



ARIZONA STATE SENATE
Fifty-Fourth Legislature, Second Regular Session

AMENDED
FACT SHEET FOR S.B. 1398

tax omnibus

Purpose

Makes various changes to taxes, deduction amounts, credits and fees.

Background

Assessed Valuation of Class One Property

Class one property consists of properties of mining, telecommunication companies, utilities, standing timber, airport fuel delivery, oil and gas production, pipelines, shopping centers, golf courses and most other commercial uses ([A.R.S. § 42-12001](#)). The assessed valuation of class one property is currently 18 percent of its full cash value or limited valuation, as applicable ([A.R.S. § 42-15001](#)).

State Equalization Assistance Property Tax Rate

The board of supervisors in each county is required to levy the state equalization property tax each year and it is the responsibility of the county treasurer to apportion the monies to school districts within the county as provided by law ([A.R.S. § 15-994](#)). The state equalization assistance property tax rate (SETR) in tax year 2019 is \$0.4566 ([A.R.S. § 41-1276](#)).

Highway Safety Fee

[Laws 2018, Chapter 265](#) established the highway safety fee which is collected with vehicle registration applications and deposited into the Arizona Highway Patrol Fund. The Director of the Arizona Department of Transportation (ADOT) is required to annually determine the highway safety fee amount, which is currently \$32. Beginning July 1, 2021, the Director of ADOT may not collect a highway safety fee ([A.R.S. § 28-2007](#)).

Motor Fuel Taxes and Other Fuel Taxes

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 state motor vehicle fuel tax rate is \$0.18 per gallon. The use fuel tax applies to diesel fuel and there is no use fuel tax on alternative fuels. To partially compensate Arizona for the use of its highways, the use fuel tax for a light class motor vehicle is \$0.18 gallon and \$0.26 gallon for a use class motor vehicle.

A *use class motor vehicle* is a road tractor, truck tractor, truck or passenger carrying vehicle having a declared gross vehicle weight of more than 26,000 pounds or having more than two axles. A *light class motor vehicle* uses use fuel and excludes use class motor vehicles ([A.R.S. § 28-5601](#)).

Dependent Tax Credit

[Laws 2019, Chapter 273](#) established a dependent tax credit for qualifying taxpayers as follows:

Less than \$200,000 for a single person, married filing separately or head of household, and less than \$400,000 for married filing jointly:	
\$100 for each dependent under 17 years old	\$25 for each dependent at least 17 years old
At least \$200,000 for a single person, married filing separately or head of household, and at least \$400,000 for married filing jointly:	
\$100 minus 5% for each \$1,000 by which the taxpayer's federal adjusted gross income (FAGI) exceeds the applicable threshold for each dependent under 17 years old	\$25 minus 5% for each \$1,000 by which the taxpayer's FAGI exceeds the applicable threshold for each dependent at least 17 years old

Fire District Board Tax Levy

A fire district board must levy a tax on property situated within the district boundaries that appeared on the last assessment roll not to exceed \$3.25 per \$100 of assessed valuation, or the amount of the levy in the previous tax year multiplied by 1.08, whichever is less, and minus any amounts required to reduce the levy resulting from property annexation or a fire district merger or consolidation. In an override election, the electors of a fire district may authorize a fire district board to levy a tax exceeding the \$3.25 limit under certain circumstances ([A.R.S. § 48-807](#)).

Arizona Gross Income for Individuals and Corporations

Current statute authorizes various amounts to be added or subtracted when computing an individual's Arizona adjusted gross income or a corporation's Arizona taxable income. Additions and subtractions are in place that require the addback of all federal depreciation taken under section 167(a) of the Internal Revenue Code (IRC) and the subtraction for the depreciation that would have been claimed if the taxpayer had made the election to opt out of bonus depreciation under section 168(k) of the IRC ([A.R.S. §§ 43-1021](#); [43-1022](#); [43-1121](#) and [43-1122](#)).

School District General Budget Limit

A school district's general budget is subject to a statutory limit for each fiscal year. The general budget limit is the sum of the: 1) maintenance and operations portion of the revenue control limit for the budget year; 2) maintenance and operation portion of specified amounts, expenditures and interest; 3) maintenance and operations portion of district additional assistance for the budget year; and 4) any other maintenance and operation budget item that is specifically exempt from the revenue control limit or district additional assistance ([A.R.S. § 15-947](#)).

Arizona Job Training Fund

The Arizona Commerce Authority administers the Arizona Job Training Fund. Monies appropriated to the Fund must be used to provide training to small businesses employing fewer than 100 employees and to businesses located in rural areas in Arizona ([A.R.S. § 41-1544](#)).

The Joint Legislative Budget Committee (JLBC) fiscal note indicates that the bill is estimated to have a state General Fund (GF) cost of \$83.4 million in FY 2021, \$106 million in FY 2022 and \$166.1 million in FY 2023. The JLBC fiscal note contains a detailed breakdown of the fiscal impact of each provision of S.B. 1398 ([JLBC fiscal note](#)).

