revenues. This is because every July taxpayers make a "claim" for the preceding month's estimated payment, and every June taxpayers make a counterbalancing estimated payment. Eliminating the June payment leaves the July claim without a counterbalance – and the state with a one-time cost.

Collection. The Department of Revenue may enter into agreements with cities and towns that levy transaction privilege taxes to provide a uniform method of administration, collection, and auditing of sales taxes. In FY 2000, the department collected transaction privilege and use taxes for some 75 Arizona cities and towns (see the department's 2001 Annual Report) [A.R.S. § 42-6001].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm. The estimated dollar impact of the tax law changes is summarized by fiscal year in the following table:

Table 3

ESTIMATED MARGINAL DOLLAR VALUE OF TAX LAW CHANGES 1/

Fiscal Year	Impact
2003	$ (40,000)
2002	$ (1,764,600)
2001	$ (4,892,000)
2000	$ (8,402,300)
1999	$ (3,684,200)
1998	$(59,907,900)
1997	$(23,449,300)

1/ Excluding Proposition 301 revenue.
Estimates made by JLBC Staff

2002 TAX LAWS

Laws 2002, Chapter 288 requires the Tourism and Sports Authority (TSA) to select a site host for the multipurpose facility by September 12, 2002, or seek voter approval for the continuation of the TSA. If the voters terminate the TSA, the requirements that the Department of Revenue separately account for revenue collected in connection with a multipurpose facility, and that the tax revenues collected on professional athlete income be distributed to the TSA, would be repealed.

Laws 2002, Chapter 307 clarifies the definitions of lawn maintenance service and landscaping activities, and that income received from landscaping activities are subject to the contracting classification of the sales tax. The fiscal impact of this legislation can not be determined. (Effective September 1, 2002)

2001 TAX LAWS

Laws 2001, Chapter 137 provided exemptions from the retail sales and use taxes for food and drinks purchased by hotels and served to guests. This bill is estimated to have minimal fiscal impact. (Effective June 8, 1994)

2000 TAX LAWS

Laws 2000, Chapter 33 clarified that the post-construction treatment of real property for termite and other wood-destroying pests is exempt from the prime contracting tax, but pretreatment remains taxable. This act is estimated to have no fiscal impact. (Effective January 1, 1994)

Laws 2000, Chapter 214 allowed contractors to deduct the cost of solar energy devices that they install from their prime contracting tax base, up to a maximum allowable deduction of $5,000. This provision is estimated to have a General Fund cost of $(40,700) in FY 2001. The deduction is set to expire at the end of 2010. (Effective January 1, 1997)

Laws 2000, Chapter 297 continued the Municipal Tax Code Commission for another five years, until 2005. The Commission exists to promote uniformity and consistency among the sales taxes levied by the different Arizona cities. (Effective July 1, 2000)

Laws 2000, Chapter 359 provided contracting tax exemptions for the construction of a spaceport launch site and for domestic violence shelters. The launch site exemption is estimated to have no fiscal impact to the existing revenue base, since there are currently no launch sites in the state. This provision becomes effective July 18, 2000. The domestic violence shelter exemption is projected to cost the General Fund $(18,400) in FY 2000 and another $(18,300) in future years. This provision becomes effective retroactive to July 1, 1999.

Laws 2000, Chapter 372 established a Tourism and Sports Authority in Maricopa County, subject to voter approval in November 2000, for the purpose of financing a new football stadium for the Arizona Cardinals, promoting tourism in Maricopa County, making additional Cactus League stadium improvements, and constructing new recreational facilities.

The Authority would receive funds resulting from a countywide 1% increase in the transient lodging tax and a 3.25% increase in the car rental tax (less $2.50 on each car rental dedicated to Cactus League stadium improvements). The tax increase would become effective upon the Governor's signature within 30 days after the election. In addition, the Authority would receive the transaction privilege taxes collected at Cardinals football games. This is estimated to reduce General Fund sales tax collections by $(1,512,500) beginning in FY 2002. The Authority would also receive the income taxes paid by Arizona Cardinals football players. This provision has an estimated cost of $(2,718,600) beginning in FY 2002.

Conditional upon voter approval, this legislation would also provide the Office of Tourism with an alternative funding source. The funding formula would annually provide the Office of Tourism with 3.5% of transient lodging tax revenues collected in the previous year, 3.0% of amusement tax revenues collected in the previous year, and 2.0% of restaurant and bar tax revenues collected in the previous year. This new funding formula would generate about $1,695,800 more in FY 2002 for the Office of Tourism than it is otherwise expected to receive. This provision would become effective July 1, 2001. The voters approved this measure in the November 2000 election.

Laws 2000, Chapter 375 changed the method for funding the Office of Tourism by directing 52.66% of the state's share of the distribution base monies collected from the transient lodging tax to the Tourism Fund. However, the act stipulates that this change is repealed if Maricopa County voters approve Laws 2000, Chapter 372 in the November 2000 elections, as Chapter 372 provides an alternative funding formula for the Office of Tourism. The revised funding method in Chapter 375 has no fiscal impact, since it is intended to merely replace – not augment – the General Fund appropriations that the Office of Tourism currently receives. This provision becomes effective July 1, 2001. As Maricopa County voters did approve Laws 2000, Chapter 372, this act (Chapter 375) was repealed.

The act also authorized Pima County to hold an election on whether to raise the county's transient lodging tax rate by 1% in order to promote tourism in that county. This provision has no state fiscal impact. If approved, the additional tax would become effective on the first day of the month beginning 90 days after the election and would be in effect for 30 years. This tax increase was subsequently rejected by the voters of Pima County.

Laws 2000, Chapter 397 prohibited the imposition of transaction privilege taxes on interstate telecommunication services. The act also prohibited the state and cities from levying sales taxes on Internet access fees. The bill has no

fiscal impact for the state since no state taxes are currently being levied on interstate telecommunications services or Internet access. (Effective July 18, 2000)

Laws 2000, Chapter 401 provided sales and use tax exemptions for purchases of aircraft, navigational, and communication instruments and other accessories and related equipment made by persons holding supplemental air carrier certificates under federal aviation regulations. It authorized refunds for taxes paid since the bill's retroactive date, but the total amount of refunds is capped at $10,000. This act is estimated to cost the state $10,000 in FY 2001. (Effective June 1, 1998)

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. It also provided for the distribution of the increased tax rate to various education related areas including debt service on school improvement revenue bonds, increased teacher salaries, technology and research, school safety programs, and the classroom site fund. (Effective May 31, 2001)

1999 TAX LAWS

Laws 1999, Chapter 87 expanded the transaction privilege and use tax exemptions for machinery and equipment used to meet or exceed the rules and regulations of the United States Nuclear Regulatory Commission. This provision is effective retroactive to May 19, 1977. Refunds are authorized for past taxes paid, but the total amount of refunds is capped at $10,000. The bill also clarified that electricity sold to out-of-state customers is exempt from the sales and use taxes, and provided sales and use tax exemptions for railroad equipment used to transport persons or property. The electricity provision is effective January 1, 1999.

Laws 1999, Chapter 153 revised the definition of expendable materials. Current law specifies that expendable materials used in industry are not deductible from the transaction privilege and use tax base. This act defined expendable materials as those items that are ancillary to the operation or use of tangible personal property that is already deductible under current law. The cost or useful life of the property does not determine whether it can be included under the allowed deductions. The bill is effective retroactive to May 19, 1977, and refunds are authorized for taxes paid since that date. The total amount of refunds is capped at $100,000.

Laws 1999, Chapter 162 made various changes to the statutes governing multipurpose stadium districts. Payments of transaction privilege tax revenues to stadium districts were increased by allowing a diversion of taxes paid by businesses adjacent to a multipurpose facility. It authorized payments to a county stadium district of one-half of all sales tax revenues received two months prior from persons doing business at a multipurpose facility site or in the construction of a multipurpose facility. The payments are limited to the net new revenues and are continued for a length of 10 years. The diverted transaction privilege taxes may be used for operation and maintenance expenses, as well as to retire bonds. (Effective July 1, 1998)

Laws 1999, Chapter 165 repealed or limited the use of tax increment financing to pay for large municipal projects. Retroactive to January 1, 1999, it repeals the ability of cities to use tax increment financing for redevelopment zones. Effective September 1, 1999, it also repeals the ability of counties to use tax increment financing for construction of theme parks. In addition, it conditionally repeals the ability of multipurpose facility districts to levy a transaction privilege tax to finance projects. This conditional repeal is effective November 3, 1999, unless by this date, in at least one district, voters have voted to fund a project.

Laws 1999, Chapter 167 allowed a sales and use tax deduction for machinery or equipment used in connection with natural gas pipelines to meet or exceed federal and state pollution standards. (Effective August 6, 1999)

Laws 1999, Chapter 180 provided an exemption under the retail sales classification of the transaction privilege tax for sales of spirituous, vinous, or malt liquor by licensed liquor wholesalers. Refunds are authorized for taxes paid by liquor wholesalers since December 31, 1990, but only if the taxpayer furnishes evidence that the refund amount will be paid to the person actually bearing the incidence of the tax. (Effective January 1, 1991)

Laws 1999, Chapter 183 returned to qualifying Indian tribes the amount of transaction privilege tax revenue received from all sources located on the Indian reservation in order to provide support for community colleges owned and operated by the tribes on their reservation. The amount of sales tax revenue transferred to a qualifying

tribe is limited to a maximum of $1,500,000 in FY 2001 and $1,750,000 each fiscal year thereafter. (Effective July 1, 2000)

Laws 1999, Chapter 225 established the Uniform Transaction Privilege Tax Study Committee to study the impact of eliminating the Model City Tax Code and replacing it with a uniform state and local transaction privilege tax base. The Committee is required to submit its findings by December 15, 1999. (Effective August 6, 1999)

Laws 1999, Chapter 246 extended transaction privilege and use tax exemptions to sales of tangible personal property used in environmental remediation. It also expanded the existing prime contracting tax exemption to contracts for specified activities related to environmental remediation. (Effective January 1, 1997)

Laws 1999, Chapter 264 established the Study Committee on Internet Privacy, Jurisdiction, Regulation, and Taxation to analyze Internet taxation, privacy, and regulation issues. The Committee is required to report its findings by December 1, 1999. (Effective August 6, 1999)

Laws 1999, Chapter 267 provided sales and use tax exemptions for tangible personal property sold to a nonprofit charitable organization that provides apartment housing to low income persons over the age of 62 in a facility that qualifies for a federal housing subsidy. It also allowed a prime contracting tax deduction for income derived from a contract entered into for the construction of such housing facilities for low income persons. (Effective July 1, 2001)

Laws 1999, Chapter 288 allowed all counties except Maricopa County to establish a capital projects tax to pay for the purchase or construction of buildings, roads, or other facilities. The tax base is the same as the transaction privilege tax base. The tax rate may not, in combination with the county excise tax for roads, exceed 10% of the transaction privilege tax rate. The capital projects tax is not permitted to last for more than 20 years. (Effective August 6, 1999)

Laws 1999, Chapter 290 made a number of procedural and administrative changes relating to the Department of Revenue and the enforcement of tax statutes. It required a person operating a business under two or more names to obtain a transaction privilege license for each name. It also stipulated that if a purchaser provides incomplete or inaccurate information to a seller in order for a transaction to be deducted from the sales tax, that purchaser becomes liable for the tax and any penalties and interest that the seller would have been required to pay if the purchaser had provided accurate information. In addition, it clarified that an organization that qualifies under the Internal Revenue Code as a charitable organization is exempt from the transaction privilege and use taxes. (Effective August 6, 1999)

Laws 1999, Chapter 304 exempted from the transient lodging classification of the transaction privilege tax any activities that are already taxed under a different classification. This bill was needed to prevent double taxation in cases in which businesses engaged in transient lodging charge fees for amusement activities that they provide. Under current law, these fees were subject to both the transient lodging and amusement taxes. The bill is intended to rectify this problem. Also, the act granted amusement tax exemptions for the income received from sales to persons or entities engaged in the transient lodging classification under certain circumstances.

Because of a drafting error in the way this bill was written, it would have resulted in far-reaching unintended consequences. Instead of applying to only the transient lodging, transportation, and amusement classifications, it actually applied to all classifications within the transaction privilege tax. To correct this error, the bill was repealed and replaced by Laws 1999, 2nd Special Session, Chapter 2.

Laws 1999, Chapter 322 earmarked $50,000 of retail sales tax collections to the Shooting Range Relocation and Assistance Fund in each fiscal year. (Effective August 6, 1999)

Laws 1999, 2nd Special Session, Chapter 2 fixed a drafting error in Laws 1999, Chapter 304. It corrected the inadvertent granting of a transaction privilege tax exemption to businesses that have proceeds subject to taxation under more than one sales tax classification. Instead, this bill provides exemptions from only the transient lodging, transportation, and amusement tax classifications to businesses that receive proceeds from bundled activities that are subject to taxation from more than one classification. The effect of the bill is to prevent double taxation. (Effective June 30, 1993)

1998 TAX LAWS

Laws 1998, Chapter 88 provided an exemption under the transporting classification of the transaction privilege tax for the proceeds of sales resulting from the shipment of freight or property, by a railroad operating exclusively in Arizona, as part of a single shipment that involves more than one railroad and that originates or terminates across the state line. (Effective January 1, 1988)

Laws 1998, Chapter 90 exempted from the prime contracting tax the gross proceeds of sales or gross income attributable to the purchase of machinery, equipment, or other personal property. The act provided contracting tax exemptions for purchases used in a wide range of activities, including qualifying health care organizations, manufacturing, telecommunications, and oil and gas extraction, among others. (Effective January 1, 1999)

Laws 1998, Chapter 105 codified the historical tax treatment of pipelines, the machinery and equipment used to operate pipelines, and the use of pipelines by hospitals. Specifically, it extended retail and use tax exemptions to include the parts used to operate pipes and valves that are at least four inches in diameter and used to transport oil, natural gas, artificial gas, water, or coal slurry. In addition, an exemption from the pipeline classification of the transaction privilege tax is provided for the income derived from pipeline services to qualifying hospitals and qualifying health care organizations if the oil and gas being transported is used to provide health and medical related educational and charitable services. (The provision regarding parts used to operate pipes and valves is effective December 3, 1981. The health care provision is effective July 2, 1989.)

Laws 1998, Chapter 132 exempted from the retail and use tax the chemicals used directly in the production process of a printing operation. A printing operation is defined as a commercial printing operation and includes job printing, engraving, embossing, copying, and book binding. (Effective January 1, 1999)

Laws 1998, Chapter 165 increased the threshold limits for quarterly and annual payments of the sales tax. Previously, taxpayers were allowed to make quarterly payments if their annual sales tax liability was between $200 and $500, and annual payments were permitted if their annual liability was less than $200. Under this act, quarterly payments are allowed for taxpayers with a sales tax liability between $500 and $1,250, and annual payments are permitted for those with a liability of less than $500. (Effective January 1, 1999)

Laws 1998, Chapter 177 authorized transaction privilege tax exemptions for leases or rentals of aircraft, flight simulators, or similar training equipment to students or staff by nonprofit educational institutions that offer degrees in aviation or aerospace related fields. (Effective July 1, 1988)

Laws 1998, Chapter 206 exempted prepaid calling cards that are taxable under the retail classification of the sales tax from the telecommunications classification of the sales tax. (Effective January 1, 1999)

Laws 1998, Chapter 221 allowed sales and use tax exemptions for the lease or purchase of new alternative fuel vehicles and for the lease or purchase of equipment used to convert a conventional vehicle to an alternative fuel vehicle. (Effective January 1, 1999)

Laws 1998, Chapter 225 authorized Maricopa County to levy a jail facilities excise tax, subject to voter approval in the 1998 general election, that would raise the transaction privilege tax rate in the county by one-fifth of one percent for nine years or until $900 million is collected, whichever comes first. The County Board of Supervisors is permitted to modify the tax rate. Monies collected are to be used to finance and construct new jail facilities, to maintain and operate jail facilities, and to fund specified programs to reduce the expense of jail facilities. This measure was approved by voters. (Effective August 21, 1998)

Laws 1998, Chapter 272 prohibited cities, towns, and other taxing jurisdictions from levying any taxes or fees on the gross proceeds of sales or gross income derived from incarcerating or detaining prisoners in a privately operated prison. (Effective April 1, 1987)

Laws 1998, Chapter 286 provided a broad range of sales tax exemptions and income tax credits designed to promote the use of pollution control devices. Exemptions from retail, contracting, and use taxes are given for the purchase of machinery or equipment used to control agriculture pollution and for the construction or improvement of property used to control agriculture pollution. This provision is effective January 1, 1999. In addition, the act provided retail and use tax exemptions for the purchase of machinery or equipment used for poultry farming, and a contracting tax exemption for the construction of an environmentally controlled poultry facility. This provision is effective January 1, 1998.

Sales and use tax exemptions are also extended to include the purchase of machinery or equipment used in a number of industries to meet or exceed government pollution standards. This provision's retroactive date of May 19, 1977 allows taxpayers to file for refunds of taxes paid subsequent to this date for purchases of environmental protection equipment. Refund claims must be made by December 31, 1998, and the total amount of the refunds is capped at $100,000.

The act also specified that the diversion of gas from a pipeline by a person in the business of operating a pipeline, for the sole purpose of fueling compressor equipment to pressurize the pipeline, does not constitute a sale of the gas to the operator of the pipeline and is therefore not subject to the transaction privilege tax. This provision is effective January 1, 1992.

Retail and use tax exemptions are extended to machinery or equipment that enables a television station to comply with the Telecommunications Act of 1996 and the Federal Communications Commission Order that mandates television stations to originate and broadcast digital television signals. However, the exemption may not be claimed for the repair or replacement of machinery and equipment for which an exemption has already been claimed. This provision is effective August 21, 1998 and is discontinued after November 1, 2009, or after a station has ceased analog broadcasting, whichever comes first.

Finally, the act provided a contracting tax exemption for the income derived from the installation or maintenance of clean rooms that have received a retail tax exemption. This provision is effective retroactive to January 1, 1990, and refunds are authorized for tax payments made subsequent to this date.

Laws 1998, 5th Special Session, Chapter 1 changed the distribution of the transaction privilege tax beginning in FY 2000. The newly created School Facilities Board is authorized to allocate monies from the state's share of the distribution base and from the non-shared base to various school capital funds in order to finance school facilities. This provision is part of the Students FIRST legislation enacted in response to a court decision that required Arizona to alter the way schools are financed in this state. (Effective July 9, 1998)

1997 TAX LAWS

Laws 1997, Chapter 3 provided an exemption from the commercial lease classification of the transaction privilege tax for the lease of another person's land to mine minerals (known as *profit a prendre* rights). The practice of taxing royalties within commercial lease agreements is also prohibited. However, the exclusion does not apply to any commercial uses that the leaseholder has to the property that are separate from the *profit a prendre* rights. The bill also applied the standard four year statute of limitations for Department of Revenue assessments if a taxpayer fails to report income derived from granting a right of *profit a prendre*. (Effective March 23, 1968)

Laws 1997, Chapter 4 allocated an amount of sales tax revenue to low-wealth school districts based on a distribution formula. This bill was in response to the *Roosevelt v. Bishop* court case regarding school capital finance, but it was ruled unconstitutional by the court and repealed. (Effective July 1, 1997)

Laws 1997, Chapter 61 clarified that cleanrooms and related machinery and equipment are exempted from sales and use taxes. The bill codified the historical administrative practice of valuing and assessing cleanrooms. (Effective July 21, 1997)

Laws 1997, Chapter 109 allocated $5 million of state transaction privilege taxes over a 12-year period to Maricopa County to aid in building the Gila River Bridge. The bridge is to provide direct access to commercial, residential, and recreational facilities. (Effective October 1, 1997)

Transaction Privilege Tax

Laws 1997, Chapter 110 exempted "for hire" commercial vehicles that are less than 12,000 pounds from the transporting classification of the transaction privilege tax, provided that an annual light motor vehicle fee of $64 has been paid for the vehicle. Payment of the fee does not, however, exempt a person from paying sales tax on transactions involving the retail sale of property or freight transported in a light motor vehicle. (Effective October 1, 1997)

Laws 1997, Chapter 116 provided transaction privilege tax and use tax exemptions for wireless telecommunication equipment sold to consumers as an inducement to enter into or continue contracts for telecommunication services. The bill excludes from the transaction privilege tax the compensation received by a retailer for selling or transferring wireless telecommunication equipment to a customer as an inducement to contract for service. It also specifies that sale of such equipment to a person who holds the equipment for sale or transfer to a customer as an inducement to enter into or continue a contract for telecommunication services is a sale for resale, and consequently exempt from taxation. (Effective January 1, 1990)

Laws 1997, Chapter 150 recodified Title 42 of the Arizona Tax Code, which regards property, transaction privilege, use, and luxury taxation. The bill made numerous technical changes, removed references to gender, and restructured and renumbered several statutes. It provided that the interpretation of the tax code is not to be changed solely due to changes made by the recodification. Immunities, exemptions, claims, proceedings, etc. that existed before the recodification are to remain in effect. (Effective January 1, 1999)

Laws 1997, Chapter 165 allowed municipalities to each designate a commercial enhancement reuse district. These districts are required to be 25 acres or less, have recreational, commercial, and retail facilities, and have developed a lake facility by December 31, 2004. The bill provides exemptions from the prime contracting tax and the use tax for lake facility construction costs of up to $125 million. Lake facility developments must contribute to the long-term vitality of the commercial enhancement reuse district and entail an investment of at least $40 million. (Effective July 21, 1997)

Laws 1997, Chapter 178 provided transaction privilege and use tax exemptions for sales of alternative fuel to a used oil fuel burner who has received a permit from the Department of Environmental Quality to burn used oil or used oil fuel. (Effective July 21, 1997)

Laws 1997, Chapter 227 exempted sales of printed, photographic, electronic, or digital media materials purchased by publicly-funded libraries for public use from the transaction privilege and use tax. (Exemptions for printed or photographic materials are effective beginning August 7, 1985. Exemptions for electronic or digital media materials are effective beginning July 17, 1994.)

Laws 1997, Chapter 245 authorized refunds for prime contracting taxes paid by a contractor for tangible personal property incorporated or installed in an unlicensed residential care facility operated in conjunction with a licensed nursing care institution. The refunds are given for contracting taxes paid between January 1, 1982 and July 17, 1993. Claims for refunds must be submitted by October 31, 1997, and contractors that request refunds are required to remit the refunds to the residential care facility. The residential care facility must, in turn, return the refund monies to past, current, or future residents who have paid or are paying the taxes. Finally, the interest rate paid for refunds is set at 1% per year compounded annually until June 30, 1998, and the maximum amount of refunds issued in FY 1999 is capped at $2 million. (Effective July 21, 1997)

Laws 1997, Chapter 274 provided a transaction privilege and use tax exemption for food and beverage items sold to a commercial airline to be consumed by passengers on flights. The act also authorized sales and use tax exemptions for the purchase of tangible personal property by contractors for use in environmental remediation. (Exemptions for airline food and beverages are effective beginning January 1, 1982. Exemptions for property used for environmental remediation are effective on July 1, 1997.)

Laws 1997, Chapter 287 assured $18 million annually in funding for the Water Quality Assurance Revolving Fund (WQARF) beginning July 1, 1999. This funding level is achieved by combining a transfer of $15 million from the corporate income tax with monies collected from various fees and appropriations. At the end of the fiscal year, if the corporate income tax transfer together with the total of the fees and appropriations is not sufficient to reach the $18 million level, the State Treasurer shall adjust the $15 million transfer of corporate income tax revenues upward

in the necessary amount. If corporate income tax revenues are insufficient to supplement collected fees and appropriations, transaction privilege tax revenues are to be used. (Effective April 29, 1997)

Laws 1997, Chapter 297 allowed two or more municipalities located in the same county to create a multipurpose facility district for the purpose of financing and constructing a multipurpose facility. A multipurpose facility is defined as a facility designed to accommodate sporting and entertainment, cultural, civic, meeting, or convention events. The bill authorized the use of transaction privilege tax collections and excise taxes to finance the acquisition of land, construction, maintenance, operation, and marketing of the facility.

Upon voter approval, a multipurpose facility district is authorized to levy a transaction privilege tax of up to 5% of the state tax rate that was in effect on January 1, 1990 on businesses conducting sales in the district. In addition, districts with a facility that costs at least $200 million to construct and that have issued bonds are to receive from the State Treasurer half of the state transaction privilege taxes paid each year by businesses at the facility. These payments from the state continue for 10 years after the bonds are issued or until the bonds are paid in full, whichever comes first.

Other funding mechanisms for generating revenue during national championship sporting events or international games hosted in the multipurpose facility are also authorized to secure the bonds, subject to voter approval. These include receiving the incremental increases in municipal transaction privilege tax revenues associated with such sporting events or international games hosted in the facility; surcharges on car rentals or recreational vehicle spaces during these events; and the imposition of an additional 1% sales tax on businesses in the transient lodging and restaurant and bar classifications during these events. (Effective July 21, 1997)

Laws 1997, 1st Special Session, Chapter 3 modified the distribution of the transient lodging classification so that in FY 1998 and FY 1999 a total of 3% of the state share of the revenue collected from this classification in the prior fiscal year is deposited in the Tourism Fund. (Effective June 26, 1997)

1996 TAX LAWS

Laws 1996, Chapter 93 expanded military reuse zone sales tax incentives by allowing a deduction from the prime contracting classification of the transaction privilege tax for the gross income received from a contract entered into for the construction or alteration of any building or road that provides aviation or aerospace services and that is located in a military reuse zone. (Effective April 5, 1996)

Laws 1996, Chapter 99 exempted the following from the transaction privilege, use, or other similar tax:

1. Sales of warranty or service contracts.
2. Sales of motor vehicles to nonresidents if the vehicle will be used outside the state and the vendor delivers the vehicle to a destination outside the state.
3. Interest on finance contracts.
4. Dealer documentation fees on the sales of motor vehicles.

(Effective July 20, 1996)

Laws 1996, Chapter 141 increased the bed tax in Pima County for the benefit of spring training facilities for major league baseball teams. The act raised the bed tax rate from an allowable maximum of 1% to an allowable maximum of 2% from January 1, 1997 through December 31, 2012. During this time, up to one-half of the revenue collected from the tax will be used to enhance spring training facilities, and the remaining money will continue to go to Pima County for tourism. On January 1, 2013, the bed tax will revert to the original 1% for tourism and the additional tax for spring training baseball facilities shall be eliminated. (Effective July 20, 1996)

Laws 1996, Chapter 186 established the Arizona Arts Endowment Fund to create a public-private partnership for the support of the arts in Arizona. The Arts Endowment Fund is funded by an annual appropriation from the state General Fund in an amount equal to the difference between the FY 1994 collection of amusement taxes and the current fiscal year's collection of amusement taxes, up to $2 million. Any money above $2 million more than FY 1994 amusement tax collections is to be deposited into the General Fund. This funding provision expires after FY 2007. (Effective July 1, 1997)

Transaction Privilege Tax

Laws 1996, Chapter 317 reduced the tax reporting burden on small business taxpayers and the cost of tax administration on state government by allowing an alternative method for payment of transaction privilege taxes. Taxpayers may elect to pay by electronic funds transfer provided that payment is made by the twenty-fifth day of the month after the month that the tax was accrued. This payment due date is consistent with the due date of the mailed transaction privilege payments. The act further stipulated that taxpayers subject to the annual estimated transaction privilege taxes must make any electronic funds transfer by June 25.

For tax reporting periods after December 31, 1996, the Department of Revenue may authorize quarterly and annual payments for taxpayers that have established sufficient payment history to indicate that they are current and in good standing. (Effective July 20, 1996)

Laws 1996, Chapter 319 allowed a prime contracting tax deduction for the installation, assembly, repair, or maintenance of machinery, equipment, or other tangible personal property, provided that the property is deducted from the tax base of the retail classification, and not permanently attached to a building, highway, road, railroad, excavation, or manufactured building or other structure.

The term *permanently attached* is defined to mean at least one of the following:

- Incorporated into real property.
- Being so affixed to real property that it becomes part of the real property.
- Being attached to the real property in a manner which would damage the property if it was removed.

If a deduction for machinery, equipment, or other tangible personal property has been utilized under the retail classification in order to facilitate the installation, assembly, repair, or removal of this machinery or equipment, then a deduction for the same machinery or equipment is not permitted under prime contracting activity.

The act also expanded the deduction from prime contracting activities for military reuse zones (see Chapter 93) to include the construction, addition, alteration, repair, or removal of any manufactured buildings. (Effective July 1, 1997)

Laws 1996, Chapter 322 exempted machinery and equipment used for motion picture, multimedia, or interactive video production in a sound stage complex from the transaction privilege and use taxes, provided that the sound stage complex is constructed after June 30, 1996 and before January 1, 2002. The exemption applies only to machinery and equipment purchased within five years after construction of the complex begins.

The act also eliminated a provision that would have repealed the tax exemption for solar energy devices. This exemption will continue to provide a retail sales tax deduction for the sale of a solar energy device whose value is $5,000 or less and which results in a tax benefit of no more than $250 per device. (Effective July 20, 1996)

Laws 1996, Chapter 326 exempted from the transaction privilege tax the activities and events, or fees and assessments, received by homeowners' organizations, unless they are taxable under other statutes. Homeowners' organizations are defined as mandatory membership organizations whose primary purpose is to provide for the acquisition, maintenance, or management of their property. Moreover, no part of the organization's net earnings may inure to the benefit of any private shareholder or individual. (Effective January 1, 1994)

Laws 1996, 6th Special Session, Chapter 1 excluded from the transaction privilege and use tax bases any tangible personal property used to receive, produce, generate, transmit, etc., telecommunications information by either a direct broadcast satellite television or data transmission service, or any satellite television or data transmission facility if the following conditions are met:

1. Over two-thirds of the information transmitted by the facility during the test period is to or on behalf of one or more direct broadcast satellite television or data transmission services.
2. Over two-thirds of the transmissions by or on behalf of the direct broadcast television or data transmission services must be transmitted by the facility to or on behalf of those services.

The act defined the test period as the 365-day period beginning on the later of the date on which the tangible personal property is purchased or the date on which the direct broadcast satellite television or data transmission service first transmits information.

If a seller is entitled to the transaction privilege and use tax deduction for tangible personal property sold to a satellite television or data transmission facility, the purchaser must establish that the above requirements have been satisfied. If the purchaser cannot establish this, the purchaser becomes liable for any tax, penalty, and interest. (Effective January 1, 1996)

Attachment A

STATE AND LOCAL RETAIL SALES TAX RATES BY CITY, JULY 2001

Cities by County	State	County Gen. Fund	County Road	County Jail	City	2001 Rate
Apache County					3.00	**9.10**
Eagar	5.60	0.50	-	-	2.00	**8.10**
St. Johns	5.60	0.50	-	-	3.00	**9.10**
Springerville	5.60	0.50	-	-		
Cochise County						
Benson	5.60	0.50	-	-	2.50	**8.60**
Bisbee	5.60	0.50	-	-	2.50	**8.60**
Douglas	5.60	0.50	-	-	2.50	**8.60**
Huachuca City	5.60	0.50	-	-	1.00	**7.10**
Sierra Vista	5.60	0.50	-	-	1.50	**7.60**
Tombstone	5.60	0.50	-	-	2.50	**8.60**
Willcox	5.60	0.50	-	-	2.00	**8.10**
Coconino County						
Flagstaff	5.60	0.50	-	0.30	1.51	**7.91**
Fredonia	5.60	0.50	-	0.30	2.00	**8.40**
Page	5.60	0.50	-	0.30	2.00	**8.40**
Sedona	5.60	0.50	-	0.30	3.00	**9.40**
Williams	5.60	0.50	-	0.30	3.00	**9.40**
Gila County						
Globe	5.60	0.50	0.50	-	1.50	**8.10**
Hayden	5.60	0.50	0.50	-	1.00	**7.60**
Miami	5.60	0.50	0.50	-	1.50	**8.10**
Payson	5.60	0.50	0.50	-	2.00	**8.60**
Winkelman	5.60	0.50	0.50	-	2.50	**9.10**
Graham County						
Pima	5.60	0.50	-	-	1.00	**7.10**
Safford	5.60	0.50	-	-	2.00	**8.10**
Thatcher	5.60	0.50	-	-	2.00	**8.10**
Greenlee County						
Clifton	5.60	0.50	-	-	2.00	**8.10**
Duncan	5.60	0.50	-	-	2.00	**8.10**
La Paz County						
Parker	5.60	0.50	-	0.50	2.00	**8.60**
Quartzsite	5.60	0.50	-	0.50	2.50	**9.10**
Maricopa County						
Avondale*	5.60	-	0.50	0.20	2.00	**8.30**
Buckeye	5.60	-	0.50	0.20	2.00	**8.30**
Carefree	5.60	-	0.50	0.20	2.00	**8.30**
Cave Creek	5.60	-	0.50	0.20	2.50	**8.80**
Chandler	5.60	-	0.50	0.20	1.50	**7.80**
El Mirage	5.60	-	0.50	0.20	3.00	**9.30**
Fountain Hills	5.60	-	0.50	0.20	1.60	**7.90**
Gila Bend	5.60	-	0.50	0.20	3.00	**9.30**
Gilbert	5.60	-	0.50	0.20	1.50	**7.80**
Glendale	5.60	-	0.50	0.20	1.30	**7.60**
Goodyear	5.60	-	0.50	0.20	2.00	**8.30**
Guadalupe	5.60	-	0.50	0.20	2.00	**8.30**
Litchfield Park	5.60	-	0.50	0.20	2.00	**8.30**
Mesa	5.60	-	0.50	0.20	1.50	**7.80**
Paradise Valley	5.60	-	0.50	0.20	1.40	**7.70**
Peoria	5.60	-	0.50	0.20	1.50	**7.80**
Phoenix	5.60	-	0.50	0.20	1.80	**8.10**
Queen Creek	5.60	-	0.50	0.20	1.00	**7.30**
Scottsdale	5.60	-	0.50	0.20	1.40	**7.70**
Surprise	5.60	-	0.50	0.20	2.00	**8.30**
Tempe	5.60	-	0.50	0.20	1.80	**8.10**
Tolleson	5.60	-	0.50	0.20	2.00	**8.30**
Wickenburg	5.60	-	0.50	0.20	1.00	**7.30**
Youngtown	5.60	-	0.50	0.20	2.00	**8.30**
Mohave County						
Bullhead City	5.60	0.25	-	-	2.00	**7.85**
Colorado City	5.60	0.25	-	-	2.00	**7.85**
Kingman	5.60	0.25	-	-	2.00	**7.85**
Lake Havasu City	5.60	0.25	-	-	2.00	**7.85**
Navajo County						
Holbrook	5.60	0.50	-	-	3.00	**9.10**
Pinetop-Lakeside	5.60	0.50	-	-	2.50	**8.60**
Show Low	5.60	0.50	-	-	2.00	**8.10**
Snowflake	5.60	0.50	-	-	2.00	**8.10**
Taylor	5.60	0.50	-	-	2.00	**8.10**
Winslow	5.60	0.50	-	-	3.00	**9.10**
Pima County						
Marana	5.60	-	-	-	2.00	**7.60**
Oro Valley	5.60	-	-	-	2.00	**7.60**
Sahuarita	5.60	-	-	-	2.00	**7.60**
South Tucson	5.60	-	-	-	2.50	**8.10**
Tucson	5.60	-	-	-	2.00	**7.60**
Pinal County						
Apache Junction	5.60	0.50	0.50	-	2.20	**8.80**
Casa Grande	5.60	0.50	0.50	-	1.80	**8.40**
Coolidge	5.60	0.50	0.50	-	2.00	**8.60**
Elroy	5.60	0.50	0.50	-	2.00	**8.60**
Florence	5.60	0.50	0.50	-	2.00	**8.60**
Kearny	5.60	0.50	0.50	-	2.00	**8.60**
Mammoth	5.60	0.50	0.50	-	2.00	**8.60**
Superior	5.60	0.50	0.50	-	2.00	**8.60**
Winkelman	5.60	0.50	0.50	-	2.50	**9.10**
Santa Cruz County						
Nogales	5.60	0.50	-	-	1.25	**7.35**
Patagonia	5.60	0.50	-	-	3.00	**9.10**
Yavapai County						
Camp Verde	5.60	0.50	-	0.20	2.00	**8.30**
Chino Valley	5.60	0.50	-	0.20	2.00	**8.30**
Clarkdale	5.60	0.50	-	0.20	2.25	**8.55**
Cottonwood	5.60	0.50	-	0.20	2.20	**8.50**
Jerome	5.60	0.50	-	0.20	3.00	**9.30**
Prescott	5.60	0.50	-	0.20	2.00	**8.30**
Prescott Valley	5.60	0.50	-	0.20	2.00	**8.30**
Sedona	5.60	0.50	-	0.20	3.00	**9.30**
Yuma County*						
San Luis	5.60	1.00	-	0.50	2.50	**9.60**
Somerton	5.60	1.00	-	0.50	2.50	**9.60**
Wellton	5.60	1.00	-	0.50	2.50	**9.60**
Yuma	5.60	1.00	-	0.50	1.70	**8.80**

SOURCE: Arizona Tax Research Association

*Note: The Yuma County rate includes a half-cent sales tax for general operations and a half-cent sales tax for capital projects.

Pre 1996 History

USE TAX

DESCRIPTION

The use tax is assessed on items purchased in other states and brought into Arizona for storage, use, or consumption, and for which no tax (or tax at a lesser rate) has been paid in another state. The use tax serves to protect Arizona retailers from out-of-state competition by attempting to ensure that in-state and out-of-state purchases are taxed at an equal rate.

Beginning in June, 2001, the use tax rate rose from 5.0% to 5.6%, with the extra 0.6% being dedicated to education. This tax increase was approved by voters, and is commonly known as Proposition 301.

DISTRIBUTION

Use tax revenues are virtually all deposited in the General Fund, except that 20% of use tax revenues collected from the sale of electricity are deposited in the distribution base.

