STATE OF ARIZONA

2024
Tax Handbook

Prepared by the Staff
of the Joint Legislative Budget Committee

CONTENTS

Contents

OTHER FUNDS

PAYMENTS IN LIEU OF PROPERTY TAXES

HIGHWAY USER TAXES/FEES

OTHER FUND REVENUE SOURCES

Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007
Phone: (602) 926-5491
Email: jlbcwebmaster@azleg.gov
JLBC Website: http://www.azjlbc.gov
November 2024

FOREWORD

The *2024 Tax Handbook* provides a description of each state tax and certain other revenue categories. The Handbook also includes a 20-year history of the collections and distributions for each revenue category, as well as summaries of all statutory revisions between the 2018 and 2024 legislative sessions. A listing of statutory changes prior to the 2018 legislative session is available on the Joint Legislative Budget Committee (JLBC) website located at https://www.azjlbc.gov/revenues/24taxbk.pdf. Appendix D provides the estimated dollar value of individual tax law changes enacted by the Legislature since FY 1989.

The Tax Handbook includes tables that provide the estimated impact of tax credits and exemptions to the Sales Tax, Individual Income Tax, Corporate Income Tax, and Insurance Premium Tax sections. These tables were prepared by the Office of Economic Research and Analysis at the Arizona Department of Revenue.

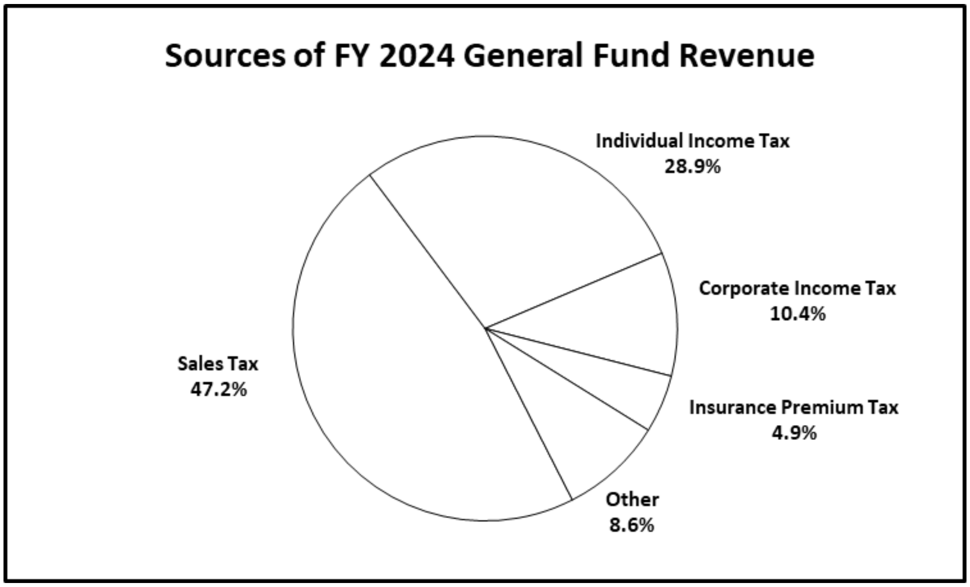
Each entry in the Tax Handbook includes the following sections (where applicable):

- 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 – a description of who is legally responsible for the payment of the tax or fee.
- Revenue 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 Statutory Changes – includes statutory changes from 2018 through 2024. As noted above, statutory changes prior to 2018 are available on the JLBC website.

OVERVIEW OF ARIZONA TAXES

The revenues from Arizona's different taxes are deposited in a number of funds. The largest fund is the General Fund. In FY 2024, ongoing General Fund revenue was $16.8 billion. This amount excludes urban revenue sharing and one-time revenue adjustments.

While revenues from numerous taxes are deposited in the General Fund, 4 taxes constitute the bulk of General Fund collections: sales tax, individual income tax, corporate income tax, and insurance premium tax. In FY 2024, these 4 taxes represented 91.4% of ongoing General Fund revenue. As shown in the chart below, the largest category in FY 2024 was the sales tax, which represented 47.2% of General Fund revenue collections. The individual income tax, corporate income tax, and insurance premium tax represented 28.9%, 10.4%, and 4.9% respectively, of General Fund revenue.



The state levies many other taxes, fees, and assessments. Some of the other taxes generate sizable amounts of revenue, but their collections are not deposited in the General Fund. For example, the motor vehicle fuel tax generated $552 million in FY 2024 and the unemployment insurance tax generated $395 million. However, these 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. Additionally, it shows the amount of revenue collections and tax distributions by fund.

