

REFERENCE TITLE: **income tax; credit; labor costs**

State of Arizona
Senate
Fifty-sixth Legislature
Second Regular Session
2024

SB 1213

Introduced by
Senator Rogers

AN ACT

AMENDING SECTIONS 43-206 AND 43-222, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1079; AMENDING TITLE 43, CHAPTER 11, ARTICLE 6, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1166; RELATING TO THE TAXATION OF INCOME.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 43-206, Arizona Revised Statutes, is amended to
3 read:

4 43-206. Urban revenue sharing fund; allocation; distribution;
5 withholding

6 A. The urban revenue sharing fund is established. Through fiscal
7 year 2022-2023, the fund consists of an amount equal to fifteen percent of
8 the net proceeds of the state income taxes for the fiscal year two years
9 preceding the current fiscal year. Beginning in fiscal year 2023-2024,
10 the fund consists of an amount equal to eighteen percent of the net
11 proceeds of the state income taxes for the fiscal year two years preceding
12 the current fiscal year. The fund shall be distributed to incorporated
13 cities and towns as provided in this section, except that a city or town
14 shall receive at least an amount equal to what a city or town with a
15 population of fifteen hundred or more persons would receive. The transfer
16 of net proceeds prescribed by section 49-282, subsection B does not affect
17 the calculation of net proceeds prescribed by this subsection.

18 B. Each city or town shall share in the urban revenue sharing fund
19 in the proportion that the population of each bears to the population of
20 all. Except as provided by sections 42-5033 and 42-5033.01, the
21 population of a city or town as determined by the most recent United
22 States decennial census plus any revisions to the decennial census
23 certified by the United States CENSUS bureau ~~of the census~~ shall be used
24 as the basis for apportioning monies pursuant to this subsection.

25 C. The treasurer, on instruction from the department, shall
26 transmit, not later than the tenth day of each month, to each city or town
27 an amount equal to one-twelfth of that city's or town's total entitlement
28 for the current fiscal year from the urban revenue sharing fund as
29 determined by the department.

30 D. A newly incorporated city or town shall share in the urban
31 revenue sharing fund beginning the first month of the first full fiscal
32 year following incorporation.

33 E. On receipt of a certificate of default from the greater Arizona
34 development authority pursuant to section 41-2257 or 41-2258, the state
35 treasurer, to the extent not otherwise expressly prohibited by law, shall
36 withhold from the next succeeding distribution of monies pursuant to this
37 section due to the city or town the amount specified in the certificate of
38 default and immediately deposit the amount withheld in the greater Arizona
39 development authority revolving fund. The state treasurer shall continue
40 to withhold and deposit the monies until the authority certifies to the
41 state treasurer that the default has been cured. The state treasurer may
42 not withhold any amount that is necessary, as certified by the defaulting
43 political subdivision to the state treasurer and the authority, to make
44 any required deposits then due for the payment of principal and interest
45 on bonds of the political subdivision that were issued before the date of

1 the loan repayment agreement or bonds and that have been secured by a
2 pledge of distributions made pursuant to this section.

3 F. Except as otherwise provided by this subsection, on notice from
4 the attorney general pursuant to section 41-194.01, subsection B,
5 paragraph 1 that an ordinance, regulation, order or other official action
6 adopted or taken by the governing body of a city or town violates state
7 law or the Constitution of Arizona, the state treasurer shall withhold the
8 distribution of monies pursuant to this section to the affected city or
9 town and shall continue to withhold monies pursuant to this subsection
10 until the attorney general certifies to the state treasurer that the
11 violation has been resolved. The state treasurer shall redistribute the
12 monies withheld pursuant to this subsection among all other cities and
13 towns in proportion to their population as provided by subsection B of
14 this section. The state treasurer shall not withhold any amount that the
15 city or town certifies to the attorney general and the state treasurer as
16 being necessary to make any required deposits or payments for debt service
17 on bonds or other long-term obligations of the city or town that were
18 issued or incurred before committing the violation.