Table 1

USE TAX COLLECTIONS

Fiscal Year	State General Fund	Fiscal Year	State General Fund
FY 2001	$196,147,647	FY 1991	$82,625,028
FY 2000	$175,730,649	FY 1990	$61,708,485
FY 1999	$147,642,017	FY 1989	$64,805,718
FY 1998	$136,473,801	FY 1988	$61,797,123
FY 1997	$119,600,758	FY 1987	$52,549,878
FY 1996	$113,964,912	FY 1986	$59,415,099
FY 1995	$104,480,933	FY 1985	$27,423,193
FY 1994	$97,492,637	FY 1984	$20,807,747
FY 1993	$84,424,541	FY 1983	$15,702,202
FY 1992	$83,023,743	FY 1982	$13,795,054

SOURCE: Department of Revenue, Annual Reports

WHO PAYS THE TAX

The tax is paid by persons who make retail purchases of tangible personal property outside this state and store, use, or consume the item in Arizona. If a sales tax has already been paid on the item in another state, the Arizona use tax does not apply. The use tax is due, for example, when an Arizona resident purchases a good over the Internet from an out-of-state retailer and has the item delivered to this state. In practice, the use tax is primarily paid by businesses. Individuals are also liable for the use tax but rarely pay it, because individuals are often unaware of the tax or are unwilling to "voluntarily" report a taxable transaction [A.R.S. § 42-5155].

TAX BASE AND RATE

The tax base is the sales price of tangible personal property purchased at retail in another state and brought to Arizona for storage, use, or consumption. Statute mentions a few special cases in which the use tax is also applicable, including tangible personal property provided under the conditions of a warranty or service contract, motor vehicles removed from inventory, and motor vehicles used by motor vehicle manufacturers [A.R.S. § 42-5155 – 5158].

As with the retail sales tax, the law provides a number of exemptions from the use tax. The effect of these exemptions is to reduce the size of the use tax base [A.R.S. § 42-5155].

The use tax rate is 5.6%, the same as the Transaction Privilege Tax rate for retail sales. However, if the item has already been taxed in another state at a rate less than 5.6%, the use tax rate is reduced by the amount of the tax already imposed by the other state [A.R.S. § 42-5155 and § 42-5159].

PAYMENT SCHEDULE

Use taxes are due to the Department of Revenue on the 20th day of the month after the month in which the tax accrues. For example, for taxable sales made in January, the tax payment is due to the department by February 20 [A.R.S. § 42-5162].

Tax payments are delinquent if not postmarked on or before the 25th day of the month or received by the Department of Revenue on or before the next-to-last business day of the month [A.R.S. § 42-5162].

The department may allow taxpayers whose estimated annual use tax liability is between $500 and $1,250 to make quarterly tax payments. Also, the department may permit taxpayers with an estimated annual tax liability of less than $500 to make an annual payment. If good cause is shown, the department can allow a two-month extension for filing the tax return [A.R.S. § 42-5162].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

The following tax law changes apply only to the use tax. Tax law changes that apply to both the use tax and the transaction privilege tax are included in the Transaction Privilege Tax section of the Tax Handbook.

There were no changes enacted to this tax in 1996, 1998 and 2000.

2002 TAX LAWS

Laws 2002, Chapter 338 provides that businesses that purchase at least $500,000 worth of tangible personal property annually may obtain a use tax permit and pay use taxes directly to the Department of Revenue (DOR). Previously, out-of-state vendors were required to register with DOR, and collect the use tax from the purchaser and remit to DOR. It is estimated that this legislation may have a small positive impact on use tax collections due to increased compliance, however the amount is undetermined. (Effective December 31, 2002)

2001 TAX LAWS

Laws 2001, Chapter 137 provided exemptions from the retail sales and use taxes for food and drinks purchased by hotels and served to guests. This bill is estimated to have minimal fiscal impact. (Effective June 8, 1994)

Laws 2001, Chapter 287 provided a number of technical and clarifying changes to statutes, and combined fuel tax statutes for motor vehicle fuel and use fuel into one article. The act also included several substantive provisions, such as an increase in the bonding levels for fuel suppliers and criminal penalty for fuel tax evasion. (Effective August 9, 2001.)

1999 TAX LAWS

Laws 1999, Chapter 144 extended a use tax exemption to any diesel fuel imported in the regular fuel tanks of a locomotive and consumed in this state. However, any *excess* diesel fuel brought into the state by a locomotive and consumed here is still subject to the use tax. This act is estimated to have no fiscal impact. (Effective January 1, 1993)

1997 TAX LAWS

Laws 1997, Chapter 75 applied a four-year statute of limitations to assessments of use taxes levied against vendors who sell to a purchaser licensed or registered by the Department of Revenue to remit use tax. The Department of Revenue is required to provide a credit or offset for interest and penalties paid by the purchaser if and when the department issues a use tax deficiency assessment against a seller. This act is estimated to have no fiscal impact. (Effective June 2, 1996)

Pre 1996 History

SEVERANCE TAX ON METALLIFEROUS MINERALS

DESCRIPTION

The severance tax on metalliferous minerals (copper or other metals) is levied on the production or extraction from the earth of minerals. The tax rate is 2.5%, and it is applied to 50% of the difference between the gross value of production and the production costs.

DISTRIBUTION

Revenues from the severance tax on metalliferous minerals are distributed between the state, the counties, and the cities.

- 80% of the tax revenues collected are designated as Distribution Base and are distributed as described in the Transaction Privilege Tax section of this book.
- 20% of the tax revenues are deposited in the General Fund [A.R.S. § 42-5205].

Table 1

TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Cities	Counties	Total
FY 2001 1/	$ 56	$1,609,331	$ 2,607,994	$ 4,217,380
FY 2000	$ 3,554,565	$3,237,959	$ 5,247,042	$12,039,566
FY 1999	$ 8,914,656	$3,746,283	$ 6,070,478	$18,731,417
FY 1998	$12,884,325	$5,414,492	$ 8,773,643	$27,072,460
FY 1997	$12,875,213	$5,410,663	$ 8,767,438	$27,053,314
FY 1996	$19,540,585	$8,211,710	$13,306,254	$41,058,549
FY 1995	$17,901,380	$7,522,853	$12,190,030	$37,614,263
FY 1994	$11,618,342	$4,690,868	$ 7,145,130	$23,454,340
FY 1993	$13,804,934	$5,573,698	$ 8,489,856	$27,868,488
FY 1992	$13,883,704	$5,585,313	$ 8,507,549	$27,926,566
FY 1991	$13,911,842	$6,020,608	$ 9,170,591	$30,103,041
FY 1990 2/				$29,552,883
FY 1989				$30,906,899
FY 1988				$19,268,473
FY 1987				$11,979,174
FY 1986				$13,990,093
FY 1985				$10,101,077
FY 1984				$ 9,814,062
FY 1983				$ 4,045,392
FY 1982 3/				NA

1/ Note Laws 1999, 1st Special Session, Chapter 5.
2/ Distribution amounts are not available for FY 1983 – FY 1990.
3/ The tax began in FY 1983, so there were no FY 1982 collections.

SOURCE: Department of Revenue, Annual Reports

WHO PAYS THE TAX

The tax is paid by "severers", persons engaged in the business of mining metalliferous minerals from the earth [A.R.S. § 42-5202 and § 42-5201].

TAX BASE AND RATE

The severance tax on metalliferous minerals is levied at the rate of 2.5% on a tax base that is 50% of the difference between the gross value of production and the production costs [A.R.S. § 42-5202 and § 42-5204].

Metalliferous minerals are defined as copper, gold, silver, or other metals or ores that are mined in this state [A.R.S. § 42-5201].

The tax does not apply to metalliferous products sold at retail [A.R.S. § 42-5203]. These items are taxed by the transaction privilege tax.

PAYMENT SCHEDULE

Tax payments for this tax are due on the same schedule as the transaction privilege tax [A.R.S. § 42-5205].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web site located at www.azleg.state.az.us/jlbc.htm. The estimated dollar impact of the tax law changes is summarized by fiscal year in the following table:

Table 2
ESTIMATED DOLLAR VALUE OF TAX LAW CHANGES

Fiscal Year	Impact
2003	$ 0
2002	$ 0
2001	$ (3,333,000)
2000	$ (4,667,000)
1999	$ 0
1998	$ 0
1997	$ 0

Estimates made by JLBC Staff

There were no changes enacted to this tax in 1996 through 1998, 2001, and 2002.

2000 TAX LAWS

Laws 2000, Chapter 337 required payers of the mining severance tax to submit a monthly report to the Department of Revenue showing the amount of severance tax that would have been due if their tax liability had been calculated according to the tax law in place before the passage of Laws 1999, 1st Special Session, Chapter 5. In determining the distribution of mining severance tax revenues to the counties, the Department of Revenue is required to calculate point of sale tax collections based on the previous mining severance tax law (not Laws 1999, 1st Special Session, Chapter 5). This legislation only changes the distribution of tax revenues among the counties and has no state revenue impact. (Effective November 1, 1999)

1999 TAX LAWS

Laws 1999, 1st Special Session, Chapter 5 made a series of tax cuts that are to be triggered only if sufficient excess revenue is collected in FY 1999. Since sufficient revenue was collected, this bill reduced the mining severance tax base to the difference between the gross value of production and the production costs multiplied by 1.337. Taxpayers are allowed to use either the new tax base or the current base, if the new base would result in a tax increase. On July 1, 2001 the new tax base will expire and only the current base will remain. This act was estimated to reduce General Fund revenues by $(4,667,000) in FY 2000 and by another $(3,333,000) in FY 2001. (Effective November 1, 1999)

Pre 1996 History

JET FUEL EXCISE AND USE TAX

DESCRIPTION

The jet fuel excise tax is a tax levied on the retail sale of jet fuel. The jet fuel use tax is a tax levied on the storage, use or consumption in the state of jet fuel purchased from a retailer [A.R.S. § 42-5352].

DISTRIBUTION

Forty percent of the excise tax revenue collected is designated as distribution base and is distributed pursuant to A.R.S. § 42-5029(D). Sixty percent of the excise tax revenue and 100% of the use tax is credited to the state General Fund [A.R.S. § 42-5353].

Table 1

DISTRIBUTION OF JET FUEL EXCISE TAX

Fiscal Year	General Fund	Counties	Cities
FY 2001	$4,333,585	$951,561	$587,239
FY 2000	$3,838,375	$842,165	$519,727
FY 1999	$3,645,555	$800,485	$494,004
FY 1998	$3,767,232	$827,203	$510,493
FY 1997	$3,411,961	$749,193	$462,351
FY 1996	$3,135,681	$688,527	$424,912
FY 1995	$3,462,468	$760,282	$469,194
FY 1994	$3,889,868	$792,457	$520,258
FY 1993	$5,194,309	$1,058,203	$694,724
FY 1992	$3,869,796	$788,368	$517,574

DISTRIBUTION OF JET FUEL USE TAX

Fiscal Year	General Fund	Counties	Cities
FY 2001	$740,281	$0	$0
FY 2000	$835,615	$0	$0
FY 1999	$458,118	$0	$0
FY 1998	$394,789	$0	$0
FY 1997	$532,451	$0	$0
FY 1996	$613,252	$0	$0
FY 1995	$421,116	$0	$0
FY 1994	$490,721	$0	$0
FY 1993	$725,335	$0	$0
FY 1992	$550,908	$0	$0

Note: The Jet Fuel Excise and Use Tax became effective October 1, 1991.

SOURCE: Department of Revenue, Annual Reports

WHO PAYS THE TAX

The excise tax is paid by every person engaging or continuing in the retail sale of jet fuel. The use tax is levied on the storage, use, or consumption in Arizona of jet fuel purchased from a retailer in any case in which the excise tax has not been paid to the state [A.R.S. § 42-5352].

Jet Fuel Excise and Use Tax

TAX BASE AND RATE

The tax rate is 3.05¢ per gallon on the first 10 million gallons of jet fuel. The tax on amounts over 10 million gallons was reduced from 3.05¢ per gallon to 2.05¢ per gallon in FY 1993, to 1.05¢ per gallon in FY 1994, and is not subject to tax in FY 1995 and thereafter [A.R.S. § 42-5352].

The jet fuel excise tax does not apply to jet fuel that is sold in Arizona to commercial airlines and used on flights that originate in the state and whose first outbound destination is outside of the United States [A.R.S. § 42-5354].

PAYMENT SCHEDULE

Taxes are collected and due in the same manner as for Transaction Privilege Taxes.

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 to 2002.

Pre 1996 History

RENTAL OCCUPANCY TAX

DESCRIPTION

The rental occupancy tax is imposed on tenants of real property whose lease was entered into prior to December 1, 1967. It is intended to be a substitute for the transaction privilege tax on rentals of real property where the landlord cannot pass the tax on to tenants in the form of a rent increase because of the long-standing fixed nature of the lease price. The tax rate is 3% of the tenant's rent.

DISTRIBUTION

Revenues from the rental occupancy tax are distributed between the state, the counties, and the cities.

- Two-thirds of the tax revenues collected are designated as Distribution Base and will be distributed as described in the Transaction Privilege Tax section of this book. The Department of Revenue shall determine each county's share of the Distribution Base on the basis of occupancy in each county.
- One-third of the tax revenues are deposited in the General Fund. [A.R.S. § 42-5409]

Table 1

TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Cities	Counties	Total
FY 2001	$82,743	$24,485	$39,675	$146,903
FY 2000	$63,092	$18,670	$30,252	$112,014
FY 1999	$66,455	$19,665	$31,865	$117,985
FY 1998	$71,158	$21,056	$34,120	$126,334
FY 1997	$55,632	$16,462	$26,675	$ 98,769
FY 1996	$59,739	$17,677	$28,644	$106,060
FY 1995	$55,917	$16,547	$26,812	$ 99,276
FY 1994	$56,919	$16,372	$24,938	$ 98,229
FY 1993	$49,874	$14,346	$21,851	$ 86,071
FY 1992	$54,161	$15,579	$23,730	$ 93,470
FY 1991	$62,738	$18,061	$27,510	$108,359
FY 1990				$ 91,832
FY 1989				$ 92,239
FY 1988				$ 88,163
FY 1987				$127,493
FY 1986				$150,130
FY 1985				$112,958
FY 1984				$ 74,595
FY 1983				$ 76,651
FY 1982				$113,272

Note: Distribution amounts are not available for FY 1982 – FY 1990.

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

The tax is paid by landlords who collect the tax from the tenant together with the rental payment or by any tenant from whom no tax has been collected by the landlord [A.R.S. § 42-5406].

TAX BASE AND RATE

The rental occupancy tax is levied at a rate of 3% on tenants of preexisting leases for the privilege of occupancy [A.R.S. § 42-5404]. A preexisting lease is defined as any written lease or rental agreement entered into prior to December 1, 1967 [A.R.S. § 42-5401].

Exceptions to Preexisting Lease. The following are exempt from the rental occupancy tax:

- Any bilateral amendment to a lease or rental agreement entered into after December 1, 1967 that lengthens the term of the lease or changes the size of the premises leased.
- A lease or rental agreement for the following businesses: hotels, guest houses, dude ranches, resorts, rooming houses, apartment houses, office buildings, automobile storage garages, parking lots, and tourist camps [A.R.S. § 42-5401].

Other Exemptions from this tax:

- Occupancy by any tenant who is exempt under the Constitution or laws of the United States or Arizona.
- Occupancy under a lease entered into prior to December 1, 1967 which the Constitution or laws of the United States or Arizona would prohibit from taxing if the landlord were the tenant.
- Leasing or renting of property when such property is used by the lessee as a principal or permanent place of residence [A.R.S. § 42-5405].

PAYMENT SCHEDULE

On or before the last day of each month, the landlord shall pay taxes on rents received during the previous calendar month. An extension may be granted for good cause, but not beyond the last day of the second month following the regular due date [A.R.S. § 42-5407].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 to 2002.

Pre 1996 History

SEVERANCE TAX ON TIMBER

DESCRIPTION

The severance tax on timber is levied on the production of timber products. Timber products include poles, saw logs, pulpwood, and firewood.

DISTRIBUTION

Revenues from this tax are shared between the General Fund and the local governments. Eighty percent of timber severance tax revenues is deposited in the distribution base, and the remaining 20% is designated for the General Fund. Of the distribution base monies, 34.49% is allocated to the General Fund, 40.51% is designated to the counties, and 25% goes to the cities [A.R.S. § 42-5205].

Table 1

TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Cities	Counties	Total
FY 2001	$521	$219	$355	$1,095
FY 2000	$6,150	$2,584	$4,188	$12,922
FY 1999	$19,160	$8,053	$13,047	$40,260
FY 1998	$24,812	$10,426	$16,894	$52,132
FY 1997	$19,781	$8,312	$13,470	$41,563
FY 1996	$21,720	$9,127	$14,791	$45,638
FY 1995	$124,045	$52,129	$84,469	$260,643
FY 1994	$131,612	$53,138	$80,939	$265,689
FY 1993	$209,243	$84,481	$128,681	$422,405
FY 1992	$232,679	$93,943	$143,094	$469,716
FY 1991	$175,944	$71,037	$108,204	$355,185
FY 1990 1/				$543,461
FY 1989				$563,534
FY 1988				$557,476
FY 1987				$480,535
FY 1986				$376,947
FY 1985				$197,920
FY 1984				$102,305
FY 1983				$33,425
FY 1982				NA

1/ Distribution by jurisdiction not available prior to FY 1991.

SOURCE: Department of Revenue.

WHO PAYS THE TAX

The tax is paid by individuals engaged in the business of producing timber products [A.R.S. § 42-5202].

TAX BASE AND RATE

This tax is imposed on timbering activities that result in timber products, such as poles, saw logs, pulpwood, or firewood. An exemption is provided for timber products sold at retail [A.R.S. § 42-5202]. The tax rate is:

- $2.13 per 1,000 board feet for timber products derived from ponderosa pine.
- $1.51 per 1,000 board feet for timber products derived from all species except ponderosa pine.

TAX REFUNDS AND/OR TAX CREDITS

None.

PAYMENT SCHEDULE

The due dates for the severance tax on timber are the same as for the transaction privilege tax [A.R.S. § 42-5014].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 to 2002.

Pre 1996 History

GENERAL FUND

INCOME TAXES

INDIVIDUAL INCOME TAX

DESCRIPTION

The individual income tax is levied on the personal income 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 starting point for Arizona individual income tax is the federal adjusted gross income. The tax, which uses a graduated rate structure, currently ranges between 2.87% and 5.04% of Arizona taxable income depending on the taxpayer's income level.

The individual income tax is an important revenue source for the state, representing over 36% of forecasted General Fund revenues. A portion of individual income tax collections (along with corporate income tax collections) is shared with incorporated cities and towns within the state.

The individual income tax is comprised of four components: (1) withholdings, (2) estimated tax payments, (3) final payments, and (4) refunds. Generally, withholding payments are from tax on wage and salary based income, and estimated payments from non-wage earnings. Final payments and refunds are the underpayment and overpayment of tax, respectively, settled between taxpayers and the state after tax returns have been filed.

DISTRIBUTION

Table 1 below provides historical individual income tax collections for the last 20 years. Individual income tax receipts are deposited into the General Fund, after sufficient amounts have been deposited into the tax refund account to meet the requirements for tax refunds [A.R.S. § 42-1116].

Table 1

INDIVIDUAL INCOME TAX COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2001	$2,300,751,988	FY 1991	$1,243,656,300
FY 2000	$2,289,328,921	FY 1990	$996,405,685
FY 1999	$2,097,629,461	FY 1989	$912,164,223
FY 1998	$1,862,514,798	FY 1988	$853,980,226
FY 1997	$1,668,414,355	FY 1987	$761,421,688
FY 1996	$1,494,282,274	FY 1986	$702,956,800
FY 1995	$1,479,588,252	FY 1985	$626,244,306
FY 1994	$1,405,482,556	FY 1984	$526,707,527
FY 1993	$1,367,641,116	FY 1983	$480,715,757
FY 1992	$1,237,540,251	FY 1982	$438,984,699

SOURCE: Department of Revenue annual reports – amounts are net of refunds and charge-offs. A portion of individual income tax collections is shared with incorporated cities and towns - see Table 2 below.

Based on initiative measure approved by the voters in 1972, an urban revenue sharing fund was established. The initiative provided that a percentage of income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and towns within the state. Currently, 15% of net income tax revenues from two years prior is distributed to cities and towns. This distribution is based on the jurisdiction's relative population of the state from the last decennial or special census. Table 2 below provides historical urban revenue sharing distributions [A.R.S. § 42-206].

Table 2

DISTRIBUTION OF INDIVIDUAL AND CORPORATE INCOME TAX

Fiscal Year	Total Collections [1/]	State General Fund	Urban Revenue Sharing	Voluntary Contribution Funds
FY 2001	$2,845,000,474	$2,445,472,944	$396,452,640	$3,074,890
FY 2000	$2,815,006,109	$2,434,799,494	$377,710,989	$2,495,626
FY 1999	$2,643,737,477	$2,302,706,943	$340,310,656	$ 719,878
FY 1998	$2,390,575,871	$2,098,733,397	$291,243,578	$ 598,896
FY 1997	$2,269,304,787	$2,010,937,159	$257,800,548	$ 567,080
FY 1996	$1,942,321,758	$1,723,080,577	$218,543,272	$ 697,909
FY 1995	$1,896,299,526	$1,689,985,202	$205,607,690	$ 707,264
FY 1994	$1,708,098,853	$1,521,964,032	$185,405,279	$ 729,542
FY 1993	$1,606,910,521	$1,422,638,002	$183,667,152	$ 605,368
FY 1992	$1,448,985,875	$1,272,391,599	$176,087,148	$ 507,128
FY 1991	$1,435,328,781	$1,268,036,363	$166,863,264	$ 429,154
FY 1990	$1,174,472,787	$1,023,291,736	$150,622,581	$ 558,470
FY 1989	$1,113,033,948	$ 968,464,778	$143,956,984	$ 612,187
FY 1988	$1,004,728,980	$ 873,497,071	$130,653,468	$ 578,441
FY 1987	$ 960,370,312	$ 835,501,060	$124,212,169	$ 657,084
FY 1986	$ 871,639,451	$ 771,448,590	$108,637,795	$ 616,270
FY 1985	$ 828,521,461	$ 730,874,978	$ 96,166,908	$ 440,334
FY 1984	$ 724,593,724	$ 633,247,539	$ 83,061,596	$ 260,685
FY 1983	$ 641,112,719	$ 573,649,629	$ 73,596,099	$ -0-
FY 1982	$ 553,743,940	$ 487,950,969	$ 65,083,596	$ -0-

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1/ Note that this column also includes corporate income tax.

WHO PAYS THE TAX

Residents or part-year residents of the state and non-residents who derived income from sources within the state must pay individual income tax [A.R.S. ' 43-102(A)]. Fiduciaries of estates and trusts, and individuals comprising a partnership or S-corporations also are subject to the tax.

Any individual whose permanent home is in the state is considered a resident. Every person who spends more than nine months of the taxable year in Arizona is presumed a resident unless competent evidence can show the individual is in the state for a temporary or transitory purpose.

Any resident who moved into or out of Arizona with intent to establish or relinquish residency is considered to be a part-year resident.

The United States, the state, counties, cities, towns, school districts or other political subdivisions of the state or federal government are excluded from the definition of a taxpayer.

TAX BASE

The tax is levied, paid, and collected each taxable year based on taxable income [A.R.S. ' 43-1011]. The tax base starts with Arizona gross income, which is equivalent to the taxpayer's federal adjusted gross income, and is then modified by a list of additions and subtractions to income as listed under A.R.S. ' 43-1021 and A.R.S. § 43-1022, respectively. This is further reduced by exemptions and standard or itemized deductions to arrive at Arizona taxable income.

Exempt Organizations [A.R.S. ' 43-1201]:

(1) Labor, agricultural, and horticultural organizations except for cooperative organizations.
(2) Fraternal beneficiary societies, orders, or organizations operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system and providing for the payment of life, sick, accident, or other benefits to the members of such society, order or organization or their dependents.
(3) Cemetery companies owned and operated exclusively for the benefit of their members or which are not operated for profit.
(4) Nonprofit business leagues, chambers of commerce, real estate boards, or boards of trade, of which no part of the net earnings inures to the benefit of any private shareholder or individual.
(5) Civic leagues or organizations not organized for profit, operated exclusively for the promotion of social welfare, or local organizations of employees, with the membership limited to the employees of a designated person(s) in a particular municipality and the net earnings devoted exclusively to charitable, educational or recreational purposes.
(6) Clubs organized and operated exclusively for pleasure, recreation, and other nonprofit making purposes, of which no part of the net earnings inures to the benefit of any private shareholder.
(7) Voluntary employees' beneficiary organizations providing for the payment of life, sick, accident or other benefits to the members of such organizations or their dependents, if no part of their net earnings inures (other than through such payment) to the benefit of any private shareholder or individual, and 85% or more of the income consists of amounts collected from members and contributions by the employees of the member for the sole purpose of making such payments and meeting expenses.
(8) Teachers' or public employees' retirement fund organizations of a purely local character, if no part of their net earnings inures (other than through payment of retirement benefits) to the benefit of any shareholder or individual, and the income consists entirely of amounts received from public taxation, assessments upon the salaries of members, and income from investments.
(9) Religious or apostolic organizations or corporations, if such organizations or corporations have a common or community treasury.
(10) Voluntary employees' beneficiary organizations providing for the payment of life, sick, accident, or other benefits to members of such organizations or their dependents or designated beneficiaries, if admission to membership in such organizations is limited to individuals who are officers or employees of the United States government and, if no part of the organization's net earnings inure (other than through such payments) to the benefit of any private shareholder or individual.
(11) Insurance companies subject to payment of the insurance premium tax.
(12) Mutual ditch, irrigation or water companies or similar nonprofit organizations if 85% or more of the income consists of amounts collected from members for the sole purpose of meeting losses and expenses.
(13) Workers' compensation pools established pursuant to A.R.S. § 23-961.01.

TAX RATE

Rates and Brackets. The current rate structure, based on Arizona taxable income, is as follows [A.R.S. ' 43-1011]:

2001 TAX RATE SCHEDULE

Single 1/ Arizona Taxable Income	Rate 2/	Married 3/ Arizona Taxable Income	Rate
$ 0 - $10,000	2.87%	$ 0 - $20,000	2.87%
$ 10,001 - 25,000	$ 287 plus 3.20%	$ 20,001 - 50,000	$ 574 plus 3.20%
$ 25,001 - 50,000	$ 767 plus 3.74%	$ 50,001 - 100,000	$ 1,534 plus 3.74%
$ 50,001 - 150,000	$1,702 plus 4.72%	$100,001 - 300,000	$ 3,404 plus 4.72%
$150,001 and over	$6,422 plus 5.04%	$300,001 and over	$12,844 plus 5.04%

1/ Or married filing separately.
2/ The marginal rates apply to income within the taxable income bracket.
3/ Or unmarried head of household.

NOTE: Inflation indexing has been repealed from the income tax statutes.

Optional Tax Table. The Department of Revenue developed an optional tax table prescribing tax liability amounts, based on filing status, in $50 increments of Arizona taxable income. The table can be used if (1) an individual has been a resident for the entire taxable year, and (2) the Arizona taxable income for the year is less than $50,000 regardless of filing status [A.R.S. ' 43-1012].

RECENT HISTORICAL PERSONAL INCOME TAX RATES 1/

Taxable Income 2/	1990 Tax Rate	1994 Tax Rate	1995 Tax Rate	1997 Tax Rate	1998 Tax Rate	1999 Tax Rate
$ 0 -$ 10,000	3.80%	3.25%	3.00%	2.90%	2.88%	2.87%
$ 10,001 - 25,000	4.40%	4.00%	3.50%	3.30%	3.24%	3.20%
$ 25,001 - 50,000	5.25%	5.05%	4.20%	3.90%	3.82%	3.74%
$ 50,001 - 150,000	6.50%	6.40%	5.20%	4.90%	4.74%	4.72%
$150,001 & over	7.00%	6.90%	5.60%	5.17%	5.10%	5.04%

1/ For marginal rates prior to 1990, see page 90 of the 1990 Tax Handbook.
2/ These brackets applied to single or married filing separately filers. For married joint filers or head of households, the bracket amounts are doubled. In 1990, the brackets were altered into the present form (see Laws 1990, 3rd Special Session, Chapter 3).

NOTE: There were no changes in 2000 and 2001.

TAX REFUNDS AND/OR TAX CREDITS

Taxes Paid to Other States. Subject to certain conditions, residents are allowed a credit for income taxes paid to another state or country [A.R.S. ' 43-1071].

Property Taxes. A full-year resident can claim a refundable credit for property taxes or rent paid on property if all the following apply [A.R.S. ' 43-1072]:

- 65 years or over or receiving SSI Title 16 monies from the Social Security Administration.
- Paid property tax on your Arizona homestead or paid rent on taxable property for the entire year (or combination of both).
- If lived alone, your income from all sources was below $3,751 or if lived with others, the combined household income was below $5,501.

The amount of the credit is the lesser of property taxes actually paid or the amount listed in the table under A.R.S. ' 43-1072, Section B, Paragraphs 1 and 2. The inflation indexing of this table has been repealed. The credit amount will remain at 1989 levels. Refunds are subject to setoffs of debt owed to the state or a court as listed in A.R.S. ' 42-133.

Agricultural Pollution Control Equipment. A taxpayer involved in the commercial production of livestock or agricultural crops may claim a tax credit for expenses incurred to purchase tangible personal property used in the business in order to control or prevent pollution. The credit is 25% of the cost of the property up to a maximum of $25,000 [A.R.S. § 43-1081.01].

Agricultural Preservation District. A refundable credit for individuals and corporations that donate land or development rights to land to an agricultural preservation district. The amount of the credit is equal to the appraised value of the property if ownership is conveyed to the district or the difference between the appraised value of the undeveloped land and the land for development purposes if development rights are conveyed instead. The maximum credit is $33,000. The credit is available from 2001 through 2005 [A.R.S. § 43-1081.02].

Agricultural Water Conservation System. A tax credit can be claimed for 75% of the qualifying expenses in purchasing and installing an agricultural water conservation system. This credit is in lieu of itemized deductions for

such expenses, in which case, the taxpayer must add the credit back into Arizona gross income in computing taxable income [A.R.S. ' 43-1084].

Alternative Fuel Delivery Systems. A taxpayer may claim a credit for the costs to construct or operate an alternative fuel delivery system (AFDS) in Arizona that is capable of dispensing alternative fuel to an alternative fuel vehicle. Laws 2000, 7th Special Session, Chapter 1 limited the credit for AFDS to those individuals who had a purchase order or contract for the system before October 20, 2000 and for which actual construction began before November 9, 2000. Taxpayers may take their credit as a lump sum refund or over a period not to exceed five years [A.R.S. § 43-1086.02].

Alternative Fuel Vehicles. A taxpayer may claim a tax credit for alternative fuel vehicles (AFV) used in Arizona. Laws 2000, 7th Special Session, Chapter 1 modified the amount of the credit and imposed ownership, alternative fuel use, and emission testing requirements on persons qualifying for it. (For more details, see section *Impact of Tax Law Changes*.) Taxpayers may take their credit as a lump sum refund or over a period not to exceed three years. Interest is not paid on unpaid annual installments [A.R.S. ' 43-1086].

Charitable Organizations and Contributions. A taxpayer may take a tax credit up to $200 for donations to qualifying charitable organizations that exceed the level of contributions in 1996 or the first year that the taxpayer deducted charitable contributions pursuant to Section 170 of the Internal Revenue Code. This became effective January 1, 1998 [A.R.S. § 43-1088].

Construction Materials. A tax credit can be claimed for 5% of the purchase price of new construction materials used to build a new facility or expand an existing one. The facility must be predominantly used for manufacturing, refining, mining, metallurgical operations, or research and development and the total cost of construction must exceed $5 million. Also, construction must have begun on or after January 1, 1994 and be completed by December 31, 1999 [A.R.S. ' 43-1082].

Defense Contractor. A defense contractor certified by the state Department of Commerce may qualify for a tax credit due to (1) net employment increases under defense related contracts, or (2) net employment increases from transferring employment from exclusively defense related activities to exclusively private commercial activities, or (3) taxes paid on class 3 property if there was new defense related employment during the taxable year [A.R.S. ' 43-1077 and 43-1078].

Enterprise Zones. Businesses located in an enterprise zone can claim a credit for net increases in employment of persons who qualify as economically disadvantaged under the Job Training Partnership Act. (See Laws 1989, Chapter 194 for changes in the amount of credit allowed.) In addition to extending the repeal of the credit from July 1, 2001 to July 1, 2006, Laws 2001, Chapter 370 also made several modifications to the program [A.R.S. ' 43-1074].

Environmental Technology Facility. A taxpayer may claim a credit for expenses incurred in constructing a qualified environmental technology facility as described in A.R.S. ' 42-1514.02. The credit is equal to 10% of construction costs including land acquisition, improvements, building improvements, machinery and equipment. Credit may not exceed 75% of the tax liability for the taxable year. This credit is in lieu of the credit given for the same recycling equipment. Certain recapture provisions apply to this credit [A.R.S. ' 43-1080].

Family Income Credit. Residents are allowed a $40 nonrefundable tax credit for each personal or dependent exemption claimed, subject to certain income limitations [A.R.S. ' 43-1073].

Low-Income Credit for Excise Taxes Paid. For taxpayers filing as married couple or as head of household and whose federal adjusted gross income is $25,000 or less, a credit of $25 is granted per person or $100 per household. For taxpayers filing as single or as married person filing separately, the income requirement is $12,500 or less. This credit is considered a mitigation of the 0.6% sales tax increase resulting from Proposition 301 passed in November 2000. This law became effective January 1, 2001 [A.R.S. § 43-1072.01].

Military Reuse Zones. Businesses that are primarily engaged in manufacturing, assembling or fabricating aviation or aerospace products, and are located in a military reuse zone can claim a tax credit for net employment increases

within the military reuse zone. This credit is in lieu of any other tax credit obtained by a qualified defense contractor for the same employees [A.R.S. ' 43-1079].

Pollution Control Equipment. A taxpayer may claim a tax credit for 10% of the cost to purchase real or personal property used to control or prevent pollution. Amounts that qualify for this credit must be includible in the taxpayer=s adjusted basis for the property. This credit is in lieu of the recycling equipment credit. The maximum credit is $500,000 [A.R.S. ' 43-1081].

Public School Extra Curricular Activity Fees. A taxpayer may take a credit up to $250 per year for contributions for the support of extracurricular activities and character education programs at public schools. This credit is in lieu of any federal or state deduction for such contributions. A five-year carry forward of the credit is allowed [A.R.S. § 43-1089.01].

Recycling Equipment. Taxpayers may claim a credit for placing recycling equipment in service after December 31, 1992. This credit is in lieu of any deductions taken for depreciation. The credit is equal to 10% of the installation cost, but not to exceed the lesser of 25% of the tax liability for that year or $5,000. Certain recapture provisions apply when the recycling equipment ceases operation or is transferred [A.R.S. ' 43-1076].

Refueling Stations. A taxpayer may claim a credit for a vehicle refueling apparatus, including storage tanks, installed on one or more properties located in Arizona for his use. Laws 2000, 7th Special Session, Chapter 1 limited the credit to those individuals who had a purchase order or contract for the apparatus before October 20, 2000 and had the refueling station either installed by December 31, 2000 or paid in full by November 9, 2000. Taxpayers may take their credit as a lump sum refund or over a period not to exceed three years [A.R.S. § 43-1086.01].

School Site Donation Credit. A credit is allowed in the amount of 30% of the value of real property and improvements donated by a taxpayer to a school district or a charter school. This credit became available January 1, 2001 [A.R.S. § 43-1089.02].

School Tuition Organizations. A taxpayer may take a credit up to $625 per year for donations to a non-governmental primary or secondary school tuition organization that allocates at least 90% of its annual revenue to educational scholarships or tuition grants. A five-year carry forward of the credit is allowed [A.R.S. § 43-1089].

Solar Energy Devices. A taxpayer may claim 25% of the purchase price for a qualified solar energy device installed in the taxpayer=s residence located in Arizona. The maximum credit is $1,000 per year and $1,000 in aggregate for the same residence [A.R.S. ' 43-1083].

Solar Hot Water Heater Stub-Outs and Electric Vehicle Recharge Outlets. A taxpayer may take a credit up to $75 for installing solar hot water plumbing stub-outs or electric vehicle recharge outlets in home dwellings built by the taxpayer. This law became effective January 1, 1998 [A.R.S. § 43-1090].

TANF Employment. A credit that is allowed for net increases in qualified employment of recipients of temporary assistance for needy families (TANF) residing in Arizona. The credit is in lieu of any wage expense deduction taken for tax purposes [A.R.S. § 43-1087].

Technology Training. A taxpayer may claim a credit for expenses incurred in providing qualified technology skills training for up to 20 of his employees. The credit is 50% of the expenses for the training but cannot exceed $1,500 per employee. The credit is available between 2001 and 2005 [A.R.S. § 43-1088.01].

Underground Storage Tanks. Taxpayers can claim 10% of the expenses in tax year 1994 and thereafter for corrective actions related to underground storage tank compliance if the taxpayer is not responsible or liable for the corrective action. The corrective action must be certified by the Department of Environmental Quality and is in lieu of reimbursements by said agency [A.R.S. ' 43-1085].

Wheels to Work Vehicle Donation. A credit for the fair market value, up to $1,500 per vehicle, may be taken for donations of vehicles to qualified wheels to work programs [A.R.S. § 43-1090.01].

TAX COMPUTATION

Individuals:

Arizona Gross Income *Plus*	Equivalent to taxpayer's federal adjusted gross income.
Additions to Income *Minus*	See A.R.S. § 43-1021 for amounts not taxed under federal income tax laws, but subject to Arizona income tax.
Subtractions from Income *Minus*	See A.R.S. § 43-1022 for amounts taxed under federal income tax laws, but not subject to Arizona income tax.
Exemptions *Equals*	See A.R.S. § 43-1023 for exemptions: (1) $1,500 for blind taxpayer and/or spouse (2) $2,300 for taxpayer and/or spouse who is age 65 or over, (3) $2,300 for each dependent, and (4) $10,000 for qualifying parents and ancestors of parents.
Arizona Adjusted Gross Income *Minus*	
Standard or Itemized Deductions *Minus*	Standard deduction is $4,050 for single or married filing separately and $8,100 for married filing jointly or unmarried head of household. Itemized deductions are the same as on the federal income tax return.
Personal Exemptions *Equals*	See A.R.S. § 43-1043: (1) single or married filing separately - $2,100 (2) married filing jointly - $4,200 (3) unmarried head of household - $4,200 (4) a married couple filing a joint return and claiming at least one dependent - $6,300.
Taxable Income *Multiply By*	
Tax Rates *Equals*	See *Tax Rate* Section
Tax Liability *Minus*	
Tax Credits *Minus*	See *Tax Refund and/or Tax Credits* Section
Tax Payments *Equals*	Withholding, estimated, and extension payments made to the Department of Revenue.
Tax Due	This can also be an overpayment; in which case, taxpayer will be entitled to tax refund.