SALES AND USE TAXES

TRANSACTION PRIVILEGE TAX

DESCRIPTION

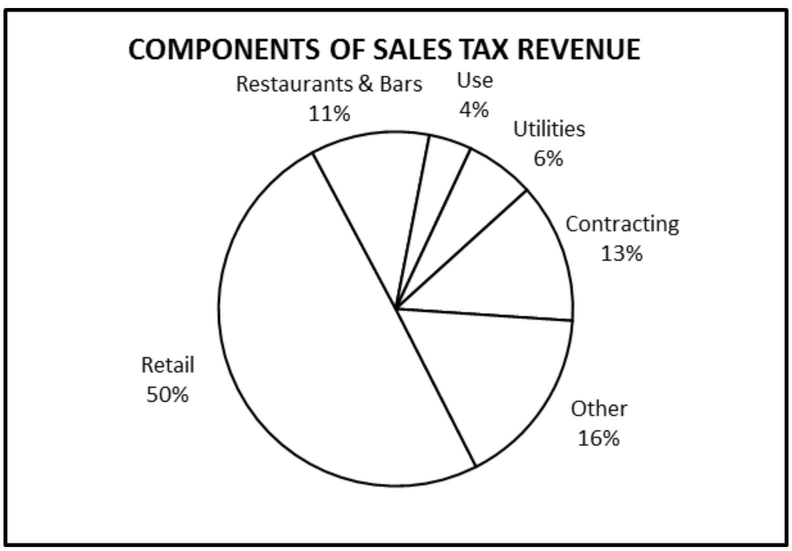
The transaction privilege tax (TPT) is a gross receipts tax levied by the State of Arizona on certain persons for the privilege of conducting business in the state. Although TPT is commonly referred to as Arizona's sales tax, it differs from the "true" sales tax imposed by many other states as it is imposed upon the seller rather than the buyer of the taxable item. Although the seller may pass the burden of the tax onto the buyer, the seller is the party that remains ultimately liable to the state for the tax.

TPT is currently imposed under 16 separate business classifications: retail, transporting, utilities, telecommunications, publication, job printing, pipeline, private car line, commercial lease, transient lodging, personal property rental, mining, amusement, restaurant, prime contracting, and online lodging marketplace. The state tax rates for the various classifications are as follows: 5.5% for the transient lodging (hotel/motel) and online lodging marketplace classification, 3.125% for the mining classification, 0% for the commercial lease (rental of real property for commercial use) classification, and 5.6% for all other TPT classifications. (Note that Laws 1993, 2nd Special Session, Chapter 9 reduced the state TPT rate on commercial leases to 0%, beginning in FY 1998.)

TPT is imposed on the total gross receipts of taxable businesses, with the exception for prime contractors, who are taxed at 65% of their gross receipts. As of January 1, 2015, prime contractors are not subject to tax on the gross receipts from contracts for the maintenance, repair, replacement, or alteration (MRRA) of real property if such contracts do not include modification activity.

All gross receipts are subject to tax (under one of the 16 TPT classifications) unless specifically exempted or excluded by statute. Exemptions and deductions under one TPT classification cannot be used under another classification unless specifically provided by law.

Chart 1 illustrates the relative importance of the major TPT categories. Retail is the largest TPT category and comprised 50% of total state sales tax collections in FY 2024. Other large categories are prime contracting, restaurants and bars, utilities, and use tax.



TPT is the state's largest revenue source, representing 47.2% of total General Fund revenues in FY 2024. 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 the *Distribution* section below.

In November 2000, voters approved Proposition 301, which authorized the state to levy an additional 0.6% sales tax exclusively dedicated to education through June 30, 2021. The 0.6% education tax is not subject to the regular TPT distribution. As a result of Proposition 301, the general state TPT rate was increased from 5.0% to 5.6%, beginning in June 2001. Since the 0.6% cent Proposition 301 expired at the end of FY 2021, Laws 2018, Chapter 74 extended the tax to June 30, 2041 through a state statute rather than by the ballot. Chapter 74 slightly revised the distribution formula for the funds. The 0.6% education tax generated $1.2 billion in FY 2024.