19 G. ON NOTICE FROM THE DEPARTMENT PURSUANT TO SECTION 43-1079 OR
20 43-1166, EACH MONTH THE STATE TREASURER SHALL WITHHOLD FROM A CITY OR TOWN
21 AN AMOUNT EQUAL TO ONE-TWELFTH OF THE TOTAL AMOUNT OF TAX CREDITS CLAIMED
22 UNDER SECTIONS 43-1079 AND 43-1166 FOR THE PRIOR TAXABLE YEAR BY TAXPAYERS
23 LOCATED IN THAT CITY OR TOWN UP TO \$5,000,000 FROM THAT CITY'S OR TOWN'S
24 DISTRIBUTION OF MONIES PURSUANT TO THIS SECTION AND DEPOSIT THAT AMOUNT IN
25 THE STATE GENERAL FUND. THE STATE TREASURER SHALL NOT WITHHOLD ANY AMOUNT
26 THAT THE CITY OR TOWN CERTIFIES TO THE DEPARTMENT AND THE STATE TREASURER
27 AS BEING NECESSARY TO MAKE ANY REQUIRED DEPOSITS OR PAYMENTS FOR DEBT
28 SERVICE ON BONDS OR OTHER LONG-TERM OBLIGATIONS OF THE CITY OR TOWN THAT
29 WERE ISSUED OR INCURRED BY A PLEDGE OF DISTRIBUTIONS MADE PURSUANT TO THIS
30 SECTION.

31 Sec. 2. Section 43-222, Arizona Revised Statutes, is amended to
32 read:

33 43-222. Income tax credit review schedule

34 The joint legislative income tax credit review committee shall
35 review the following income tax credits:

36 1. For years ending in 0 and 5, sections 43-1079.01, 43-1088,
37 43-1089.04, 43-1167.01 and 43-1175.

38 2. For years ending in 1 and 6, sections 43-1072.02, 43-1074.02,
39 43-1075, 43-1076.01, 43-1077, 43-1078, 43-1083, 43-1083.02, 43-1162,
40 43-1164.03 and 43-1183.

41 3. For years ending in 2 and 7, sections 43-1073, 43-1082, 43-1085,
42 43-1086, 43-1089, 43-1089.01, 43-1089.02, 43-1089.03, 43-1164,
43 43-1165, and 43-1181.

44 4. For years ending in 3 and 8, sections 43-1074.01, 43-1079,
45 43-1166, 43-1168, 43-1170 and 43-1178.

1 5. For years ending in 4 and 9, sections 43-1073.01, 43-1081.01,
2 43-1083.03, 43-1084, 43-1164.04, 43-1164.05 and 43-1184.

3 Sec. 3. Title 43, chapter 10, article 5, Arizona Revised Statutes,
4 is amended by adding section 43-1079, to read:

5 43-1079. Credit for increased hourly labor costs; definitions

6 A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024, A
7 CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR A PORTION OF
8 A TAXPAYER'S INCREASED HOURLY LABOR COSTS THAT RESULTS FROM PAYING A LOCAL
9 MINIMUM WAGE THAT IS MORE THAN THE STATE MINIMUM WAGE.

10 B. THE AMOUNT OF THE CREDIT IS FIVE PERCENT OF THE DIFFERENCE
11 BETWEEN THE AMOUNT OF HOURLY LABOR COSTS THE EMPLOYER ACTUALLY PAID DURING
12 THE TAXABLE YEAR AND THE PRODUCT OF THE TOTAL NUMBER OF HOURS WORKED BY
13 ALL EMPLOYEES DURING THE TAXABLE YEAR MULTIPLIED BY THE STATE MINIMUM
14 WAGE.

15 C. TO QUALIFY FOR A CREDIT UNDER THIS SECTION, THE EMPLOYER SHALL:

16 1. EMPLOY EMPLOYEES WHO WORK IN A CITY OR TOWN THAT HAS ADOPTED A
17 LOCAL MINIMUM WAGE.