Partnerships:

Arizona Gross Income *Add*	Equivalent to federal ordinary business and rental income for the year, excluding (1) items requiring a separate computation under A.R.S. § 43-1412, paragraph 1 through 17 and (2) the federal provisions relating to interest on investment indebtedness.

Addition to Income *Minus*	See A.R.S. § 43-1021 for amounts not taxed under federal income tax laws, but subject to Arizona income tax.
Subtractions from Income *Equals*	See A.R.S. § 43-1022 for amounts taxed under federal income tax laws, but not subject to Arizona income tax.
Arizona Taxable Income *Calculate*	This is mainly for filing and reporting purposes. The taxable income of a partnership is passed through to individuals in the partnership who are then taxed through the individual income tax on their distributed portion of the income.
Apportionment Ratio	Only for multi-state partnerships to determine Arizona's share of income and deductions. Uses a three-part apportionment formula of property, payroll and sales. See A.R.S. § 43-1131 through A.R.S. § 43-1150.

Fiduciaries:

Arizona Gross Income *Add*	Equivalent to federal taxable income of estates or trusts (A.R.S. § 43-1301). income is taxable based on the residence of the decedent for an estate and the residence of the fiduciary or the beneficiary for a trust. See A.R.S. § 43-1312.
Additions to Income *Minus*	See A.R.S. § 43-1331 for a list of additions which also include those items listed for individuals under A.R.S. § 43-1021.
Subtractions from Income *Equals*	See A.R.S. § 43-1332 for a list of subtractions which also include those items listed for individuals under A.R.S. § 43-1022.
Arizona Taxable Income *Multiply By*	
Individual Tax Rates *Equals*	See *Tax Rate* Section
Tax Liability *Minus*	
Individual Tax Credits *Minus*	See *Tax Refund and/or Tax Credits* Section
Tax Payments *Equals*	
Tax Due	

PAYMENT SCHEDULE

Withholding. To simplify payment of the individual income tax, a portion of the tax is paid through a system of withholding. Under the withholding system, a percentage of each employee's gross salary is withheld by the employer at the time wages are paid [A.R.S. ' 43-401].

Percentages. An employee must elect which percentage of the federal income tax withholding shall be withheld for state income taxes:

$ If the employee's annual wage is less than $15,000, the percentages are: 0%, 10%, 18%, 21%, 23%, 29%, or 34%.

$ If the employee's annual wage is $15,000 or more, the percentages are: 0%, 18%, 21%, 23%, 29%, or 34%.

The 0% option is available only for those who had no state tax liability in the prior taxable year and expect to have no state tax liability for the current taxable year.

Exclusions. Certain types of employment are exempt from the withholding requirements (see A.R.S. ' 43-403 for a complete list).

Disposition. Employers who deduct withholding from their employees' wages are required to transfer the withholding collections to the Department of Revenue (DOR). If an employer's withholding collections exceeded an average of $1,500 per quarter over the four preceding calendar quarters, the employer must forward withholding collections to the state in accordance with the federal payment schedule. For employers whose withholding collections did not exceed an average of $1,500 per quarter over the four preceding calendar quarters, the withholding collections for the previous calendar quarter must be transferred to DOR on or before April 30, July 31, October 31, and January 31.

Estimated Tax Payments. A taxpayer whose Arizona gross income was greater than $75,000 in the preceding taxable year or can reasonably expect to exceed $75,000 in the current year, must make estimated payments, if estimated withholding for the tax year does not equal 90% of the tax liability for the current year or 100% of the liability for the preceding year [A.R.S. ' 43-581].

The estimated amount shall be paid in four installments on or before the due dates established for federal filing and reasonably reflect the taxpayer's Arizona income tax liability. The total of annual estimated tax payments and withholding tax must be at least 90% of the tax liability for the current year or 100% of tax liability for the preceding year.

If a taxpayer does not pay the required estimated tax payments, DOR will assess a penalty not exceeding 10% of the unpaid tax plus interest on the unpaid balance.

Voluntary Payments. All other taxpayers may voluntarily make estimated tax payments during the tax year.

Payment of Balance. The taxpayer is required to pay the balance of the tax due on April 15 after the close of the calendar year or, if return is based on a fiscal year, on the 15th day of the fourth month following the close of the fiscal year. An Income Tax Return is required to be filed with DOR along with the tax payment [A.R.S. ' 43-501].

Extensions. If requested, an automatic 4-month extension is granted by the department. An additional two-month extension may also be granted if good cause exists. No extension may be granted beyond six months from the original due date [A.R.S. ' 42-116].

Penalties and Interest. When applying for an extension, at least 90% of the tax liability must be paid by the original due date or the taxpayer is subject to a penalty of 0.5% of the unpaid balance for each 30 days or fraction thereof. This penalty is in addition to the 10% late payment or the 5% late filing penalties found under A.R.S. ' 42-136. Total penalties cannot exceed 25%. DOR will assess interest on the unpaid balance until it is paid.

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm. The estimated dollar impact of the tax law changes is summarized by fiscal year in the following table:

Table 3

ESTIMATED DOLLAR VALUE OF TAX LAW CHANGES
($ in Thousands)

Fiscal Year	Impact
2003	$ 4,434.5
2002	$ 19,825.3
2001	$ (82,895.0)
2000	$ (27,177.9)
1999	$ (51,091.5)
1998	$(114,969.0)
1997	$ (950.0)

Estimates made by JLBC Staff

2002 TAX LAWS

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 is unknown. (Effective retroactively from January 1, 2002.)

Laws 2002, Chapter 344 conformed Arizona tax statutes to the current Internal Revenue Code. The act includes provisions relating to the Economic Growth and Tax Relief Reconciliation Act of 2001, the Fallen Hero Survivor Benefit Fairness Act of 2001 and the Job Creation and Worker Assistance Act of 2002, except for the bonus depreciation provision (which impacts the corporate income tax). The act also adjusted the Urban Revenue Sharing (URS) program from 15% to 14.8% for two years. The JLBC Staff estimated that the conformity provisions will reduce individual income tax revenues by $(14.5) million in FY 2003. The URS adjustments, however, are expected to increase the General Fund by $5.7 million. The URS changes are not included in Table 3. (Contained various effective dates.)

2001 TAX LAWS

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
17%	18%
20%	21%
22%	23%
28%	29%
32%	34%

The adjustments of the state withholding rates were estimated to result in a one-time revenue increase 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 estimated to generate $10 million in income tax revenues in FY 2003. (The act 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 is estimated to result in additional individual income tax revenues of $1.4 million in FY 2002 and $1.3 million 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 is 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 the state's archaic 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 archaic 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)

2000 TAX LAWS

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. (Contained various effective dates)

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 $(41,600,000) 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 repayment (including interest) from the transaction privilege tax distribution base to the BSF was not to exceed $16 million annually. 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.)

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 six 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)

1998 TAX LAWS

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. 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)

1997 TAX LAWS

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)

1996 TAX LAWS

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)

Pre 1996 History

CORPORATE INCOME TAX

DESCRIPTION

The corporate income tax is levied on corporations that engage in business within Arizona. The tax rate currently is 6.968% of taxable income. A multi-state company must allocate a portion of its income to Arizona based on its Arizona property, payroll, and sales.

The corporate income tax is an important revenue source for the state, representing slightly under 8% of forecasted General Fund revenues. A portion of corporate income tax collections (along with individual income tax collections) is shared with incorporated cities and towns within the state.

Based on legislation enacted in the 45th Legislature, if revenues exceed projections by specified levels in FY 2001 or FY 2002, the tax rate will be reduced to 6.8% and the apportionment formula will be changed to place a 65% weight on a multi-state company's sales factor, replacing the current 50% weight.

DISTRIBUTION

Table 1 below provides historical corporate income tax collections for the last 20 years. Corporate income tax receipts are deposited into the General Fund, after sufficient amounts have been deposited into the tax refund account to meet the requirements for tax refunds [A.R.S. § 42-1116].

Based on an initiative measure approved by the voters in 1972, an urban revenue sharing fund was established. The initiative provided that a percentage of income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and towns within the state. Currently, 15% of net income tax revenues from two years prior is distributed to cities and towns. This distribution is based on the jurisdiction's relative population of the state from the last decennial or special census. Table 2 (Distribution of Individual and Corporate Income Tax) in the Individual Income Tax section provides historical urban revenue sharing distributions [A.R.S. § 42-206].

Table 1

CORPORATE INCOME TAX COLLECTIONS

Fiscal Year	State General Fund	Fiscal Year	State General Fund
FY 2001	$541,173,600	FY 1991	$191,672,500
FY 2000	$523,180,000	FY 1990	$178,067,100
FY 1999	$545,389,000	FY 1989	$200,869,700
FY 1998	$535,295,300	FY 1988	$150,748,800
FY 1997	$600,890,500	FY 1987	$198,948,600
FY 1996	$448,039,400	FY 1986	$168,682,700
FY 1995	$419,690,900	FY 1985	$202,277,200
FY 1994	$331,395,000	FY 1984	$197,886,200
FY 1993	$263,242,400	FY 1983	$160,397,000
FY 1992	$211,445,600	FY 1982	$114,759,200

SOURCE: Department of Revenue annual reports - amounts are net of refunds and charge-offs. A portion of corporate income tax collections is shared with incorporated cities and towns - see Table 2 in Individual Income Tax section.

WHO PAYS THE TAX

Any corporation, excluding exempt organizations, having Arizona taxable income is subject to the corporate income tax [A.R.S. § 43-1111].

Exempt organizations include those exempt from federal income tax under section 501 of the Internal Revenue Code (generally "non-profit" organizations), as well as a specific list of exempt organizations included in state statute [A.R.S. § 43-1201].

Small business corporations which make a "subchapter S" election for a taxable year under the Internal Revenue Code are not subject to the corporate income tax. The income of these corporations is generally passed through to each shareholder, who is then taxed under the state's individual income tax [A.R.S. § 43-1126].

The United States, the state, counties, towns, school districts, or other political subdivisions of the state or federal government are excluded from the definition of a taxpayer, and are exempt from the corporate income tax [A.R.S. § 43-104].

TAX BASE AND RATE

The tax base for the corporate income tax is defined as "Arizona taxable income", which is further defined as the "Arizona gross income" (equal to a corporation's federal taxable income), adjusted by a series of additions and subtractions as specified in Title 43, Article 3 of the Arizona Revised Statutes (A.R.S. § 43-1121 - A.R.S. § 43-1130.01) [A.R.S. § 43-1101].

The tax rate for corporate income tax is 6.968% of a corporation's net Arizona taxable income or $50, whichever is greater [A.R.S. § 43-1111].

Corporations which have income from both within the state and outside of the state are required to allocate their Arizona taxable income according to the type of income as follows: [A.R.S. § 43-1132]

- Business income: allocated to Arizona by multiplying the income by a factor which weights the value of the taxpayer's property in Arizona at 25%, the value of the taxpayer's payroll at 25%, and the value of sales within the state at 50% [A.R.S. § 43-1139 - A.R.S. § 43-1145].

- Nonbusiness income: includes rents and royalties from real property or tangible personal property, capital gains, interest and dividends, and patent and copyright royalties. Income is generally allocated to Arizona to the extent the property is utilized or located in the state, or if the taxpayer's commercial location is in the state [A.R.S. § 43-1134 - A.R.S. § 43-1138].

- Sale of other than tangible personal property: allocated to Arizona if the income producing activity is performed within the state, or, if the activity is performed both inside and outside of the state, if the greater proportion of the activity is performed within the state [A.R.S. § 43-1147].

- Sale of tangible personal property: allocated to Arizona if the property is delivered or shipped to a purchaser within the state [A.R.S. § 43-1146].

If the allocation and apportionment provisions do not fairly represent the extent of the taxpayer's business activity in the state, the taxpayer may petition for, or the Department of Revenue may require, an alternative method of allocation [A.R.S. § 43-1148].

TAX REFUNDS AND/OR TAX CREDITS

Current statutes include the following tax credits:

- Agricultural pollution control equipment: 25% of the cost of the real property or equipment, not to exceed $25,000 in a taxable year [A.R.S. § 43-1170.01].

- Agriculture preservation district: the value of property or development rights to property conveyed to an agricultural preservation district [A.R.S. § 43-1180].

- Coal consumed in generating electric power: 30% of the amount paid by the seller or purchaser as transaction privilege tax or use tax on coal sold to the taxpayer to be consumed in generating electrical power within the state [A.R.S. § 43-1178].

- Defense contractor employment: for net increases in employment, a credit for each newly created position of $2,500 - $500, depending on the number of years of employment (1-4 years) [A.R.S § 43-1165].

- Defense contractor property taxes: 10% to 40% of the amount paid for commercial property taxes, depending on the net number of new employment. This percentage is applied to the taxpayer's relative percentage of income from defense contracts compared to total income from all sources [A.R.S. § 43-1166].

- Enterprise zones: for non-retail businesses, 25% of the taxable wages paid to the net increase in qualified employees in the first year of employment, 33% in the second year of continuous employment, and 50% in the third year, not to exceed $500, $1,000, and $1,500 respectively. The credit may not be taken for more than 200 employees [A.R.S. § 43-1161].

- Environmental technology facility construction costs: 10% of the amount spent to construct the facility, including land acquisition, improvements, building improvements, machinery and equipment. Can not exceed 75% of the tax liability for the taxable year [A.R.S. § 43-1169].

- Military reuse zones: for net increases in employment, a credit for each newly created position of $500 - $3,000, depending on whether or not the employee is a dislocated military base employee, and the number of years of employment (1-5 years) [A.R.S. § 43-1167].

- Pollution control equipment: 10% of the purchase price, not to exceed $500,000 in a taxable year [A.R.S. § 43-1170].

- Research activities: 20% of qualified research expenses over a "base amount" (defined in the Internal Revenue Code) for expenses up to $2.5 million ($500,000 credit), plus 11% of expenses over $2.5 million. The credit is capped at $1.5 million for CY 2001 and $$2.5 million for CY 2002 [A.R.S. § 43-1168].

- School site donation: 30% of the value of real property and improvements donated to a school district or a charter school for use as a school, or as a site for the construction of a school [A.R.S. § 43-1181].

- Solar hot water heater plumbing stub outs and electric vehicle recharge outlets installed in houses constructed by taxpayer: up to $75 for each installation for each separate house or dwelling unit - credit may be transferred to the purchaser of the house [A.R.S. § 43-1176].

- Technology training: 50% of the amount spent for qualified technology skills training for not more than 20 employees, but not more than $1,500 per employee [A.R.S. § 43-1179].

- Temporary assistance for needy families employment: for net increases in employment, a credit for each newly created position of 25% of the taxable wages paid in the first year of employment, 33% in the second year of continuous employment, and 50% in the third year, not to exceed $500, $1,000, and $1,500 respectively [A.R.S. § 43-1175].

- Underground storage tanks corrective action costs: 10% of the total amount spent [A.R.S. § 43-1173].

- Wheels to work motor vehicle donation: up to $1,500 based on fair market value of the donated vehicle. [A.R.S. § 43-1177].

PAYMENT SCHEDULE

A corporation that anticipates an Arizona income tax liability over $1,000 is required to pay estimated tax payments during the year. Generally, the estimated payments must equal the lesser of 90% of the tax liability for the current year, or 100% of the tax liability for the prior year. Large corporations (defined as having federal tax liability of $1 million or more for any one of the preceding three years) are required to pay estimated payments of 90% of the current year tax liability. Estimated payments are required to be paid in four installments based on the Internal Revenue Code. A taxpayer who does not make required estimated payments, or underpays the required payment, is subject to a penalty [A.R.S. § 43-582].

The balance of the tax due, after taking into account the taxpayer's estimated payments, is due by April 15 after the close of the calendar year, or the 15th day of the 4th month following the close of the fiscal year if the taxpayer files a tax return on a fiscal year basis [A.R.S. § 43-501].

An extension may be granted if 90% of the tax liability is paid by the original due date and the extension request is received by the original due date. No extension may be granted beyond 6 months from the original due date [A.R.S. § 42-1107].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes which have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm. The estimated dollar impact of the tax law changes is summarized by fiscal year in the following table:

Table 2

ESTIMATED DOLLAR VALUE OF TAX LAW CHANGES

Fiscal Year	Impact
2003	$ 22,267,000
2002	$ (37,459,600)
2001	$ (46,486,100)
2000	$ (13,982,300)
1999	$ (8,615,200)
1998	$ 2,601,900
1997	$ (60,000)

Estimates made by JLBC Staff. Above figures do not include costs related to alternative fuel vehicle credits.

2002 TAX LAWS

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

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

Laws 2002, Chapter 344 conformed Arizona tax statutes to the current Internal Revenue Code. The act includes provisions relating to the Economic Growth and Tax Relief Reconciliation Act of 2001, the Fallen Hero Survivor

Benefit Fairness Act of 2001 and the Job Creation and Worker Assistance Act of 2002, except for the bonus depreciation provision (which impacts the corporate income tax). The act also adjusted the Urban Revenue Sharing (URS) program from 15% to 14.8% for two years. The JLBC Staff estimated that the conformity provisions would increase corporate income tax revenues by $5.6 million in FY 2003. The URS adjustments are expected to increase the General Fund by $5.7 million. (Contained various effective dates.)

2001 TAX LAWS

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

Laws 2001, Chapter 296 conformed state income tax laws 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 estimated incremental General Fund cost of this act is $(470,000) in FY 2001, $(628,000) in FY 2002, and $(217,000) in FY 2003. (Effective January 1, 2001)

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

2000 TAX LAWS

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

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

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

Laws 2000, Chapter 252 conformed state income tax laws with the federal Internal Revenue Code, which 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 estimated incremental General Fund cost of this act is $(15,000) in FY 2000, $36,000 in FY 2001, and $154,000 in FY 2002. (Effective January 1, 2000)

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

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

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

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

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

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. The estimated impact is $(2.0) million per year.

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

Laws 1999, Chapter 325 reduced 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). These triggered tax cuts were enacted.

1998 TAX LAWS

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

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

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

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

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

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

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

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

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

1997 TAX LAWS

Laws 1997, Chapter 218 established income tax incentives for taxpayers that install energy conservation equipment in family residences, townhouses, or condominiums. Specifically, it authorized individual and corporate income tax credits not to exceed $75 for the installation of solar hot water plumbing stub-outs or electric vehicle recharge outlets in home dwellings built by the taxpayer. The credit may be carried-forward for up to five consecutive tax

years if the credit exceeds the amount of taxes due in the current year. The taxpayer is permitted to transfer the credit to a purchaser of the home. (Effective January 1, 1998)

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

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

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

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

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

1996 TAX LAWS

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

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

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

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

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

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

Pre 1996 History

GENERAL FUND

PROPERTY TAXES

PROPERTY TAX

DESCRIPTION

Arizona has two distinct types of property taxes: primary and secondary. Primary property taxes are levied to pay for the maintenance and operation of a taxing jurisdiction. Secondary property taxes are levied to pay for bond indebtedness, voter-approved budget overrides, and special districts such as fire or sanitary districts. Although the state property tax was repealed in 1996, primary property tax collections in certain districts are still deposited in the state General Fund. The monies deposited into the state General Fund are from taxes levied on property not located within any school district, so-called unorganized districts [A.R.S. § 15-991.01], and on property in certain school districts ineligible for state aid, sometimes referred to as minimum qualifying tax rate (MQTR) districts [A.R.S. § 15-992]. (For more details, see *Tax Rate* section.)

Property is listed in two categories: real property and personal property. Real property includes land, buildings, and improvements to land. Personal property includes items such as manufactured housing, office furniture, business equipment, and tools. Arizona law currently distinguishes between "secured" and "unsecured" personal property typically depending on whether the property is attached to land or not. This distinction, however, will be eliminated by 2004. (For more details, see Laws 2000, Chapter 84 under the *Impact of Tax Law Changes* section.)

Assessment duties are divided between the Department of Revenue (DOR) and the 15 county assessors. Generally, geographically dispersed and complex properties, such as mines, utilities, airlines, and railroads, commonly referred to as "centrally valued property," are valued by DOR. All other properties are valued by the county assessors and are therefore referred to as "locally assessed property." (For more details, see *Tax Base* section.)

Property in Arizona is classified for assessment purposes into 9 legal classes, with sub-classifications in many of those classes. The classification is based on the current use of the property by its owner, such as commercial, agricultural, or residential. Each legal class has an assessment ratio, which is specified by statute. The assessment ratio, which currently ranges from 1% to 25%, is used to calculate the assessed value of a property. (For more details, see *Tax Rate* section.)

DISTRIBUTION

As mentioned previously, revenues from unorganized and MQTR districts are deposited in the state General Fund. Otherwise, every taxing jurisdiction simply collects what it levies. Property tax collected and deposited in the General Fund is shown in Table 1 below.

Table 1

STATE GENERAL FUND PROPERTY TAX COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2001	$32,942,815	FY 1991	$169,251,570
FY 2000	$34,682,874	FY 1990	$130,199,755
FY 1999	$36,121,502	FY 1989	$92,715,743
FY 1998	$38,136,020	FY 1988	$67,389,020
FY 1997	$51,211,398	FY 1987	$59,285,256
FY 1996	$188,296,312	FY 1986	$55,750,910
FY 1995	$178,657,831	FY 1985	$55,759,781
FY 1994	$186,193,174	FY 1984	$80,218,027
FY 1993	$203,240,399	FY 1983	$77,666,340
FY 1992	$179,858,169	FY 1982	$88,393,124

SOURCE: Department of Revenue and State Treasurer's Office

Property Tax

Property tax in Arizona is primarily a local revenue source as the state General Fund collects less than 1% of all taxes levied in the state. Table 2 below shows the distribution of property taxes among local taxing jurisdictions.

Table 2

PRIMARY AND SECONDARY COMBINED PROPERTY TAX LEVIES

Jurisdiction	FY 2001	FY 2000	FY 1999	FY 1998	FY 1997
Counties	$ 774,109,451	$ 722,189,511	$ 633,164,194	$ 625,526,269	$ 578,527,575
Cities & Towns	$ 283,484,895	$ 259,608,299	$ 235,129,995	$ 222,301,518	$ 204,240,611
Community Colleges	$ 364,261,318	$ 328,383,972	$ 292,590,932	$ 278,293,040	$ 248,010,133
Schools	$2,222,605,046	$2,059,256,683	$1,933,599,670	$1,806,623,828	$1,660,191,383
Other	$ 207,695,920	$ 191,842,286	$ 180,792,072	$ 165,729,473	$ 153,039,516
TOTAL	**$3,852,158,631**	**$3,561,282,751**	**$3,275,278,861**	**$3,098,476,125**	**$2,844,011,214**

SOURCE: Arizona Tax Research Association (ATRA)

WHO PAYS THE TAX

The owner of record, or the person who is the purchaser under a deed of trust or an agreement of sale, is liable for the payment of the tax [A.R.S. § 42-15101].

TAX BASE

Property taxes in Arizona operate under two different valuation bases - full cash value for secondary property tax purposes and limited property value for primary property tax purposes [A.R.S. § 42-11001].

- Full cash value is synonymous with market value as determined by standard appraisal methods unless a specific statutory method is prescribed instead [A.R.S. § 42-11001]. In addition, there are no restrictions or limitations on the full cash valuation growth.

- Limited property value is generally determined as the greater of (1) the previous year's limited property value increased by 10%, or (2) 25% of the difference between the current year's full cash value and the previous year's limited property value. Note, however, that the limited property value cannot by statute exceed the full cash value. For properties that were modified or erroneously omitted from prior year's tax roll, the limited property value is established instead at a level or percentage of the full cash value of comparable property [A.R.S. § 42-13301].

Although the full cash value (or limited property value) constitutes the tax base, the actual amount subject to property taxation is less than that. This amount, referred to as the net assessed value (NAV), is obtained by multiplying the full cash value (or limited property value) with the appropriate assessment ratio. The assessment ratio depends on the legal classification of the property as shown in Table 3 on the following page.

The actual tax liability is calculated by multiplying the tax rate by the assessed value of the property divided by 100. (Pursuant to A.R.S. § 42-17151, the tax rate is determined per $100 NAV.) This means that the property tax liability depends on three factors: (1) the full cash value as determined by the county assessor or the Department of Revenue, (2) the assessment ratio contingent upon property usage, and (3) the tax rate as set by the taxing jurisdiction (see *Tax Rate* section).

Most properties are assigned both a full cash value and a limited property value for tax purposes. (As noted above, the secondary property tax rate is applied to full cash value and the primary property tax rate to limited property value.) Some properties, however, are by statute not subject to the limitation in valuation growth and the full cash value is used to levy both primary and secondary property taxes. Properties exempted from the valuation limitation are (1) personal property other than permanently affixed mobile homes and (2) most centrally valued property [A.R.S. § 42-13304].

Real Property versus Personal Property. Real property is generally synonymous with real estate and includes land, buildings, and improvements to land. Personal property is property other than real estate and includes items such as manufactured housing, office furniture, business equipment, and tools. Personal property is usually movable and not permanently attached to real estate.

Table 3

2001 PROPERTY TAX CLASSES AND ASSESSMENT RATIOS

Class	Assessment Ratio	Property Usage
1	25%	Properties of mining, utility, and telecommunication companies, standing timber, airport fuel delivery, producing oil and gas property, pipeline property, shopping centers, golf courses, and commercial property. [A.R.S. § 42-12001].
2	16%	Agricultural property, properties of nonprofit organizations, and vacant land. [A.R.S. § 42-12002].
3	10%	Residential property not used for profit. [A.R.S. § 42-12003].
4	10%	Leased or rented residential property and residential common areas. [A.R.S. § 42-12004].
5	21%	Airlines, railroad and private car company property. [A.R.S. § 42-12005].
6	5%	Noncommercial historic property, property located in a foreign trade, military reuse, or enterprise zone, property of a qualified environmental technology manufacturing facility. [A.R.S. § 42-12006].
7	25% or 1%	Property that meets the criteria for Class 1 property and also the criteria for commercial historic property. [A.R.S. § 42-12007].
8	10% or 1%	Property that meets the criteria for Class 4 property and also the criteria for commercial historic property. [A.R.S. § 42-12008].
9	1%	Improvements on federal, state, county, and municipal property. [A.R.S. § 42-12009].

Although Laws 2000, Chapter 84 will phase out the distinction between "secured" and "unsecured" personal property by 2004, the use of dual tax rolls will continue in the interim. Unsecured personal property is defined in statute as any personal property of individuals owning real property of a value of less than $200 in the county in which it is being assessed [A.R.S. § 42-19002]. Practically, this means that if the value of the real property is less than $200, then the real property is considered to be of insufficient value to attach a lien to so as to secure the personal property tax payment. Personal property that is not classified as unsecured is added to the secured property tax roll instead. The valuation of unsecured personal property, except certain mobile homes, is basically determined in the same manner as secured personal property, which is at full cash value. (For more details on unsecured personal property, refer to Arizona Revised Statutes, Title 42, Chapter 19.)

Centrally Valued Property. As noted previously, certain property is subject to valuation by the Department of Revenue (DOR). Such property, commonly referred to as "centrally valued property," is listed below.

- Mines, mills, and smelters [A.R.S. § 42-14051].
- Oil, gas, and geothermal properties [A.R.S. § 42-14101].
- Gas, water, electric, and sewer and wastewater utilities [A.R.S. § 42-14151].
- Pipelines [A.R.S. § 42-14201].
- Airline companies [A.R.S. § 42-14251].
- Private car companies [A.R.S. § 42-14301].
- Railroad companies [A.R.S. § 42-14351].
- Telecommunications companies [A.R.S. § 42-14401].
- Airport fuel delivery companies [A.R.S. § 42-14501].

DOR is authorized by statute to examine property valuations for inequities between or within counties and classifications and to issue equalization orders to ensure that all property in the state is valued for tax purposes at its full cash value [A.R.S. § 42-13251]. To this end, DOR conducts sales ratio studies to determine whether properties

are valued fairly or not [A.R.S. § 42-13005]. County assessors affected by an equalization order may appeal to the State Board of Tax Appeals [A.R.S. § 42-16159].

EXEMPTIONS

Certain property is exempted from taxation, such as government property and cemeteries. The following statutes list where the exemptions are found:

- Arizona Revised Statutes, Title 42, Chapter 11, Article 3 - Most exemptions are listed here.
- A.R.S. § 42-19153 - Exemptions for certain mobile homes.
- Arizona Constitution, Article 9, Section 2 - Property owned by qualified widows, widowers, veterans, and disabled. A few other exemptions are also listed here.
- Arizona Constitution, Article 20, Section 5 - Property owned by Indians, when located within an Indian reservation or has been acquired under an act of Congress.

TAX RATE

The tax rates for primary and secondary property taxes are determined by each individual taxing jurisdiction. (It should be noted that the taxing authority is required by statute to determine the tax rate, rounded to four decimal places, on each $100 dollars of net assessed value (NAV) [A.R.S. § 42-17151]). Unlike local government entities, the state is not allowed to levy property taxes due to the repeal of the state property tax in 1996 [Laws 1996, 7th Special Session, Chapter 2]. However, primary property taxes levied and collected in certain districts are transmitted by the counties to the state in order to aid in school financial assistance.

The monies deposited into the state General Fund are from taxes levied on property not located within any school district, so-called unorganized districts [A.R.S. § 15-991.01], and on property in certain school districts ineligible for state aid, sometimes referred to as minimum qualifying tax rate (MQTR) districts [A.R.S. § 15-992]. The tax rates in such districts are based on the qualifying tax rate (QTR) used in the basic state aid funding formula, which is adjusted each year to comply with the truth-in-taxation provisions in statute. In addition, the basic state aid formula also includes a state-mandated "county equalization" tax collected by the counties [A.R.S. § 15-994]. The K-12 tax rates (after truth-in-taxation rate adjustments) used in the basic state aid formula are shown in Table 4 below.

Table 4

K-12 TAX RATES PER $100 NAV

	Qualifying Tax Rate (QTR)		County Equalization Rate
FY	Unified School Districts	Non-Unified School Districts	All School Districts
2000	$4.3308	$2.1654	$0.5217
2001	$4.2530	$2.1265	$0.5123
2002	$4.1294	$2.0647	$0.4974

A.R.S. § 15-971. *Equalization Assistance* ("*Basic State Aid"*). The basic state aid formula has two main purposes: (1) to limit district expenditures (and hence taxes) and (2) to determine the amount of state aid disbursed to each district. The funding formula has both a local share and a state share. The local share represents the amount of budgeted expenditures financed by the district's own property tax. The state share is simply the amount of spending not covered by the district's property tax. This means that anything that causes the local share to decrease, such as a reduction in NAV or the QTR and county equalization rates, will cause the state share (i.e., basic state aid) to increase by the same amount.

A.R.S. § 15-972. *Additional State Aid ("Homeowner's Property Tax Rebate"*). In return for reducing the school district primary tax rate for residential properties (Class 3) by as much as 35%, the state appropriates an amount equal to the tax rebate to the same districts. This aid, which is in addition to basic state aid, is limited to $500 per parcel. The tax rate levied by districts for primary property taxes is further reduced on individual parcels of residential property if the combined primary property tax levy exceeds 1% of the parcel's limited property value (see *Tax Limitations* section).

A.R.S. § 41-1276. *Truth in Taxation for Equalization Assistance.* Barring a tax rate reduction, a property owner's tax liability increases whenever the valuation of his property increases. The purpose of truth in taxation (TNT) is to prevent such a tax increase by reducing the tax rate commensurately. Prior to the enactment of TNT (Laws 1998, 2nd Regular Session, Chapter 153), the state received monies from a primary property tax rate of $2.20 per $100 NAV levied in unorganized districts and up to $2.20 per $100 NAV in MQTR districts. The county equalization tax rate was $0.53 per $100 NAV. However, starting in FY 2000, these tax rates have been lowered each year to offset the statewide appreciation of property. Note that since these tax rates are used both for collecting property taxes and for disbursing basic state aid, the TNT rate reductions result simultaneously in less revenues and more costs to the state General Fund.

TAX LIMITATIONS

The following constitutional provisions limit property taxation in Arizona:

- Arizona Constitution, Article 9, Section 18. *"The 1% Cap."* The total amount of taxes collected on *residential* property (Class 3) for primary purposes is not allowed to exceed 1% of the parcel's limited property value. For this reason, the combined primary property taxes on a parcel of residential property exceeding this limit are reduced through an increase in additional state aid to schools [A.R.S. § 15-972].
- Arizona Constitution, Article 9, Section 19. *"The 2% Levy Limit."* A county, city, town, or community college district is not allowed to levy primary property taxes on previously existing property in excess of a 2% increase from the maximum allowable amount in the preceding tax year unless approved in an override election. (Note that the 2% levy limit does not apply to school districts.)

TAX ADMINISTRATION

Valuation Year Versus Tax Year. Under Arizona law, the valuation year for locally assessed real property and centrally valued property is the calendar year preceding the year in which the taxes are levied. In other words, the tax year lags the valuation year by one year. By contrast, for locally assessed personal property, the valuation year is the calendar year in which the taxes are levied [A.R.S. § 42-11001]. However, because of the payment schedule in Arizona (see *Payment Schedule* section below), real and secured personal property taxes are always collected in the fiscal year immediately following the tax year. For real property, this means that the valuation year precedes the tax year by one year and the fiscal year by two years. The relationship between valuation year, tax year, and fiscal year for real and secured personal property in 2001 is summarized in Table 5 below.

Table 5

PROPERTY VALUATION AND TAXATION CALENDAR

Type of Property	Valuation Year (When Tax Base Is Determined)	Tax Year (When Tax Rate Is Determined)	Fiscal Year (When Tax Is Due and Payable)
Locally Assessed Real Property (Old Construction)	January 1, 2000 [A.R.S. § 42-11001]	August 20, 2001 [A.R.S. § 42-17151]	October 1, 2001 (= FY 2002) March 1, 2002 (= FY 2002) [A.R.S. § 42-18052]
Locally Assessed Real Property (New Construction)	October 1, 1999 through September 30, 2000 [A.R.S. § 42-15105]	August 20, 2001 [A.R.S. § 42-17151]	October 1, 2001 (= FY 2002) March 1, 2002 (= FY 2002) [A.R.S. § 42-18052]
Locally Assessed Personal Property 1/	January 1, 2001 [A.R.S. § 42-11001]	August 20, 2001 [A.R.S. § 42-17151]	October 1, 2001 (= FY 2002) March 1, 2002 (= FY 2002) [A.R.S. § 42-18052]
Centrally Valued Property	January 1, 2000 [A.R.S. § 42-11001]	August 20, 2001 [A.R.S. § 42-17151]	October 1, 2001 (= FY 2002) March 1, 2002 (= FY 2002) [A.R.S. § 42-18052]

1/ Personal property listed on the unsecured/transitional tax roll can be processed in any month during the year.

As shown in the table above, the valuation date for existing property is always January 1 of the valuation year [A.R.S. § 42-11001]. For new construction, the valuation date is between October 1 in the year preceding the valuation year and September 30 of the valuation year [A.R.S. § 42-15105]. The property tax rates are always set on or before the third Monday in August of the tax year.

The Department of Revenue (DOR) values all centrally valued properties such as utilities, mines, airlines, and railroads [A.R.S. § 42-14002]. DOR must notify the property owners by June 15 of the initial full cash value established. The property owner then has until July 15 to file an application to appear before DOR and be heard concerning the full cash value determined. If the property owner is not satisfied with DOR's valuation, he or she can appeal to either the State Board of Equalization [A.R.S. § 42-16158] by October 1 or directly to the Superior Court [A.R.S. § 42-16201] by December 15.

The county assessors are responsible for the valuation of all properties not valued by the state. The assessor must notify the real property owners by March 1 of the initial values of existing properties for the *following* tax year [A.R.S. § 42-15101]. The taxpayer then has 60 days to appeal to the assessor [A.R.S. § 42-16051]. The assessor must rule on these appeals by August 15 [A.R.S. § 42-16055]. The property owner then has 25 days to appeal to the County Board of Supervisors [A.R.S. § 42-16105] or the State Board of Equalization in the case of Maricopa and Pima counties. The county or state board must rule on these appeals by October 15 [A.R.S. § 42-16108]. If the taxpayer is still unsatisfied with the result, he or she has 60 days to appeal to the state tax court [A.R.S. § 42-16202].

For new construction, the assessor establishes the initial value by September 30 [A.R.S. § 42-15105]. The taxpayer has 25 days to appeal to the board of equalization, which must rule by November 15. The taxpayer then has 60 days to appeal to the tax court.

Collections. The lieu taxes on private car companies and airline flight property are collected by the Department of Revenue [A.R.S. § 42-14308 and § 42-14255]. All other property taxes are collected by the county treasurers [A.R.S. § 42-18001]. Property taxes collected by the county treasurers must be apportioned between the taxing districts at the end of each month. Any property taxes apportioned to the state must be remitted to the state treasurer by the 15th day of the following month [A.R.S. § 35-145].

PAYMENT SCHEDULE

Normally, one-half of the tax on real and secured personal property is due and payable on October 1 of the tax year, unless the total amount of the tax due is $100 or less, in which case the full amount of the tax is due and delinquent after November 1. The remaining one-half of the tax is due on March 1 of the year following the tax year and delinquent after May 1 [A.R.S. § 42-18052]. Both of these payments fall in the same fiscal year.

NOTE: *Until the unsecured personal property tax roll is fully phased out in 2004, the county assessors will continue to assess such property throughout the year. Since a new unsecured personal property tax roll can be certified each month, the levy and collection, as well as the tax appeals, differ from the secured tax roll. (For more details, refer to Arizona Revised Statutes, Title 42, Chapter 19.)*

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm. The estimated dollar impact of the tax law changes is summarized by fiscal year in the following table:

Table 6

ESTIMATED DOLLAR VALUE OF TAX LAW CHANGES

Fiscal Year	Revenue Impact
2003	$ (1,783,300)
2002	$ (2,234,900)
2001	$ (30,000)
2000	$ (51,600)
1999	$ 0
1998	$ 0
1997	Unknown

Estimates made by JLBC Staff.

2002 TAX LAWS

Laws 2002, Chapter 101 amended statutes by allowing the county assessor to arrange a mutually satisfactory meeting place to accept an affidavit certifying the taxpayer's eligibility for a property tax exemption if a personal appearance would create a severe hardship for the taxpayer. (Effective August 22, 2002.)