From June 2010 through May 2013, the state levied an additional 1.0% tax exclusively for public primary and secondary education, health and human services, and public safety. The 3-year 1.0% tax, which was approved by voters in May 2010 and commonly known as Proposition 100, was not subject to the regular TPT distribution. Proposition 100 increased the state TPT rate from 5.6% to 6.6% from June 2010 through May 2013. In June 2013, the state TPT rate returned to 5.6%. The temporary 1.0% tax generated $864 million in FY 2011, $916 million in FY 2012, and $962 million in FY 2013.

Of the state's 15 counties, all but 1 (Maricopa) are authorized by statute to impose a general excise tax. All sales subject to state TPT are also subject to the applicable county general excise tax. By statute, the county general excise tax cannot exceed 10% of the regular state TPT rate. Subject to voter approval, any county may levy a transportation excise tax. Other county excise tax options are: jail tax, capital projects tax, and tax on county judgment bonds.

There are 3 statutes that authorize county governments to levy a transportation excise tax. All such statutes provide the allowed amount as a percentage of the state TPT rate (which is 5%) and require county voters to approve any taxes.

A.R.S. § 42-6105 permits a transportation excise tax of up to 0.5% to be levied within Maricopa County. Following the voter approval of Proposition 300 in 1985, the 0.5% Maricopa transportation sales tax first went into effect from January 1, 1986 to December 31, 2005. In November 2004, Maricopa County voters approved Proposition 400, which authorized the continuation of the 0.5% excise tax for another 20 years, from January 1, 2006 to December 31, 2025. Laws 2023, Chapter 203 requires Maricopa County to hold a countywide election at least one year before the existing transportation tax under A.R.S. § 42-6105 expires on December 31, 2025. This measure, which is referred to as Proposition 479, is on the ballot for the November 5, 2024 General Election in Maricopa County. If approved by voters, Proposition 479 will authorize (under A.R.S. § 42-6105.01) the imposition of a 0.5% transportation excise tax for a period of 20 years (from January 1, 2026 to December 31, 2045).

A.R.S. § 42-6106 permits the Regional Transportation Authority (RTA) of any county other than Maricopa to levy a transportation excise tax of up to 0.5%.

A.R.S. § 42-6107 permits counties to levy an additional 0.5% in transportation excise taxes. These collections, however, must be deposited pursuant to A.R.S. § 28-6397, which is restricted to counties with populations of 400,000 or less. Maricopa and Pima counties, therefore, are not able to levy the additional 0.5% under this provision.

Laws 2019, Chapter 50 amends A.R.S. § 42-6106 to permit the RTA of any county other than Maricopa to levy a tax rate of up to 20% of the state TPT rate, or 1.0%. As noted above, the 1.0% rate cap includes levies under both A.R.S. § 42-6106 and A.R.S. § 42-6107. Because all counties other than Maricopa and Pima already can levy a rate of up to 1.0% (0.5% under A.R.S. § 42-6106 plus 0.5% under A.R.S. § 42-6107) and A.R.S. § 42-6106 excludes Maricopa County, Chapter 50 only affects Pima County.

Unlike the county general excise tax, the imposition of Arizona city transaction privilege taxes is separate and distinct from the imposition of state TPT. Instead, cities in Arizona use the Model City Tax Code (MCTC) as the basis for imposing their privilege taxes. MCTC is a uniform sales and use tax act that has been adopted by most cities in Arizona. Although MCTC is intended to facilitate tax base uniformity among cities, the code authorizes cities to exempt or tax certain items that are not part of the standard or "model" language of the code.

DISTRIBUTION

TPT 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 (DOR) 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 sales tax revenues are credited to a clearing account. A portion of transaction privilege and severance taxes referred to as the distribution base is designated for distribution to counties, cities, and other purposes pursuant to A.R.S. § 42-5029(D)(4). (The allocation of distribution base monies to special purposes is described on the following pages.) After the required distributions to counties, cities, and other special purposes, remaining distribution base monies are credited to the General Fund (see *Table 1 and Table 4*). The portion of sales tax revenues (non-shared) not designated to the distribution base is directly credited to the General Fund.

As previously mentioned, revenues collected from the 1.0% tax under Proposition 100 were not distributed to counties and municipalities, nor other government entities. Two-thirds of the additional revenue from the 1.0% tax was appropriated to public primary and secondary education and the remaining one-third was appropriated to both health and human services and public safety.

Revenues collected from the 0.6% tax go directly toward education programs. For a more extensive discussion of the specific uses of education tax revenues, please refer to the Department of Education – Basic State Aid Formula Summary section of the *FY 2025 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 census [A.R.S. § 42-5029(I)], special census [A.R.S. § 42-5033], or the most recent annual population estimates by the U.S. Census Bureau [A.R.S. § 42-5033.01].

