



ARIZONA STATE SENATE
Fifty-Fifth Legislature, First Regular Session

AMENDED
FACT SHEET FOR S.B. 1828

omnibus; taxation

Purpose

Establishes new individual income tax brackets for TY 2022 and establishes state General Fund (GF) revenue thresholds that must be met for further modification to the individual income tax rates in future taxable years (TY). Increases the maximum weekly unemployment benefit amount (WBA), the amount an individual may earn with no reduction to their WBA (income disregard) and the state unemployment tax taxable wage limit. Reduces the percentage of assessed valuation of class 1 property. Establishes the Healthy Forest Production Tax Credit and modifies existing tax credits.

Background

Individual Income Tax

Individual income tax is levied on Arizona residents' taxable income and uses a graduated rate structure, based on the taxpayer's income level. The current tax brackets are as follows:

Single or Married Filing Separately		Married Couple or Head of Household	
Taxable Income	Tax	Taxable Income	Tax
\$0 - \$26,500	2.59% of taxable income	\$0 - \$53,000	2.59% of taxable income
\$26,501 - \$53,000	\$686, plus 3.34% of the amount over \$26,500	\$53,001 - \$106,000	\$1,373, plus 3.34% of the amount over \$53,000
\$53,001 - \$159,000	\$1,571, plus 4.17% of the amount over \$53,000	\$106,001 - \$318,000	\$3,143, plus 4.17% of the amount over \$106,000
\$159,001 and over	\$5,991, plus 4.5% of the amount over \$159,000	\$318,001 and over	\$11,983, plus 4.5% of the amount over \$318,000

Urban Revenue Sharing

A monthly entitlement is distributed from the Urban Revenue Sharing Fund (URS Fund) to incorporated cities and towns within Arizona. The monthly amount is one twelfth of the city or town's annual entitlement which is 15 percent of the net state individual and corporate income tax revenue from two FYs prior divided between cities and towns based on the city or town's most recent population estimates made by the U.S. Census Bureau (A.R.S. §§ [42-5033.01](#) and [43-206](#)).

Unemployment Insurance (UI)

The federally-established UI Benefit Program, which is administered by the Department of Economic Security (DES), provides unemployment benefits to persons unemployed through no fault of their own for up to 26 weeks. Subject to a cap of \$240, the weekly WBA of an eligible unemployed individual is equal to one-twenty-fifth of their highest quarter earnings during the first four quarters of the most recently completed five quarters. An unemployed individual may earn up to \$30 in a week for less than full-time work with no reduction to their WBA. Earnings in excess of the \$30 income disregard are subtracted from the individual's WBA.

UI benefit payments are paid from Arizona's Unemployment Insurance Trust Fund which is financed by a tax that employers pay on the first \$7,000 of wages paid to each employee in a calendar year (CY) ([A.R.S. Title 23, Chapter 4](#)).

Assessed Valuation of Class 1 Property

Class 1 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 1 property is currently 18 percent of its full cash value or limited valuation, as applicable ([A.R.S. § 42-15001](#)).

The Joint Legislative Budget Committee's FY 2022 budget analysis includes estimates on the provisions of S.B. 1828 as introduced ([JLBC Budget Bills As Introduced](#)).

Provisions

Individual Income Tax

1. Directs, by September 30, 2022, the Director of the Joint Legislative Budget Committee (JLBC) and the Director of the Governor's Office of Strategic Planning and Budgeting (OSP) to notify the Arizona Department of Revenue (ADOR) whether the FY 2022 state GF revenue was \$12,782,800,000 or more (FY 2022 revenue notice).
2. Directs, by September 30, 2023, and by September 30 annually until a state GF threshold notice is provided to ADOR, the Director of JLBC and the Director of OSPB to notify ADOR whether the previous FY's state GF revenue was either:
 - a) between \$12,782,800,000 and \$12,976,300,000 (stage one revenue notice); or
 - b) \$12,976,300,000 or more (stage two revenue notice).
3. Establishes new individual income tax brackets for TYs beginning January 1, 2022, through December 31 of the year the FY 2022 revenue notice or the stage one revenue notice is received:

Single or Married Filing Separately		Married Couple or Head of Household	
Taxable Income	Tax	Taxable Income	Tax
\$0 - \$27,272	2.55% of taxable income	\$0 - \$54,544	2.55% of taxable income
\$27,273 and over	\$695, plus 2.98% of the amount over \$27,272	\$54,545 and over	\$1,391, plus 2.98% of the amount over \$54,544

4. Requires ADOR, on receipt of the FY 2022 revenue notice or the stage one revenue notice, to use the following tax rates beginning January 1 of the following TY, until ADOR receives the stage two revenue notice:

Single or Married Filing Separately		Married Couple or Head of Household	
Taxable Income	Tax	Taxable Income	Tax
\$0 - \$27,272	2.53% of taxable income	\$0 - \$54,544	2.53% of taxable income
\$27,273 and over	\$690, plus 2.75% of the amount over \$27,272	\$54,545 and over	\$1,380, plus 2.75% of the amount over \$54,544

5. Requires ADOR, beginning January 1 of the TY following the receipt of the stage two revenue notice, to use a 2.5 percent flat tax rate.
6. Stipulates that the stage one revenue notice is not required if the FY 2022 revenue notice was provided by September 30, 2022.
7. Requires the Director of JLBC and the Director of the OSPB to notify ADOR of the stage one revenue notice and the stage two revenue notice only on the first occurrence of each threshold being met.
8. Directs ADOR, for TYs beginning January 1, 2022, to adjust the income dollar amount to the nearest whole dollar for each rate bracket according to the average annual change in the Metropolitan Phoenix Consumer Price Index (CPI).
9. Prohibits the income dollar amounts for each rate bracket from being revised below the amounts prescribed in the prior TY.
10. Requires, for TYs beginning January 1, 2021, the full amount of benefits, annuities and pensions received as retired or retainer pay of the uniformed services of the United States to be subtracted from an individual's Arizona gross income when computing Arizona AGI.
11. Requires ADOR, for TYs beginning January 1, 2022, to adjust the standard deduction increase of 25 percent of the charitable deductions that would have been allowed if the taxpayer had claimed itemized deductions, according to the average annual change in the metropolitan Phoenix CPI published by the U.S. Department of Labor, Bureau of Labor Statistics.
12. Requires the annually revised standard increase percentage to be raised to the nearest whole percent and prohibits the percentage from being revised below the amounts prescribed in the prior TY.
13. Prohibits the aggregate adjusted standard deduction increase percentage from exceeding 100 percent.
14. Specifies that the statutorily required estimated individual income tax payments only apply to individual's subject to the individual income tax.

URS Fund

12. Increases, beginning in FY 2024, the URS Fund annual distribution to 18 percent of the net proceeds of state income taxes, from 15 percent.

UI Benefits

15. Increases the maximum UI WBA from \$240 to \$320 on July 1, 2022.
16. Increases, from \$7,000 to \$8,000, the annual state unemployment tax taxable wages limit beginning in CY 2023.
17. Increases, beginning July 1, 2022, the income disregard from \$30 to \$160.
18. Reduces, from 26 weeks to 24 weeks effective July 1, 2022, the maximum number of weeks an individual may receive unemployment benefits when Arizona's unemployment rate is less than 5 percent in the prior calendar quarter.
19. Defines *unemployment rate in the prior calendar quarter* as the average of the seasonally adjusted unemployment rates for the three months of the most recently published calendar year quarter as published by the Office of Economic Opportunity.
20. Requires DES to ensure UI program integrity by:
 - a) obtaining current and actual employment and earned income information in real time via verification services from external data sources, including third-party vendors, as part of the verification process to determine UI benefit eligibility;
 - b) verifying the identity of individuals by incorporating an identity verification process that may include digital and physical identity authentication factors using external data sources, including third-party vendors; and
 - c) minimizing erroneous communications to employers generated from fraudulent claim applications.
21. Requires DES, by December 31, to annually report UI fraud details for the previous fiscal year to the Governor, the President of the Senate (President) and the Speaker of the House of Representatives (Speaker), including:
 - a) the number of fraudulent claims;
 - b) the total monies paid in fraudulent claims; and
 - c) the impact of fraud on employer contribution rates and experience ratings.