Laws 2002, Chapter 174 provided a property tax exemption for nonprofit community health centers serving medically under-served areas or populations. The fiscal impact relative to current law could not be determined. (Effective August 22, 2002.)

Laws 2002, Chapter 193 made various changes to statute governing county treasurers' procedures involving tax liens, unclaimed refunds and distribution of taxes. (Effective August 22, 2002.)

Laws 2002, Chapter 201 created a statutory valuation methodology for timeshare properties. The act provided that county assessors classify timeshare properties that are not used for commercial, industrial, or transient occupancy purposes as Class 4 property. The fiscal impact of this legislation could not be determined. (Effective August 22, 2002.)

Laws 2002, Chapter 234 freezes the value of existing electric generation plants (retroactive to January 1, 2002) for tax year 2003 at the full cash value established for tax year 2002. The act created a new method for the Department of Revenue to allocate the value of electric power plants (with respect to generation, transmission, and distribution properties) among taxing jurisdictions for tax year 2003. This legislation also prescribed reporting requirements for electric generation plants for tax year 2003 and made technical changes related to the voluntary contributions paid by power plants to taxing jurisdictions. The fiscal impact could not be determined.

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, it excluded electric generating plants from the definition of manufacturer for the purpose of reclassification under this program. The act also clarified that a minority and woman-owned business must be independently owned and operated. The fiscal impact of this act is unknown. (Effective retroactively from January 1, 2002.)

Laws 2002, Chapter 242 prescribed exceptions to the requirement that the tax court dismisses a property tax appeal for which the taxes are delinquent. (Effective August 22, 2002.)

Laws 2002, Chapter 259 amended statutes governing the release of liens and payoff demands issued by banks. (Effective August 22, 2002.)

Laws 2002, Chapter 278 stipulated that a county assessor must use the property value determined at the highest level of appeal as the beginning basis for the following year's valuation, unless there was new construction or a change of use on the property. The fiscal impact could not be determined. (Effective August 22, 2002.)

Laws 2002, Chapter 308 provided criteria to classify a mobile home situated on leased property in a mobile home park as real property. The bill contained an emergency clause.

2001 TAX LAWS

Laws 2001, Chapter 28 made changes to the statutes governing treasurers and public monies of subdivisions [county, city, school district]. In addition, the bill expanded the list of a treasurer's eligible investments and allowed school districts that have assumed accounting responsibility to be added as an eligible designee in preference of payment of warrants. (Effective August 9, 2001)

Laws 2001, Chapter 65 expanded the definition of common areas to include common areas used as airports. (Effective August 9, 2001)

Laws 2001, Chapter 151 repealed old statutes relating to the publication and posting of delinquent tax liens and notice of sales and added new ones instead. (Effective August 9, 2001)

Laws 2001, Chapter 170 provided numerous changes to the statutes regulating real estate timeshares, such as improved streamlining of existing timeshare requirements and practices and enhanced consumer protections. (Effective January 1, 2002)

Laws 2001, Chapter 186 E provided numerous changes to the administration of the personal property tax. The bill contained an emergency clause. (Effective April 21, 2001)

Laws 2001, Chapter 226 eliminated the juvenile judge and the sheriff from the joint application to adopt a resolution authorizing a previously established jail district to acquire, construct, maintain and finance juvenile detention facilities. In addition, the bill provided election requirements and procedures necessary for the levying of property taxes and establishment of juvenile detention facilities within county jail districts. (Effective August 9, 2001)

Laws 2001, Chapter 249 stipulated that the sale of a real property tax lien, the foreclosure of the right to redeem, or the issuance of a treasurer's deed will not eliminate any lien for an assessment imposed by improvement districts. (Effective August 9, 2001)

Laws 2001, Chapter 267 provided for various changes to update the property tax statutes. (Effective August 9, 2001)

Laws 2001, Chapter 286 provided for the State Treasurer to continue to deposit 50% of flight property tax revenues into the aviation fund until June 30, 2003, after which time 100% of the revenues will go to the aviation fund. This act is estimated to result in a General Fund revenue loss of $(6.9) million in FY 2004. (Effective August 9, 2001)

Laws 2001, Chapter 306 gave the county boards of supervisors the authority to reduce the lien for delinquent taxes, interest and penalties in an amount not to exceed the actual costs of the remediation of contaminated property. The fiscal impact could not be determined. (Effective January 1, 2002)

2000 TAX LAWS

Laws 2000, Chapter 84 provided a four-year phase-in period to transfer unsecured personal property to a single personal property tax roll. The purpose is to minimize any negative budget impacts from the requirements of Laws 1999, Chapter 253. This act has no fiscal impact. (Effective December 31, 2000)

Laws 2000, Chapter 125 made a number of changes to the way county sheriffs notice and sell personal property with delinquent tax liens. For example, one provision requires the sheriff to wait three weeks (rather than five days as currently) after the taxpayer receives notice before the property can be sold. This act has no fiscal impact. (Effective July 18, 2000)

Laws 2000, Chapter 184 modernized the Arizona Property Act by repealing the current statutes and adopting provisions from the 1995 Uniform Unclaimed Property Act. Established new time limits to determine when unclaimed property becomes abandoned. This act has no fiscal impact. (Effective December 31, 2000)

Laws 2000, Chapter 187 repealed the Joint Legislative Tax Committee (JLTC) and transferred the responsibilities of JLTC to other state entities. This act has no fiscal impact. (Effective July 18, 2000)

Laws 2000, Chapter 214 changed the valuation methodology for renewable energy equipment to 20% of the depreciated cost of the equipment. This provision is effective until December 31, 2011. The act is projected to reduce state property tax revenues by $(8,800) and increase K-12 related expenditures by $454,500 in FY 2003. (Effective July 18, 2000)

Laws 2000, Chapter 258 was the companion bill to Proposition 105, which passed in November 2000 and amended the constitution to allow property tax exemption for cemeteries. The act is estimated to have a FY 2003 impact of $(7,300) in lost state property tax revenues and $375,100 in increased costs for K-12 education. (Effective January 1, 2001)

Laws 2000, Chapter 259 extended the termination date of the State Board of Tax Appeals for five years to July 1, 2005. This act has no fiscal impact. (Effective July 1, 2000)

Laws 2000, Chapter 384 provided a new valuation methodology for electrical generation facilities and a phase-in valuation methodology for existing plants to transfer to this new methodology. The act is projected to reduce state property tax revenues by $(2,234,900) in FY 2002 and an another $(1,722,200) in FY 2003. In addition, the act is expected to increase K-12 related expenditures by $1,897,700 and $3,411,700 in FY 2002 and FY 2003, respectively. (Effective July 18, 2000)

Laws 2000, Chapter 390 added golf courses and shopping centers to the provision relating to the $50,000 exemption and accelerated depreciation statutes for personal property. Made numerous technical and conforming changes to the Arizona property tax statutes. The fiscal impact is unknown. (The effective date varies by the provisions of the act.)

Laws 2000, Proposition 104 was approved by voters in November 2000. This constitutional amendment allows Arizona residents 65 years of age or older to apply for a "property valuation protection option," which freezes the full cash value of the property on the taxpayer's primary residence. This act is projected to reduce state property tax revenues by $(15,600) and increase K-12 related costs by $479,500 in FY 2004. (Effective January 1, 2001)

1999 TAX LAWS

Laws 1999, Chapter 19 changed the meeting requirements for the Debt Oversight Commission from quarterly to annual meetings. The Debt Oversight Commission was established in 1996 to provide more accurate and meaningful information to the public regarding bond issues. (Effective August 6, 1999)

Laws 1999, Chapter 76 required all state governmental entities that acquire real or personal property with a tax lien to pay the delinquent taxes on that property, including penalties and interest, to the county treasurer. (Effective August 6, 1999)

Laws 1999, Chapter 108 established new methods for determining a school district's expenditure base limit and established new procedures for proposed expenditures that exceed the base limit. It repealed current methods of determining a property tax increase for school districts. (Effective August 6, 1999)

Laws 1999, Chapter 235 provided a property tax exemption for fraternal societies recognized under Section 501(c)(8) of the Internal Revenue Code if the property is (1) used predominantly for charitable, religious, or educational purposes, (2) not held for profit, and (3) no part of the property is used for the sale of food or beverage to the general public or for alcohol consumption by nonmembers. Section 501(c)(8) covers fraternal societies that provide for the payment of life, health, or accident insurance to the members or their dependents. (Effective January 1, 2000)

Laws 1999, Chapter 240 established the Client County Equipment Capitalization Fund consisting of monies collected from intergovernmental agreements between the Department of Revenue and county assessors for the purpose of upgrading and modernizing data processing equipment. It also changed the procedures for issuing, hearing, and appealing equalization orders in order to make the equalization process more timely. (Effective August 6, 1999)

Laws 1999, Chapter 253 eliminated the "secured" and "unsecured" personal property classifications and replaced them with one personal property tax roll instead. Prior law had provided for the placement of personal property on either a secured or unsecured property tax roll depending on whether a property owner owns real property in the county with a value of less than $200. If the value of the real property exceeds $200, the personal property is considered secured. Practically, this act allows taxpayers to receive one property tax bill annually rather than receiving separate billings for unsecured personal property throughout the year. (Effective December 31, 2000)

Laws 1999, Chapter 275 changed the classification of citrus packing plants from Class 3 (commercial) property to Class 4 (agricultural) property. It expanded the definition of agricultural land to also include land and improvements used as produce packing plants where no produce is cut or otherwise physically altered. Dairy cooperatives devoted to high-density use in processing and selling milk and manufactured milk products without the presence of any

animals on the land are likewise defined as agricultural land. The reclassification of such properties from commercial to agricultural property reduced the assessment ratio from 25% to 16%. (The provision regarding land used for produce packing plants is effective January 1, 2000, and the dairy provision is effective January 1, 1998.)

Laws 1999, Chapter 314 created a "common areas" classification for property tax purposes for real property that is intended for the exclusive use of owners and residents of a residential subdivision or development, including beautification areas. It provided that land, buildings, and improvements used for common areas should be valued at $500 per parcel. (Effective January 1, 1999)

Laws 1999, Chapter 344 created a new nomenclature for property tax classifications by consolidating Class 1 (mining), Class 2 (utilities), and Class 3 (commercial) into one new class, simply referred to as Class 1. The property classifications were renamed as follows:

New Property Classification	Prior Property Classification
Class 1 – Business Property	Class 1, Class 2, Class 3R, Class 3P
Class 2 – Agricultural Property	Class 4R, Class 4P
Class 3 – Residential Property	Class 5
Class 4 – Rented Residential Property	Class 6
Class 5 – Railroads, Private Car Companies, Flight Property	Class 7
Class 6 – Historic Property	Class 8
Class 7 – Commercial Historic Property	Class 9
Class 8 – Commercial/Rental Historic Property	Class 10
Class 9 – Improvements on Governmental Property	Class 11

R = Real Property; P = Personal Property
(Effective January , 2000)

Laws 1999, 1st Special Session, Chapter 5 provided a series of conditional tax cuts that will be enacted if FY 1999 General Fund revenues exceed the current forecast by a prescribed amount. Included in these "triggered" tax cuts is a reduction in the minimum value of commercial, industrial, and agricultural personal property from 10% to 2.5% over a three-year phase-down period. The now enacted "triggers" are estimated to reduce property tax revenues by $(30,000) in FY 2001, FY 2002, and FY 2003. (Effective January 1, 2000)

1998 TAX LAWS

Laws 1998, Chapter 29 required fire districts to use any secondary property tax refunds remaining after bond issues have been paid off to reduce their property tax levies (for operating purposes) in the following fiscal year. (Effective August 21, 1998)

Laws 1998, Chapter 49 codified current practice by classifying the property of airport fuel delivery companies as Class 2 (utilities). (Effective December 31, 1998)

Laws 1998, Chapter 93 prohibited the removal, discharge, or abatement of tax liens on property acquired by political subdivisions without permission of the County Board of Supervisors, and required that tax liens on property acquired by political subdivisions be enforced in the same manner as all other tax liens. (Effective December 31, 1998)

Laws 1998, Chapter 153 required "truth in taxation" hearings for the "qualifying tax rate" (QTR) and "county equalization" tax rate used in the school funding formula. If these two rates are projected to generate more revenue (actually an offset to state spending) than in the prior year, excluding increases for new construction, then the Joint Legislative Tax Committee must hold a hearing. It requires a two-thirds vote for the Legislature to adopt QTR and county equalization rates higher than the computed "truth in taxation" rates which would generate the same amount of revenue as in the prior year. (Effective December 31, 1998)

Laws 1998, Chapter 160 increased the threshold for mandating a single payment of a taxpayer's property tax liability to $50. Prior to the passage of this bill, any property tax liability of $25 or less had to be paid in one single payment by October 1. (Effective December 31, 1998)

Laws 1998, Chapter 172 changed the property tax classification of employer-owned, rent-free housing for agricultural workers from Class 4 (agricultural) to Class 6 (residential rental). (Effective December 31, 1998)

Laws 1998, Chapter 174 shifted the burden of proof in issues of fact to the Department of Revenue (DOR) in taxpayer appeals to tax court. Specifically, it placed the burden of proof on DOR if (1) the taxpayer asserts a reasonable dispute with respect to the issue, and (2) the taxpayer has fully complied with DOR's requests for witnesses, information, and documentation. (Effective December 31, 1998)

Laws 1998, Chapter 220 reclassified all real and personal property used to provide local telecommunications service from Class 2 (utility) to Class 3 (commercial and industrial) for property tax purposes. It also prescribed criteria for use of public rights-of-way by telecommunications corporations and limited the ability of political subdivisions to levy taxes, rent, fees or charges for the use of public rights-of-way. The revenue loss associated with this law was estimated to be $(19,300) in FY 2000. (Effective December 31, 1998)

Laws 1998, Chapter 261 made numerous technical changes to the appeals process and increased the exemption for Class 5 (owner-occupied residential) property owned by widows, widowers, and disabled people to $3,000 if the property's assessed value is $10,000 or less (at a 10% assessment ratio). The income threshold to qualify for the exemption was raised from $8,400 to $13,200 ordinarily, or from $12,000 to $18,400 if the taxpayer lives with a dependent son or daughter who is under 18 or totally disabled. The revenue loss associated with this law was estimated to be $(32,300) in FY 2000. (Effective December 31, 1998)

Laws 1998, Chapter 275 provided a property tax exemption for fraternal organizations recognized under section 501(c)(10) of the Internal Revenue Code if the property is (1) used predominantly for charitable, religious, or educational purposes and (2) not held for profit, and if (3) no alcohol is served on the premises. Section 501 (c)(10) covers domestic fraternal societies organized under the lodge system which use their net earnings exclusively for religious, charitable, scientific, literary, educational, or fraternal purposes and which do not provide life, health, or accident insurance. (Effective December 31, 1998)

Laws 1998, Chapter 286 reclassified real property used specifically to respond to the release or threatened release of environmentally hazardous substances as Class 8 (special zones). (Effective December 31, 1998)

Laws 1998, 4th Special Session, Chapter 3 had two property tax provisions:

1. The exemption for the first $50,000 of Class 3 (commercial) or Class 4 (agricultural) personal property was changed from the first $50,000 owned by a taxpayer, regardless of how many locations at which the taxpayer may own personal property, to the first $50,000 at each business location.

2. The accelerated depreciation schedule for Class 3 and Class 4 personal property was modified as follows. Figures shown are percentages of scheduled depreciated value:

Year	Previous Law	New Law
1	40%	35%
2	56%	51%
3	72%	67%
4	88%	83%

(Effective December 31, 1998)

1997 TAX LAWS

Laws 1997, Chapter 11 eliminated the requirement that annexations of adjacent land by fire districts or sanitary districts include a petition and impact statement. Now annexation requires only the written assent of the property owner and the approval of the district governing body. (Effective July 21, 1997)

Laws 1997, Chapter 19 allowed an individual who purchases property listed as Class 3 (commercial) or Class 4 (agricultural), but then occupies it as a residence, to request to have the parcel reclassified as Class 5 (residential) property from the date of conversion. Persons who purchased or converted property that was listed as Class 3 and paid property taxes according to this classification for the 1995 or 1996 tax years, but actually used the property as a residence, are eligible for a refund of taxes paid on the difference in classification. A petition for refund must be filed by September 15, 1997. (Effective January 1, 1995)

Laws 1997, Chapter 61 provided a definition of *cleanrooms* and clarified that cleanrooms used for manufacturing, processing, fabrication, or research and development of semiconductor products are to be valued and assessed as tangible personal property. The bill codified the historical administrative practice of valuing and assessing cleanrooms. (Effective July 21, 1997)

Laws 1997, Chapter 150 recodified Title 42 of the Arizona tax code, which regards property, transaction privilege, use, and luxury taxation. The bill made numerous technical changes, removed references to gender, and restructured and renumbered several statutes. It provided that the interpretation of the tax code is not to be changed solely due to changes made by the recodification. Immunities, exemptions, claims, proceedings, etc. that existed before the recodification are to remain in effect. (Effective January 1, 1999)

Laws 1997, Chapter 274 required truth in taxation hearings be held if the proposed primary property tax levy of a school district, excluding the amount produced by levying the qualifying tax rate and for career ladder and optional performance incentive programs, is greater than the amount levied by the jurisdiction in the preceding tax year. Hearing notification requirements are prescribed to inform district property owners of the proposed tax increase. (Effective July 21, 1997)

1996 TAX LAWS

Laws 1996, Chapter 21 provided youth shelters that would have been eligible for a property tax exemption for tax year 1994, but which neglected to claim the exemption, with a refund of taxes paid for that year. Any property taxes due, but not paid by a youth shelter, will be forgiven and stricken from the tax roll. The revenue loss associated with this law was estimated to be $(6,000) in FY 1997. (Effective July 20, 1996)

Laws 1996, Chapter 22 eliminated the requirement that a taxpayer file a claim for an exemption of constitutionally exempt inventory, materials, livestock, poultry, aquatic animals, or colonies of bees. (Effective July 20, 1996)

Laws 1996, Chapter 93 expanded military reuse zone property tax incentives to cover firms which provide aviation and aerospace services, in addition to firms engaging in aviation or aerospace manufacturing. The act provided that real and personal property and improvements of qualifying companies are now assessed at a 5% rate (Class 8) instead of the former 25% rate (Class 3). The fiscal impact could not be determined. (Effective April 6, 1996)

Laws 1996, Chapter 100 included interest and penalties in the total amount due on a property that may be compromised by the County Board of Supervisors. The County Board of Supervisors is allowed to compromise property taxes, along with interest and penalties, when the total mount due on a property exceeds the value of a property. (Effective July 20, 1996)

Laws 1996, Chapter 119 altered the payment schedule and delinquent date for property taxes. Taxpayers are allowed the option of making their entire property tax payment by December 31, rather than paying in biannual installments, without becoming delinquent on the first half's payment. (Effective January 1, 1996)

Laws 1996, Chapter 305 continued the property tax exemption for nonprofit charitable community service organizations. It clarified that community service organizations that serve the indigent and afflicted can claim an

exemption from the property tax. The act also allowed veterans' organizations that qualify as charitable organizations and use their property predominately for purposes relating to veterans to claim a property tax exemption. The terms *indigent* and *afflicted* were defined. (Effective July 20, 1996)

Laws 1996, Chapter 332 specified that for the purposes of determining constitutional debt limitation, taxable property is defined as the net assessed value of property. The value of a jurisdiction's taxable property is used to calculate its allowable debt limit. (Effective July 20, 1996)

Laws 1996, Chapter 344 reduced the property tax levied on small manufacturing businesses certified by the Department of Revenue and located in enterprise zones from a 25% rate (Class 3) to a 5% rate (Class 8). The act extended this property tax reclassification program to June 30, 2001. (Effective January 1, 1996)

Laws 1996, Chapter 366 modified the procedure for valuing shopping centers by limiting the use of market comparison methods. The cost method (replacement cost less depreciation) is the preferred method for determining the valuation of a shopping center. However, a taxpayer may elect to use the income method to appeal a valuation computed under the cost method. In this event, the reviewing body is authorized to determine the value of the shopping center by using whichever of the following methods is closest to a fair market value:

1. Income data other than the "straight line building residual" method, if the taxpayer can provide credible data derived from properties that are comparable to his property.
2. The cost method.
3. Market comparisons, if there have been any comparable sales within the past two years. (Effective January 1, 1996)

Laws 1996, 7th Special Session, Chapter 2 made numerous property tax reforms and reductions. The act eliminated the $0.47 per $100 net assessed valuation state rate and the statute authorizing it, and reduced the "qualifying tax rate" (QTR) used in the state school funding formulas from $4.72 per $100 of net assessed valuation to $4.40 for unified districts, and from $2.36 to $2.20 for elementary and high school districts.

It also reduced the base for the minimum QTR tax on school districts that do not receive state aid from 85% of the QTR to 50% of the QTR, but extended the application of the tax from Classes 1 and 2 to all classes of property. In addition, oil and gas producing property was moved from Class C (100% assessment ratio) to Class 2 (27% assessment ratio).

This law also introduced a new property tax deferral program for the elderly, with these characteristics:

1. To defer property tax on a residence, an individual must be at least 70 years old, have lived on the property for the last six years or in Arizona for the last 10, and have no interest in any other real property, and the total taxable income of everyone living in the residence must be $10,000 or less.
2. The residence must: a) be the taxpayer's primary residence, b) not be income-producing, c) not be subject to a mortgage or other security interest, d) be current on all property taxes, and e) have a full cash value of $150,000 or less.
3. The deferred taxes accumulate interest at an annual rate of two points higher than the earnings rate on the local government investment pool (LGIP), rounded up to the next full point (e.g., if the LGIP gets 5.23%, the interest rate on the deferred taxes is 8%). The total amount of deferred taxes plus interest on the property cannot exceed 90% of the property's full cash value. The certificates of deferral must be sold to the County Treasurer or State Treasurer.
4. The total amount of deferred taxes plus interest is due a) within one year if the taxpayer dies without a surviving spouse, or b) within 120 days if the taxpayer moves, if the property becomes income producing, or if the property is sold or transferred to someone else. (Effective October 17, 1996)

Laws 1996, 7th Special Session, Chapter 4 changed the valuation schedule of centrally valued property (CVP), mostly mines, utilities, and railroads, to conform more to the schedule in effect for locally assessed property. Specifically, it required the Department of Revenue (DOR) to send notices of value to CVP owners by June 15. The owner has until July 15 to appeal, and DOR must rule by August 31. The owner has until December 15 to appeal

DOR's ruling to the Superior Court, or until October 1 to appeal to the State Board of Equalization. In this case, the State Board of Equalization must rule by November 15.

Among other technical changes and clarifications, the bill allowed taxpayers, county assessors, and DOR to appeal decisions by the County Boards of Equalization in appeals of personal property in the same manner as real property, and established that relevant income data in the valuation of shopping centers (see Chapter 366 above) is for the three most recent fiscal years. (Effective October 17, 1996)

Laws 1996, 7th Special Session, **Chapter 5** was the companion bill to Proposition 101, which passed in November 1996 and amended the State Constitution to allow the Legislature to exempt the first $50,000 of a taxpayer's Class 3 (commercial) and Class 4 (agricultural) personal property from taxation. The assessment ratio on Class 3 and Class 4 properties was reduced from a rate of 1% to 0% (exempt) contingent on the passage of Proposition 101. The Department of Revenue is required to annually adjust the size of the exemption (initially $50,000) based on a price index. (Effective January 1, 1997)

Pre 1996 History

GENERAL FUND

LUXURY TAXES AND LICENSES

LUXURY TAX ON CIGARETTES AND TOBACCO

DESCRIPTION

The luxury tax on cigarettes and tobacco is imposed on cigarettes, cigars, cavendish, and chewing tobacco. A luxury tax is a tax levied on items that are normally considered a luxury rather than a necessity. The tax rate varies by product, with the rate for the largest revenue producer, cigarettes, set at 58¢ per pack of 20. The majority of revenues from this tax are dedicated to health care programs.

DISTRIBUTION

Revenues from the luxury tax on cigarettes and tobacco are distributed as follows:

Tax on Cigarettes

- *Corrections Fund*. 2¢ of the 18¢ general tax rate per pack of 20 cigarettes is deposited in the Corrections Fund [A.R.S. § 42-3104].
- *General Fund*. The remaining 16¢ of the 18¢ general tax rate per pack of 20 cigarettes is deposited in the General Fund [A.R.S. § 42-3102].
- *State School Aid*. 19.44% of general cigarette tax collections is allocated to state school aid. The 16¢ General Fund distribution described above is presumed to contribute to the existing General Fund appropriation for state school aid [A.R.S. § 42-3103].
- *Tobacco Tax and Health Care Fund*. Separate from the above distributions, all monies collected from the cigarette tax rate dedicated to health care are distributed to the following accounts of the Tobacco Tax and Health Care Fund [A.R.S. § 42-3252]:

    a. Medically Needy Account – 70% of revenues, to provide health care services for those who cannot afford these services [A.R.S. § 36-774].
    b. Health Education Account – 23% of revenues, for the prevention and reduction of tobacco use [A.R.S. § 36-772].
    c. Health Research Account – 5% of revenues, for research on preventing and treating tobacco-related disease and addiction [A.R.S. § 36-773].
    d. Corrections Fund Adjustment Account – 2% of revenues, to compensate the Corrections Fund for decreases in general cigarette tax revenues resulting from the levy of the cigarette tax dedicated to health care [A.R.S. § 36-775].

Tax on Tobacco, Cavendish, and Cigars

- *Corrections Fund*. 50% of all general tax rate collections from the tax on tobacco products is deposited in the Corrections Fund [A.R.S. § 42-3104].
- *General Fund*. The remaining general tax rate collections from the tax on tobacco products is deposited in the General Fund [A.R.S. § 42-3102].
- *Tobacco Tax and Health Care Fund*. Separate from the above distributions, all monies from the tobacco tax rate dedicated to health care are deposited in the Tobacco Tax and Health Care Fund and are then distributed to the 4 separate accounts as described above under the cigarette tax. [A.R.S. § 42-3252].

WHO PAYS THE TAX

Licensed distributors of cigarettes pay the tax through the purchase of tax stamps from the Department of Revenue. Every pack of cigarettes sold in Arizona must bear a stamp as a method of providing proof that a retailer or distributor is in compliance with Arizona's luxury tax laws [A.R.S. § 42-3202].

Licensed distributors of cigars and other tobacco products besides cigarettes submit tax payments together with a monthly return [A.R.S. § 42-3208].

On Indian reservations, the cigarette and tobacco tax is a direct tax on the consumer and is to be precollected and paid to the Department of Revenue by the distributors [A.R.S. § 42-3303]. Revenues from this tax are dedicated to the Tobacco Tax and Health Care Fund [A.R.S. § 42-3302].

Table 1

TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Corrections Fund	Tobacco Tax & Health Care Fund	Total
FY 2001	$43,124,883	$6,206,674	$108,709,176	$158,040,733
FY 2000	$43,446,233	$6,196,674	$109,786,025	$159,428,932
FY 1999	$43,895,551	$6,206,674	$112,735,957	$162,838,182
FY 1998	$44,443,108	$6,206,674	$114,104,507	$164,754,289
FY 1997	$43,676,616	$6,206,675	$115,961,006	$165,844,297
FY 1996	$45,461,621	$6,206,673	$119,127,689	$170,795,983
FY 1995	$47,728,667	$6,837,337	$ 54,623,325	$109,189,329
FY 1994	$46,870,529	$6,206,674		$ 53,077,203
FY 1993	$47,385,665	$6,261,724		$ 53,647,389
FY 1992	$46,419,433	$6,128,751		$ 52,548,184
FY 1991	$45,474,466	$6,321,584		$ 51,796,050
FY 1990				$ 46,942,200
FY 1989				$ 50,529,043
FY 1988				$ 52,407,371
FY 1987				$ 51,219,849
FY 1986				$ 50,775,933
FY 1985				$ 49,525,903
FY 1984				$ 41,475,105
FY 1983				$ 40,905,970
FY 1982				$ 40,766,193

Note: The tax rate dedicated to the Tobacco Tax and Health Care Fund took effect on November 28, 1994.
Note: Distribution amounts are not available for FY 1982 – FY 1990.

SOURCE: Department of Revenue, Luxury Tax Section

TAX BASE AND RATE

The tax base consists of the following products [A.R.S. § 42-3052]:

- Cigarettes.
- Tobacco. Includes smoking tobacco, snuff, fine cut chewing tobacco, cut and granulated tobacco, shorts and refuse of fine cut chewing tobacco, and refuse, scraps, clippings, cuttings and sweepings of tobacco.
- Cavendish. Includes plug or twist tobacco.
- Small cigars. Not weighing more than 3 pounds per 1,000.
- Large cigars 5¢ or less. Weighing more than 3 pounds per 1,000 and retailing at 5¢ or less.
- Large cigars more than 5¢. Weighing more than 3 pounds per 1,000 and retailing at more than 5¢ each.

The tax rates are as follows [A.R.S. § 42-3052 and § 42-3251]:

Table 2

TAX RATES

Item	General Tax Rate	Tax Rate Dedicated to Health Care	Total Tax Rate
Cigarettes	0.9¢ each (18¢ per pack of 20)	2¢ each (40¢ per 20)	2.9¢ each (58¢ per 20)
Tobacco	2¢ per ounce	4.5¢ per ounce	6.5¢ per ounce
Cavendish	0.5¢ per ounce	1.1¢ per ounce	1.6¢ per ounce
Small Cigars	4¢ per 20	8.9¢ per 20	12.9¢ per 20
Large cigars 5¢ or less	2¢ per 3	4.4¢ per 3	6.4¢ per 3
Large cigars more than 5¢	2¢ each	4.4¢ each	6.4¢ each

Tobacco powder or tobacco products used exclusively for agricultural or horticultural purposes and unfit for human consumption are exempt from this tax [A.R.S. § 42-3052].

PAYMENT SCHEDULE

Licensed distributors of cigarettes pay the luxury tax on cigarettes when they purchase a stamp from the Department of Revenue [A.R.S. § 42-3202]. Licensed distributors of cigars or tobacco products other than cigarettes must pay the tax to the Department of Revenue monthly on or before the 20th day of the next month succeeding the month in which the tax accrues. Failure to the pay the tax by the due date will result in penalty and interest charges from the time the tax was due until paid [A.R.S. § 42-3208].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in 1996, 1998, 2001, or 2002.

2000 TAX LAWS

Laws 2000, Chapter 296 extended the distribution of some luxury tax revenues to the Corrections Fund for another five years. The allocation of a percentage of revenues derived from the taxes on cigarettes, tobacco, and liquor to the Corrections Fund had been scheduled to expire on June 30, 2000, but this bill extended the lapsing date to June 30, 2005. This act has no fiscal impact. (Effective April 18, 2000)

1999 TAX LAWS

Laws 1999, Chapter 290 prohibited the Department of Revenue from affixing a tax stamp on a package of cigarettes if the package differs from the requirements of the federal Cigarette Labeling and Advertising Act, has been labeled for export only, or has been altered by adding or deleting wording, labels, or warnings required by federal law. The act also repealed language that allowed the department to use a metering machine to stamp cigarette packages instead of adhesive stamps. (Effective August 6, 1999)

1997 TAX LAWS

Laws 1997, Chapter 26 allowed the Department of Revenue to enter into an interagency agreement with the Department of Transportation that authorizes Department of Transportation port-of-entry personnel to enforce the luxury tax on tobacco. (Effective July 21, 1997)

Laws 1997, Chapter 150 recodified Title 42 of the Arizona tax code, which regards property, transaction privilege, use, and luxury taxation. The bill made numerous technical changes, removed references to gender, and restructured and renumbered several statutes. It provided that the interpretation of the tax code is not to be changed solely due to changes made by the recodification. Immunities, exemptions, claims, proceedings, etc. that existed before the recodification are to remain in effect. (Effective January 1, 1999)

Pre 1996 History

LUXURY TAX ON LIQUOR

DESCRIPTION

The luxury tax on liquor is levied on wholesalers of spirituous, vinous, and malt liquors. A luxury tax is a tax levied on items that are normally considered a luxury rather than a necessity.

DISTRIBUTION

Revenues from this tax are distributed among several funds, including:

State School Aid. 1.17% of spirituous liquor tax collections and 14% of tax collections from vinous liquor with a high alcohol content (over 24%) are allocated for state school aid. In practice, these monies are deposited in the General Fund, which in turn funds state school aid. [A.R.S. § 42-3103]

Corrections Fund. 20% of the monies collected from spirituous liquor, and 50% of the monies collected from vinous and malt liquors are deposited in the Corrections Fund, effective through June 30, 2005 [A.R.S. § 42-3104].

Wine Promotional Fund. The first $100,000 of monies collected from vinous liquor with low alcohol content attributable to domestic farm wineries or an in-state producer is deposited in the Wine Promotional Fund [A.R.S. § 42-3105].

Drug Treatment and Education Fund. 7% of the monies collected from spirituous liquor and 18% of the monies collected from vinous and malt liquors are deposited in the Drug Treatment and Education Fund of the Arizona Judiciary [A.R.S. § 42-3106].

Corrections Revolving Fund. 3% of the monies collected from spirituous liquor and 7% of the monies collected from vinous and malt liquors are deposited in a revolving fund of the Department of Corrections [A.R.S. § 42-3106].

General Fund. All remaining tax monies are deposited in the General Fund [A.R.S. § 42-3102].

WHO PAYS THE TAX

The luxury tax on liquor is added to the sales price of liquor items and is paid by:

- Wholesalers who purchase vinous or malt liquors for resale within Arizona [A.R.S. § 42-3353].
- Wholesalers who sell spirituous liquors within Arizona [A.R.S. § 42-3354].
- Every domestic farm winery or microbrewery that sells vinous or malt liquor at retail or to certain licensees. [A.R.S. § 42-3355].

TAX BASE AND RATE

The following is the tax rate and base for each liquor type. A proportionate rate is applied to each liquor type for greater or lesser quantities:

- *Spirituous liquor.* $3 per gallon. Examples of spirituous liquor include whiskey and vodka.
- *Vinous Liquor with High Alcohol Content*. $0.25 on each container of 8 ounces or less of vinous liquor having an alcohol content of greater than 24%. Containers exceeding 8 ounces are taxed at a rate of $0.25 per 8 ounces. An example of vinous liquor at this alcohol content level is dark wine.
- *Vinous Liquor with Low Alcohol Content*. $0.84 per gallon on each container of vinous liquor with an alcohol content of 24% or less, except cider. An example of vinous liquor at this alcohol content level is white wine.
- *Malt Liquor.* $0.16 on each gallon of malt liquor or cider. Examples of malt liquor are beer and cider.

Table 1

TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund 1/	Corrections Fund	Wine Promotional Fund	Corrections Revolving Fund	Judiciary Drug Treatment & Education Fund	Total Collections
FY 2001	$22,443,910	$19,294,778	$21,278	$2,743,924	$6,903,464	$51,407,354
FY 2000	$21,989,911	$19,274,703	$21,197	$2,739,633	$6,897,717	$50,923,161
FY 1999	$20,874,947	$18,176,293	$14,595	$2,583,453	$6,502,823	$48,152,111
FY 1998	$19,986,517	$17,435,389	$9,306	$2,477,227	$6,235,814	$46,144,253
FY 1997	$23,663,919	$17,051,956	$9,542	$1,242,158	$3,124,761	$45,092,336
FU 1996	$27,791,380	$16,947,743	$10,233	$0	$0	$44,749,356
FY 1995	$26,311,189	$15,714,326	$8,299	$0	$0	$42,033,814
FY 1994	$26,462,911	$15,792,486	$7,536	$0	$0	$42,262,933
FY 1993	$25,684,226	$15,166,158	$0	$0	$0	$40,850,384
FY 1992	$25,839,029	$15,252,220	$0	$0	$0	$41,091,249
FY 1991	$24,929,069	$14,880,014	$0	$0	$0	$39,809,083
FY 1990 2/						$40,305,323
FY 1989						$40,543,536
FY 1988						$40,954,991
FY 1987						$40,818,853
FY 1986						$40,848,796
FY 1985						$37,937,376
FY 1984						$25,499,174
FY 1983						$23,712,539
FY 1982						$23,340,495

1/ Includes funds to be used for state school aid.
2/ Distribution amounts are not available for FY 1982 – FY 1990.

SOURCE: Department of Revenue, Annual Reports

PAYMENT SCHEDULE

Wholesalers and domestic farm wineries must pay the luxury tax on liquor to the Department of Revenue monthly on or before the 20th day of the month following the month in which the tax accrues. The tax must be paid within 10 days of the due date to avoid penalty and interest charges.

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in 1998, 2001, and 2002.

2000 TAX LAWS

Laws 2000, Chapter 296 extended the distribution of some luxury tax revenues to the Corrections Fund for another five years. The allocation of a percentage of revenues derived from the taxes on cigarettes, tobacco, and liquor to the Corrections Fund had been scheduled to expire on June 30, 2000, but this bill extended the lapsing date to June 30, 2005. This act has no fiscal impact. (Effective April 18, 2000)

1999 TAX LAWS

Laws 1999, Chapter 134 eliminated the funding increase for the Drug Treatment and Education Fund that was scheduled to take place on January 1, 2000, and removed the statutory language that would have terminated the Corrections Revolving Fund on January 1, 2000. The Drug Treatment and Education Fund was to have received an

increase in the distribution of revenue from the spirituous liquor tax from 7% to 10%. The fund was also to have received an increase in the distribution of revenue from the taxes on vinous and malt liquors from 18% to 25%. Now, the fund will continue to receive 7% from spirituous liquor and 18% from vinous and malt liquors. In addition, the Corrections Revolving Fund will indefinitely continue to receive 3% of the monies collected from spirituous liquors and 7% of monies collected from vinous and malt liquors. (Effective September 1, 1999)

1997 TAX LAWS

Laws 1997, Chapter 150 recodified Title 42 of the Arizona tax code, which regards property, transaction privilege, use, and luxury taxation. The bill made numerous technical changes, removed references to gender, and restructured and renumbered several statutes. It provided that the interpretation of the tax code is not to be changed solely due to changes made by the recodification. Immunities, exemptions, claims, proceedings, etc. that existed before the recodification are to remain in effect. (Effective January 1, 1999)

Laws 1997, Chapter 246 changed the distribution of the luxury tax on liquor. The act allocated to the newly created Drug Treatment and Education Fund 7% of revenues collected from the luxury tax on spirituous liquors and 18% of revenues from the luxury taxes on vinous and malt liquors. On January 1, 2000, the fund is to receive 10% of revenues from the spirituous liquor tax and 25% of revenues from the vinous and malt liquor taxes. In addition, the act allocated to the Corrections Revolving Fund 3% of revenues collected from the spirituous liquors tax and 7% of revenues collected from the vinous and malt liquor taxes through December 31, 1999. (Effective January 1, 1997)

1996 TAX LAWS

Laws 1996, Chapter 78 reduced the luxury tax on cider from $0.84 per gallon to $0.16 per gallon. Cider is defined as vinous liquor made from normal alcoholic fermentation, and it includes the juice of apples, sparkling and carbonated cider, and cider made from condensed apple that contains not less than one-half of 1% and not more than 7% alcohol by volume. (Effective July 20, 1996)

Pre 1996 History

ALCOHOLIC BEVERAGE LICENSE FEES

DESCRIPTION

Alcoholic beverage license fees are charged to sellers and producers of alcoholic beverages in Arizona as a means for the state to regulate the sale of such beverages. Fees are charged for original licenses, license renewals, and transfers of licenses. There is also an additional issuance fee for each original license issued. The number of original licenses granted per county is restricted according to county population. Fee amounts vary by type of fee and type of seller or producer (i.e., restaurant, hotel, microbrewery, etc.). The revenues from the license fees are distributed among several recipients.