- 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. (General Fund retains the distribution base monies that remain after the required allocations and appropriations.)

In total, the counties receive 40.51% of distribution base revenues. The amount that each county receives is determined by the following calculations:

1. 38.08% of the total TPT distribution base is calculated.

2. 2.43% of the total TPT distribution base is calculated.

3. Each county's share of the 38.08% portion of the TPT distribution base is calculated using an average of percent of total point-of-sale and percent of total net assessed valuation for secondary property taxes.

4. Each county's share of the 38.08% portion of the TPT distribution base is calculated using an average of percent of total point-of-sale and percent of total population based on the last U.S. decennial census [A.R.S. § 42-5029(I)], special census [A.R.S. § 42-5033], or an approved mid-decade population estimate [A.R.S. § 42-5033.01]. (For more details, see Laws 2016, Chapter 258.)

5. The shares that each county would receive under the 2 previous steps are compared, with the larger of the 2 amounts selected for each county. The "new" amounts are added for all 15 counties to determine the difference between this total and the sum of the 38.08% proportions. This difference is subtracted from the sum of the 2.43% proportions calculated in Step 2.

6. Any monies remaining from the 2.43% portion are distributed among all 15 counties based on Step 4's combined percentage. Add the amount for each county from this step to the total for each county from Step 5 to get the total amount to be distributed to each county for the month.

The remaining 34.49% of distribution base revenue is allocated to various purposes as provided by A.R.S. § 42-5029(D)(4), including expansion of the Phoenix Convention Center, school capital finance, multipurpose facilities, construction of a bridge and improvement of a highway at Phoenix International Raceway, the Tourism and Sports Authority (TSA) and certain public infrastructure improvements. The TSA's share of distribution base monies is equal to the amount of sales taxes collected at the State Farm Stadium. 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) Department of Revenue (DOR) receives monies sufficient to cover administrative expenses.
2) Department of Economic Security (DES) receives monies for the purposes stated in Title 46, Chapter 1 (public welfare, out-of-wedlock pregnancy prevention, and aging).
3) The Firearm Safety and Ranges Fund receives $50,000 derived from retail sales taxes collected during the current fiscal year.

Table 1

COLLECTIONS AND DISTRIBUTION 1/

Fiscal Year	General Fund	Cities	Counties	0.6% Education Tax 2/	Proposition 100 3/	Total
2024	$7,934,930,127	$891,605,795	$1,444,758,030	$1,201,510,590	$(800,025)	$11,472,004,517
2023	$7,677,375,071	$861,626,412	$1,396,179,438	$1,175,024,906	$198,351	$11,110,404,178
2022	$7,208,809,415	$809,915,154	$1,312,386,516	$1,077,801,508	$52,339	$10,408,964,932
2021	$6,243,506,106	$687,052,658	$1,113,300,127	$935,934,330	$142,456	$8,979,935,677
2020	$5,391,912,921	$589,351,732	$954,985,547	$808,452,299	$376,358	$7,745,078,857
2019	$5,096,751,256	$561,049,351	$909,124,368	$760,874,328	$128,605	$7,327,927,908
2018	$4,787,462,504	$528,094,832	$855,724,866	$712,903,811	$184,694	$6,884,370,707
2017	$4,506,407,358	$496,532,025	$804,580,493	$670,788,089	$(246,291)	$6,478,061,674
2016	$4,313,942,592	$476,773,305	$772,563,464	$645,012,218	$198,681	$6,208,490,260
2015	$4,189,263,497	$459,176,964	$744,050,353	$626,400,822	$1,760,338	$6,020,651,974
2014	$3,985,881,580	$437,628,967	$709,133,978	$601,853,602	$8,422,920	$5,742,921,047
2013	$3,778,863,746	$411,117,897	$666,175,440	$567,824,410	$962,171,977	$6,386,153,470
2012	$3,652,165,656	$392,475,912	$635,967,967	$542,394,529	$915,835,541	$6,138,839,605
2011	$3,448,016,988	$373,259,250	$604,829,288	$514,345,951	$864,501,708	$5,804,953,185
2010	$3,422,528,509	$356,997,763	$578,479,176	$513,589,704		$4,871,595,152
2009	$3,756,407,238	$387,050,618	$627,176,822	$558,899,709		$5,329,534,387
2008	$4,353,564,848	$447,060,657	$724,417,089	$645,827,821		$6,170,870,415
2007	$4,457,494,716	$462,037,141	$748,684,984	$666,184,022		$6,334,800,863
2006	$4,273,358,451	$439,120,139	$711,550,274	$628,471,192		$6,052,500,056
2005	$3,661,168,623	$376,212,970	$609,615,497	$538,346,435		$5,185,343,525

1/ 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. The table excludes funds distributed to multipurpose facility districts and other special distributions.