Assessed Valuation of Class 1 Property

22. Reduces the percentage of assessed valuation of class 1 property to:
 - a) 17.5 percent in CY 2022;
 - b) 17 percent in CY 2023;
 - c) 16.5 percent in CY 2024; and
 - d) 16 percent thereafter.

Homeowner's Property Tax Rebate

23. Increases, beginning January 1, 2022, the Homeowners Rebate percentage from 47.19 percent to 50 percent.

School Tuition Organizations

24. Increases, beginning in FY 2022 and retroactive to July 1, 2021, the aggregate dollar amount of the Credit for Contributions to STOs for Displaced or Disabled Students to \$6 million, from \$5 million.

25. Expands, retroactive to January 1, 2021, eligibility for educational scholarships and tuition grants awarded through the individual switcher STO credit or the corporate low-income STO credit by including a student who:
 - a) is homeschooled before enrolling in a qualified school;
 - b) moved to Arizona from out of state before enrolling in a qualified school; or
 - c) participated in an Arizona Empowerment Scholarship Account (ESA) and did not renew the ESA or accept the scholarship in order to accept an STO scholarship or tuition grant.
26. Increases, retroactive to January 1, 2021, the corporate low-income STO scholarship or tuition grant cap amount to:
 - a) \$5,600, from \$4,200, for students in a kindergarten program a preschool program that offers services to students with disabilities or grades 1 through 8; and
 - b) \$7,500, from \$6,900, for students in grades 9 through 12.
27. Increases, retroactive to January 1, 2021, the corporate low-income STO scholarship or tuition grant cap annual increase to \$200, rather than \$100.

Corporate Income Tax (Retroactive to January 1, 2021)

28. Requires, when computing a corporation's Arizona taxable income, the amount of monies or property received as a contribution in aid of construction to be subtracted from Arizona gross income with respect to a public service corporation operating a water system or sewage disposal facility.

Public School Extracurricular Activity Fees Tax Credit

29. Extends, from June 30, 2022, to June 30, 2024, the date that the following fees or contributions paid by a taxpayer may be included in the amount of the Public School Extracurricular Activity Fees Tax Credit:
 - a) the acquisition of outlined capital items;
 - b) community school meal programs;
 - c) student consumable health care supplies; and
 - d) playground equipment and shade structures for playground equipment.

Healthy Forest Production Tax Credit (Retroactive to January 1, 2021)

30. Allows a credit against individual and corporate income taxes, beginning in TY 2021, for processing qualifying forest products if the:
 - a) taxpayer has a current Healthy Forest Enterprise Incentive certification and memorandum of understanding with the Arizona Commerce Authority;
 - b) taxpayer processes *qualifying forest products* from a *qualifying project* in CYs 2021 through 2030; and
 - c) facility that processes the *qualifying forest products* is located in Arizona.
31. Bases the credit on the number of tons of qualifying forest products that a taxpayer processes during a CY and requires a taxpayer who files individual or corporate income taxes on a fiscal-year-basis to claim the credit on the return for the TY in which the CY ends.
32. Specifies that the taxpayer is eligible for the credit in the CY in which the qualifying project processes qualifying forest products.