DISTRIBUTION

Club Licenses and Applications. The revenues derived from club licensing and applications are dedicated to the Department of Economic Security–Mental Retardation, Capital Investment Fund [A.R.S. § 4-116].

Special Event Licenses. Collections are dedicated to the Health Department for use in the evaluation and treatment of alcoholics [A.R.S. § 4-203.02(A)].

All Other Licenses. Except for the above club and special event license fees, two-thirds of license fees are deposited in the state General Fund. One-third of the license fees collected in counties with a population of 500,000 or less are to be paid monthly by the director of Liquor Licenses and Control to the treasurer of those counties. For each county with a population of over 500,000, the director is to pay the county treasurer from the remaining one-third of license fees the amount of $3,000 for each new license issued for premises in unincorporated areas of that county, up to a maximum of $150,000. The remainder of the one-third of license fees collected in counties with a population of over 500,000 is deposited in the state General Fund [A.R.S. § 4-115].

WHO PAYS THE TAX

The tax is paid by manufacturers, wholesalers, out-of-state producers, exporters, importers or rectifiers, retailers of alcoholic beverages, businesses authorized by local governments to sell liquor, and domestic farm wineries or microbreweries [A.R.S. § 4-209].

TAX BASE AND RATE

License and Permits. A flat fee is charged for an original license, annual license renewals, transfers of licenses, assignments of agents, and interim permits. Every license expires annually. In addition, for each additional original license issued there will be levied an separate issuance fee equal to the license's fair market value which will be deposited in the state General Fund [A.R.S. § 4-209, A.R.S. § 4-203.01, .02, and .03, and A.R.S. § 42-206.01].

Surcharges. Certain licenses are assessed various surcharges as part of the annual license renewal fee. The revenues from these surcharges are dedicated to costs associated with audit and support staff activities, and costs associated with an enforcement program to investigate licensees who have been the subject of multiple complaints to the department [A.R.S. § 4-209(J&K)].

Maximum Additional Licenses Per County. The total number of bar, beer and wine bar or liquor store licenses are limited in a single county:

- Counties with a population less than 500,000 to 1 license, of each type, for each additional 4,000 person increase over the population in that county as of July 1, 1992.
- Counties with a population of 500,000 or more to 1 license, of each type, for each additional 5,000 person increase over the population in that county as of July 1, 1992 [A.R.S. § 4-206.01].

Exemptions:

- Drug stores selling spirituous liquors only upon prescription.
- Any confectionery candy with less than 5% by weight of alcohol.
- Manufacturers, wholesalers and retailers of ethyl alcohol used for scientific, chemical, mechanical, industrial, medicinal or other nonbeverage purposes.
- Individuals and establishments authorized by Congress to procure spirituous liquor or ethyl alcohol tax-free.
- Manufacturers of denatured alcohol produced under provisions established by acts of Congress [A.R.S. § 4-226].

Table 1

TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	Total	General Fund	Department of Economic Security	Department of Health Services	Counties	Audit Surcharge	Enforcement Surcharge
FY 2001	$4,933,818	$3,876,428	$44,175	$47,950	$346,375	$93,840	$525,050
FY 2000	$4,278,445	$3,323,418	$50,975	$41,050	$347,272	$93,080	$422,650
FY 1999	$4,293,893	$3,365,016	$53,075	$39,550	$349,182	$83,520	$403,550
FY 1998	$4,453,507	$3,698,779	$53,050	$38,500	$358,598	$88,880	$215,700
FY 1997	$4,398,612	$3,634,188	$59,200	$40,150	$369,524	$86,600	$208,950
FY 1996	$3,222,863	$3,222,863	$58,675	$38,425	$311,742	$82,920	$198,650
FY 1995	$3,639,600	$2,404,500	$57,100	$34,400	$337,700		
FY 1994	$3,426,400	$2,577,500	$54,900	$36,100	$343,100		
FY 1993	$3,092,600	$2,034,000	$51,400	$33,400	$762,700		
FY 1992	$3,108,308	$2,166,604	$70,130	$30,575	$840,999		
FY 1991	$3,304,200	$2,385,400	$39,000	$29,300	$850,500		
FY 1990	$3,249,311						
FY 1989	$3,340,887						
FY 1988	$3,109,773						
FY 1987	$3,391,100						
FY 1986	$3,114,100						
FY 1985	$2,720,109						
FY 1984	$2,264,700						
FY 1983	$2,449,557						
FY 1982	$2,335,349						

Note: Distributions are not available for FY 1982 – FY 1990.
Note: From FY 1993 – FY 1995 some license fees were distributed to the "Automated File and Retrieval Fund" and "Surcharge on Renewals." These distributions no longer exist.

SOURCE: Department of Liquor Licenses and Control

Application Fees:

- Original license – $100
- Transfer of license – $100 [A.R.S. § 4-209(A)]

Issuance fees for original licenses:

Table 2		
1.	In-state producers of spirituous liquors	$1,500
2.	Out-of-state producer's, exporter's, importer's, or rectifier's license, except an out-of-state winery selling 50 or fewer cases of wine in a calendar year	200
3.	Domestic microbrewery license	300
4.	Wholesalers of spirituous liquors	1,500
5.	Local government licenses	100
6.	On-sale retailers on all spirituous liquors and bar license	1,500
7.	On-sale retailers beer and wine bar license	1,500
8.	Railroads, airlines or boats, conveyance licenses	1,500
9.	Off-sale retailers on all spirituous liquors, liquor store license	1,500
10.	Off-sale retailers beer and wine store license	1,500
11.	Hotels and motels	1,500
12.	Restaurants	1,500
13.	Domestic farm winery	100
14.	Clubs	1,000
15.	Out-of-state winery selling 50 or fewer cases of wine in a calendar year	25

[A.R.S. § 4-209(B)]

Annual License Fees:

Table 3		
1.	In-state producers of spirituous liquors	$50
2.	Out-of-state producer's, exporter's, importer's, or rectifier's license, except an out-of-state winery selling 50 or fewer cases of wine in a calendar year	50
3.	Domestic microbrewery license	300
4.	Wholesalers of spirituous liquors	250
5.	Local government licenses	100
6.	On-sale retailers on all spirituous liquors and bar license	150
7.	On-sale retailers beer and wine bar license	75
8.	Railroads, airlines or boats, conveyance licenses	225
9.	Off-sale retailers on all spirituous liquors, liquor store license	50
10.	Off-sale retailers beer and wine store license	50
11.	Hotels and motels	500
12.	Restaurants	500
13.	Domestic farm winery	100
14.	Clubs	150
15.	Out-of-state winery selling 50 or fewer cases of wine in a calendar year	25

[A.R.S. § 4-209(D)]

NOTE: (1) The Department of Liquor Licenses and Control may issue such licenses with staggered renewal dates. A license issued less than 6 months before the scheduled renewal date shall be charged only one-half of the annual license fee [A.R.S. § 4-209(C)].

(2) Establishments operating on a seasonal basis not exceeding 6 months in any year are subject to license fees equal to half the annual rate [A.R.S. § 4-209(E)].

Transfer Fees for Spirituous Liquor Licenses:

(1) From Person to Person	$300
(2) From Location to Location	100

[A.R.S. § 4-209(F-G)]

Assignment Fees. A $100 fee is charged for a change of agent. For a holder of multiple licenses, the fee is $100 for the first license and all remaining licenses transferred to the same agent shall be $50 each, with a maximum fee of $1,000 [A.R.S. § 4-209(H)].

NOTE: License transfers are not permitted for restaurants, hotels, motels, clubs or domestic farm wineries or microbreweries, except that clubs may transfer a license from location to location.

Interim Permit Fees. For original license pending or license transfer pending, the fee is $100 [A.R.S. § 4-203.01].

Other Licenses. In addition, special event licenses are issued on a daily basis at a fee of $25 per day. The domestic wine festival license fee is $15 per event [A.R.S. § 4-203.02 and § 4-203.03].

PAYMENT SCHEDULE

Original license fees, interim permit fees, and transfer fees are due upon application. Payments for annual license renewal are due in advance. A system of staggered renewal dates may be implemented by the Department. Licenses that are not renewed on the due date are subject to a penalty equal of $150 [A.R.S. § 4-209(A)].

The Department of Liquor Licenses and Control collects the tax [A.R.S. § 4-112].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 to 2001.

2002 TAX LAWS

Laws 2002, Chapter 155 allows a consumer to arrange for direct shipment of a limited amount of wine by a common carrier. This would allow residents of Arizona to ship wine directly home from out-of-state wineries, without having to go through the requirements for out-of-state spirituous liquor shipping. There will be an unknown loss of revenue from this legislation. (Effective August 22, 2002)

Laws 2002, Chapter 196 extends the special event license for charitable auction to the sale of all spirituous liquor rather than just vintage wine. It also eliminates the $25 daily fee for off-sale licenses (packaged alcoholic beverages for off-site consumption), but institutes the fee for on-sale licenses (alcoholic beverages sold for either off-site or on-site consumption). The fiscal impact of this legislation is unknown, but should be minimal. (Effective August 22, 2002)

Laws 2002, Chapter 294 increases the surcharge imposed on liquor licenses from $20 to $30 for the audit surcharge, and from $25 to $35 for the enforcement surcharge. It also repeals obsolete language, strengthens the Department of Liquor Licenses and Control's enforcement of unlicensed business establishments, and makes some alterations in the State Liquor Board. It will have an undetermined positive impact on the audit and enforcement funds. (Effective May 22, 2002)

Pre 1996 History

GENERAL FUND

INSURANCE PREMIUM TAX

INSURANCE PREMIUM TAX

DESCRIPTION

The insurance premium tax is imposed on net insurance premiums received by insurance companies for risks that exist within the state. Included are premiums for life insurance, accident and health insurance, fire insurance, vehicle insurance, prepaid dental and legal insurance, and other property and casualty premiums such as homeowners and commercial insurance, medical malpractice, and fidelity and surety insurance.

The tax applies to insurance companies formed under the laws of this state ("domestic" insurance carriers), insurance companies formed under the laws of another state within the United States ("foreign" insurance carriers), and insurance companies formed under the laws of another country ("alien" insurance carriers).

Insurance premium tax also includes "retaliatory" taxes, which are taxes owed by foreign insurers to the extent that the sum of taxes an insurer pays in Arizona is less than what the sum of taxes would be if the same insurance business were transacted in the insurer's "home" state (state of domicile).

DISTRIBUTION

Except for a portion of the insurance premium tax on fire insurance premiums and an additional premium tax paid on vehicle insurance premiums, insurance premium tax revenues are deposited in the state's General Fund [A.R.S. § 20-227].

Eighty-five percent of the insurance premium tax on fire insurance premiums is transferred to cities and towns and legally organized fire districts which procure the services of private fire companies, and to cities and towns which have their own fire department or legally organized fire district. The proceeds are to be used to assist in funding pension plans for fire fighting personnel. The other 15% is deposited into the state's General Fund. [A.R.S. § 20-224, A.R.S. § 9-951, and A.R.S. § 9-952].

An additional premium tax of 0.4312% paid on insurance carried on vehicles is separately accounted for, and transferred to the Public Safety Personnel Retirement System for deposit in the Highway Patrol Account to assist in funding the pension plan for highway patrol personnel [A.R.S. § 20-224.01].

Table 1 on the following page provides the distribution of insurance premium tax since FY 1982. It should be noted that the "total" column in the following table reflects net collections for the fiscal year, and in some cases, does not equal the amounts distributed to the General Fund, the Public Safety Personnel Retirement System, and to cities and fire districts. In these cases, some collections were carried forward into the next fiscal year, and were distributed then.

WHO PAYS THE TAX

All authorized insurers and formerly authorized insurers (insurers not currently authorized, but continuing collection of premiums and servicing of existing policies in the state) are subject to the insurance premium tax. In addition, health care service organizations, prepaid dental plan organizations, and prepaid legal insurance corporations are subject to the tax [A.R.S. § 20-224, A.R.S. § 20-206, A.R.S. § 20-401.5, A.R.S. § 20-416, A.R.S. § 20-837, A.R.S. § 20-1010, A.R.S. § 20-1060, A.R.S. § 20-1097.07].

Table 1

INSURANCE PREMIUM TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Transfer to Public Safety Retirement System	Transfer to Cities and Fire Districts	Total
FY 2001	$183,394,700	$11,419,500	$7,187,100	$202,001,300
FY 2000	$160,723,567	$10,953,470	$5,670,876	$177,344,423
FY 1999	$150,697,201	$10,735,299	$5,178,291	$166,614,522
FY 1998	$124,603,122	$10,208,838	$5,090,836	$139,960,268
FY 1997	$120,518,800	$9,761,100	$5,418,300	$135,697,400
FY 1996	$114,153,900	$8,904,400	$5,627,300	$128,673,900
FY 1995	$111,102,609	$8,310,295	$5,181,985	$124,594,889
FY 1994	$110,731,681	$7,988,541	$5,018,862	$123,739,084
FY 1993	$103,002,519	$7,389,377	$4,773,301	$115,165,197
FY 1992	$100,543,557	$6,477,055	$4,664,253	$111,684,865
FY 1991	$92,533,400	$3,033,000	$4,736,200	$100,302,600
FY 1990	$116,424,400	$0	$4,992,900	$121,347,300
FY 1989	$80,117,300	$5,697,578	$5,134,789	$90,949,700
FY 1988	$76,026,414	$5,426,130	$5,380,856	$86,833,400
FY 1987	$70,475,500	$4,932,456	$4,931,378	$80,339,400
FY 1986 1/	$60,657,000	$4,186,541	$4,382,602	$69,226,143
FY 1985	$49,947,917	$3,147,276	$3,235,055	$71,906,600
FY 1984	$45,020,790	$2,855,132	$2,889,053	$60,593,658
FY 1983	$32,850,658	$2,389,657	$2,704,491	$53,851,722
FY 1982	$27,954,319	$2,391,181	$2,585,590	$44,119,099

1/ As of January 31, 1986, the Department of Insurance no longer collected insurance premium taxes on behalf of the Industrial Commission's Administrative Fund. The total collections indicated for FY 1982 through FY 1986 include collections of $3.4 million, $6.1 million, $3.1 million, $4.3 million and $2.7 million respectively, which were transferred to the Industrial Commission Administrative Fund.

SOURCE: Department of Insurance.

TAX BASE AND RATE

The insurance premium tax applies to premiums paid for insurance covering liabilities that exist within the state. The tax is levied on the net premium income, which is defined as the total amount received from premiums after deducting cancellations, returned premiums, policy dividends, refunds reductions, savings coupons, and similar amounts paid or credited to policy holders within the state, and not reapplied as premiums for new, additional or extended insurance [A.R.S. § 20-224].

Except for fire insurance and surplus line insurance, the insurance premium tax rate for most types of insurance is 2% of net premium income [A.R.S. § 20-224]

The insurance premium tax rate for fire insurance is 0.66% for insurance on properties located in an incorporated city or town which procures the services of a private fire company. The rate on all other fire insurance is 2.2% [A.R.S. § 20-224].

The insurance premium tax rate on premiums paid to brokers selling surplus line insurance and industrial insurance contracts procured from unauthorized insurers is 3% of the net premium income [A.R.S. § 20-416 and A.R.S. § 20-401.7].

Certain types of insurers are exempted from the insurance premium tax, including some hospital and medical service corporations, some fraternal benefit societies, and extended warranty insurers [A.R.S. § 20-108].

Title insurance premiums are also exempted from the insurance premium tax, and are instead subject to the state income tax [A.R.S. § 20-224 and A.R.S. § 20-1566].

Premiums paid by government entities to non-profit hospitals, medical, dental, and optometric service corporations are exempt from the insurance premium tax [A.R.S. § 20-837].

TAX REFUNDS AND/OR TAX CREDITS

A tax credit against insurance premium tax liability is allowed for net increases in employment positions of residents of the state by an insurer that is located in an enterprise zone or a military reuse zone. A credit may not be claimed under both an enterprise zone and a military reuse zone for the same employee [A.R.S. § 20-224.03 and A.R.S. § 20-224.04].

The tax credit for insurers in an enterprise zone equals one-fourth of taxable wages paid to an employee in a qualified employment position (not to exceed $500) in the first year of employment, one-third of taxable wages (not to exceed $1,000) in the second year, and one-half of taxable wages (not to exceed $1,500) in the third year.

The tax credit for insurers in a military reuse zone equals $1,000 per year in the first year of employment, increasing by $500 per year up to $3,000 per year in the fifth year of employment, for each dislocated military base employee, and $500 per year in the first year of employment, increasing by $500 per year up to $2,500 per year in the fifth year of employment, for each employee other than a dislocated military base employee.

PAYMENT SCHEDULE

Payment of the preceding calendar year's insurance premium tax liability is due on or before March 1 of each year [A.R.S. § 20-224].

Any insurer which paid or is required to pay a tax of $2,000 or more for the preceding calendar year is required to pay an "installment" payment of 15% of that amount on or before the 15th day of each month from March through August. These installment payments are then credited against the insurance premium tax due in March of the following year [A.R.S. § 20-224].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 to 2001.

2002 TAX LAWS

Laws 2002, Chapter 214 changed the insurance premium tax filing deadline for domestic insurers from on or before March 31 to on or before March 1, which is also the filing deadline for foreign and alien insurers.

Laws 2002, Chapter 237 provides that an insurer can not claim a credit for the same employee in both an enterprise zone and a military reuse zone. It also provides clarification on the definition of net new employees, and provides a cap of 200 positions on the number of eligible employees that can be claimed under the enterprise zone program.

Pre 1996 History

GENERAL FUND

ESTATE TAX

ESTATE TAX

DESCRIPTION

The estate tax is imposed on the transfer of wealth that occurs upon the death of an estate owner. The tax is also imposed on every generation-skipping transfer of property. The amount of the state estate tax is equal to the maximum allowable federal tax credit for state death taxes under Section 2011 of the Internal Revenue Code. (Note that since the state receives or picks up an amount equal to this federal tax credit, the state estate tax is also often referred to as a "pick-up" tax.) As a result of the Federal Economic Growth and Tax Relief Reconciliation Act of 2001, the state death tax credit will be gradually phased out by 25% per year between 2002 and 2005.

DISTRIBUTION

Estate tax revenues are distributed to the Tax Refund Account in amounts sufficient to meet tax refund requirements. All remaining amounts are deposited in the state General Fund [A.R.S. § 42-1116].

Table 1

TAX COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2001	$74,651,783	FY 1991	$29,001,249
FY 2000	$80,644,330	FY 1990	$23,916,529
FY 1999	$87,250,096	FY 1989	$24,079,707
FY 1998	$62,904,674	FY 1988	$30,978,590
FY 1997	$65,432,336	FY 1987	$25,668,837
FY 1996	$54,207,976	FY 1986	$13,168,717
FY 1995	$48,771,386	FY 1985	$14,746,793
FY 1994	$40,616,732	FY 1984	$12,536,211
FY 1993	$39,714,304	FY 1983	$12,231,351
FY 1992	$25,652,448	FY 1982	$12,302,716

SOURCE: Department of Revenue, Annual Reports. Figures are net of refunds.

WHO PAYS THE TAX

The estate tax is paid by the personal representative of an estate or generation-skipping trust [A.R.S. § 42-4004].

"Personal representative" is defined as the executor or administrator of a decedent's estate, trustee of a generation-skipping trust or, in the absence of such executor or appointed trustee, any person in actual or constructive possession of any portion of the estate subject to the tax [A.R.S. § 42-4001].

TAX BASE

The estate tax applies to transfer of a resident's gross estate to its beneficiaries as defined in Section 2031 of the Internal Revenue Code or a non-resident's Arizona estate that is included in the gross estate. The Arizona estate of non-residents includes (1) real property located in Arizona and (2) tangible personal property having actual situs in Arizona [A.R.S. § 42-4001].

The generation-skipping tax applies to every transfer subject to the federal tax under Subtitle B, Chapter 13 of the Internal Revenue Code. The estate subject to such tax includes (1) real property located in Arizona, (2) tangible personal property having actual situs in Arizona, and (3) intangible personal property owned by a trust having its principal place of administration in Arizona at the time of transfer [A.R.S. § 42-4101].

TAX RATE

The tax levied on residents' estates is equal to Arizona's share of the maximum allowable federal tax credit for death taxes paid to states. In calculating this amount, the maximum federal credit is reduced by an amount that represents death taxes imposed on the estate by another state. The amount of the reduction allowed for death taxes paid to another state is equal to the lesser of: [A.R.S. § 42-4051]

(1) The amount of the death tax paid to the other state and credited against the federal estate tax.
(2) The amount of the federal tax credit that is apportioned to the other state based on the ratio of the value of the estate's property located in that state to the total value of the property of the estate.

The tax levied on non-residents' estates is equal to the amount of the federal tax credit that is apportioned to Arizona based on the ratio of the value of the estate's property located in Arizona to the total value of the property of the estate [A.R.S. § 42-4052].

The tax levied on generation-skipping transfers of property is equal to Arizona's share of the maximum federal tax credit allowable under Section 2604 of the Internal Revenue Code. Arizona's share is based on the ratio of the value of the property located in Arizona to the total value of the property included in the generation-skipping transfer [A.R.S. § 42-4102].

PAYMENT SCHEDULE

If the personal representative of an estate is required to file a federal estate tax return, then a state estate tax return is also required and due on or before the required federal filing date. An extension for filing a state estate tax return is granted automatically if the federal due date is extended. Also, the Department of Revenue may grant an extension up to six months for filing the Arizona estate tax return if good cause is shown [A.R.S. § 42-4002].

The personal representative of the estate shall pay the state estate tax not later than the required filing date, including any extensions of such date. The Department of Revenue may, however, extend the time for payment if good cause is shown [A.R.S. § 42-4004].

If federal estate tax payments are made in installments under Section 6166 of the Internal Revenue Code and the amount of the tax due exceeds $50,000, then the personal representative may elect to pay in the same installments as the federal tax. Note that interest is assessed until the balance is paid [A.R.S. § 42-4004].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 to 1999, 2001, and 2002.

As noted in the *Description* section, the Federal Economic Growth and Tax Relief Reconciliation Act of 2001 gradually phases out the state death tax credit. Since the Arizona estate tax is based on the amount of the federal credit, this will have an estimated negative impact on the state's General Fund of $(18.8) million in FY 2003.

2000 TAX LAWS

Laws 2000, Chapter 265 enabled the Department of Revenue, for good cause, to grant an extension of up to six months for filing an Arizona estate tax return. The fiscal impact of this legislation is unknown.

Pre 1996 History

GENERAL FUND

OTHER REVENUE SOURCES

BINGO LICENSE AND LIEU TAX

DESCRIPTION

The bingo license and lieu tax consists of a license fee charged to qualified operators of bingo games and a bingo tax assessed on the receipts from bingo games. There are 3 license classifications for bingo operators based on the amount of gross receipts. The license fee and tax rate vary by classification, with a maximum tax rate of 2% of gross receipts. All bingo games in Arizona must be conducted by a licensed person. The Department of Revenue serves as the licensing authority in the state. The tax is in lieu of the transaction privilege tax.

DISTRIBUTION

All bingo tax revenue administrative receipts, license fees, penalties and interest collections are deposited in the state General Fund [A.R.S. § 5-407(H)].

Table 1

BINGO LICENSE FEE AND LIEU TAX COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2001	$634,384	FY 1991	$850,228
FY 2000	$677,036	FY 1990 1/	$796,777
FY 1999	$717,830	FY 1989	$845,841
FY 1998	$750,970	FY 1988	$798,818
FY 1997	$774,129	FY 1987	$730,593
FY 1996	$791,848	FY 1986	$600,158
FY 1995	$909,562	FY 1985	$412,285
FY 1994	$923,834	FY 1984	$415,224
FY 1993	$922,180	FY 1983	$388,758
FY 1992	$907,278	FY 1982	$276,216

1/ The first full fiscal year in which all collections were deposited in the General Fund.

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

The license fee and lieu tax is paid by persons and organizations that have been licensed by the Department of Revenue to conduct the game of bingo [A.R.S. § 5-403].

TAX BASE

Licenses. A flat fee and a percentage of adjusted gross receipts or gross receipts is charged for bingo licenses, license renewals and games, depending on the license classification. Adjusted gross receipts means gross receipts minus prize money paid [A.R.S. § 5-414].

License Classifications. There are 3 license classes based on the bingo game's gross receipts per year [A.R.S. § 5-413]:

- *Class A License*. Bingo games for which the gross receipts do not exceed $15,600. This license cannot be issued to persons holding a liquor license unless it is a club license. The reporting period is one year coinciding with the license's term.
- *Class B License*. Bingo games for which gross receipts do not exceed $300,000. There are four reporting periods coinciding with the quarters of the license's term.

- *Class C License*. Bingo games for which gross receipts exceed $300,000. There are 12 reporting periods coinciding with each month of the license's term.

TAX RATE

The following fees and tax are assessed for the different license classes [A.R.S. § 5-414]:

License Class	Local Governing Body Fee	License Fee	Bingo Tax
A	$5	$10	2.5% of Adjusted Gross Receipts
B	$25	$50	1.5% of Gross Receipts
C	$50	$200	2.0% of Gross Receipts

PAYMENT SCHEDULE

License Fee Due Date. The license fee, which is non-refundable, is due and paid at the time of application. Licenses expire one year from the issue date and must be renewed annually [A.R.S. § 5-403].

Bingo Tax. The tax is due at the time of each financial report submitted by the licensee according to the above described schedule for the corresponding license class [A.R.S. § 5-407].

License Fee Collection. The initial application for license is submitted to the local governing body along with the local governing body fee and the license fee. Subsequent renewal fees, which are the same amount as the license fee, are paid to the Department of Revenue. A 30-day grace period from the expiration date is given for renewal with a penalty equal to the license fee; otherwise after such period a licensee must reapply for a new license [A.R.S. § 5-403].

The Department of Revenue collects the tax [A.R.S. § 5-407].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 to 2000 and 2002.

2001 TAX LAWS

Laws 2001, Chapter 115 amended statutes by allowing an organization licensed to conduct bingo games to incur expenses for mortgage payments when a nonprofit charitable organization licensee is using the building or premises for both bingo and for the licensee's charity. (Effective April 21, 2001.)

Pre 1996 History

BOULDER CANYON PROJECTS - IN LIEU PAYMENTS

DESCRIPTION

These are payments made by the United States or its agencies or instrumentalities to the State of Arizona in lieu of taxes from the proceeds of any hydroelectric power development ("Boulder Canyon Projects") on the Colorado River [A.R.S. § 45-1331(A)].

DISTRIBUTION

Two-thirds of payments received are dedicated to the state General Fund. The remaining one-third of payments received are placed in a special fund of the county in which the hydroelectric power development is located and are used for recreational facilities, access roads, and public works [A.R.S. § 45-1331].

Table 1

TAX COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2001	$200,000	FY 1991	$200,000
FY 2000	$200,000	FY 1990	$200,000
FY 1999	$200,000	FY 1989	$200,000
FY 1998	$400,000	FY 1988	$200,000
FY 1997	$0	FY 1987	$200,000
FY 1996	$200,000	FY 1986	$200,000
FY 1995	$200,000	FY 1985	$200,000
FY 1994	$200,000	FY 1984	$200,000
FY 1993	$200,000	FY 1983	$0
FY 1992	$200,000	FY 1982 1/	$400,000

1/ In 1981-82, two payments were received on the Boulder Canyon Projects. One payment was received in July of 1981 and the second payment in June of 1982. The June payment was an early payment of the 1982-83 lieu tax, which would normally be payable in August of 1982.

SOURCE: State Treasurer's Office. Net collections from Boulder Canyon Projects are derived by summing the payments to the state General Fund and to Mohave County.

WHO PAYS THE TAX

Department of the Interior – Bureau of Reclamation.

TAX BASE AND RATE

These are lump sum payments received from the Federal Government in lieu of taxes on the proceeds from the Boulder Canyon Projects.

PAYMENT SCHEDULE

Federal payments are normally in August of each year.

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 to 2002.

Pre 1996 History

COMMERCIAL NUCLEAR GENERATING STATION ASSESSMENT

DESCRIPTION

The commercial nuclear generating station assessment is levied on each consortium of public service corporations engaged in operating a commercial nuclear generating station. In effect, only the Palo Verde nuclear generating station is assessed by this law. Collection amounts are used by the state to develop emergency response capabilities for accidents caused at a commercial nuclear generating station. The assessment is equal to the amount appropriated by the Legislature for nuclear emergency response.

DISTRIBUTION

Monies collected from the commercial nuclear generating station assessment are deposited in the General Fund [A.R.S. § 26-306.01(D)].

Table 1

COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2001	$924,778	FY 1991	$651,200
FY 2000	$945,935	FY 1990	$635,100
FY 1999	$926,814	FY 1989	$601,100
FY 1998	$880,824	FY 1988	$483,700
FY 1997	$878,374	FY 1987	$458,200
FY 1996	$850,091	FY 1986	$412,015
FY 1995	$858,564	FY 1985	$410,515
FY 1994	$870,000	FY 1984	$573,751
FY 1993	$833,000	FY 1983	$968,456
FY 1992 1/	$1,613,000	FY 1982	$300,000

1/ Two deposits were made in FY 1992. A deposit of $770,000 was made in July 1991 and another deposit of $843,000 was made in June 1992.

SOURCE: Department of Revenue.

WHO PAYS THE TAX

The assessment is paid by each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station [A.R.S. § 26-306.01(D)]. In practice, the assessment is only paid by the Palo Verde nuclear plant.

TAX BASE AND RATE

The amount of the assessment is equal to the biennial legislative appropriation to the Nuclear Emergency Management Fund, plus an additional 10% per year for interest [A.R.S. § 26-306.01(D)]. The assessments are used to develop, maintain, and support the state plan for responding to accidents at a commercial nuclear generating station [A.R.S. § 26-306.01(A)].

PAYMENT SCHEDULE

The assessment is due to the Department of Revenue each year on the date that the appropriation to the Nuclear Emergency Management Fund becomes available for expenditure. If the assessment is not paid on this date, interest is charged at the rate of 10% per year until payment is received. If a consortium fails to pay the assessment within one year, the Legislature may require the director of Emergency Management to notify the United States Nuclear Regulatory Commission [A.R.S. § 26-306.01(D&E)].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web site located at www.azleg.state.az.us/jlbc.htm. The estimated dollar impact of the tax law changes is summarized by fiscal year in the following table:

Table 2
ESTIMATED DOLLAR VALUE OF TAX LAW CHANGES

Fiscal Year	Impact
FY 2003	$0
FY 2002	$940,611
FY 2001	$924,778
FY 2000	$945,935
FY 1999	$926,814
FY 1998	$880,824
FY 1997	$878,374

Note: Assessments are paid into the General Fund at the end of the fiscal year prior to the fiscal year of the appropriation so that the money is available for expenditure at the start of the fiscal year.

Estimates made by JLBC Staff

There were no changes enacted to this tax in 1998, 2000, and 2002.

2001 TAX LAWS

Laws 2001, Chapter 277 levied an assessment of $924,778 in FY 2002 and $940,611 in FY 2003 against each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station. The assessment amounts were then appropriated from the state General Fund to the Nuclear Emergency Management Fund to develop and maintain the state response plan for an accident at a commercial nuclear generating station. The monies are allocated to the Department of Emergency and Military Affairs, the Radiation Regulatory Agency, Maricopa County, and the town of Buckeye. (Effective May 1, 2001)

1999 TAX LAWS

Laws 1999, Chapter 265 levied an assessment of $926,814 in FY 2000 and $945,935 in FY 2001 against each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station. The assessment amounts were then appropriated from the state General Fund to the Nuclear Emergency Management Fund to develop and maintain the state response plan for an accident at a commercial nuclear generating station. The monies are allocated to the Department of Emergency and Military Affairs, the Radiation Regulatory Agency, and Maricopa County. (Effective May 18, 1999)

1997 TAX LAWS

Laws 1997, Chapter 57 levied assessments of $878,374 in FY 1998 and $880,824 in FY 1999, plus any applicable interest, against each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station.

The sums of $878,374 in FY 1998 and $880,824 in FY 1999 were then appropriated from the state General Fund to the Nuclear Emergency Management Fund in order to develop, maintain, and support the state response plan to an emergency at a commercial nuclear generating station. The monies are to be used by the Division of Emergency Management of the Department of Emergency and Military Affairs, the Radiation Regulatory Agency, and to the

departments and agencies of Maricopa County that have responsibilities under the off-site nuclear emergency response plan of the state. (Effective April 7, 1997)

1996 TAX LAWS

Laws 1996, Chapter 255 levied an assessment of $850,091 in FY 1998, plus any applicable interest, against each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station. Each consortium is required to pay its assessment within one year.

The sum of $850,091 was then appropriated from the state General Fund for FY 1998 to the Nuclear Emergency Management Fund in order to develop, maintain, and support the state response plan to an emergency at a commercial nuclear generating station. The money is to be used by the Division of Emergency Management of the Department of Emergency and Military Affairs, the Radiation Regulatory Agency, and to the departments and agencies of Maricopa County that have responsibilities under the off-site nuclear emergency response plan of the state. This act provides for a biennial cycle for the assessment levied against each consortium and for the appropriation to the Nuclear Emergency Management Fund. (Effective July 20, 1996)

Pre 1996 History

LIEU TAX ON PRIVATE RAILROAD CAR COMPANIES

DESCRIPTION

This tax is imposed in lieu of all other taxes on the property and business of private railroad car companies in the state except for the annual license tax and registration fee [A.R.S. § 42-14308]. Private railroad car companies operate, furnish, or lease cars that transport people or freight over railroad lines located wholly or partially in the state, and that are not owned, leased, or operated by them [A.R.S. § 42-14301].

DISTRIBUTION

Table 1 below provides historical private railroad car company tax collections since FY 1982. The Department of Revenue remits tax payments from private railroad car companies to the State Treasurer for deposit in the state General Fund [A.R.S. § 42-14308].

Table 1

TAX COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2001	$1,349,685	FY 1991	$824,207
FY 2000	$1,476,728	FY 1990	$702,678
FY 1999	$1,441,440	FY 1989	$675,653
FY 1998	$1,494,821	FY 1988	$541,639
FY 1997	$1,525,854	FY 1987	$654,627
FY 1996	$1,641,634	FY 1986	$951,942
FY 1995	$1,240,453	FY 1985	$750,036
FY 1994	$1,036,897	FY 1984	$626,198
FY 1993	$894,851	FY 1983	$566,505
FY 1992	$878,618	FY 1982	$538,855

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

The tax is paid by private railroad car companies in Arizona.

TAX BASE AND RATE

The tax base is the full cash value as determined by the Department of Revenue on or before June 15 each year [A.R.S. § 42-14305]. The assessed value of private railroad car property is derived by multiplying its full cash value by the Class 5 assessment ratio [A.R.S. § 42-12005]. The assessment ratio for Class 5 property is re-calculated each year based on a statutory formula [A.R.S. § 42-15005]. The assessment ratio for FY 2001 was 21%.

The tax rate for properties operated by private railroad car companies is equal to the sum of the average rates for primary and secondary property taxes in the taxing jurisdictions in this state for the current year [A.R.S. § 42-14308]. The statewide average tax rate in FY 2001 was $8.56 per $100 of assessed valuation.

TAX REFUNDS AND/OR TAX CREDITS

N/A.

PAYMENT SCHEDULE

This tax is due and payable on October 1 and delinquent after November 1. (Delinquent taxes bear interest at the rate determined pursuant to A.R.S. § 42-1123 for each subsequent month in which the tax remains unpaid.) The tax is levied and collected by the Department of Revenue for deposit in the state General Fund [A.R.S. § 42-14308].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 to 2002.

Pre 1996 History

PARI-MUTUEL TAX

DESCRIPTION

The pari-mutuel tax is assessed on the amount of money wagered at horse and dog racing facilities and simulcasts in the state. The tax structure is separated according to the type of racing – horse or dog – and the population size of the county in which the facility is located. The Department of Racing also collects fees for licenses issued to facilities and personnel involved in the racing industry. Pari-mutuel revenues are distributed among several different funds.

DISTRIBUTION

Table 1 below provides pari-mutuel revenue collections for the past 20 years. Pari-mutuel revenues are distributed to several different funds.

Table 2 on the following page provides the distribution percentages and/or amounts for the various distributions [A.R.S. § 5-113].

Table 1

PARI-MUTUEL COLLECTIONS

Fiscal Year	Pari-Mutuel Taxes	Licenses	Total Collections
FY 2001	$1,802,280	$91,558	$1,893,838
FY 2000	$2,549,046	$59,506	$2,608,552
FY 1999	$2,945,419	$166,829	$3,112,248
FY 1998	$2,943,787	$88,530	$3,032,317
FY 1997	$2,606,325	$58,126	$2,664,451
FY 1996	$2,802,122	$173,655	$2,975,775
FY 1995	$8,535,300	$87,100	$8,622,400
FY 1994	$8,507,000	$49,200	$8,556,200
FY 1993	$8,080,200	$184,400	$8,264,600
FY 1992	$8,085,200	$208,300	$8,293,500
FY 1991	$7,940,943	$63,408	$8,004,351
FY 1990	$9,348,552	$123,218	$9,471,770
FY 1989	$10,112,985	$257,354	$10,370,399
FY 1988	$10,211,589	$77,796	$10,289,385
FY 1987	$10,808,930	$133,800	$10,942,730
FY 1986	$11,973,996	$225,848	$12,199,844
FY 1985	$11,507,681	$63,000	$11,570,681
FY 1984	$10,674,967	$145,614	$10,820,590
FY 1983	$10,134,785	$215,604	$10,350,389
FY 1982	$10,758,983	$95,574	$10,854,557

SOURCE: Arizona Racing Commission Annual Reports.