2/ The 0.6% education tax authorized by Proposition 301 expired on June 30, 2021. Laws 2018, Chapter 74 extended the 0.6% tax to June 30, 2041. The amount in this column includes both the 0.6% tax levied under Proposition 301 and Laws 2018, Chapter 74.

3/ Proposition 100 increased the sales tax rate by 1.0% from June 2010 to May 2013 exclusively for public primary and secondary education, health and human services, and public safety. A negative amount indicates that the amount of refunds exceeded the amount of collections.

Multipurpose Facility Districts

Laws 1997, Chapter 297 expanded existing legislation that authorized county stadium districts to include multipurpose facilities, defined as facilities located in the district to accommodate sporting, entertainment, cultural, civic, and convention events and meetings. The legislation also expanded the ability to form a district to 2 or more municipalities located within a county and authorized these districts to generate TPT revenue. If a district were to construct a facility, the state would divert one-half of the state TPT revenues generated at the facility from the General Fund to the district.

Laws 1999, Chapter 162 required the state to pay a county multipurpose facility district one-half of all the TPT revenue received each month from all persons doing business at a multipurpose facility or generated from the construction of a multipurpose facility. In no case are the monthly payments to exceed the net new revenues generated in a given month compared to the TPT revenues generated in the same month during the year prior to the vote authorizing the creation of the district. Payments were to begin when the district board of directors delivered to the State Treasurer a resolution requesting payment and would continue for 10 years after either the commencement or completion of the primary component of the facility, at the option of the district. Chapter 162 required that the publicly-owned components of the district cost at least $200 million to construct. The definition of a multipurpose facility was broadened to include secondary components such as parking lots and garages, on-site infrastructure, artistic components, public parks, plazas, and some commercial facilities. Chapter 162 was effective retroactively from July 1, 1998.

Rio Nuevo

In 1999, Tucson voters approved Proposition 400 authorizing the creation of a development area called the Rio Nuevo Multipurpose Facility District. This district, which receives a diversion of state TPT to finance the development of a multipurpose facility and supporting projects, stretches east from Downtown Tucson along the retail-intensive Broadway Corridor.

Background

Several pieces of legislation paved the way for the creation of the Rio Nuevo District. Laws 1990, Chapter 390 introduced the concept of a county stadium district, permitting Maricopa County to impose a 0.25% TPT for 3 years upon the award of a Major League Baseball franchise. These tax revenues could then be used to finance the construction of a stadium, either directly or by securing district bond obligations.

Laws 1997, Chapter 297, expanded the county stadium district concept to include multipurpose facilities located in the district such as those used for sporting, entertainment, cultural, civic, meeting or convention events. Laws 1999, Chapter 162 then increased the revenue payments to these districts by allowing them to retain the state's share of TPT from sales of secondary businesses that are deemed "necessary or beneficial" to the development of the primary component multipurpose facility. This law also limited TPT payments to the lesser of: (1) 50% of collections or (2) revenues net of those received prior to the year of the election authorizing the district. This method of permitting a local area to use the state's tax collections to finance local development projects with the expectation that future tax collections will increase as a result is known as tax increment financing. Lastly, Laws 1999, Chapter 172 required the facility's municipality to spend a matching amount on projects by the district's expiration date in order to receive state TPT revenues.

Creation of the Rio Nuevo Multipurpose Facility District

Tucson voters approved Proposition 400 in November 1999, establishing the Rio Nuevo Multipurpose Facilities District from 1999 to 2009. The ballot information for Proposition 400 described Rio Nuevo as a development project of cultural and recreational amenities and improvements, historical recreations, and mixed-use developments. The District's limits begin west in downtown where the primary component multipurpose facility, the Tucson Convention Center, is located. From downtown, Rio Nuevo then stretches east along the Broadway Corridor encompassing the District's secondary component businesses. Management responsibilities were given to a District Board made up of 4 Directors appointed by the Tucson City Council. Through FY 2024, Rio Nuevo has received a total of $258.3 million in TPT distributions from the state (See *Table 2*). Laws 2006, Chapter 376 extended the period Rio Nuevo could receive these payments from 10 years to 25 years (to July 1, 2025).