33. Allows a taxpayer to carry forward any amount of the credit in excess of the taxpayer's income taxes for up to five consecutive TYs' income tax liability.
34. Sets the amount of the credit per CY, subject to maximum credit limits, at:
 - a) \$10,000 for the first 20,000 tons of qualifying forest products the taxpayer processes; and
 - b) \$5,000 for every 10,000 tons thereafter.
35. Limits the amount of the credit for a CY at \$500,000 per taxpayer who processes qualifying forest products and prohibits ADOR from authorizing an excess of \$2 million for any CY.
36. Allows co-owners of a facility that processes qualifying forest products, including partners in a partnership and shareholders of an S corporation, to claim the pro rata share based on ownership interest and caps the total allowed to co-owners at the amount allowed for a sole owner.
37. Requires, in order to be eligible for the credit, a taxpayer to apply to ADOR on a standard ADOR-prescribed form for certification.
38. Directs ADOR to accept applications from January 2 through January 31 of the year following the CY for which the credit is requested.
39. Requires the credit application to include:
 - a) the taxpayer's name and address;
 - b) the taxpayer's social security number or federal employer identification number;
 - c) the location of the taxpayer's facility that processes qualifying forest products for which the credit is claimed;
 - d) the amount of the credit that is claimed;
 - e) the date the taxpayer began processing commercially marketable amounts of qualifying forest products; and
 - f) any additional information required by ADOR.
40. Directs ADOR to review each application and certify the authorized credit amount to the taxpayer.
41. Distributes the credits on a first-come, first-served basis.
42. Directs ADOR to add the name of a first-time qualifying applicant to a credit authorization list in the order in which qualified applications are first received and requires the taxpayer's position on the authorization list to be determined in the first year of application.
43. Requires a taxpayer's determined position on the credit authorization list to remain unchanged for the remainder of the credit eligibility timeframe or until a year in which the taxpayer fails to submit a timely application or otherwise is in noncompliance with application requirements.
44. Allows a taxpayer who is removed from the credit authorization list to establish a new position in a subsequent year by filing a timely qualified application.
45. Prohibits ADOR from authorizing any additional credits in excess of the \$2 million limit, even if certified amounts were unclaimed or a taxpayer fails to meet claim requirements.

46. Requires ADOR to grant only the remaining credit amount, if granting the full amount on the authorized application would cause the aggregate to exceed the \$2 million limit, and requires ADOR to deny subsequent applications received for that CY.
47. Requires ADOR to adopt rules and to publish and prescribe necessary forms and procedures to effectuate the credit.
48. Requires the Joint Legislative Income Tax Credit Review Committee to review the credit in CYs ending in one and six.
49. Defines *processed* or *processing* as any change in the physical structure of qualifying forest products removed from a qualifying project into a marketable commercial product or component of a product that has commercial value to a consumer or purchaser and that is ready to be used with or without further altering its form.
50. Defines *qualifying forest products* as qualifying forest products that satisfy the statutory definition for the Healthy Forest Incentives Program that are sourced within Arizona.
51. Defines *qualifying project* as a project that satisfies the statutory definition for the Healthy Forest Incentives Program.

Renewable Energy Production Tax Credit (Retroactive to January 1, 2021)

52. Requires, to be eligible for the Renewable Energy Production Tax Credit for CY 2021, a taxpayer to apply to ADOR before February 7 of the year following the CY for which the credit is being requested.

Fire District Board Tax Levy

53. 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 per \$100 of assessed valuation in TY 2022; and
 - b) \$3.50 per \$100 of assessed valuation in TY 2023 and thereafter.

TPT and Use Tax (Retroactive to January 1, 2016)

54. Adds containment structures to the included pollution prevention, monitoring, control and land reduction machinery and equipment that must be deducted from the tax base for the retail classification of TPT.
55. Adds containment structures to the included pollution prevention, monitoring, control and land reduction machinery and equipment that is exempt from use tax.
56. Requires a claim for refund of TPT or use tax based on the retroactive application of the TPT deduction and the use tax exemption to ADOR by December 31, 2021, and outlines the following refund claim guidelines:
 - a) failure to file a claim by the deadline constitutes a waiver of the claim for refund;
 - b) the maximum aggregate amount of refunds for claims filed from January 1, 2021, through December 31, 2021, is \$10,000;
 - c) if the aggregate amount of claims exceeds \$10,000, ADOR will reduce each claim proportionately so the total refund amount is \$10,000;

- d) interest is not allowed or compounded on any refundable amount of claims paid before July 1, 2022;
- e) if a refundable amount cannot be determined or paid until after June 30, 2022, interest accrues after that date; and
- f) the \$10,000 aggregate refund amount does not apply to refund claims filed before January 1, 2021, or refund claims that are not in connection with the exemption.