WHO PAYS THE TAX

The taxpayer is the person, firm, partnership, corporation or association which holds a pari-mutuel permit. No single permittee may simultaneously own more than four racetracks within the state. No permitee which holds a permit in a county of over 300,000 persons may simultaneously hold a permit for the same kind of racing in another county having a population of over 300,000 [A.R.S. § 5-108.3].

Table 2 DISTRIBUTION OF PARI-MUTUEL REVENUES	
$800,000 or 22%, whichever is less	Arizona County Fairs Racing Betterment Fund
$1,200,000 or 33%, whichever is less	County Fairs Livestock and Agriculture Promotion Fund
$800,000 or 22%, whichever is less	Arizona Breeders' Award Fund
$40,000 or 1%, whichever is less	Arizona Stallion Award Fund
$300,000 or 9%, whichever is less	County Racing Fund
1% of total	Agricultural Consulting and Training Fund.
$45,000 or 1%, whichever is less	Subject to legislative appropriation for administration of the Arizona County Fairs Racing Betterment Fund, Breeders' Award Fund, Stallion Award Fund, and the Greyhound Adoption Fund
$400,000 or 11%, whichever is less	Arizona Exposition and State Fair Fund
25% of license fees collected from dog breeders and racing kennels	Greyhound Adoption Fund
Any remaining funds	State General Fund – the General Fund currently receives no funding

TAX BASE AND RATE

The tax base is the "handle", which is defined as the total amount of money contributed to pari-mutuel pools by bettors [A.R.S. § 5-101 and A.R.S. § 5-111].

For dog racing, the state receives 5.5% of the total handle [A.R.S. § 5-111].

For horse racing, the state receives 2% of the first $1,000,000 of the daily pari-mutuel pool, and 5% of the amount exceeding $1,000,000 of the daily pari-mutuel pool [A.R.S. § 5-111].

Exemptions to the pari-mutuel tax include [A.R.S. § 5-111]:

- The portion of the handle for wagering on simulcasts of out-of-state races.
- Racing meetings conducted by county fair association with the permission of the Racing Commission. This exemption is limited to one racing meeting each year.
- Monies received from horse and dog races held on charity days. Charity days are defined as days on which the net proceeds of the pari-mutuel pool are donated to non-profit organizations and corporations which benefit the general public.

Licenses. The Racing Commission issues licenses to facilities and personnel involved in the racing industry. The licenses are valid for a period not to exceed three years. The Commission collects fees for the licenses it issues as described in Table 3 on the following page [A.R.S. § 5-104].

TAX REFUNDS AND/OR TAX CREDITS

Hardship Credit. Each year, a permittee is eligible for a hardship tax credit determined as follows [A.R.S. § 5-111]:

- Determine the percentage decrease in pari-mutuel wagering in the previous fiscal year compared to the base year. The base year is defined as the highest total pari-mutuel wagering at the racetrack and all additional wagering facilities owned by the permittee for FY 1990, FY 1991, FY 1992, FY 1993 or FY 1994.
- Multiply the total pari-mutuel tax liability for the current year by the percentage decrease determined above, and multiplying the result by three.
- Reduce the permittee's pari-mutuel tax due for the current period, and all future periods, by the result.

Capital Improvements. The permittee's pari-mutuel annual tax liability may be reduced in order to fund capital improvements to racetracks. The reduction can be up to 1% of the total handle in counties having a population of 500,000 or more, and up to 2% in all other counties. The annual reduction continues until sufficient funds have been obtained for the completion of the capital improvement project. The projects must be approved by the Racing Commission.

Table 3

RACING COMMISSION LICENSE FEES

Occupational licenses	Up to $50
Owner, trainer, veterinarian, authorized agent, officials, assistant trainer, stable or kennel name renewal	Up to $75
Owner-trainer, driver, jockey, jockey agent, or apprentice jockey	Up to $100
Duplicate license	Up to $5
Temporary license	Up to $50
Greyhound racing kennels	Up to $100
Farms or other operations where greyhounds are raised for purposes of dog racing	Up to $100
Combination of greyhound racing kennels, farms, or other operations	Up to $100

PAYMENT SCHEDULE

Pari-mutuel taxes are paid daily during the racing season.

The tax is collected by the Arizona Department of Racing.

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1998 to 2002.

1997 TAX LAWS

Laws 1997, Chapter 210 provided that the distribution of funds for the administration of the Arizona County Fairs Racing Betterment Fund, the Arizona Breeders' Award Fund, the Arizona Stallion Award Fund, and the Greyhound Adoption Fund be subject to legislative appropriation. (Effective July 1, 1999)

1996 TAX LAWS

Laws 1996, Chapter 353 restructured the distribution of pari-mutuel revenues as presented in Table 2 above, and provided that 25% of the license fees collected from dog breeders and racing kennels be transferred to the Greyhound Adoption Fund. This chapter also established the County Fair Racing Fund and the Agricultural Consulting and Training Fund, and provided for distribution of a portion of pari-mutuel revenue to them as noted in Table 2. Finally, this chapter provided that any monies remaining after the distributions noted above be deposited in the state's General Fund. The estimated impact of this legislation on the state's General Fund is unknown, however the General Fund is currently receiving no funding from pari-mutuel revenues. (Effective July 1, 1997)

Pre 1996 History

VOLUNTARY CONTRIBUTIONS BY MUNICIPALITIES

DESCRIPTION

Voluntary contributions by municipalities refers to the requirement that cities and towns make "voluntary" contributions to a county in lieu of property tax payments on remote land owned by the municipality. Remote land is defined as property owned by a municipality but located in a different county and from which water is withdrawn, diverted, or transported. Contributions are based on the amount of property taxes that would have been paid to the county where the property is located. Through these contributions, the counties in which the remote property is located are compensated for their reduced taxing and bonding capacity due to the municipal-owned property being removed from their tax rolls.

DISTRIBUTION

The city or town pays the county treasurer of the county in which the property is located one-half of the voluntary contribution not later than the first Monday in November and the other one-half not later than the first Monday in May of the following year [A.R.S. § 9-433]. (Note that the state does not receive any monies from the voluntary contributions.)

Table 1
COLLECTIONS FROM VOLUNTARY CONTRIBUTIONS BY MUNICIPALITIES

Fiscal Year	Net Collections	Fiscal Year	Net Collections
FY 2001	$633,303	FY 1996	$543,718
FY 2000	$611,293	FY 1995	$588,341
FY 1999	$611,021	FY 1994	$588,341
FY 1998	$574,086	FY 1993	$143,513
FY 1997	$545,506		

SOURCE: State Treasurer's Office

WHO PAYS THE TAX

A city, town, or a successor political subdivision may make voluntary contributions of money in lieu of property taxes on its remote municipal property [A.R.S. § 9-432].

A "remote municipal property" means either [A.R.S. § 42-15251]:

- Property owned by a city, town, or successor political subdivision that is not located in the same county as such political entities and from which water may be withdrawn or diverted and transported, or
- Privately owned property that previously met the requirements as stated above.

Exception. A city or town may alienate all or part of its interests in the remote municipal property and thereby terminate its contributions for the alienated property [A.R.S. § 9-432].

TAX BASE AND RATE

The tax base is the assessed value of the remote municipal property. The amount of the contribution is equal to the property taxes that would otherwise have been levied by the taxing jurisdictions in which the property is located [A.R.S. § 9-432].

PAYMENT SCHEDULE

Each city, town, or successor political subdivision that elects to make voluntary contributions pays the county treasurer in which the remote municipal property is located one-half of the contribution not later than the first Monday in November and the other one-half not later than the first Monday in May of the following year [A.R.S. § 9-433].

Voluntary contributions that are not paid when due bear a simple interest rate of 16% per year [A.R.S. § 9-433].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 to 2000 and 2002.

2001 TAX LAWS

Laws 2001, Chapter 117 made changes to conform with existing standards for State Treasurer language and provided various substantive changes to administrative policies within the State Treasurer's Office. Most notably, this act eliminated the Urban in Lieu Payment Fund as of July 1, 2002. (The bill contained various effective dates.)

Pre 1996 History

OTHER FUNDS

PAYMENTS IN LIEU OF PROPERTY TAXES

AIRCRAFT LICENSE TAX

DESCRIPTION

Aircraft license tax is a tax imposed on aircraft based and registered in the state [A.R.S. § 28-8335].

DISTRIBUTION

Monies received from the aircraft license tax are deposited in the state aviation fund [A.R.S. § 28-8345].

Table 1

AIRCRAFT LICENSE TAX COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
FY 2001	$3,176,060	FY 1991	$1,361,153
FY 2000	$3,094,727	FY 1990	$1,288,750
FY 1999	$2,365,498	FY 1989	$1,121,900
FY 1998	$2,043,058	FY 1988	$1,162,980
FY 1997	$1,825,858	FY 1987 1/	$1,297,328
FY 1996	$1,800,630	FY 1986	$2,567,490
FY 1995	$1,507,555	FY 1985	$2,521,476
FY 1994	$1,461,259	FY 1984	$2,196,831
FY 1993	$1,429,867	FY 1983	$2,010,768
FY 1992	$1,404,933	FY 1982	$1,631,047

1/ The aircraft license tax rate was reduced in half from 1.0% to 0.5% effective in FY 1987.

SOURCE: Arizona Department of Transportation, Aeronautics Division.

WHO PAYS THE TAX

The tax is paid by owners of aircraft registered in the state unless an exemption is provided [A.R.S. § 28-8324].

TAX BASE AND RATE

The tax base is aircraft based in the state and registered with the Arizona Department of Transportation (ADOT). ADOT is responsible for determining the fair market value of such aircraft each year as established by the dealer price guides or other recognized reliable source of information [A.R.S. § 28-8342].

The following are exempt from the aircraft license tax:

(1) Regularly scheduled aircraft operated by an airline company for hire [A.R.S. § 28-8322].
(2) Nonresident owned aircraft not used for intrastate commercial activities and not based in Arizona for more than 90 days per year [A.R.S. § 28-8322].
(3) Aircraft operated exclusively in the public service by the United States Government, the state, a political subdivision, or the Civil Air Patrol [A.R.S. § 28-8323].

The tax rate is 0.5% of the average fair market value of the aircraft, except that in no case shall the tax be less than $20 per year unless an exemption has been established [A.R.S. § 28-8335]. A nonresident who bases an aircraft in Arizona for more than 90 days but less than 210 days in any calendar year and is not engaged in intrastate commercial activity is subject to a tax rate equal to 0.1% of the average fair market value [A.R.S. § 28-8336].

The license tax for aircraft in storage or under repair is $20 per aircraft [A.R.S. § 28-8337]. The license tax for salvaged aircraft that is in storage or being restored is $5 per aircraft [A.R.S. § 28-8338]. The license tax for

antique, classic, warbird, glider, experimental, homebuilt, or balloon aircraft is $20 per aircraft [A.R.S. § 28-8339]. The license tax for manufacturer's aircraft is $20 per aircraft [A.R.S. § 28-8340]. The license tax for maintenance aircraft owned by a nonresident is $20 per aircraft [A.R.S. § 28-8341].

The license tax for aircraft that was registered for the first time after the beginning of a calendar year is prorated [A.R.S. § 28-8324].

PAYMENT SCHEDULE

All aircraft based in the state, except those for which exemptions were provided, must be registered with ADOT within 60 days after the aircraft was brought into the state. The aircraft registration must be renewed each year on or before the last day of February [A.R.S. § 28-8322].

The registration fee is $5 per year [A.R.S. § 28-8325]. If the registration requirement is not met, then a penalty of $25 for the first month and $5 for each succeeding month of delinquency will be assessed [A.R.S. § 28-8329].

The aircraft license tax is payable to ADOT upon initial registration and annually by the last day of February [A.R.S. § 28-8335].

Owners of aircraft in storage or salvaged aircraft must notify ADOT within 10 days of the date the aircraft is returned to use and then pay the appropriate license tax, if any, on a pro rata basis [A.R.S. § 28-8337 and § 28-8338].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 to 2002.

Pre 1996 History

FLIGHT PROPERTY TAX

DESCRIPTION

The flight property tax is assessed on the value of airline company aircraft operating in Arizona. The tax is in lieu of ad valorem property taxes on this type of property [A.R.S. § 42-14255].

DISTRIBUTION

Effective through June 30, 2003, half of the flight property tax revenue is deposited in the state Aviation Fund and the other half in the state General Fund (Laws 2001, Chapter 286). Beginning on July 1, 2003, the State Treasurer will deposit 100% of the flight property tax in the state Aviation Fund [A.R.S. § 42-14255].

It should be noted that Laws 1986, Chapter 369 shifted flight property tax revenues from the General Fund to the Aviation Fund over a phase-in period of three years. Beginning on January 1, 1987, 33% of total tax receipts were deposited in the Aviation Fund. On the same date the following two years, the distribution level to the Aviation Fund increased to 66% and 100%, respectively.

As noted under the section *Impact of Tax Law Changes* below, Laws 1997, 1st Special Session, Chapter 3 changed the distribution of flight property tax revenues so that, starting in FY 1998, 50% of total proceeds were deposited in the General Fund and the other 50% in the Aviation Fund.

Table 1

FLIGHT PROPERTY TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Aviation Fund	Total
FY 2001	$6,693,590	$6,693,589	$13,387,179
FY 2000	$6,709,385	$6,709,386	$13,418,771
FY 1999	$7,367,078	$7,489,832	$14,856,910
FY 1998	$7,582,939	$7,582,939	$15,165,878
FY 1997	$0	$17,679,764	$17,679,764
FY 1996	$0	$18,564,298	$18,564,298
FY 1995	$0	$13,803,042	$13,803,042
FY 1994	$0	$12,278,607	$12,278,607
FY 1993	$0	$11,329,977	$11,329,977
FY 1992	$0	$6,934,381	$6,934,381
FY 1991	$0	$10,619,885	$10,619,885
FY 1990	$0	$8,626,536	$8,626,536
FY 1989	$1,067,926	$7,313,156	$8,381,082
FY 1988	$3,882,876	$2,976,552	$6,859,428
FY 1987	$4,795,803	$0	$4,795,803
FY 1986	$3,568,308	$0	$3,568,308
FY 1985	$2,679,799	$0	$2,679,799
FY 1984	$2,782,822	$0	$2,782,822
FY 1983	$2,290,785	$0	$2,290,785
FY 1982	$3,217,110	$0	$3,217,110

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

The tax is paid by airline companies operating within the state [A.R.S. § 42-14255].

TAX BASE AND RATE

The Department of Revenue (DOR) determines the full cash value of flight property by August 31 each year. The full cash value is the value determined as of the prior January 1 of the valuation year [A.R.S. § 42-14254(A)]. DOR establishes the full cash value as follows [A.R.S. § 42-14254(B)]:

(1) determines the valuation of flight property by fleet type,
(2) determines the valuation of each fleet type by the original cost less depreciation,
(3) computes depreciation using 15-year straight-line depreciation to salvage value, and
(4) allows additional obsolescence if supported by market evidence.

Small flight property that is operated in the state in air commerce is valued at 30% of its original cost less depreciation [A.R.S. § 42-14254(C)]. (Small flight property is airline company aircraft with a maximum passenger capacity of less than 56 seats and a maximum payload capacity of less than 18,000 pounds [A.R.S. § 42-14251].)

Arizona's share of the total full cash value of flight property is determined by an apportionment formula, which depends on the number of minutes that flight property is on the ground and on the flight mileage scheduled within and outside Arizona [A.R.S. § 42-14254(D)].

Flight property is assessed as Class 5 property [A.R.S. § 42-12005]. The assessment ratio for Class 5 property is computed as follows [A.R.S. § 42-15005]:

- For secondary property taxes: The ratio that total *net assessed valuation* for secondary tax purposes of all taxable property in class 1 and class 6, paragraph 3, and personal property in Class 2 bears to the total *full cash value* of such property.
- For primary property taxes: The ratio that total *net assessed valuation* for primary tax purposes of all taxable property in Class 1 and Class 6, paragraph 3, and personal property in Class 2 bears to the total *limited valuation* of such property.

As the formulas above suggest, the assessment ratio for Class 5 property may change from one year to the next. In the period from 1991 to 2001, the assessment ratio has varied from 21% to 26%.

The tax rate equals the sum of the average rates for primary and secondary property taxes in all taxing jurisdictions of the state in the current year [A.R.S. § 42-14255]. The historical flight property tax rates are shown in Table 2 on the following page.

The property tax liability is calculated in the same manner as other property (see *Property Tax* section), i.e., by multiplying the tax rate by the assessed valuation of the flight property and then divide the product by 100.

PAYMENT SCHEDULE

The flight property tax is due and payable at the same time as real and secured personal property [A.R.S. § 42-14255]. This means that one-half of the tax is due and payable on October 1 of the tax year, unless the total amount of the tax due is $100 or less, in which case the full amount of the tax is due and delinquent after November 1. The remaining one-half of the tax is due on March 1 of the year following the tax year and becomes delinquent after May 1 [A.R.S. § 42-18052]. Both of these payments fall in the same fiscal year.

Table 2
HISTORICAL AVERAGE PROPERTY TAX RATES PER $100 OF ASSESSED VALUATION

Fiscal Year	Sum of Average State Tax Rates	Primary Tax Rate 1/	Secondary Tax Rate
FY 2001	$12.55	$8.54	$4.01
FY 2000	$12.68	$8.56	$4.12
FY 1999	$12.80	$8.67	$4.13
FY 1998	$12.79	$8.58	$4.21
FY 1997	$12.70	$8.57	$4.13
FY 1996	$12.52	$8.54	$3.98
FY 1995	$13.26	$9.44	$3.82
FY 1994	$12.78	$9.35	$3.43
FY 1993	$12.51	$9.00	$3.51
FY 1992	$12.09	$8.82	$3.37
FY 1991	$11.95	$8.53	$3.42
FY 1990	$11.43	$8.33	$3.10
FY 1989	$10.88	$7.96	$2.92
FY 1988	$10.76	$7.84	$2.92
FY 1987	$10.48	$7.67	$2.81
FY 1986	$10.05	$7.39	$2.66
FY 1985	$9.86	$7.44	$2.42
FY 1984	$9.46	$7.40	$2.06
FY 1983	$9.54	$7.61	$1.93
FY 1982	$9.33	$7.47	$1.86

1/ State tax rate for 1990 to 1995 includes the minimum qualifying school tax rate.

SOURCE: Arizona Property Tax Rates and Assessed Valuations published by Arizona Tax Research Association (ATRA).

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm. The estimated dollar impact of the tax law changes is summarized by fiscal year in the following table:

Table 3
ESTIMATED DOLLAR VALUE OF TAX LAW CHANGES

Fiscal Year	General Fund Impact
FY 2004	$(7,500,000)
FY 2003	$0
FY 2002	$0
FY 2001	$0
FY 2000	$0
FY 1999	$0
FY 1998	$7,583,000
FY 1997	$0

Estimates made by JLBC Staff

There were no changes enacted to this tax in 1998, 1999, 2000, and 2002.

2001 TAX LAWS

Laws 2001, Chapter 286 provided that notwithstanding A.R.S. §42-14255, through June 30, 2003, the State Treasurer will deposit 50% of flight property tax revenues in the state General Fund and 50% in the state Aviation Fund. This means that beginning in FY 2004, all revenues from the flight property tax will be deposited in the state Aviation Fund. As a result, the General Fund is estimated to lose $(7,500,000) in FY 2004. (Effective August 9, 2001)

1997 TAX LAWS

Laws 1997, 1st Special Session, Chapter 3 changed the distribution of revenues from the flight property tax, so that beginning in FY 1998, 50% of revenues were deposited in the state General Fund and the other 50% in the state Aviation Fund. Prior to this law, all revenues from this tax were deposited in the Aviation Fund. The General Fund gained $7,583,000 in FY 1998, while the Aviation Fund lost the same amount. (Effective June 26, 1997)

1996 TAX LAWS

Laws 1996, Chapter 275 modified the property tax valuation method for aircraft operating in Arizona. The act required the Department of Revenue to determine the value of flight property tax by applying a 15-year straight-line depreciation schedule. The law also allowed for additional obsolescence when appropriate. Since this law was enacted prior to Laws 1997, 1st Special Session, Chapter 3, it had no impact on the General Fund. (Effective January 1, 1996)

Pre 1996 History

VEHICLE LICENSE TAX

DESCRIPTION

The Vehicle License Tax (VLT) is an ad valorem tax levied on registered vehicles in the state. The tax is levied per $100 of a vehicle's assessed value. For the first 12 months of the vehicle's life, the assessed value is 60% of the manufacturer's base retail price. For each subsequent year, the assessed value is 16.25% less than the previous year. The rate per $100 of assessed value is $2.80 for new vehicles and $2.89 for renewals.

DISTRIBUTION

Monies received by the Director of the Department of Transportation from this tax are distributed as follows [A.R.S. § 28-5808].

For monies collected from alternative fuel vehicles, car rental surcharges, and privately ambulances, fire fighting vehicles, and school buses:

- 37.61% to the Highway User Revenue Fund (HURF)
- 20.45% to county general funds
- 4.91% to counties for highway purposes
- 20.45% to incorporated cities and towns
- 1.64% to the State Highway Fund, except if the department's share of Federal Surface Transportation Programs monies is greater than $42 million, the difference shall be deposited in the Local Transportation Assistance Fund for cities and towns
- 4.09% to the State Highway Fund
- 10.85% to the General fund for school financial assistance

For monies collected from all other eligible vehicles:

- 45% to the HURF
- 24.6% to county general funds
- 5.7% to counties for highway purposes
- 24.6% to incorporated cities and towns

Table 1

VEHICLE LICENSE TAX COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
FY 2001	$570,769,364	FY 1991	$311,789,377
FY 2000	$583,199,118	FY 1990	$297,267,498
FY 1999	$594,224,410	FY 1989	$267,293,501
FY 1998	$586,835,092	FY 1988	$251,882,684
FY 1997	$552,348,715	FY 1987	$228,840,811
FY 1996	$480,300,608	FY 1986	$202,226,106
FY 1995	$426,019,239	FY 1985	$169,827,230
FY 1994	$377,593,859	FY 1984	$140,157,028
FY 1993	$333,479,528	FY 1983	$110,420,638
FY 1992	$314,914,865	FY 1982	$ 96,056,437

SOURCE: Department of Transportation, Office of Fiscal Planning.

Table 2

DISTRIBUTIONS

Fiscal Year	State General Fund	State Highway Fund	Local Governments
FY 2001	$475,007	$134,437,105	$435,857,252
FY 2000	$24,265,823	$144,206,700	$414,726,595
FY 1999	$90,592,289	$135,244,316	$368,387,805
FY 1998	$168,833,230	$121,324,834	$296,677,028
FY 1997	$164,261,493	$112,782,815	$275,304,407
FY 1996	$148,052,662	$92,854,115	$239,393,831

SOURCE: Department of Transportation, Office of Fiscal Planning

WHO PAYS THE TAX

Owners of vehicles that are registered for operation on the highways of Arizona [Arizona Constitution, Article 9, Section 11].

TAX BASE AND RATE

Base

The VLT is levied on the assessed value of each vehicle. Effectively, the tax is levied on 10 classes of vehicles [A.R.S. § 28-5801]:

(1) Passenger vehicles.
(2) Commercial vehicles.
(3) Non-commercial one-half ton pick-ups and similar vehicles.
(4) Buses.
(5) Taxis.
(6) Travel trailers.
(7) Trailers.
(8) Motorcycles and scooters.
(9) Privately owned motor vehicles used exclusively as a school bus.
(10) Motor vehicles powered by alternative fuels.

The taxable value of vehicles in these classes is determined as follows:

Classes 1 through 8

During the first 12 months of the life of the vehicle (as determined by its initial registration) the assessed value of the vehicle is 60% of the manufacturer's base retail price. During each succeeding 12-month period, the assessed value of the vehicle is 16.25% less than the assessed value for the preceding 12-month period.

Class 9 and Class 10

During the first 12 months of the life of the vehicle (as determined by its initial registration) the assessed value of the vehicle is 1% of the manufacturer's base retail price. During each succeeding 12-month period, the assessed value of the vehicle is 15% less than the assessed value for the preceding 12-month period [A.R.S. § 28-5804, 28-5805].

If a Class 9 vehicle is temporarily used for purposes other than as a school bus, the taxable value is determined in the same manner as Class 1-8 vehicles. The tax is then assessed and collected monthly in an amount equal to one-tenth of the calculated annual VLT for each full month the vehicle is operated for other purposes. [A.R.S. § 28-5804]

A veteran who is a resident of Arizona and whose vehicle or replacement of such vehicle is acquired by financial aid from the Veteran's Administration is exempt from this license tax [A.R.S. § 28-5802].

No license tax or registration fee shall be collected for a vehicle that is personally owned by a veteran or a veteran and another party if such veteran is certified by the Veteran's Administration as 100% disabled and drawing compensation. Only one vehicle or its replacement may claim this exemption during each 12-month period.

A vehicle owned by a resident who receives disability payments under Title 16 of the Social Security Act is exempt from the VLT. Such resident must show satisfactory proof of such assistance [A.R.S. § 28-5803]. Only one vehicle may be claimed by a disabled resident.

Rate

For Classes 1 through 8, the VLT rate is $2.89 per $100 of assessed value for the first 12 months of the vehicle's life, and $2.80 per $100 of value thereafter. Exception: for noncommercial trailers that are not travel trailers and have a gross vehicle weight of less than 6,000 pounds the VLT is a one-time tax of $105 on initial registration and is a one-time tax of $70 on renewal of registration [A.R.S. § 28-5801].

For Classes 9 and 10, the VLT rate is $4 per $100 of assessed value [A.R.S. § 28-5804, 28-5805].

For trailers and semitrailers over 10,000 pounds gross vehicle weight, the VLT is a one-time fee of $555 for trailers which have not previously been registered, $355 for trailers less than six years old which have been previously registered in another state, and $100 for trailers six or more years old which have been previously registered in another state.

Minimum Tax. For Classes 1 through 8, the minimum amount of the VLT is $10 per year for each vehicle subject to the tax [A.R.S. § 28-5801]. For Class 9 and Class 10 vehicles, the minimum VLT is $5 per year [A.R.S. § 28-5804, 28-5805].

PAYMENT SCHEDULE

The VLT is due and collected annually at the time of vehicle registration. Exception: depending on eligibility, owners of vehicles may participate in a two-year vehicle registration program and prepay the VLT for the following year [A.R.S. § 28-5801].

The Arizona Department of Transportation collects tax payments and fees.

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm. The estimated dollar impact of the tax law changes is summarized by fiscal year in the Table 3 below:

Table 3
ESTIMATED DOLLAR VALUE OF TAX LAW CHANGES

Fiscal Year	Impact
FY 2003	$0
FY 2002	$0
FY 2001	$(25,000,000)
FY 2000	$(55,000,000)
FY 1999	$(80,000,000)

Estimates made by JLBC Staff

There were no changes enacted to this tax in 1997 and 2000.

2002 TAX LAWS

Laws 2002, Chapter 221 changes the VLT and registration fees for trailers over 10,000 pounds gross vehicle weight based on the model year of the trailer and previous registration in this or any other state. It provides that previously registered trailers over six years old pay a reduced registration fee, and previously registered trailers of any age pay reduced VLTs. Registration and VLT rates for the initial registration of these types of trailers remains unchanged.

2001 TAX LAWS

Laws 2001, Chapter 154 established a one-time registration and VLT fee for trailers or semitrailers exceeding 10,000 pounds gross vehicle weight. Previously, owners and operators of these types of trailers paid an annual registration fee and an annual VLT.

1999 TAX LAWS

Laws 1999, 1st Special Session, Chapter 5 reduced the VLT rate from $3.35 for each $100 of assessed value down to $3.22 for new vehicles, and from $3.45 for each $100 of assessed value down to $3.32 for renewals. Beginning June 1, 2000, the rate per $100 of assessed value for new vehicles will further decrease to $3.12, and the rate per $100 of assessed value for renewals will drop to $3.22. This provision is effective July 7, 1999. Also, this act identified 5 additional rate reductions that are based on the availability of excess revenue at the end of FY 1999. If sufficient revenue exists to implement all 5 “triggered” rate reductions, the tax rate would fall by another $0.29. Since there was sufficient excess revenue, the conditional VLT reductions became effective December 1, 1999. The General Fund impact of this legislation was projected be a reduction of $35 million in FY 2000 and an additional $25 million in FY 2001. This legislation effectively eliminated VLT deposits to the General Fund. In addition, General Fund deposits to the HURF and Local Transportation Assistance Fund were increased by $21.4 million in FY 2001 to hold these funds harmless. As a result of the VLT reductions, these “hold harmless” appropriations were not made in FY 2003.

1998 TAX LAWS

Laws 1998, Chapter 267 required that if the Department of Transportation's authorized share of federal surface transportation program monies in each year is more than $42 million, the director shall transfer from the State Highway Fund's share of VLT collections to the Local Transportation Assistance Fund an amount equal to 1.64% of total VLT collections or the difference between $42 million and the state's share of the federal surface transportation program monies, whichever is less.

Laws 1998, 4th Special Session, Chapter 3 reduced the assessment rate from $4 to $3.35 per $100 of value for the first 12 months of the life of a vehicle and to $3.45 thereafter. Furthermore, the annual depreciation rate was accelerated from 15% to 16.25%. To offset the loss in VLT collections, and to hold other VLT recipients harmless, the General Fund’s share of collections was reduced from 27.40% to 13.31% in FY 1999 and from 25.35% to 10.85% in FY 2000 and beyond. The distribution percentages for the HURF, the State Highway Fund, and the local government funds were modified to accommodate the hold harmless intent of the legislation and to simplify the distribution mechanism. The General Fund impact of this legislation was projected to be a reduction of $80 million in FY 1999 and an additional $20 million in FY 2000.

1996 TAX LAWS

Laws 1996, Chapter 264 required 100% disabled veterans to submit documentation certifying their eligibility for an exemption from the VLT only on the initial registration of a vehicle.

Laws 1996, Chapter 365 changed the distribution of the VLT. Previously, of the 68.5% of VLT collections that did not go to the HURF, 20% was designated to the state General Fund for general purposes. Under this act, that percentage will decline to:

18% in FY 1997
16.6% in FY 1998
15% in FY 1999
12% in FY 2000 and thereafter

Every year, starting with FY 1996-97, an additional 2% of VLT monies is to be deposited in the State Highway Fund. In FY 1996-97, a cap of $6 million is established, with any remaining revenue going back to the General Fund.

Beginning in FY 1997-98, a portion of the non-HURF revenue will be deposited in a special fund to be shared among the counties in proportion to each county's share of the statewide population living in unincorporated areas (i.e., not within any city limits), as follows:

1.4% in FY 1998
3.0% in FY 1999
6.0% in FY 2000 and thereafter

The counties are allowed to spend these funds in the same manner as they spend their HURF allocations.

Pre 1996 History

VOLUNTARY CONTRIBUTIONS BY DISTRICTS

DESCRIPTION

Certain districts in Arizona are authorized to make voluntary contributions to the state, county, city, town, school district, or other political subdivision instead of paying property taxes. The Legislature provided this incentive to encourage such districts to operate as multi-purpose reclamation projects to provide funds for water conservation and maintenance and development of their water distribution systems.

DISTRIBUTION

The County Treasurer is required to remit to the county, school districts, cities, towns, or other political subdivisions, and the state of Arizona, all monies received as *net voluntary contributions* (see definition under *Tax Base and Rate* below) from districts in the same manner as property taxes are distributed.

The monies deposited in the state General Fund are from voluntary contributions for properties not located within any school district, so-called unorganized districts [A.R.S. § 15-991.01], and for properties in certain school districts ineligible for state aid, sometimes referred to as minimum qualifying tax rate (MQTR) districts [A.R.S. § 15-992].

The amount of voluntary contributions by districts deposited in the General Fund is shown in Table 1 below.

Table 1

TAX COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2001	$4,606,361	FY 1991	$3,929,471
FY 2000	$5,315,929	FY 1990	$3,813,672
FY 1999	$5,919,047	FY 1989	$3,447,428
FY 1998	$5,983,913	FY 1988	$2,814,842
FY 1997	$6,086,339	FY 1987	$2,358,078
FY 1996	$16,953,919	FY 1986	$2,341,289
FY 1995	$4,220,053	FY 1985	$2,299,111
FY 1994	$4,155,690	FY 1984	$4,127,264
FY 1993	$4,091,560	FY 1983	$5,549,641
FY 1992	$3,969,664	FY 1982	$5,316,044

SOURCE: Arizona Department of Administration's Finance Division, Revenue Codes, the State Treasurer's Office, and the Salt River Project.

WHO PAYS THE TAX

Any irrigation district, power district, electrical district, or agricultural improvement district organized under Arizona Law that is directly engaged in the sale of electrical power or energy other than for irrigation purposes [A.R.S. § 48-241]. Effectively, this law applies mainly to properties included within the Salt River Project.

TAX BASE AND RATE

The tax base is the *statewide total gross voluntary contribution*. This is the base from which to determine the *statewide net voluntary contribution*, which is the total amount of voluntary contributions paid to all taxing jurisdictions by the Salt River Project.

In determining the net voluntary contributions paid by the Salt River Project in lieu of property taxes, the following calculations are made [A.R.S. § 48-241 and § 48-242]:

(1) Calculate for all taxing districts combined, the total property tax for which the Salt River Project would be liable if assessed by the same property tax procedures as other similar properties for the current tax year.
   (a) The method used would be the full cash value as determined by the Department of Revenue multiplied by the assessment ratio for Class 1 property, which was 25% for FY 2001.
   (b) The primary and secondary property tax rates for each taxing jurisdiction are then applied against the product calculated in (a) above to obtain the *statewide total gross voluntary contribution*.

(2) To obtain the *statewide net voluntary contribution*, subtract the following deductions from the total gross voluntary contribution determined above:
   (a) The tax on properties devoted to production of electricity for pumping groundwater. This amount is estimated by multiplying the total net property tax liability to which Salt River Project is subject by the percent that represents the portion of electricity produced by Salt River Project during the preceding 5-year period used specifically for pumping groundwater. (The maximum percent of electricity that may be claimed for pumping groundwater is 10%, unless the percent of kilowatt hours devoted to pumping groundwater exceeds 70% within a district.)
   (b) The annual average of total water costs incurred by Salt River Project in producing and distributing water for municipal use, as estimated by:
      (i) Summing for the previous 3-year period, the operating expenses (less depreciation) attributable to (1) protection of watersheds, water production, development, storage, distribution and conservation, and (2) any repayment of U.S. government debt obligations incurred by Salt River Project for water department construction and expenses related to the development of future water projects.
      (ii) Dividing this sum by 3 to arrive at the annual average of total water costs.
      (iii) Multiplying this total by the percent of total water produced by Salt River Project devoted to municipal use during the latest 3 calendar years. (The percentage of water devoted to municipal use is the ratio of total water for municipal uses for the past 3 calendar years to total water delivered for all uses during the same time period.)
   (c) Any taxes or assessments paid to the state of Arizona or its political subdivisions during the preceding calendar year other than transaction privilege taxes, highway taxes, unemployment taxes, equipment weight fees, improvement district assessments and any other taxes paid by the district prior to effective date of this law.

The district is required to report to the county assessors and the Department of Revenue by May 1 of each year the factor used to compute each county's proportion of the total deductions taken by the district. The district is also required to submit to the Board of Supervisors at the same time as the submission of the assessment roll, an estimate for the net contributions in the following fiscal year.

PAYMENT SCHEDULE

One-half of the voluntary contribution is paid to the County Treasurer of the county in which the property is located on the first Monday in November of each year. The other half is due on the first Monday in May of the succeeding calendar year [A.R.S. § 48-242(E)]. Each County Treasurer is required to remit to the State Treasurer the state's portion of the net voluntary contribution.

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in 1997, 1998, and 2000 through 2002.

1999 TAX LAWS

Laws 1999, Chapter 76 required all state governmental entities that acquire real or personal property with a tax lien to pay the delinquent taxes on that property, including penalties and interest, to the County Treasurer. (Effective August 6, 1999.)

1996 TAX LAWS

Laws 1996, 7th Special Session, Chapter 2 provided numerous property tax reforms and reductions that lowered the tax burden on the districts. The impact on voluntary contributions from this act is unknown, however. For a more complete discussion of the act, see the same section under *General Property Tax*. (Effective October 17, 1996.)

Pre 1996 History

VOLUNTARY CONTRIBUTIONS BY THE GAME AND FISH COMMISSION

DESCRIPTION

The Game and Fish Commission may elect to make voluntary contributions to the state, county, municipality, school district, community college district, or other special taxing district in lieu of property taxes when purchasing real property within the district [A.R.S. § 17-272(A)].

DISTRIBUTION

The County Treasurer distributes the monies received to the various taxing jurisdictions in which the property is located in the same manner as property taxes are distributed (see *Distribution* under General Property Tax) [A.R.S. § 17-272(E)].

Table 1

TAX COLLECTIONS

Fiscal Year	Net Collections
FY 2001	$12,363
FY 2000	$11,910
FY 1999	$11,438
FY 1998	$12,000
FY 1997	$165,500
FY 1996	$183,500
FY 1995	$3,302
FY 1994 1/	$0

1/ The Act became effective July 17, 1993.

SOURCE: Arizona Game and Fish Department, Habitat Branch.

WHO PAYS THE TAX

The Game and Fish Commission may make voluntary contributions instead of paying property taxes if the Commission purchases the following types of real property [A.R.S. § 17-272(A)]:

(1) The property was subject to taxation, or
(2) The property was exempt from taxation at the time of purchase due to one of the following reasons:
- Held by a charitable organization as parkland and no rent or value was received by the charitable organization, or
- Held by a charitable organization to preserve and protect scientific, biological, geological, paleontological, natural, or archaeological resources.

The Game and Fish Commission is not required to make contributions with respect to lands acquired for fish hatcheries, game farms, firing ranges, reservoir sites, administrative sites, or rights-of-way to fishing waters [A.R.S. § 17-272(F)].