Reconstituted Rio Nuevo District
Laws 2009, Chapter 3 reconstituted the District board by replacing the 4-Director body appointed by the city council with one made up of 9 Directors appointed by the Governor and the Legislature. In addition, Chapter 3 provided that Rio Nuevo would receive state TPT diversions only through July 1, 2025 or the time of last debt service payment, whichever would come first. Laws 2018, Chapter 138 extends the due date for the district to operate and receive state TPT distributions to July 1, 2035, or upon the completion of authorized debt service payments, whichever occurs later.

Prior to Chapter 138, the district was authorized to use state TPT distributions to service debt on bonds issued by the district before January 1, 2009. The same authority applied to contractual obligations incurred by the district before January 1, 2009. Chapter 138 extended such authority to bonds issued before January 1, 2025 and contractual obligations incurred before January 1, 2025. However, Chapter 138 was further amended by Laws 2018, Chapter 189, which reinstituted the prior provisions that authorize state TPT distributions only to service debt on bonds or contractual obligations issued before January 1, 2009. State TPT payments to the Rio Nuevo District are shown in the *Table 2* below:

Table 2

Fiscal Year	Distributions
2024	$18,767,817
2023	$17,113,539
2022	$16,516,567
2021	$9,525,698
2020	$14,478,796
2019	$15,958,879
2018	$13,562,705
2017	$13,988,471
2016	$13,008,813
2015	$6,958,022
2014	$9,486,100
2013	$9,755,752
2012	$11,957,943
2011	$14,099,949
2010	$8,727,318
2009	$10,399,336
2008	$15,456,187
2007	$14,974,923
2006	$10,968,178
2005	$7,469,632
2004	$5,081,197
Total	**$258,255,822**

Source: DOR, Annual Reports

Phoenix Convention Center Expansion
In November 2001, Phoenix voters approved a ballot measure that would provide $300 million to expand the Phoenix Convention Center from the city fund that was established to pay for construction and expansion of the Civic Plaza’s first phase in the 1960s. Laws 2003, Chapter 266 authorized the expansion of eligible convention centers with matching state funds.

Chapter 266 established the Arizona Convention Center Development Fund (ACCDF) for the purpose of enabling qualifying cities to develop and expand major convention facilities. The Phoenix Convention Center expansion project is the only project that qualified under Chapter 266.

The state’s obligation for the Phoenix Convention Center project is to pay the debt service and related costs on $300 million of construction bonds. Pursuant to Laws 2003, Chapter 266, the state’s obligation was to begin in the first fiscal year after the Certificate of Completion for the project was filed with the State Treasurer, which

occurred on March 25, 2009. Under A.R.S. § 9-602D, as added by Chapter 266, the State Treasurer was required to transfer $5 million in debt payments from the ACCDF to the City of Phoenix in the first year (FY 2010), $10 million in the second year (FY 2011), $15 million in the third year (FY 2012), and $20 million in the fourth year (FY 2013). Beginning in the fifth year (FY 2014), the debt payments would increase by $500,000 annually up to a maximum of $30 million per year until debt service and related costs would be retired.
Laws 2011, Chapter 28 suspended the State Treasurer's debt payment from the ACCDF in FY 2012 and changed the distribution schedule under A.R.S. § 9-602D for subsequent years. However, Chapter 28 did not provide the same change to the DOR's distribution schedule under A.R.S. § 42-5030, which requires the department to transfer state TPT monies from the distribution base to the ACCDF. Laws 2015, Chapter 10 conformed DOR's transfer schedule of state TPT monies under A.R.S. § 42-5030 to the State Treasurer's debt service payment schedule under A.R.S. § 9-602D.

Public Infrastructure Improvements
Beginning on October 1, 2013, Laws 2012, Chapter 328 authorizes the State Treasurer to pay state prime contracting tax revenues generated from qualifying projects to a municipality or county in order to fund up to 80% of the costs of public infrastructure improvements (roads, water and wastewater facilities) needed to support the activities of a manufacturing facility [A.R.S. § 42-5032.02]. The total amount of state tax dollars paid to cities and counties statewide under Chapter 328 is capped at $50 million over 10 years. Laws 2022, Chapter 321 increased the cap of the program from $50 million to $100 million. Laws 2023, Chapter 181 further increases the cap of the program from $100 million to $200 million. Laws 2021, Chapter 80 extends the public infrastructure improvements program from September 30, 2023 to September 30, 2033.