Provisions

Assessed Valuation of Class One Property

1. Reduces the percentage of assessed valuation of class one property to:
 - a) 17.5 percent in calendar year 2021; and
 - b) 17 percent thereafter.

State Equalization Assistance Property Tax Rate

2. Sets the SETR at:
 - a) \$0.3520 in TY 2021; and
 - b) \$0.2776 in TY 2022.

Highway Safety Fee

3. Repeals the annual highway safety fee beginning January 1, 2021.

***Motor Fuel Taxes, Other Fuel Taxes and Electric and Hybrid Vehicles Tax
(Effective July 1, 2021)***

4. Imposes a tax on each vehicle propelled by electricity, natural gas or propane, or a combination of electricity and motor vehicle fuel or use fuel and natural gas or propane and that accesses a street or highway, as follows:
 - a) \$110 per year for a vehicle that is propelled only by electricity;
 - b) \$44 per year for a vehicle that is propelled by a combination of electricity and other fuels; and
 - c) \$44 per year for a vehicle that is propelled by a combination of motor vehicle fuel or use fuel and natural gas or propane.

***Dependent Tax Credit
(Retroactive to taxable years beginning January 1, 2020)***

5. Raises the dependent tax credit for the following categories in the following amounts:

Less than \$200,000 for a single person, married filing separately or head of household, and less than \$400,000 for married filing jointly:	
\$120 for each dependent under 17 years old	\$30 for each dependent under 17 years old
At least \$200,000 for a single person, married filing separately or head of household, and at least \$400,000 for married filing jointly:	
\$120 minus 5% for each \$1,000 by which the taxpayer's FAGI exceeds the applicable threshold for each dependent under 17 years old	\$30 minus 5% for each \$1,000 by which the taxpayer's FAGI exceeds the applicable threshold for each dependent under 17 years old

Fire District Board Tax Levy

6. Increases the cap of \$3.25 per \$100 of assessed valuation that a fire district board must levy against all property situated within the district boundaries and appearing on the last assessment roll as follows:
 - a) \$3.375 in TY 2021; and
 - b) \$3.50 in TY 2022 and thereafter.

***Arizona Adjusted Gross Income for Individuals
(Retroactive to taxable years beginning January 1, 2020)***

7. Removes, from the computation of Arizona adjusted gross income, the amount of the addback of all federal depreciation taken and the subtraction for the depreciation that would have been claimed if the taxpayer had made the election to opt out of bonus depreciation.
8. Reduces the subtraction used in computing Arizona adjusted gross income for the taxable year, from 100 percent to 50 percent, of the net long-term capital gain included in FAGI that is derived from an investment in an asset acquired after December 31, 2019.

***Arizona Gross Income for Corporations
(Retroactive to taxable years beginning January 1, 2020)***

9. Removes, from the computation of Arizona taxable income, the amount of the addback of all federal depreciation taken and the subtraction for the depreciation that would have been claimed if the taxpayer had made the election to opt out of bonus depreciation.

School District General Budget Limit

10. Increases the general budget limit by \$1.5 million for a Minimum Qualifying Tax Rate (MQTR) school district that had a total attending average daily membership of at least 5,000 pupils.

Arizona Job Training Fund

11. Reverts unencumbered monies to the state GF on January 1, 2022, rather than January 1, 2021, and reverts all monies remaining in the Arizona Job Training Fund to the state GF on June 30, 2023, rather than June 30, 2022.
12. Prohibits monies in the Arizona Job Training Fund from being encumbered from and after December 31, 2021, rather than December 31, 2020.

Miscellaneous

13. Makes technical and conforming changes.
14. Becomes effective on the general effective date, with retroactive provisions and a delayed effective date as noted.

Amendments Adopted by Committee

- Increases the SETR from:
 - \$0.3277 to \$0.3520 in TY 2021; and
 - \$0.2540 to \$0.2776 in TY 2022.

Amendments Adopted by Committee of the Whole

1. Eliminates the motor vehicle fuel tax and use fuel tax on natural gas and propane used to propel any vehicle and instead imposes a flat rate tax of \$110 per year.
2. Includes a vehicle propelled by a combination of fuel and natural gas or propane in the hybrid vehicles required to pay a flat rate tax and lowers the tax imposed on electric or hybrid vehicles to:
 - a) \$110 from \$130; and
 - b) \$44 from \$52.
3. Increases the cap of \$3.25 per \$100 of assessed valuation that a fire district board shall levy against all property situated within the district boundaries to:
 - a) \$3.375 in TY 2021; and
 - b) \$3.50 in TY 2022.
4. Increases the general budget limit by \$1.5 million for an MQTR school district that had a total attending average daily membership of at least 5,000 pupils.
5. Makes technical and conforming changes.

Senate Action

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Prepared by Senate Research

February 19, 2020

MG/g