TAX BASE AND RATE

The Game and Fish Commission is required to consult with the assessor of the county in which the property is located and determine the assessed valuation as Class 2 agricultural property. The assessed valuation of the property cannot be increased from one year to the next by more than 2% [A.R.S. § 17-272(B)].

The tax rates are the same as those set for real and personal property for agricultural purposes or Class 2 property. The amount of the contribution is determined by applying the current aggregate property tax rate to the determined valuation [A.R.S. § 17-272(C)].

PAYMENT SCHEDULE

The County Treasurer collects the voluntary contributions from the Game and Fish Commission at the same time and in the same manner as ad valorem property taxes (see *Payment Schedule* under General Property Tax) [A.R.S. § 17-272(D)].

The voluntary contributions may be made by the Game and Fish Commission from the Game, Nongame, Fish and Endangered Species Fund, the Conservation Development Fund, the Waterfowl Conservation Fund, the Arizona Game and Fish Commission Heritage Fund, or any other source of monies available to and budgeted by the Commission [A.R.S. § 17-272(A)].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 to 2002.

Pre 1996 History

WATERCRAFT LICENSE TAX

DESCRIPTION

The Arizona Constitution, Article 9, Section 15 exempts all watercraft registered for operation in the state, except those owned and operated for commercial purposes, from property taxes. Instead, watercraft is subject to the watercraft license tax, which is a tax levied based on the length of a watercraft [A.R.S. § 5-321].

(Statute defines "watercraft" as any boat designed to be propelled by machinery, oars, paddles or wind for navigation on the water [A.R.S. § 5-301].)

DISTRIBUTION

Each month, watercraft license tax revenues are deposited as follows:

- Forty-five percent of revenues are transferred to the Watercraft Licensing Fund. Such monies are subject to legislative appropriation. Monies deposited in this fund are used for administration and enforcement of watercraft laws. Fund balances in excess of $290,000 in a fiscal year are used for an education program related to boating and boating safety [A.R.S. § 5-323(B)].
- The remaining 55% of revenues are deposited by Arizona Game and Fish Department as follows: (1) 15% to the State Lake Improvement Fund and (2) 85% to the Law Enforcement and Boating Safety Fund [A.R.S. § 5-323(C)].

Total net collections from the watercraft license tax are shown in the table below.

Table 1

WATERCRAFT LICENSE TAX COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
FY 2001	$2,074,784	FY 1991	$1,139,446
FY 2000	$2,028,111	FY 1990	$1,079,180
FY 1999	$1,735,862	FY 1989	$1,119,496
FY 1998	$1,683,698	FY 1988	$1,083,145
FY 1997	$1,634,369	FY 1987	$1,039,100
FY 1996	$1,596,016	FY 1986	$1,010,365
FY 1995	$1,543,993	FY 1985	$826,300
FY 1994	$1,316,700	FY 1984	$810,100
FY 1993	$1,618,546	FY 1983	$762,200
FY 1992	$1,141,849	FY 1982	$832,012

SOURCE: Game and Fish Department.

WHO PAYS THE TAX

The tax is paid by the owner of each watercraft that requires numbering by the state [A.R.S. § 5-321]. Numbering is required for all undocumented watercraft underway, moored, or anchored on the waters of this state [A.R.S. § 5-322].

TAX BASE AND RATE

The watercraft license tax is levied on watercraft on each foot of length or fraction thereof [A.R.S. § 5-321].

The tax rate for resident owners of watercraft is as follows:

- 45¢ per foot of length (or fraction of a foot) up to and including 18 feet and

- 68¢ per foot of length (or fraction of a foot) over 18 feet.

The tax rate for nonresident owners of watercraft is as follows:
- $1.40 per foot of length (or fraction of a foot) up to and including 18 feet and
- $2.75 per foot of length (or fraction of a foot) over 18 feet.

The main exemptions from the watercraft license tax are [A.R.S. § 5-322(A)]:

(1) Foreign water watercraft temporarily using the waters of the state.
(2) Military or public vessels of the United States, except recreational type of public vessels.
(3) Watercraft used solely as lifeboats.
(4) Undocumented watercraft operating under a valid temporary certificate.

PAYMENT SCHEDULE

Watercraft license taxes, along with a registration fee, are due at the time of application for watercraft registration with the Arizona Game and Fish Department [A.R.S. § 5-321(A)].

Laws 1982, Chapter 255 authorized the Arizona Game and Fish Commission to establish rules for registering watercraft on a staggered monthly basis. All registrations expire according to schedules established by the Commission [A.R.S. § 5-321.01].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 to 2002.

Pre 1996 History

GOVERNMENT PROPERTY LEASE EXCISE TAX

DESCRIPTION

The Government Property Lease Excise Tax (GPLET) is levied on entities that lease the property of a city, town, county, or county stadium district for commercial or industrial purposes for at least 30 days [A.R.S. § 42-6201].

DISTRIBUTION

The distribution of the tax is as follows [A.R.S. §42-6205]:

- 13% to the county general fund
- 7% to the city, if applicable
- 7% to the community college district, if applicable
- 73% to the school district not within a high school district (or 36.5% each to the high school and elementary district), if applicable.

If inapplicable, proceeds are split proportionally among the other entities.

Table 1

TAX COLLECTIONS

Fiscal Year	Net Collections [1/]
FY 2001	$2,230,063
FY 2000	$2,379,198
FY 1999	$1,935,671
FY 1998	$ 988,269
FY 1997	$ 977,226
FY 1996 [2/]	$0

1/ The state does not collect any monies from GPLET.
2/ The Act became effective December 1, 1996.

SOURCE: League of Arizona Cities and Towns.

WHO PAYS THE TAX

Government lessors collect the tax annually on prime lessees who use or occupy the government property [A.R.S. § 42-6202].

The following are exempt from the GPLET [A.R.S. § 42-6208]:

1. Property used for government purposes or public housing.
2. Easements and rights-of-way for railroads and utilities.
3. Public athletic and recreational facilities.
4. Aviation-related interests at public airports, airlines' use of runways and terminals at public airports, and toll roads.
5. Indian trust lands.
6. Government contractor property.
7. Interest in property used by a chamber of commerce.
8. Property used by tax-exempt organizations under 501(c)(3) of the Internal Revenue Code.
9. Parking garages owned and operated by the government lessor, or operated on behalf of the government lessor by an entity other than the prime lessee.
10. Residential rentals occupied by the prime lessee.
11. Municipal property corporations.

Furthermore, cities are required to abate the tax for 8 years for property located in a redevelopment area, if the property's lease development agreement was entered on or after April 1, 1985 and if it resulted or will result in an increase in property value of at least 100%. These abatements are restricted to projects within a single central business district within the redevelopment area. Other projects outside the single business district but still within the redevelopment area will pay 80% of the tax. The 8-year abatement includes periods of abatement under prior law. In addition, the law repealed the 1995 prohibition on political subdivisions from converting taxable property to nontaxable status for redevelopment purposes.

TAX BASE AND RATE

The tax rates are as follows [A.R.S. § 42-6203]:

$1.00 per square foot for one-story office buildings.
$1.25 per square foot for office buildings from two to seven stories. $1.75 per square foot for office buildings with eight or more stories.
$1.50 per square foot for retail or hotel/motel buildings.
$0.75 per square foot for warehouse or industrial buildings.
$0.50 per square foot for residential rental buildings.
$100 per parking space for parking garages.
$1.00 per square foot for any other building.

Lessees pay a percentage of the above rates dependent on when the original certificate of occupancy was issued, according to the following schedule:

10- to 20-year-old leases: 80% of the rate.
20- to 30-year-old leases: 60% of the rate.
30- to 40-year-old leases: 40% of the rate.
40- to 50-year-old leases: 20% of the rate.
50- or more year-old leases: no tax.

Leases entered into after June 30, 1996 located outside a designated redevelopment area: 150% of the rate.
Government property improvements subject to pre-April 1, 1985 leases or agreements, or government improvements at rural (county population under 400,000 prior to 1988) county or city airports: 20% of the rate.

PAYMENT SCHEDULE

The tax is due and payable annually on or before December 1 [A.R.S. § 42-6204].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1998 to 2001.

1997 TAX LAWS

Laws 1997, Chapter 150 made changes in statutory references to conform to the reorganization of Title 42 of the Arizona Revised Statutes. (Effective January 1, 1999.)

Laws 1997, Chapter 274 expanded the exemptions from the GPLET to include concession stands directly related and incidental to government owned entertainment or convention facilities. (Effective July 20, 1996.)

1996 TAX LAWS

Laws 1996, Chapter 349 established the government property lease excise tax (GPLET) to replace the old possessory interest property tax classification (covering private improvements on public property), which was repealed in 1995 after being ruled unconstitutional. It instituted the basic structure outlined in the overview section. (Effective December 1, 1996.)

OTHER FUNDS

HIGHWAY USER TAXES

AVIATION FUEL TAX

DESCRIPTION

The aviation fuel tax is levied on each gallon of aviation fuel produced or imported into Arizona. Aviation fuel is defined as fuel that is expressly manufactured for use in an internal combustion engine of an aircraft. The tax rate is 5¢ per gallon, and revenues are deposited in the State Aviation Fund.

DISTRIBUTION

The tax on aviation fuel is deposited in the State Aviation Fund [A.R.S. § 28-8345]. The monies in the fund are dedicated to the construction, development and improvement of airports in the state.

Table 1

AVIATION FUEL TAX COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
FY 2001	$456,476	FY 1994	$690,752
FY 2000	$481,594	FY 1993	$396,733
FY 1999	$671,799	FY 1992	$497,186
FY 1998	$485,333	FY 1991	$582,110
FY 1997	$514,687	FY 1990	$526,739
FY 1996	$512,328	FY 1989	$512,297
FY 1995	$442,980		

NOTE: Prior to FY 1989, the Motor Vehicle Division did not monitor aviation fuel as a revenue source. Though legislation was enacted in FY 1987, the Division continued to receive refund requests that covered the 12 months preceding the legislation; thus it was unable to separately identify Motor Vehicle Fuel and Aviation Fuel Tax collections.

SOURCE: Department of Transportation.

WHO PAYS THE TAX

The aviation fuel tax is presumed to be a direct tax on the consumer but is still collected and remitted to the Department of Transportation by suppliers for the purpose of convenience. In other words, the tax is collected and paid to the Department by a supplier, who then adds the tax to the price of aviation fuel in order to recover it from the consumer [A.R.S. § 28-5606].

TAX BASE AND RATE

The tax base is aviation fuel, which means all flammable liquids composed of a mixture of selected hydrocarbons manufactured and blended for the purpose operating an internal combustion engine in an aircraft. Aviation fuel does not include fuel used in jet or turbine powered aircraft [A.R.S. § 28-101].

The following are exempted from the aviation fuel tax [A.R.S. § 28-5610]:

- Aviation fuel for which proof of export is available in the form of a terminal issued destination state shipping paper, and is either exported by a supplier that is licensed in the destination state, or sold by a supplier to a distributor for immediate export.
- Aviation fuel that was acquired by a distributor as to which the tax has previously been paid and was subsequently exported across the state border.
- Aviation fuel that is moving in interstate or foreign commerce and that is not destined or diverted to a point in this state.

- Aviation fuel that is sold to the United States or its agencies or instrumentalities.

The tax rate is 5¢ per gallon [A.R.S. § 28-8344].

PAYMENT SCHEDULE

The tax that is accrued in any calendar month is to be paid on or before the 27th day of the next succeeding calendar month to the Department of Transportation [A.R.S. § 28-5925].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 through 2002.

Pre 1996 History

MOTOR CARRIER FEE

DESCRIPTION

The motor carrier fee replaced the motor carrier tax with the enactment of Laws 1997, Chapter 8. The fee is annually imposed on vehicles with a weight in excess of 12,000 pounds for the use of public highways. The amount of the fee varies according to vehicle weight, with a maximum fee of $800 for vehicles that weigh up to 80,000 pounds. Collections from the motor carrier fee are dedicated to the Highway User Revenue Fund.

DISTRIBUTION

Table 1 shows a 20-year revenue history for this fee.

Table 1

MOTOR CARRIER FEE COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
FY 2001	$32,677,923	FY 1991	$109,573,046
FY 2000	$36,562,768	FY 1990	$108,655,299
FY 1999	$34,139,960	FY 1989	$104,339,191
FY 1998	$63,845,891	FY 1988	$104,709,460
FY 1997	$92,563,879	FY 1987	$ 98,707,138
FY 1996	$85,433,269	FY 1986	$ 92,704,002
FY 1995	$92,103,162	FY 1985	$ 86,833,875
FY 1994	$118,530,292	FY 1984	$ 78,147,870
FY 1993	$120,303,202	FY 1983	$ 70,326,336
FY 1992	$109,573,046	FY 1982	$ 55,186,818

SOURCE: Department of Transportation.

Collections from the Motor Carrier Fee are deposited in the Arizona Highway User Revenue Fund. The Highway User Revenue Fund may be expended for the following purposes (see Arizona Constitution, Article 9, Section 14):

(1) The cost of administering taxes that are deposited in the fund.
(2) Refunds and adjustments provided for by law.
(3) Payment of highway obligations.
(4) The cost of construction, reconstruction, maintenance and repair of public highways and bridges and county, city and town roads and streets.
(5) The cost of state enforcement of traffic laws.
(6) The cost of publication and distribution of Arizona Highways Magazine.
(7) Distribution to counties, incorporated cities and towns according to law.

The Highway User Revenue Fund is distributed each fiscal year in the following manner [A.R.S. § 28-6533]:

(1) One million dollars is allocated to the Economic Strength Project Fund [A.R.S. § 28-6534]
(2) Each fiscal year a portion of the monies in the Highway User Revenue Fund is distributed to the Department of Public Safety for funding a portion of highway patrol costs. The distribution is made in eight installments in each of the first eight months of the fiscal year not to exceed $10,000,000 [A.R.S. § 28-6537].
(3) The balance of collections after making the above distributions are allocated as follows [A.R.S. § 28-6538] :
   - 50.5% State Highway Fund*
   - 19% Counties
   - 27.5% Incorporated cities and towns
   - 3% Incorporated cities with population greater than 300,000

*At least 12.6% of the monies distributed to the State Highway Fund shall be distributed as follows [A.R.S. § 28-6538 (B)]:

- 75% Counties with a population of 1,200,000 or more for design, right-of-way purchase, or construction of controlled access highways to be included as state routes or state highways in regional transportation plans and the state highway system.
- 25% Counties with a population of more than 400,000 but less than 1,200,000 for design, right-of-way purchase, or construction of controlled access highways to be included as state routes or state highways in regional transportation plans and the state highway system.

WHO PAYS THE FEE

A person who operates or causes to be operated a motor vehicle on a public highway [A.R.S. § 28-5851].

FEE BASE AND RATE

BASE

Motor vehicle means a motor driven vehicle that has a declared gross vehicle weight of more than 12,000 pounds (typically, a delivery type van, a large 1-ton pickup truck, or some recreational vehicles), and is subject to vehicle registration, excluding a vehicle that is exempt from gross weight fees. [A.R.S. § 28-5851].

RATE

Motor carriers pay a flat fee that varies with the weight class of the motor vehicle, as shown in Table 2 [A.R.S. § 28-5854].

Table 2

FEE SCHEDULE

Vehicle Weight	Fee	Vehicle Weight	Fee
12,001 - 14,000 lbs.	$64.00	32,001 - 36,000 lbs.	$155.00
14,001 - 16,000 lbs.	$73.00	36,001 - 40,000 lbs.	$173.00
16,001 - 18,000 lbs.	$82.00	40,001 - 45,000 lbs.	$336.00
18,001 - 20,000 lbs.	$91.00	45,001 - 50,000 lbs.	$374.00
20,001 - 22,000 lbs.	$101.00	50,001 - 55,000 lbs.	$412.00
22,001 - 24,000 lbs.	$110.00	55,001 - 60,000 lbs.	$450.00
24,001 - 26,000 lbs.	$119.00	60,001 - 65,000 lbs.	$627.00
26,001 - 28,000 lbs.	$128.00	65,001 - 70,000 lbs.	$693.00
28,001 - 30,000 lbs.	$137.00	70,001 - 75,000 lbs.	$750.00
30,001 - 32,000 lbs.	$146.00	75,001 - 80,000 lbs.	$800.00

The following vehicles are exempt from this fee [A.R.S. § 28-5853]:

- School buses
- Motor vehicles used in the production of
  - motion pictures
  - industrial, training, and educational films
  - television commercials
  - video discs and video tapes

The director shall compute a reduced fee that is seven-tenths of the original fee if motor carrier pre-qualifies for a reduced fee prior to registration and if other specific circumstances regarding vehicle load status are met [A.R.S. § 28-5855; A.R.S. § 28-5856; A.R.S. § 28-5857].

The fee for a vehicle that weighs more than 26,000 pounds and is driven less than 2,000 miles each year is $80. The fee for a vehicle that weighs more than 26,000 pounds and is driven between 2,000 and 4,000 miles a year is $160 [A.R.S. § 28-5867].

Non-resident motor carriers or non-resident persons who operate a motor vehicle in this state may purchase a Single-Trip Motor Carrier Fee Permit instead of paying the regular Motor Carrier Fee. A Single-Trip Permit is only effective during the specific trip for which it is issued. The Motor Carrier Fee on a Single-Trip Permit is $12 for 50 miles or less or $48 for more than 50 miles traveled on the highways of this state [A.R.S. § 28-5863].

The Department of Transportation may also issue a Special 30-Day Motor Carrier Fee Permit for vehicles not in the commercial transportation business, only in the state for a limited period of time and will make limited use of Arizona's highways. The Motor Carrier Fee for a Special 30-Day Permit is $96.00 [A.R.S. § 28-5864].

TAX REFUNDS AND/OR TAX CREDITS

In the event the director determines that a motor carrier overpaid the fee, penalty, or interest, the director shall credit that amount on any current amount due or refund the excess amount [A.R.S. § 28-5859]

PAYMENT SCHEDULE

Fee is payable at the time the motor vehicle is registered with the state [A.R.S. § 28-5854(B)].

The collecting agency is the Arizona Department of Transportation [A.R.S. § 28-5854(B)].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1998 through 2002.

1997 TAX LAWS

Laws 1997, Chapter 8 replaced the motor carrier weight distance tax with an annual motor carrier fee payable at the time of registration for vehicles weighing between 26,001 and 80,000 pounds. The act also increased the highway use fee for commercial vehicles weighing less than 80,000 pounds and increased the single-trip permit fees for commercial vehicles from another state or country that are not eligible for annual registration.

1996 TAX LAWS

Laws 1996, Chapter 162 authorizes the Arizona Department of Transportation (ADOT) to abate all or part of a penalty assessed in conjunction with the motor carrier tax, provided that ADOT believes the person's failure to comply with the tax was reasonable and not from willful neglect. (Effective July 20, 1996)

Laws 1996, Chapter 345 requires the Motor Vehicle Division to transmit all fees collected at the U.S.–Mexico border from the single-trip motor carrier tax to be deposited in the Safety Enforcement and Transportation Infrastructure Fund. Monies in the fund must be used in the following priorities:

1. Enforcement of commercial vehicle safety requirements within 25 miles of the U.S.–Mexico border.
2. Upgrades and maintenance of the transportation infrastructure within 25 miles of the border.
3. Construction and maintenance of transportation facilities comprising the state designated NAFTA corridor. (Effective July 20, 1996)

Pre 1996 History

MOTOR VEHICLE FUEL TAX

DESCRIPTION

The motor vehicle fuel tax is levied on each gallon of motor vehicle fuel, commonly known as gasoline, produced or imported into the state by a distributor. The tax rate is 18¢ per gallon, and the large majority of revenues are deposited in the Highway User Revenue Fund to pay for highway construction and maintenance.

DISTRIBUTION

The tax on motor vehicle fuel consumed in vehicles operated on Arizona roads and highways is deposited in the Highway User Revenue Fund [A.R.S. § 28-6533].

Tax collections are distributed on the following basis (see Table 2 on following page):

- *Watercraft*. Tax collections on fuel for watercrafts pay for the cost of conducting a survey to determine the percent of fuel taxes collected from watercraft. One percent of such collections are retained by the State Highway Department to defray administrative expenses. The remaining collections are deposited in the State Lake Improvement Fund [A.R.S. § 28-5926].
- *Off-Highway Vehicles.* Fifty-five one hundredths of 1% of the tax collections on motor vehicle fuel is transferred to the Off-Highway Vehicle Recreation Fund on a monthly basis [A.R.S. § 28-5927].
- *Aircraft.* Taxes collected from sales of motor vehicle fuel consumed in aircraft are deposited in the State Aviation Fund. However, if a refund is claimed, 5¢ on each gallon of tax collected remains in the State Aviation Fund and the balance is refunded to the taxpayer [A.R.S. § 28-5611].
- *Remainder.* The net collections remaining after refunds and the above distributions are deposited in the Highway User Revenue Fund [A.R.S. §28-5925]. (See *Motor Carrier Tax* for distribution of the Highway User Revenue Fund.)

Table 1

MOTOR VEHICLE FUEL TAX COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
FY 2001	$436,073,531	FY 1991	$305,756,113
FY 2000	$424,486,824	FY 1990	$294,050,829
FY 1999	$410,037,087	FY 1989	$292,334,836
FY 1998	$376,348,116	FY 1988	$271,459,606
FY 1997	$373,986,908	FY 1987	$268,958,183
FY 1996	$369,058,121	FY 1986	$222,687,959
FY 1995	$351,038,867	FY 1985	$195,621,567
FY 1994	$341,252,229	FY 1984	$172,295,106
FY 1993	$322,572,576	FY 1983	$135,257,637
FY 1992	$317,996,785	FY 1982	$108,169,873

SOURCE: Department of Transportation.

WHO PAYS THE TAX

The motor vehicle fuel tax is presumed to be a direct tax on the consumer but is still collected and remitted to the Department of Transportation by suppliers for the purpose of convenience. In other words, the tax is collected and paid to the Department by a supplier, who then adds the tax to the price of motor vehicle fuel in order to recover it from the consumer [A.R.S. § 28-5606].

Table 2

DISTRIBUTION OF MOTOR VEHICLE FUEL TAX COLLECTIONS

Fiscal Year	Highway User Revenue Fund 1/	Special Funds and Refunds
FY 2001	$418,399,657	$17,673,874
FY 2000	$409,137,312	$15,349,512
FY 1999	$397,463,146	$12,573,941
FY 1998	$366,376,609	$9,971,507
FY 1997	$363,953,161	$11,183,328
FY 1996	$358,961,177	$11,119,079
FY 1995	$342,229,293	$8,739,574
FY 1994	$334,643,264	$6,608,965
FY 1993	$315,227,469	$7,345,107
FY 1992	$307,879,175	$10,117,610
FY 1991	$296,316,495	$8,939,628
FY 1990	$286,237,290	$7,813,539
FY 1989	$286,101,273	$6,233,563
FY 1988	$267,317,687	$4,141,919
FY 1987	$264,592,684	$4,365,499
FY 1986	$218,666,021	$4,021,938
FY 1985	$191,952,052	$3,669,515
FY 1984	$168,203,663	$4,091,443
FY 1983	$131,931,860	$3,325,777
FY 1982	$104,982,738	$3,187,135

1/ Use Fuel Tax collections excluded.

SOURCE: Department of Transportation.

TAX BASE AND RATE

The tax base is motor vehicle fuel, which includes all products that are commonly or commercially known or sold as gasoline. This definition includes casinghead gasoline (unprocessed natural gas containing natural gasoline and other liquid hydrocarbon vapors produced from an oil well), natural gasoline and all flammable liquids composed of a mixture of selected hydrocarbons manufactured or blended for use in internal combustion engines. Motor vehicle fuel does not include transmix, jet or aviation fuel, or any fuels covered under the use fuel tax [A.R.S. § 28-101].

The following are exempted from the motor vehicle fuel tax [A.R.S. § 28-5610]:

- Motor vehicle fuel for which proof of export is available in the form of a terminal issued destination state shipping paper, and is either exported by a supplier that is licensed in the destination state, or sold by a supplier to a distributor for immediate export.
- Motor vehicle fuel that was acquired by a distributor as to which the tax has previously been paid and was subsequently exported across the state border.
- Motor vehicle fuel sold on an Indian reservation to a tribal member.
- Motor vehicle fuel sold off an Indian reservation for purposes of operating a motor vehicle for the benefit of an Indian tribe.
- Motor vehicle fuel that is moving in interstate or foreign commerce and that is not destined or diverted to a point in this state.
- Motor vehicle fuel that is sold to the United States or its agencies or instrumentalities.

The tax rate is 18¢ per gallon [A.R.S. § 28-5606].

TAX REFUNDS AND/OR TAX CREDITS

A person who buys and uses motor vehicle fuel is entitled to a refund if he or she pays the tax on the fuel and either [A.R.S. § 28-5611]:

- uses the fuel for purposes other than for operating a motor vehicle or a watercraft in Arizona,
- buys aviation fuel for use in aircraft applying seeds, fertilizer, or pesticides, or
- loses the fuel by fire, theft or other accident.

PAYMENT SCHEDULE

The motor fuel tax that is accrued in any calendar month shall be paid on or before the 27th day of the next succeeding calendar month to the Department of Transportation [A.R.S. §28-5925].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 through 2000 and 2002.

2001 TAX LAWS

Laws 2001, Chapter 287 provided a number of technical and clarifying changes to statutes, and combined fuel tax statutes for motor vehicle fuel and use fuel into one article. The act also included several substantive provisions, such as an increase in the bonding levels for fuel suppliers and criminal penalty for fuel tax evasion. (Effective August 9, 2001.)

Pre 1996 History

USE FUEL TAX

DESCRIPTION

The use fuel tax applies to diesel and other fuels, but not to gasoline and alternative fuels. For vehicles weighing less than 26,000 pounds, the tax rate is 18¢ per gallon. For vehicles weighing more than 26,000 pounds, the tax rate is 26¢ per gallon. Revenues from the tax are deposited in the Highway User Revenue Fund.

DISTRIBUTION

The use fuel tax is deposited in the Highway User Revenue Fund [A.R.S. § 28-5730]. (See *Motor Carrier Tax* for distribution of the Highway User Revenue Fund.)

Table 1

USE FUEL TAX COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
FY 2001	$155,859,243	FY 1991	$65,201,576
FY 2000	$156,598,568	FY 1990	$52,876,043
FY 1999	$160,311,953	FY 1989	$50,796,681
FY 1998	$142,166,607	FY 1988	$47,610,243
FY 1997	$124,748,225	FY 1987	$44,947,980
FY 1996	$114,779,960	FY 1986	$38,778,620
FY 1995	$72,008,139	FY 1985	$31,782,244
FY 1994	$87,912,597	FY 1984	$26,491,463
FY 1993	$72,008,139	FY 1983	$19,227,151
FY 1992	$61,909,894	FY 1982	$17,361,166

SOURCE: Department of Transportation.

WHO PAYS THE TAX

The use fuel tax is presumed to be a direct tax on the consumer but is still collected and remitted to the Department of Transportation by suppliers for the purpose of convenience. In other words, the tax is collected and paid to the Department by a supplier, who then adds the tax to the price of use fuel in order to recover it from the consumer [A.R.S. § 28-5606].

TAX BASE AND RATE

The tax base is use fuel, which includes all gases and liquids used to propel motor vehicles that are not subject to the motor vehicle fuel tax [A.R.S. § 28-5601].

An interstate user of use fuel on which the use fuel tax has not been paid is required to remit an amount that is computed by multiplying the number of gallons of use fuel used by the tax rate per gallon. The taxable gallonage is computed on the basis of miles traveled in Arizona as compared to total miles traveled in and outside the state. The actual method of computation is decided by the Department of Transportation [A.R.S. § 28-5720].

The following are exempted from the use fuel tax [A.R.S. § 28-5610]:

- Use fuel for which proof of export is available in the form of a terminal-issued destination state shipping paper, and is either exported by a supplier that is licensed in the destination state, or sold by a supplier to a distributor for immediate export.
- Use fuel that was acquired by a distributor as to which the tax has previously been paid and was subsequently exported across the state border.

- Use fuel sold on an Indian reservation to a tribal member.
- Use fuel sold off an Indian reservation for purposes of operating a motor vehicle for the benefit of an Indian tribe.
- Use fuel that is moving in interstate or foreign commerce and that is not destined or diverted to a point in this state.
- Use fuel that has been accidentally contaminated by dye and hence rendered unsalable as highway fuel.
- Dyed diesel fuel.

NOTE: There is no use fuel tax on alternative fuels [A.R.S. § 28-5606].

The tax rate is 18¢ per gallon for vehicles weighing less than 26,000 pounds. The tax rate is 26¢ per gallon for vehicles weighing more than 26,000 pounds [A.R.S. § 28-5606].

PAYMENT SCHEDULE

Tax that is accrued in any calendar month shall be paid on or before the 27th day of the next succeeding calendar month to the Department of Transportation [A.R.S. § 28-5925].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 through 2000 and 2002.

2001 TAX LAWS

Laws 2001, Chapter 287 provided a number of technical and clarifying changes to statutes, and combined fuel tax statutes for motor vehicle fuel and use fuel into one article. The act also included several substantive provisions, such as an increase in the bonding levels for fuel suppliers and criminal penalty for fuel tax evasion. (Effective August 9, 2001.)

Pre 1996 History

OTHER FUNDS

MISCELLANEOUS REVENUE SOURCES

INTRASTATE UTILITY CORPORATION ASSESSMENTS

DESCRIPTION

Two separate assessments are imposed on public service corporations to support the statutory duties of the Corporation Commission's Utilities Division and the Residential Utility Consumer Office.

DISTRIBUTION

Utilities Division. Proceeds from the Utilities Division assessment are dedicated to the Utility Regulation Revolving Fund to pay representing attorneys and the expenses of the Utilities Division of the Corporation Commission [A.R.S. § 40-408(B-C)].

Residential Utility Consumer Office. Proceeds from the Residential Utility Consumer Office assessment are dedicated to the Residential Utility Consumer Office Revolving Fund for the operation of the Residential Utility Consumer Office [A.R.S. § 40-409(B-C)].

Disposition. Both funds are subject to legislative appropriation. Monies remaining in the funds at the end of the fiscal year do not revert to the state General Fund, but are used to calculate the annual assessments [A.R.S. § 40-408(D-F) and § 40-409(D-F)].

Table 1 below provides tax collections since FY 1982. As noted above, the Utilities Division assessment is distributed to the Utility Regulation Revolving Fund, and the Residential Utility Consumer Office assessment is distributed to the Residential Utility Consumer Office Revolving Fund.

Table 1

TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	Utilities Division Net Collections	RUCO Net Collections	Total Collections
FY 2001	$8,882,000	$1,017,000	$9,899,000
FY 2000	$7,511,900	$1,068,700	$8,580,600
FY 1999	$7,237,090	$573,784	$7,810,874
FY 1998	$6,649,080	$938,274	$7,587,354
FY 1997	$6,021,300	$1,021,500	$7,042,800
FY 1996	$5,603,000	$933,600	$6,536,600
FY 1995	$5,439,400	$1,009,000	$6,448,400
FY 1994	$5,491,000	$925,300	$6,416,300
FY 1993	$5,688,327	$814,946	$6,502,273
FY 1992	$5,529,776	$880,198	$6,409,974
FY 1991	$6,405,140	$1,044,569	$7,449,709
FY 1990	$4,925,721	$932,737	$5,858,458
FY 1989	$5,045,999	$900,308	$5,946,307
FY 1988	$5,022,530	$884,037	$5,906,567
FY 1987	$4,395,391	$839,826	$5,235,217
FY 1986	$4,502,670	$729,934	$5,232,604
FY 1985	$3,777,186	$720,413	$4,497,599
FY 1984	$2,790,680	$109,400	$2,900,080
FY 1983 1/	$3,254,160	$400,000	$3,654,160
FY 1982	$3,986,221	$0	$3,986,221

1/ Fiscal year 1982-83 was the first year for the RUCO assessment.

SOURCE: Corporation Commission, Annual Reports.

WHO PAYS THE TAX

Public service corporations with gross operating revenues exceeding $250,000 from intrastate operations during the preceding calendar year must pay the tax [A.R.S. § 40-401 and § 40-401.01].

Exceptions. Corporations that are not required to hold certificates of convenience and necessity. In effect, this exception applies mainly to railroads [A.R.S. § 40-281(A)]. The Residential Utility Consumer Assessment also does not apply to member-owned nonprofit cooperative corporations. [A.R.S. § 40-461].

TAX BASE

Utilities Division. The assessment for the Corporation Commission's Utilities Division is levied on the gross operating revenue from each corporation's intrastate operations during the preceding calendar year [A.R.S. § 40-401(C)].

Residential Utility Consumer Office. The assessment for the Residential Utility Consumer Office is levied on the gross operating revenue during the preceding calendar year from each corporation's intrastate operations that served residential consumers [A.R.S. § 40-401.01(C)].

TAX RATE

Utilities Division. The assessment for the Utilities Division is set at a rate determined by the Corporation Commission that will raise monies equal to the amount determined as follows [A.R.S. § 40-401(B)]:

(1) Determine the amount appropriated by the Legislature to operate the Utilities Division for the following fiscal year.
(2) Multiply the amount determined in (1) by 1.2.
(3) Subtract the monies estimated to remain unexpended in the Utility Regulation Revolving Fund at the end of the current fiscal year. The difference computed is the amount to be raised by the assessment.

Residential Utility Consumer Office. The assessment for the Residential Utility Consumer Office is set at a rate that will raise monies equal to the amount determined as follows [A.R.S. § 40-401.01(B)]:

(1) Determine the amount appropriated by the Legislature for operating the Residential Utility Consumer Office for the following fiscal year.
(2) Subtract the monies estimated to remain in the Residential Utility Consumer Office Revolving Fund at the end of the current fiscal year. The difference computed is the amount to be raised by the assessment.

Maximum Combined Rate. The combined assessment rates may not exceed 0.2% of any corporation's gross operating revenues from intrastate operations during the preceding calendar year [A.R.S. § 40-401(C) and § 40-401.01(C)].

PAYMENT SCHEDULE

Due Date. The Corporation Commission must levy both assessments no later than June 15 of each year. Notice is then sent to each corporation by certified mail. The assessments are due within 15 days after such mailing [A.R.S. § 40-401(D) and § 40-401.01(D)].

Collecting Agency. The Corporation Commission [A.R.S. § 40-408(B) and § 40-409(B)].

Filing Dates. Public service corporations with gross operating revenues exceeding $250,000 must file an estimate of its gross operating revenues from intrastate operations during the previous calendar year on or before January 10. All other public service corporations must file by May 1, a statement showing the amount of such revenues received during the prior calendar year [A.R.S. § 40-401(E-F), and § 40-401.01(E)].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm. The estimated dollar impact of the tax law changes is summarized by fiscal year in the following table:

Table 2
ESTIMATED DOLLAR VALUE OF TAX LAW CHANGES

Fiscal Year	Impact [1/]
FY 2003	$622,200
FY 2002	$692,200

1/ Increase to the Utility Regulation Revolving Fund

Estimates made by JLBC Staff

There were no changes enacted to this tax in the period from 1996 to 2000, and 2002.

2001 TAX LAWS

Laws 2001, Chapter 238 expands the use of the Utility Regulation Revolving Fund to include general administrative and legal expenses of the Commission, which allowed these expenses to be shifted from the General Fund beginning in FY 2002. This also has the result of increasing the base used in determining the Utilities Division assessment for these years. The FY 2002 and FY 2003 estimated impacts are shown in Table 3 above.

Laws 2001, Chapter 300 made identical changes to those passed in Laws 2001, Chapter 238.

Pre 1996 History

LIEU TAX ON WORKERS' COMPENSATION INSURANCE PREMIUMS

DESCRIPTION

The lieu tax on workers' compensation insurance premiums is a tax on the premiums paid by employers to insurance carriers for workers' compensation insurance. The state requires most employers to obtain such insurance so that employees and their families are provided financial protection from industrial injuries or death. The tax rate is 3% of net premiums, and revenues are used for the administrative expenses of the Industrial Commission.

DISTRIBUTION

Administrative Fund. Tax collections for the Administrative Fund are used for all administrative expenses of the Industrial Commission. Expenditures from the Administrative Fund are subject to budgetary review and legislative appropriation. Tax collections to this fund are to be no more than necessary to cover actual expenses, and any surplus or deficit in revenue above or below the expenses shall be included in the calculation of the rate to be fixed the following year [A.R.S. § 23-1081].

Special Fund. Tax collections for the Special Fund provide additional compensation payments or awards to promote the rehabilitation of disabled workers. Since July 25, 1981, monies in the Special Fund may be allocated to acquire real property or construct and furnish or procure a new office building for the Industrial Commission. Since April 19, 1983, the Special Fund may also provide loans to the Administrative Fund [A.R.S. § 23-1065].

Net collections by fund are provided in Table 1 on the following page.

WHO PAYS THE TAX

Lieu tax on workers' compensation insurance premiums is paid by insurance carriers issuing workers' compensation insurance, employers providing workers' compensation insurance through the self-insurance method, and the State Compensation Fund [A.R.S. § 23-961].

TAX BASE

The Lieu Tax on Workers' Compensation Insurance Premiums is levied on total direct premiums paid or contracted for during the preceding calendar year minus deductions for cancellations, returned premiums, policy dividends, refunds and similar amounts paid or credited to policyholders within this state and not reapplied as premiums for new, additional or extended insurance [A.R.S. § 23-961]. The above applies to premiums paid to insurers or the State Compensation Fund. For self-insured employers, the tax is based on the premiums that would have been paid by the employer if fully insured under a plan available from the State Compensation Fund during the preceding calendar year. Employers of domestic servants are not subject to the "workmen's compensation" statutes [A.R.S. § 23-902].

TAX RATE

The total tax rate is composed of two separate rates:

(1) *Tax Rate for Administrative Fund*. Three percent of net premiums, but for self-insured employers, not less than $250 annually [A.R.S. § 23-961].

(2) *Tax Rate for Special Fund*. One and a half percent of net premiums is the maximum rate allowed but, for self-insured employers, the minimum annual payment is $250. The tax rate for the Special Fund may be adjusted downward by the Industrial Commission so that revenues received are no more than necessary to keep the

Special Fund actuarially sound [A.R.S. § 23-1065]. According to the Industrial Commission, the tax rate was set at 0% of net premiums in FY 2002.