In order for a city or county to receive state prime contracting tax monies, the manufacturing plant must make certain minimum capital investments depending on its location ($500 million in Maricopa and Pima and $50 million in all other counties). The State Treasurer was not allowed to make any payments to a city or county before July 1, 2014. The total amount of statewide distributions to cities and counties was limited to $5 million in FY 2015. The first distributions under the program started in December 2019. The total amount of distributions from the State Treasurer to cities/counties for public infrastructure improvements as of July 31, 2024 was $120.7 million.

Monies for public infrastructure improvements are distributed from the state and local share of prime contracting taxes generated from qualifying projects. Chapter 328 requires DOR to account separately for prime contracting tax revenues generated from qualifying public infrastructure improvements. While DOR is authorized to disclose information to cities and counties regarding the distribution of monies associated with public infrastructure improvements, Chapter 328 prohibits DOR and the relevant local government entities from disclosing such information to the public.

Laws 2017, Chapter 340 makes several changes to the program, beginning January 1, 2018, including the following: (1) provides that prime contracting tax revenues used for purposes of public infrastructure improvement not be distributed until 10% of the qualifying capital investment has been made by the manufacturing facility, (2) requires the manufacturing facility to file a sworn certification with the Arizona Commerce Authority (ACA) within 180 days after commencement of buildings and associated improvements, and (3) requires the manufacturing facility and the county or municipality to enter into a written agreement before submitting the certification to ACA.

WHO PAYS

<u>Individuals and Businesses</u>
Persons or companies engaging in business in the state are legally responsible for payment of the tax. However, in practice TPT is passed on to consumers [A.R.S. § 42-5001].

"Post-Wayfair" Internet Taxation. On June 21, 2018, the Supreme Court of the United States (SCOTUS) overruled in *South Dakota v. Wayfair Inc.* a previous decision made by the same court on May 26, 1992 in *Quill Corp. v. North Dakota*, which had required a business with a physical presence inside a state to collect sales tax on transactions conducted over the Internet. While SCOTUS overruled the physical presence ("nexus") requirement under *Quill*, it retained the nexus test under its 1977 ruling on *Complete Auto Transit v. Brady*. Under the *Complete Auto* ruling, SCOTUS outlined the conditions to determine whether a state violates the U.S. Commerce Clause. This is

effectively a 4-part test that requires the following elements:

1. Substantial nexus (there must be sufficient connection between a taxpayer and the state).
2. Fair apportionment (the state must not tax more than its fair share of the income of the taxpayer).
3. No discrimination (the state must not treat out-of-state taxpayers differently than in-state taxpayers).
4. Services (the tax must be fairly related to the services provided to the taxpayer by the state).

In its June 21, 2018 *Wayfair* ruling, SCOTUS noted that that South Dakota's Senate Bill (SB) 106 satisfied the substantial nexus requirement under *Complete Auto*. (South Dakota's SB 106 expanded the state's sales tax nexus beyond the physical presence requirements set forth in *Quill* and it was the legal challenge of this bill that was brought before SCOTUS in *South Dakota v. Wayfair Inc*.) Although the *Wayfair* ruling did not directly address all the Commerce Clause tests under *Complete Auto* (as it relates to SB 106), the Court noted that "South Dakota's tax system includes several features that appear designed to prevent discrimination against or undue burden upon interstate commerce." Specifically, the Court referenced: (1) SB 106's "safe harbor" provision under which annual sales in South Dakota must exceed $100,000 or include 200 or more transactions for substantial nexus to exist, (2) no retroactive tax clause included in the legislation, and (3) that South Dakota has adopted the Streamlined Sales and Use Tax Agreement (SSUTA). Under SSUTA, states agree to a set of "ground rules" to standardize the imposition and administration of sales and use taxes, including a single, state-level administration of taxes, a simplified tax rate structure, and uniform definitions and rules.

At the end of the 2019 Regular Session, Arizona enacted its own "Wayfair" provisions under Laws 2019, Chapter 273. Beginning October 1, 2019, Chapter 273 establishes the economic nexus thresholds under which an out-of-state business is required to collect and remit tax on retail sales in Arizona, which are as follows:

- If the out-of-state business does not conduct sales through a marketplace facilitator, economic nexus applies if sales in Arizona exceed $200,000 in calendar year (CY) 2019, $150,000 in CY 2020, and $100,000 in CY 2021 and thereafter.
- If the out-of-state business is a marketplace facilitator, economic nexus applies if sales in Arizona from the marketplace facilitator's own business or on behalf of at least one marketplace seller exceed $100,000 in the calendar year.