18 2. CERTIFY TO THE DEPARTMENT, ON A FORM PRESCRIBED BY THE
19 DEPARTMENT, THE AMOUNT OF HOURLY LABOR COSTS THE EMPLOYER ACTUALLY PAID
20 DURING THE TAXABLE YEAR AND THE PRODUCT OF THE TOTAL NUMBER OF HOURS
21 WORKED BY ALL EMPLOYEES DURING THE TAXABLE YEAR MULTIPLIED BY THE STATE
22 MINIMUM WAGE.

23 D. IF THE ALLOWABLE TAX CREDIT EXCEEDS THE INCOME TAXES OTHERWISE
24 DUE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO TAXES DUE UNDER THIS
25 TITLE, THE AMOUNT OF THE CLAIM NOT USED TO OFFSET TAXES UNDER THIS TITLE
26 MAY BE CARRIED FORWARD FOR NOT MORE THAN FIVE CONSECUTIVE TAXABLE YEARS AS
27 A CREDIT AGAINST SUBSEQUENT YEARS' INCOME TAX LIABILITY.

28 E. CO-OWNERS OF A BUSINESS, INCLUDING PARTNERS IN A PARTNERSHIP AND
29 SHAREHOLDERS OF AN S CORPORATION AS DEFINED IN SECTION 1361 OF THE
30 INTERNAL REVENUE CODE, MAY EACH CLAIM ONLY THE PRO RATA SHARE OF THE
31 CREDIT ALLOWED UNDER THIS SECTION BASED ON THE OWNERSHIP INTEREST. THE
32 TOTAL OF THE CREDITS ALLOWED ALL SUCH OWNERS MAY NOT EXCEED THE AMOUNT
33 THAT WOULD HAVE BEEN ALLOWED A SOLE OWNER.

34 F. ON OR BEFORE THE BEGINNING OF EACH FISCAL YEAR, THE DEPARTMENT
35 SHALL NOTIFY THE STATE TREASURER OF EACH CITY OR TOWN IN WHICH AN EMPLOYEE
36 OF A TAXPAYER WHO CLAIMED A CREDIT UNDER THIS SECTION WORKS AND THE TOTAL
37 AMOUNT TO WITHHOLD FROM THAT CITY'S OR TOWN'S URBAN REVENUE SHARING
38 DISTRIBUTION UNDER SECTION 43-206 OVER THE COURSE OF THAT FISCAL YEAR TO
39 REIMBURSE THIS STATE FOR THE AMOUNT OF TAX CREDITS CLAIMED UNDER THIS
40 SECTION FOR THE TAXABLE YEAR.