Miscellaneous

- 57. Defines, for TY 2021, *qualifying foster care charitable organization* and *qualified individual* for the purposes of the Tax Credit for Contributions to Qualifying Foster Care Charitable Organizations.
- 58. Contains a technical conditional enactment.
- 59. Contains a purpose statement.
- 60. Defines terms.
- 61. Makes technical and conforming changes.
- 62. Becomes effective on the general effective date, with retroactive provisions and a delayed effective date as noted.

Amendments Adopted by Committee of the Whole

- 1. Outlines requirements for the FY 2022 revenue notice, the stage one revenue notice and the stage two revenue notice.
- 2. Replaces, for TYs beginning January 1, 2022, through December 31 of the year the FY 2022 revenue notice or the stage one revenue notice is received, the modified individual income tax bracket with the following:

Single or Married Filing Separately		Married Couple or Head of Household	
Taxable Income	Tax	Taxable Income	Tax
\$0 - \$27,272	2.55% of taxable income	\$0 - \$54,544	2.55% of taxable income
\$27,273 and over	\$695, plus 2.98% of the amount over \$27,272	\$54,545 and over	\$1,391, plus 2.98% of the amount over \$54,544

- 3. Requires ADOR, on receipt of the FY 2022 revenue notice or the stage one revenue notice, to use the following tax rates beginning January 1 of the following TY:

Single or Married Filing Separately		Married Couple or Head of Household	
Taxable Income	Tax	Taxable Income	Tax
\$0 - \$27,272	2.53% of taxable income	\$0 - \$54,544	2.53% of taxable income
\$27,273 and over	\$690, plus 2.75% of the amount over \$27,272	\$54,545 and over	\$1,380, plus 2.75% of the amount over \$54,544

4. Requires ADOR, beginning January 1 of the TY following the receipt of the stage two revenue notice, to use the 2.5 percent flat tax rate.
5. Directs ADOR, for TYs beginning January 1, 2022, to adjust the income dollar amount to the nearest whole dollar for each rate bracket according to the average annual change in the Metropolitan Phoenix CPI.
6. Removes the combined individual income tax rate cap of 4.5 percent on an individual's taxable income.
7. Removes ADOR's rulemaking authority and one-year exemption for the administration of the combined tax rate cap.
8. Increases, beginning in FY 2024, the URS Fund annual distribution to 18 percent of the net proceeds of state income taxes, from 15 percent, and removes the Revenue Sharing Stabilization Fund.
9. Removes the FY 2024 supplemental allocation to the URS Fund.
10. Delays, until July 1, 2022, the increase to the income disregard and the reduction of the maximum number of weeks an individual may receive UI benefits.
11. Removes the conditional enactment for the provisions relating to UI benefits.
12. Removes the Dependent Tax Credit increase.
13. Removes the Affordable Housing Premium Tax Credit and the individual and corporate Affordable Housing Tax Credits.
14. Removes the extension and modification of the Credit for Investment in Qualified Small Businesses.
15. Reduces the percentage of assessed valuation of class 1 property to 16 percent.
16. Modifies the income tax subtraction for contributions in aid of construction.
17. Defines, for TY 2021, *qualifying foster care charitable organization* and *qualified individual* for the purposes of the Tax Credit for Contributions to Qualifying Foster Care Charitable Organizations.
18. Defines terms.
19. Makes technical and conforming changes.

Senate Action

APPROP 5/25/21 DP 6-3-2

Prepared by Senate Research

June 22, 2021

MG/gs