Table 1

TAX COLLECTIONS

Fiscal Year	Net Collections Administrative Fund 1/	Net Collections Special Fund 2/	Total Net Collections
FY 2001	$15,000,000	$0	$15,000,000
FY 2000	$14,400,000	$0	$14,400,000
FY 1999	$17,500,000	$0	$17,500,000
FY 1998	$15,600,000	$0	$15,600,000
FY 1997	$9,600,000	$0	$9,600,000
FY 1996	$12,300,000	$0	$12,300,000
FY 1995	$10,513,000	$0	$10,513,000
FY 1994	$11,653,700	$1,632	$11,655,332
FY 1993	$20,728,411	$2,425	$20,730,836
FY 1992	$19,384,779	$3,432,898	$22,817,677
FY 1991	$16,244,418	$5,152,989	$21,397,407
FY 1990	$15,657,914	$6,059,027	$21,716,941
FY 1989	$12,840,506	$7,788,223	$20,628,729
FY 1988	$13,117,031	$6,625,338	$19,742,369
FY 1987	$13,587,391	$6,717,345	$20,304,736
FY 1986	$10,306,058	$2,412,236	$12,718,294
FY 1985	$6,732,934	$2,472,470	$9,205,404
FY 1984	$6,095,463	$2,472,480	$8,567,943
FY 1983	$5,882,635	$3,297,953	$9,180,588
FY 1982	$7,422,922	$4,016,091	1$1,439,013

1/ Laws 1993, 2nd Special Session, Chapter 9, provides that tax collections for the Administrative Fund will be no more than necessary to cover actual expenses.
2/ The tax rate to the Special Fund is not to exceed 1.5% and is set at a rate no more than necessary to keep it actuarially sound.

SOURCE: Industrial Commission.

The Industrial Commission may, after notice and a hearing, levy an additional 0.5% of net premiums to meet liabilities of the Special Fund in excess of $6 million [A.R.S. § 23-1065].

The Industrial Commission has the authority to increase the Special Fund tax assessment by up to 0.5% of that assessment in any one year. This additional assessment is to reimburse the State Compensation Fund for payments made to individuals whose self-insured employer or insurance carrier fails to pay a claim or comply with a commission order [A.R.S. § 23-966].

PAYMENT SCHEDULE

The tax is due annually, on or before March 31 for self-insured employers, and on or before March 1 for all other covered insurance carriers and the State Compensation Fund [A.R.S. § 23-961].

Since the 1983 tax year, insurance carriers and the State Compensation Fund are required to make quarterly payments on the tax for the Administrative Fund if their tax liability for the preceding calendar year was $2,000 or more. Quarterly payments are submitted to the state on or before the last day of the month following the close of each quarter. All quarterly payments are deducted from the tax that is payable on the regular March due date [A.R.S. § 23-961]. The quarterly payments are to equal one of the following:

(1) The tax due on net premiums collected or contracted for during the preceding calendar quarter, or

(2) Twenty-five percent of the tax paid or required to be paid for the preceding calendar year.

Any overpayment of taxes resulting from the quarterly payments may be refunded by the Industrial Commission without interest [A.R.S. § 23-961].

The tax for the Administrative and Special Fund is paid to the State Treasurer through the Industrial Commission [A.R.S. § 23-961].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in the period from 1996 to 2000, and 2002.

2001 TAX LAWS

Laws 2001, Chapter 201 clarified that no insurance may be offered or sold as workers' compensation insurance if it does not comply with law. The act also included a number of technical changes such as an increase in the period in which a request for hearing may be filed. (Effective July 18, 2000.)

Laws 2001, Chapter 192 established the presumption of an occupational disease for firefighters whose disease, infirmity or impairment is caused by specific cancers that result in disability or death for the purpose of workers' compensation benefits. (Effective July 18, 2000.)

Pre 1996 History

TELECOMMUNICATIONS SERVICES EXCISE TAX

DESCRIPTION

This tax was enacted to finance 911 emergency telecommunication services, telecommunication devices for the deaf and severely hearing impaired, and poison control services.

DISTRIBUTION

Table 1 below provides a 20-year history of telecommunications services excise tax collections, and Table 2 on the following page provides the distribution of the collection to the various funds.

Table 1

TAX COLLECTIONS AND DISTRIBUTION

Fiscal Year	911 Excise Tax	911 Wireless	Telecommunications Devices	Total
FY 2001	$9,201,049	$2,136,015	$7,554,167	$18,891,231
FY 2000	$7,846,057	$1,507,573	$6,794,827	$16,148,457
FY 1999	$8,084,729	$1,181,481	$7,066,149	$16,332,359
FY 1998	$7,652,326	$722,736	$6,724,540	$15,099,602
FY 1997	$6,668,099	$0	$5,868,977	$12,537,076
FY 1996	$6,068,018	$0	$5,255,897	$11,423,915
FY 1995	$5,743,686	$0	$4,943,715	$10,687,401
FY 1994	$5,320,210	$0	$3,395,370	$8,715,580
FY 1993	$4,986,710	$0	$3,091,965	$8,078,675
FY 1992	$4,582,888	$0	$2,234,417	$6,817,305
FY 1991	$3,809,222	$0	$1,797,501	$5,606,723
FY 1990	$3,619,425	$0	$1,654,601	$5,274,026
FY 1989	$3,677,444	$0	$1,161,617	$4,839,061
FY 1988	$3,558,566	$0	$564,095	$4,122,661
FY 1987	$1,878,873	$0	$538,744	$2,417,617
FY 1986	$1,282,523	$0	$456,638	$1,739,161
FY 1985	$1,178,370	$0	$0	$1,178,370

SOURCE: Department of Revenue Annual Reports.

Emergency Telecommunication Services Revolving Fund. For fiscal years 2001 through 2006, each month a telecommunications provider shall pay 37¢ for each into this fund. For FY 2007, this amount is reduced to 27¢. From and after FY 2007, the amount deposited in the fund shall be 20¢ per activated wire and wireless service account [A.R.S. § 42-5252(A-1)].

Telecommunication Fund for the Deaf. For FY 2002 and FY 2003, an amount equal to 0.8% of the provider's gross proceeds of sales or gross income from the business of providing exchange services is deposited in this fund, pursuant to Laws 2001, Chapter 234. The distribution formula for these years represents a temporary suspension of permanent statutory authority, which provides for 1.1% of the provider's gross proceeds of sales or gross income from the business of providing exchange services to be deposited in this fund [A.R.S. § 42-5252(A-4)].

Poison Control Fund. An amount equal to 0.3% of the provider's gross proceeds of sales or gross income from the business of providing exchange services is deposited in this fund [Laws 2001, Chapter 234].

Table 2

DISTRIBUTION OF TELECOMMUNICATIONS SERVICES EXCISE TAX

Fiscal Year	Emergency Telecommunication Services Revolving Fund	Telecommunication Fund for the Deaf	Poison Control Fund
FY 2001	$11,337,064	$5,514,542	$2,039,625
FY 2000	$9,353,630	$4,960,224	$1,834,603
FY 1999	$9,266,210	$5,158,289	$1,907,860
FY 1998	$8,375,062	$4,908,914	$1,815,626
FY 1997	$6,668,099	$4,284,353	$1,584,624
FY 1996	$6,068,018	$5,355,897	$0
FY 1995	$5,743,686	$4,943,715	$0
FY 1994	$5,320,210	$3,395,370	$0
FY 1993	$4,986,710	$3,091,965	$0
FY 1992	$4,582,888	$2,234,417	$0
FY 1991	$3,809,222	$1,797,501	$0
FY 1990	$3,619,425	$1,654,601	$0
FY 1989	$3,677,444	$1,161,617	$0
FY 1988	$3,558,566	$564,095	$0
FY 1987	$1,878,873	$538,744	$0
FY 1986	$1,282,523	$456,638	$0
FY 1985	$1,178,370	$0	$0

WHO PAYS THE TAX

Public service corporations offering telephone or telecommunications services which provide local exchange access services, commonly called a "provider" [A.R.S. § 42-5251].

TAX BASE AND RATE

TAX BASE

The tax rate is imposed on the provider's gross proceeds of sales or gross income from the business of providing exchange services [A.R.S. § 42-1472].

The *Emergency Telecommunication Services* tax rate is imposed on each wire account and each two-way voice commercial mobile radio service account as defined by the Federal Communications Commission [A.R.S. § 42-5252(6)].

TAX RATE

Emergency Telecommunication Services. For FY 2001-FY 2006, an amount equal to 37¢ for each activated wire and wireless service. For FY 2007, the rate is 27¢ per activated service. Beginning from and after FY 2008, the rate is 20¢ per activates service [A.R.S. § 42-5252(A-1)].

Deaf and Severely Hearing Impaired. Not to exceed 1.1% of the provider's gross proceeds of sales or gross income from the business of providing exchange services [A.R.S. § 42-5252(A-4)].

PAYMENT SCHEDULE

Each provider remits the tax monthly, in the same manner and time as the Transaction Privilege Tax, to the Department of Revenue the amount due, accompanied by an information return.

Estimated payments are required as described under Consolidated Transaction Privilege Tax [A.R.S. § 42-1472(B) and 1473(A)].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm

There were no changes enacted to this tax in 1998 and 2002.

2001 TAX LAWS

Laws 2001, Chapter 373 sets the tax rate for funding emergency telecommunications services at 37¢ per activated wire and wireless service account for FY 2001-2006. For FY 2007, the rate is 27¢ per activated service. Beginning from and after FY 2008, the rate is 20¢ per activated service.

Laws 2001, Chapter 234 continues to temporarily suspend permanent statute and allocates 0.8% of the 1.1% tax to the Arizona Commission for the Deaf and Hard of Hearing, and the remaining 0.3% to the Department of Health Services for poison control centers in FY 2002 and FY 2003.

2000 TAX LAWS

Laws 2000, Chapter 187 repealed the Joint Legislative Tax Committee and set the following tax rates for the telecommunication services excise tax. The rate for the 911 tax is set at 1.25% of the provider's gross proceeds of sales or gross income derived from the business of providing exchange access services, and 10¢ a month on a wireless provider for each activated wireless service. Revenues from the 911 tax are deposited in the Emergency Telecommunication Services Revolving Fund.

The rate for the Telecommunication Devices for the Deaf tax is set at 1.1% of the provider's gross proceeds of sales or gross income derived from the business of providing exchange access services (local telephone service). The revenues from this tax are deposited in the Telecommunication Fund for the Deaf, except that Laws 1999, Chapter 176 stipulated that in FY 2000 and FY 2001, 0.8% is to be deposited in the Telecommunication Fund for the Deaf and the other 0.3% goes into the Poison Control Fund. The fiscal impact of this act is unknown. (Effective July 18, 2000)

1999 TAX LAWS

Laws 1999, Chapter 176 continued for FY 2000 and FY 2001 the tax rate and distribution structure that were first established by session law in Laws 1996, 5th Special Session, Chapter 5 and re-established by Laws 1997, 1st Special Session, Chapter 5. The tax rate on the provider's gross proceeds of sales or gross income derived from the business of providing exchange access services (local telephone service) is continued at 1.1%, of which 0.8% is deposited in the Telecommunications Fund for the Deaf and the other 0.3% is deposited in the Poison Control Fund. (Effective August 6, 1999)

1997 TAX LAWS

Laws 1997, Chapter 258 broadened the telecommunication services excise tax to include wireless services, such as cellular phone service. The bill also authorizes a tax rate of 10¢ per month through June 30, 1999 for each activated wireless service, for the purpose of financing emergency 911 service. After June 30, 1999 the maximum tax rate increases to 20¢ per month. (Effective April 29, 1997)

Laws 1997, 1st Special Session, Chapter 5 continued, for FY 1998 and FY 1999, the tax rate and distribution of the telecommunication services excise tax that was established by Laws 1996, 5th Special Session, Chapter 5. (Effective July 1, 1997)

1996 TAX LAWS

Laws 1996, 5th Special Session, Chapter 5 established, for FY 1997, the rate of the telecommunications services excise tax and changed the tax distribution. The act established a tax rate of 1.1%, while also creating a Poison Control Fund which is to receive 0.3% of the total 1.1% tax levy. The other 0.8% of collections continues to be deposited in the Telecommunications Fund for the Deaf under the bill.

Laws 1996, 6th Special Session, Chapter 1 exempted the following two types of sales from the tax base of the telecommunications tax:

- The sales of intrastate telecommunications services to a direct broadcast satellite television or data transmission service for use in its operation.
- The sales of direct broadcast satellite television services by a direct broadcast satellite television service.

Pre 1996 History

UNDERGROUND STORAGE TANK TAX

DESCRIPTION

The tax applies to certain petroleum products and hazardous substances regulated under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980. The tax finances the Assurance Account of the Underground Storage Tank Revolving Fund to provide partial coverage for corrective action costs incurred by the Department of Environmental Quality (DEQ) and owners, operators, or political subdivisions. This tax became effective from and after July 1, 1990.

DISTRIBUTION

The Director of the Arizona Department of Transportation (ADOT) shall act as the collecting agent for the Director of DEQ and is required by the 20th day of each month to distribute the Underground Storage Tank (UST) Tax monies, net of administrative costs, received during the preceding calendar month to the Director of DEQ [A.R.S. § 28-6001]. The tax monies are then credited into the Underground Storage Tank Revolving Fund as follows. [A.R.S. § 49-1036]

- Nine-tenths to the Assurance Account.
- One-tenth to the Grant Account. When the balance exceeds $5,600,000, the excess amount is credited to the Assurance Account. The cap was reached in August 1994 and deposits are now credited to the Assurance Account.

No tax monies are credited to the Regulatory Account which consists of monies appropriated by the Legislature, expenses, costs and judgements recovered, fees and gifts.

Monies generated and collected from Maricopa County are segregated from the monies collected and generated in other counties and are deposited in an Area A Account. [A.R.S. § 49-541]

Assurance Account. Tax monies in this account can be used in the following manner [A.R.S. § 49-1051]:

- Partial coverage for corrective action costs incurred by a political subdivision or an owner or an operator of an underground storage tank which is subject to the tax.
- Reimburse DEQ for costs in taking corrective actions [A.R.S. § 49-1017].
- Reimburse DEQ for "reasonable" administration costs.

Legislative Report. The Director of DEQ by December 1 each year shall report to the Legislature the Assurance Account activities and make recommendations for any revisions to the tax rate in order to maintain an average Assurance Account balance of $36,000,000 [A.R.S. § 49-1051 (D)].

Reimbursable Costs. The Assurance Account may be used to reimburse costs of corrective actions incurred in soil and groundwater remediation. Effective July 1, 1996, groundwater and soil remediation coverage ceilings were raised to $1,000,000 from $225,000 for those persons with a $25,000 deductible policy [A.R.S. § 49-1054].

Grant Account Termination. The Grant Account and the DEQ's authority to issue grants terminates on December 22, 2002.

Grant Account Transfer. All unobligated monies remaining in the Grant Account on December 31, 2002 are transferred to the Municipal Tank Closure and Corrective Action Program Account [A.R.S. § 49-1073].

Table 1

UNDERGROUND STORAGE TANK TAX COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
FY 2001	$30,025,484	FY 1995	$23,125,400
FY 2000	$28,963,803	FY 1994	$24,785,500
FY 1999	$27,761,117	FY 1993	$18,572,600
FY 1998	$26,829,641	FY 1992	$18,405,130
FY 1997	$23,056,300	FY 1991	$17,284,600
FY 1996	$24,624,400		

SOURCE: Department of Environmental Quality.

WHO PAYS THE TAX

The operator and owner of an underground storage tank which serves as the final dispenser of motor vehicle fuel, aviation fuel, diesel and other regulated substances is responsible for payment of this tax. Underground storage tank means tank(s) used to contain regulated substances with at least 10% of its volume underground [A.R.S. § 49-1001 and 49-1031(B)].

Excluded are:
1) non-commercial types of tanks
2) certain regulated pipeline facilities
3) tanks owned and operated by Indian tribes
4) septic tanks or wastewater collection systems
5) surface water impoundment pit
6) tanks situated on the floor of an underground area such as a basement.

A separate license is not required for payment of this tax [A.R.S. § 28-6003(B)].

TAX BASE AND RATE

The tax rate is 1¢ per gallon of regulated substance placed in a tank in any calendar year [A.R.S. § 49-1031].

"Regulated substance" means petroleum or a substance defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, not including a substance regulated as hazardous waste under the Solid Waste Disposal Act of 1984 [A.R.S. § 49-1001].

The tax does not apply to (1) underground storage tanks operated by the Federal or State Government or (2) USTs used for jet fuel [A.R.S. § 49-1031(C)]. Indian tribes are also exempt but through an intergovernmental agreement may participate in the partial coverage by paying the UST Tax [A.R.S. § 49-1055].

ADDITIONAL FEES

Owners and operators subject to the UST Tax shall pay an annual registration fee of $100 for each tank [A.R.S. § 49-1020].

PAYMENT SCHEDULE

The tax is due and payable annually by March 31 for the proceeding calendar year and is delinquent if not postmarked or delivered in person by that same date. A return is required to be filed at this time [A.R.S. § 49-1032]. But most taxpayers shall make periodic payments to ADOT at the same time and manner as the Motor Vehicle Fuel Tax. This refers to those distributions of products that ADOT normally collects for, such as gasoline, aviation fuel, and diesel oxygenated fuel. Other regulated substances kerosene, new and used oil, and CERCLA hazardous substances shall be collected by DEQ at the annual March 31 date mentioned above [A.R.S. § 28-1599.45(D)].

The Director of DEQ may extend the filing time for "good cause" provided at least 90% of the tax liability is paid upon the extension request [A.R.S. § 49-1033].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in 1997, 1998, 1999, 2000, and 2002.

2001 TAX LAWS

Laws 2001, Chapter 341 transferred all unobligated balances from the UST Grant Account to the newly created Municipal Tank and Corrective Action Program Account on December 31, 2001. Monies in the new account will be used by DEQ to perform permanent closures of USTs in cities and towns with fewer than 15,000 people.

1996 TAX LAWS

Laws 1996, Chapter 292 repealed a statutory provision that terminated the Assurance Account on December 31, 2003. This act also repealed a requirement that 50% of Area A Assurance account revenues be deposited into the Vehicle Emissions Inspection Fund. Additionally, the act raised the amount that is subject to 90% coverage to $1,000,000 for qualified applicants.

Pre 1996 History

UNEMPLOYMENT INSURANCE TAX

DESCRIPTION

To reduce the economic insecurity due to unemployment, the Legislature enacted laws for the compulsory setting aside of unemployment reserves for the benefit of persons unemployed through no fault of their own. Thus, each employer is required to make contributions to the state based on wages paid for employment. These contributions are deposited in the Unemployment Compensation Fund and used to pay benefits to such unemployed persons.

In 2001, the state began levying a new job training employer tax at 0.1% of an employer's taxable wages. At the same time, the state also reduced the unemployment tax rate by the same percentage. The new tax is collected by the Department of Economic Security and deposited in the Arizona Job Training Fund. This fund provides grants to train new and existing employees in companies that meet the qualifying requirements under this program. (For more details, see Laws 2000, Chapter 383.)

DISTRIBUTION

Contributions are deposited in the Unemployment Compensation Fund and are used for the benefit of persons unemployed through no fault of their own [A.R.S. § 23-701].

Table 1

UNEMPLOYMENT INSURANCE TAX COLLECTIONS

Fiscal Year	Total Collections	Unemployment Tax Contributions	Reimbursement Payments in Lieu of Tax	Federal Reimbursements
FY 2001	$173,563,536	$161,067,162	$6,967,171	$5,529,203
FY 2000	$164,685,911	$153,057,470	$6,880,773	$4,747,668
FY 1999	$187,533,885	$175,626,310	$7,138,106	$4,769,469
FY 1998	$212,383,380	$199,086,932	$8,009,523	$5,286,925
FY 1997	$221,693,418	$206,596,749	$8,137,939	$6,958,730
FY 1996	$234,080,469	$216,800,153	$9,393,816	$7,886,500
FY 1995	$219,196,529	$200,018,374	$10,731,555	$8,446,600
FY 1994	$197,147,295	$177,017,525	$11,103,155	$9,026,615
FY 1993	$147,269,444	$124,839,134	$10,575,310	$11,855,000
FY 1992	$118,359,664	$99,307,405	$10,032,259	$9,020,000
FY 1991	$113,606,086	$99,799,840	$7,491,246	$6,315,000
FY 1990	$121,038,767	$105,222,899	$9,870,868	$5,945,000
FY 1989	$124,227,365	$112,569,050	$6,393,315	$5,265,000
FY 1988	$29,267,809	$17,408,470	$6,729,339	$5,130,000
FY 1987	$130,793,972	$120,284,369	$5,459,603	$5,050,000
FY 1986	$143,480,442	$133,574,265	$5,006,177	$4,900,000
FY 1985	$145,302,534	$136,159,534	$5,043,000	$4,100,000
FY 1984	$106,519,437	$100,164,728	$6,354,709	$0
FY 1983	$70,127,927	$62,024,922	$8,103,005	$0
FY 1982	$72,093,506	$66,564,227	$5,529,279	$0

SOURCE: Department of Economic Security, Research Administration, Economic Analysis.

WHO PAYS THE TAX

The unemployment insurance tax is paid by Arizona employers or employing units [A.R.S. § 23-726]. (For definition of employer and employing unit see A.R.S. § 23-613.)

The following employers are excluded from the definition of employer and are therefore not subject to the unemployment insurance tax:

(1) Any employer who has not employed at least one individual for some portion of a day in each of 20 different calendar weeks during the current or preceding calendar year and has not paid $1,500 or more in wages in any calendar quarter of the current or preceding calendar year. This exclusion does not apply to an employer of the following services:
   (a) Services performed in the employ of this state or any of its instrumentalities, any political subdivisions of this state and their instrumentalities or any combination of these employing units with each other or with similar employing units in other states.
   (b) Services performed for an employing unit that volunteers for coverage.
   (c) Services that are subject to the Federal Unemployment Tax, when a credit may be taken against the federal tax for amounts paid into the State Unemployment Compensation Fund.
   (d) Services performed for an employing unit that acquires the business of a covered employer.

(2) Any employing unit that has not employed at least 10 individuals in each of 20 calendar weeks during the current or preceding calendar year and has not paid $20,000 or more in wages in any calendar quarter of the current or preceding calendar year for agriculture employment.
(3) An employing unit that has not paid $1,000 or more in wages in any calendar quarter of the current or preceding calendar year for domestic service in a private home, local college club, or local chapter of a college fraternity or sorority.

NOTE: Employers, once covered by unemployment insurance, are not permitted to terminate coverage simply by virtue of this exemption [A.R.S. § 23-725].

TAX BASE

The tax base is the wages from employment. The unemployment insurance tax is levied on the first $7,000 of wages paid by an employer to each employee during a calendar year. Wages means remunerations for services from whatever source including commissions, bonuses, fringe benefits and the cash value of remuneration in any medium other than cash [A.R.S. § 23-622]. (Exclusions from the statutory definition of wages are provided in A.R.S. § 23-622(B).)

The following services are not included in definition of employment [A.R.S. § 23-615 and § 23-617]:

(1) Service performed outside of the United States or in connection with a foreign vessel or aircraft.
(2) Service performed in the employ of a son, daughter or spouse.
(3) Service performed by an individual under the age of 21 in the employ of his father or mother.
(4) Service performed while in the employ of the United States Government.
(5) Service performed while in the employ of an instrumentality of the United States Government that is wholly or partially owned by the United States or is exempt from the tax imposed by Section 3301 of the Federal Internal Revenue Code, unless unemployment taxation by the states is permitted by federal law.
(6) Service performed entirely in the employ of another state or its political subdivisions or in the employ of an instrumentality that is wholly owned by one or more states or political subdivisions and which exercises only governmental as distinguished from proprietary functions.
(7) Services performed in the employ of political subdivisions or other states if exempt under the United States Constitution from the tax imposed by Section 3301 of the Federal Internal Revenue Code, unless performed in the employ of this state and one or more other states or their instrumentalities.
(8) Services performed in the employ of this state, its political subdivisions or any instrumentalities of this state and its subdivision in any of the following capacities:

(a) As an elected official or member of a legislative body or the judiciary.
(b) In a major non-tenure policy-making or advisory position or a policy-making or advisory position that does not require more than eight hours per week to perform.
(c) As a member of the State National Guard or Air National Guard.
(d) On a temporary basis when an emergency has been declared.

(9) Services performed in the employ of this state or any of its instrumentalities, for a hospital or institution of higher education located in this state, or services performed for a religious, charitable, educational, or other organization exempt from the Federal Unemployment Tax Act under Section 3306(C) in any of the following capacities:
(a) As part of an unemployment work-relief or work-training program financed in whole or in part by a government entity.
(b) In connection with a rehabilitation program for individuals whose earnings capacity is impaired by age or physical or mental deficiency or injury.
(c) Services performed by inmates of custodial and penal institutions.
(d) Services performed in the employ of a church, convention or association of churches or an organization operated primarily for religious purposes under the direction of a church or convention or association or churches.
(e) Services performed by an ordained or licensed minister or by a member of a religious order in performance of duties required by the order.

(10) Service for which unemployment compensation is payable under a system established by an act of Congress unless a credit is offered against such payments for contributions to a State Unemployment Fund.
(11) Services performed in any calendar quarter in the employ of an organization exempt from income tax under Sections 501(a) or 521 of the Federal Internal Revenue Code, if remuneration for such service is less than $50. This exemption does not apply to organizations described in Section 401(a) of the Internal Revenue Code.
(12) Service performed in the employ of a school, college or university by a) a student regularly attending classes, or b) the spouse of a student, if the spouse is advised that the employment is provided under a program of financial assistance to the student and that the employment will not be covered by any program of unemployment compensation.
(13) Services performed in the employ of a non-profit religious, charitable, scientific, educational or literary organization or in the employ of societies for the prevention of cruelty to children or animals or organizations performing testing for public safety. This exemption does not apply to the following services:
(a) Services performed in the employ of an organization that had in its employ four or more individuals for some portion of a day in each of 20 weeks during the current or preceding calendar year, if these organizations are exempt from Section 3306(C) of the Federal Unemployment Tax Act.
(b) Services performed in the employ of an organization liable for any federal tax against which credit may be taken for contributions paid into the State Unemployment Insurance Fund.

NOTE: According to the Unemployment Insurance Administration within the Department of Economic Security, none of the organizations listed is exempt under this provision because of the effects of (a) and (b).

(14) Services performed by student nurses and interns while in the employ of a hospital or nurses training school.
(15) Service performed by an individual under the age of 18 in the distribution or delivery of newspapers to the ultimate consumer.
(16) Service performed by an individual in the sale of newspapers or magazines to the ultimate consumer, when the sales are made under an arrangement by which the employee's compensation is based on the retention of the amount he receives in excess of what was charged for the newspapers or magazines.
(17) Service performed in the employ of a foreign government.
(18) Service performed in the employ of an instrumentality wholly owned by a foreign government, if the foreign government grants an equivalent exemption to employees of the United States government for service of a similar nature.
(19) Service covered by an arrangement between the Department of Economic Security and agencies charged with the administration of any other state or Federal Unemployment Compensation Law when services performed for the agency are deemed to be performed within that agency's state.

(20) Casual labor not in the course of the employer's trade or business.
(21) Services performed by an individual for an employing unit as an insurance agent, insurance solicitor, licensed real estate salesman or broker, licensed cemetery salesman or broker or a securities salesman, if such service is performed for remuneration solely by way of commission.
(22) Services performed by an individual enrolled as a full-time student at a nonprofit or public educational institution in a program that combines academic instruction with work experience. This exemption does not apply to services subject to the Federal Unemployment Tax, when a credit may be taken against the federal tax for amounts paid into the State Unemployment Compensation Fund.
(23) Service performed by a patient in the employ of a hospital.
(24) Services performed by individuals engaged in door-to-door sales of consumer goods who receive commissions, overrides or profits based on such sales. This exemption does not apply to employees of nonprofit organizations or employees of this state or its political subdivisions or instrumentalities.
(25) Services performed by individuals in the preparation of tax returns, if the only remuneration received for such service is in the form of a commission. This exemption does not apply to employees of nonprofit organizations or employees of this state or its political subdivisions or instrumentalities.

TAX RATE

The standard rate of contribution is 5.40% of the wages paid by the employer during each calendar year [A.R.S. § 23-728].

An employer, whose account has not been chargeable with benefits during the 12 consecutive calendar month period ending June 30 of the preceding calendar year, pays a contribution rate of 2.70% [A.R.S. § 23-729].

A revised contribution rate is computed if the employer's account has been subject to charges for benefits for the above period. The revised rate will depend on the employer's reserve, which is the contributions received from the employer versus benefits charged [A.R.S. § 23-730]:

(1) If the employer's total contributions, paid on or before July 31 of the preceding calendar year from wages paid prior to July 1 of the preceding calendar year, equals or exceeds the total benefits chargeable to the employer's account prior to July 1 of the preceding calendar year with respect to weeks of unemployment beginning prior to July 1; the contribution rate for the ensuing calendar year is determined by the employer's Positive Reserve Ratio. An employer's reserve ratio is the percentage that results from dividing the reserve surplus (the excess of contributions paid to the Unemployment Fund over benefits charged to the employer's account) by the employer's average annual payroll. The new contribution rate is determined from the Positive Reserve Ratio as shown below:

Table 2

Positive Reserve Ratio	Contribution Rate
less than 3%	2.70%
3% but less than 4%	2.50%
4% " " " 5%	2.25%
5% " " " 6%	2.00%
6% " " " 7%	1.75%
7% " " " 8%	1.50%
8% " " " 9%	1.25%
9% " " " 10%	1.00%
10% " " " 11%	0.75%
11% " " " 12%	0.50%
12% " " " 13%	0.50%
13% or more	0.10%

(2) If an employer's reserve equals zero, the contribution rate for the ensuing calendar year shall be 2.70%.

(3) If the total of all employer's contributions, paid on or before July 31 of the preceding calendar year from wages paid by an employer prior to July 1 of such year, is less than the total benefits chargeable to the employer's account prior to July 1 of such year, with respect to the weeks of unemployment beginning prior to July 1, the employer's contribution rate for the ensuing calendar year shall be determined from the employer's Negative Reserve Ratio in accordance with the table provided below. An employer's Negative Reserve Ratio is the percentage resulting from dividing the employer's reserve deficit (the excess of benefits charged over contributions paid) by the employer's average annual taxable payroll.

NOTE: Benefits paid as a result of unemployment due to a labor dispute, strike or lockout is not used as a factor in determining the contribution rate of affected employers [A.R.S. § 23-777(C)].

The table applicable to rate computation for calendar year 1987 and thereafter is:

Table 3

Negative Reserve Ratio	Contribution Rate
less than 3%	2.90%
3% but less than 4%	3.10%
4% " " " 5%	3.35%
5% " " " 6%	3.60%
6% " " " 7%	3.85%
7% " " " 8%	4.10%
8% " " " 9%	4.35%
9% " " " 10%	4.60%
10% " " " 11%	4.85%
11% " " " 12%	5.10%
12% " " " 13%	5.35%
13% or more	5.40%

Employer contribution rates may be further adjusted depending on the level of assets in the Unemployment Compensation Fund [A.R.S. § 23-730]. The ratio of total assets of such fund on July 31 to the total taxable payrolls for the preceding year is designated as the Fund Ratio, and is used to determine the Required Income Rate in accordance with the following schedule:

Table 4

Fund Ratio	Required Income Rate
12.0% or more	0.50%
10.0% but less than 12.0%	0.60%
9.5% " " " 10.0%	0.70%
9.0% " " " 9.5%	0.80%
8.5% " " " 8.5%	0.90%
8.0% " " " 8.0%	1.00%
7.5% " " " 7.5%	1.10%
7.0% " " " 7.0%	1.20%
6.5% " " " 6.5%	1.30%
6.0% " " " 6.0%	1.40%
5.5% " " " 5.5%	1.50%
5.0% " " " 5.0%	1.60%
4.5% " " " 4.5%	1.80%
4.0% " " " 4.5%	1.90%
3.5% " " " 4.0%	2.10%
3.0% " " " 3.0%	2.30%
less than 3.0%	2.50%

Each year the department computes the Estimated Required Tax Yield from employers. This is the product of the total taxable payrolls for the preceding year multiplied by the Required Income Rate as determined from the Fund Ratio. The contribution rates are adjusted proportionately if the Estimated Required Tax Yield differs from the amount that would be collected using the contribution rates determined from the employer's Reserve Ratio. An employer's final rate of contribution is never less than 0.10% [A.R.S. § 23-730].

Certain non-profit organizations, this state or other states and their political subdivisions may elect to make payments in lieu of contributions equal to the regular benefits and one-half of the extended benefits paid [A.R.S. § 23-750].

Since 1982, certain employers who implement a Shared Work Plan have been assigned an extra contribution rate in addition to the regular unemployment contribution rate [A.R.S. § 23-765]. A Shared Work Plan is a written plan under which an employer arranges to secure unemployment benefits for a group of his employees working a reduced work week, as an alternative to a complete lay off of some or all these employees. The law provides that the additional rate is paid by employers with Shared Work Plans only when they have a Negative Reserve Ratio as follows:

Table 5

Reserve Ratio	Percentage Added to Regular Contribution Rate for the Next Calendar Year
-.05 or less and greater than -.15	1%
-.15 or less	2%

The additional rate does not apply if any of the following conditions apply:

(1) The employer has a positive reserve ratio or a reserve ratio equal to zero.
(2) The employer's account has not been charged with shared work benefits during the prior 12-month period, if the employer's reserve ratio is more favorable than it was as of the least computation date.
(3) The employer's account has not been charged with shared work benefits during the prior 24-month period.

PAYMENT SCHEDULE

Contributions are paid by employers on a quarterly basis with due dates determined by the Department of Economic Security [A.R.S. § 23-723]. The Department serves as the collecting agency [A.R.S. § 23-726(A)].

IMPACT OF TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in 1996, 1997, 1999, and 2002.

2001 TAX LAWS

Laws 2001, Chapter 3 was an emergency measure that provided technical and clarifying changes to the Arizona Job Training Program Fund. In addition, the act added a section to statute to conform to federal legislation.

2000 TAX LAWS

Laws 2000, Chapter 383 provided that the Arizona Job Training Program be funded through an employer tax, rather than through a General Fund appropriation. It established a job training employer tax equal to 0.1% of

taxable wages paid annually to each employee. It also reduced the current unemployment tax rate by 0.1% until the federal unemployment tax rate is reduced to 6% or less, or until the repeal date of the program.
As a result of the use of the new tax for job training purposes, the Department of Commerce's General Fund appropriation for FY 2001 was reduced from $7 million to $3.5 million. Beginning in FY 2002, it was intended that the Job Training Program would be funded entirely by the employers' wage tax. The tax was estimated to generate $7,500,000 for the Arizona Job Training Fund in FY 2001 and a total of $15,000,000 in FY 2002. (Effective January 1, 2001)

1998 TAX LAWS

Laws 1998, Chapter 58 reduced employer contribution rates to the Unemployment Insurance Trust Fund and increased maximum weekly benefit amounts for eligible unemployed workers. Contributions for employers with positive reserve ratios were decreased by 10 percentage points, except for the "13% or more" reserve ratio rate, which was reduced by 5 percentage points. Contributions for employers with negative reserve ratios were reduced by 5 percentage points, except for the "13% or more" reserve ratio rate, which remained unchanged. The required income rate was reduced by 10 percentage points, and the minimum adjusted rate for employers was reduced from 0.1% to 0.05%. The maximum weekly benefit amount for eligible unemployed workers was increased to $195 for FY 1999 and $205 for FY 2000 and thereafter. (Effective July 1, 1998)

Pre 1996 History

WATER USE TAX

DESCRIPTION

The tax is applied on water use by a municipal water delivery system. The tax, together with various registration or license fees, provides a dedicated funding source for the Water Quality Assurance Revolving Fund (WQARF).

DISTRIBUTION

Table 1 below provides historical water use tax collections since FY 1991. Net tax collections (gross collections less collection fees) are deposited in WQARF by the State Treasurer. [A.R.S. § 42-5304]. For purposes of WQARF, see A.R.S. § 49-282.

Table 1

WATER USE TAX COLLECTIONS

Fiscal Year	WQARF	Fiscal Year	WQARF
FY 2001	$2,120,483	FY 1995	$1,653,929
FY 2000	$2,081,879	FY 1994	$1,637,633
FY 1999	$1,957,725	FY 1993	$1,469,845
FY 1998	$1,842,707	FY 1992	$1,490,480
FY 1997	$1,909,981	FY 1991	$829,722
FY 1996	$1,842,707		

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS THE TAX

The owner or operator of a municipal water delivery system shall pay the Water Use Tax [A.R.S. § 42-5302(B)].

A "municipal water delivery system" is an entity that distributes or sells potable water mainly through a pipeline system owned by either: [A.R.S. § 42-5301]

- An incorporated city or town.
- A private entity regulated as a public service corporation by the Arizona Corporation Commission.
- A special taxing district under Title 48, Chapter 6 of the Arizona Revised Statutes.
- An entity regulated as a water supply system by the Department of Environmental Quality.

TAX BASE AND RATE

The tax base is gallons of water delivered to customers of a municipal water delivery system. Water delivered to a customer for resale is exempt from this tax. The tax rate is 0.65 of 1¢ per 1,000 gallons of water delivered to customers [A.R.S. § 42-5302(A)].

PAYMENT SCHEDULE

Payment of the Water Use Tax, if the municipal water delivery system is also subject to the Transaction Privilege Tax, is reported and paid monthly to the Department of Revenue with the Transaction Privilege Tax. Otherwise, the due and delinquent date is the same as the Transaction Privilege Tax [A.R.S. § 42-5302(B) and A.R.S. § 42-5014].

TAX LAW CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1996. A listing of tax law changes prior to the 1996 legislative session is available on the JLBC web-site located at www.azleg.state.az.us/jlbc.htm.

There were no changes enacted to this tax in 1996, and the period from 1998 to 2002.

1997 TAX LAWS

Laws 1997, Chapter 150 recodified Title 42 of the Arizona tax code, which regards property, transaction privilege, use, and luxury taxation. The bill made numerous technical changes, removed references to gender, and restructured and renumbered several statutes. It provided that the interpretation of the tax code is not changed solely due to changes made by the recodification. Immunities, exemptions, claims, proceedings, etc. that existed before the recidification are to remain in effect.

Pre 1996 History