1 G. FOR THE PURPOSES OF THIS SECTION:
2 1. "LOCAL MINIMUM WAGE" MEANS A MINIMUM WAGE ESTABLISHED BY A CITY
3 OR TOWN PURSUANT TO SECTION 23-364, SUBSECTION I THAT IS MORE THAN THE
4 STATE MINIMUM WAGE.
5 2. "STATE MINIMUM WAGE" MEANS THE MINIMUM WAGE ESTABLISHED BY THIS
6 STATE PURSUANT TO SECTION 23-363.
7 Sec. 4. Title 43, chapter 11, article 6, Arizona Revised Statutes,
8 is amended by adding section 43-1166, to read:
9 43-1166. Credit for increased hourly labor costs; definitions
10 A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024, A
11 CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR A PORTION OF
12 A TAXPAYER'S INCREASED HOURLY LABOR COSTS THAT RESULTS FROM PAYING
13 EMPLOYEES A LOCAL MINIMUM WAGE THAT IS MORE THAN THE STATE MINIMUM WAGE.
14 B. THE AMOUNT OF THE CREDIT IS FIVE PERCENT OF THE DIFFERENCE
15 BETWEEN THE AMOUNT OF HOURLY LABOR COSTS THE EMPLOYER ACTUALLY PAID DURING
16 THE TAXABLE YEAR AND THE PRODUCT OF THE TOTAL NUMBER OF HOURS WORKED BY
17 ALL EMPLOYEES DURING THE TAXABLE YEAR MULTIPLIED BY THE STATE MINIMUM
18 WAGE.
19 C. TO QUALIFY FOR A CREDIT UNDER THIS SECTION, THE EMPLOYER SHALL:
20 1. EMPLOY EMPLOYEES WHO WORK IN A CITY OR TOWN THAT HAS ADOPTED A
21 LOCAL MINIMUM WAGE.
22 2. CERTIFY TO THE DEPARTMENT, ON A FORM PRESCRIBED BY THE
23 DEPARTMENT, THE AMOUNT OF HOURLY LABOR COSTS THE EMPLOYER ACTUALLY PAID
24 DURING THE TAXABLE YEAR AND THE PRODUCT OF THE TOTAL NUMBER OF HOURS
25 WORKED BY ALL EMPLOYEES DURING THE TAXABLE YEAR MULTIPLIED BY THE STATE
26 MINIMUM WAGE.
27 D. IF THE ALLOWABLE TAX CREDIT EXCEEDS THE INCOME TAXES OTHERWISE
28 DUE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO TAXES DUE UNDER THIS
29 TITLE, THE AMOUNT OF THE CLAIM NOT USED TO OFFSET TAXES UNDER THIS TITLE
30 MAY BE CARRIED FORWARD FOR NOT MORE THAN FIVE CONSECUTIVE TAXABLE YEARS AS
31 A CREDIT AGAINST SUBSEQUENT YEARS' INCOME TAX LIABILITY.
32 E. CO-OWNERS OF A BUSINESS, INCLUDING PARTNERS IN A PARTNERSHIP,
33 MAY EACH CLAIM ONLY THE PRO RATA SHARE OF THE CREDIT ALLOWED UNDER THIS
34 SECTION BASED ON THE OWNERSHIP INTEREST. THE TOTAL OF THE CREDITS ALLOWED
35 ALL SUCH OWNERS MAY NOT EXCEED THE AMOUNT THAT WOULD HAVE BEEN ALLOWED A
36 SOLE OWNER.
37 F. ON OR BEFORE THE BEGINNING OF EACH FISCAL YEAR, THE DEPARTMENT
38 SHALL NOTIFY THE STATE TREASURER OF EACH CITY OR TOWN IN WHICH AN EMPLOYEE
39 OF A TAXPAYER THAT CLAIMED A CREDIT UNDER THIS SECTION WORKS AND THE TOTAL
40 AMOUNT TO WITHHOLD FROM THAT CITY'S OR TOWN'S URBAN REVENUE SHARING
41 DISTRIBUTION UNDER SECTION 43-206 OVER THE COURSE OF THAT FISCAL YEAR TO
42 REIMBURSE THIS STATE FOR THE AMOUNT OF TAX CREDITS CLAIMED UNDER THIS
43 SECTION FOR THE TAXABLE YEAR.

1 G. FOR THE PURPOSES OF THIS SECTION:

2 1. "LOCAL MINIMUM WAGE" MEANS A MINIMUM WAGE ESTABLISHED BY A CITY
3 OR TOWN PURSUANT TO SECTION 23-364, SUBSECTION I THAT IS MORE THAN THE
4 STATE MINIMUM WAGE.

5 2. "STATE MINIMUM WAGE" MEANS THE MINIMUM WAGE ESTABLISHED BY THIS
6 STATE PURSUANT TO SECTION 23-363.

7 Sec. 5. Purpose

8 Pursuant to section 43-223, Arizona Revised Statutes, the
9 legislature enacts sections 43-1079 and 43-1166, Arizona Revised Statutes,
10 as added by this act, to provide relief for businesses that are affected
11 by burdensome local minimum wage increases.