# Fiscal Note

**BILL #** HB 2321

**TITLE:** ~~DOR; administrative rulings; procedures~~
NOW: qualified facilities

**SPONSOR:** Toma

**STATUS:** As Enacted

**PREPARED BY:** Hans Olofsson

**Description**

Under current law, a business that expands or locates a qualified facility in the state may receive a credit for qualifying investment and employment. The qualified facility credit is the lesser of: (1) 10% of the total capital investment in the qualified facility by the taxpayer or (2) $20,000 for each net new employee at the qualified facility. The credit is refundable, but no single taxpayer can claim more than $30 million in credits per calendar year. The credit must be taken in equal installments over 5 taxable years. The qualified facility credit program is administered by the Arizona Commerce Authority (ACA) and they are authorized to pre-approve credits of up to $70 million each calendar year.

The Senate Engrossed version of HB 2321 would make the following changes to the qualified facility credit:

- Increasing the credit from $20,000 to $30,000 per net new employee for businesses making qualifying investments in excess of $2 billion.
- Increasing ACA's annual pre-approved credit authorization cap from $70 million to $125 million.
- Expanding the statutory definition of "qualified manufacturing" to include products sold to other qualified facilities regardless whether such facilities have been pre-approved by ACA.

In addition to the changes noted above, the bill would also provide a 10-year extension to the existing state Transaction Privilege Tax (TPT) Public Infrastructure Improvement program, from September 30, 2023 to September 30, 2033.

**Estimated Impact**

The increase in the credit per employee and the expanded definition of qualified manufacturing would allow greater use of the credit and would result in a General Fund revenue loss. We do not have a means, however, of determining the magnitude of the increased usage.

The impact of increasing the credit cap from $70 million to $125 million will depend on actual use of the credit. Qualified facilities must seek pre-approval prior to qualifying for the credit. ACA typically provides aggregate pre-approvals at a level close to the current $70 million cap. Up to this time, many facilities have received pre-approvals, but few have received post-approval and actually taken the credit.

There is significant unused post-approval credit capacity under the current $70 million aggregate cap. Since the credit must be taken in equal installments over 5 years, the maximum amount of new credits is $14 million per year. The Department of Revenue (DOR) reported that only $3.4 million in credits were used in FY 2020.

If the increase in the credit cap only results in additional pre-approvals, the bill would not result in a revenue loss. If the increased cap were to facilitate more post-approvals, then the bill would have an impact. As with the other provisions in the bill, we do not have a means of determining the impact of the bill upon actual credit usage.

**Local Government Impact**

Incorporated cities and towns receive 15% of state income tax collections from 2 years prior from the Urban Revenue Sharing Fund (URSF) established by A.R.S. § 43-206. Any individual income tax reductions implemented by the bill would therefore reduce URSF distributions to cities and towns. However, as noted in the *Estimated Impact* section, we cannot determine if any increase in credit use would be attributable to the bill itself.

3/23/21