Besides establishing the state's economic nexus threshold requirements, Chapter 273 also added new language in state statutes with respect to the municipal tax treatment of retail sales, as outlined below.

- Requires municipal ordinances and other local laws related to the taxation of retail sales to be superseded by the state's transaction privilege tax statutes for the retail classification.
- Provides cities and towns the option to levy a transaction privilege tax on the sale of:
  1. Food for home consumption
  2. Textbooks required by a state university or community college sold at bookstores
  3. Livestock and poultry feed, salt, vitamins and other additives used in the business of farming and ranching
  4. Nonmetalliferous mined materials sold at retail
  5. Works of fine art
  6. Motor vehicles sold to nonresidents or enrolled members of an Indian Tribe.
- Allows a city or a town to continue to levy an existing transaction privilege tax, which was levied on or before May 1, 2019, on the sale of:
  1. Propagative materials, including fertilizers
  2. Implants used as growth promotants and injectable medicine for livestock or poultry
  3. Animals such as horses, sheep, and goats used as breeding or production stock.

  Depending on the size of its population, a municipality can continue levying a tax on these products either through December 31, 2019 (if population is more than 50,000) or through June 30, 2021 (if population is 50,000 or less).
- Provides cities and towns the option to exempt from tax the sale of paintings, sculptures, or similar works of fine art by the original artists.

- Provides that the Legislature will not move any sales tax classifications other than retail from the Model City Tax Code to state statute for a period of 5 years from the effective date of the act.

"Pre-Wayfair" Internet Taxation. The following section discusses the extent to which transactions conducted on the Internet were subject to sales tax under the state practices ("*pre-Wayfair*") in place prior the enactment of Laws 2019, Chapter 273. This includes the "*pre-Wayfair*" Arizona policy with respect to 3 different Internet sales scenarios, as outlined below.

1. A consumer purchases an item on the Internet from a company headquartered out of state that also has a store in Arizona. This can be either a sales tax or a use tax situation, depending on whether the retailer has created a semi-separate Internet version of itself. If the product is shipped from the retailer's "Internet company" located in another state, it is a use tax situation. If the product is shipped from the local retail branch, it is a sales tax situation. Regardless, the vendor is required to collect the tax because it has a physical presence (nexus) in this state.

2. A consumer makes an Internet purchase from an out-of-state company that has no physical presence in Arizona but whose products are sold in Arizona retail stores. For example, consider a situation in which vitamins are bought on the Internet from an out-of-state company; this company's vitamins are also sold in Arizona grocery stores. In this case, the vendor is not responsible for collecting a tax for the state because it has no nexus in Arizona. The purchaser is legally responsible for paying the use tax.

3. A consumer buys something on the Internet from an out-of-state company that has no presence whatsoever in Arizona. Since the vendor has no nexus in Arizona, the purchaser is required to pay the use tax.

<u>Tribal Members and Businesses</u>
Pursuant to Laws 2021, Chapter 443, Indian tribal members, or companies engaged in business activities on the reservation are not subject to the sales tax. This exclusion applies to affiliated Indian members who have been adopted into the tribe and who have attained full and unrestricted membership privileges in that tribe.

Non-Indian or non-affiliated Indian retailers engaged in business activities located on the reservation are not subject to the sales tax if the activity is performed for an Indian tribal member of the reservation. The activity is subject to the sales tax, however, if it is performed for a non-Indian or non-affiliated Indian.

A.R.S. § 42-5122 lists the following exemptions regarding sales to Indian tribes, tribally owned businesses, or tribal entities:

1. Business activities performed by an Indian tribe, a tribally owned business, a tribal entity, or an affiliated Indian if the business activity takes place on an Indian reservation.
2. Business activities performed by a nonaffiliated Indian or non-Indian vendor on an Indian reservation for an Indian tribe, a tribal entity or an affiliated Indian.
3. Contracting activities performed on an Indian reservation by an Indian tribe, a tribally owned business, a tribal entity or an affiliated Indian.
4. Contracting activities performed for an Indian tribe, a tribally owned business, a tribal entity, or an affiliated Indian on an Indian reservation by a nonaffiliated Indian or non-Indian contractor.
5. Retail sales of tangible personal property to an Indian tribe, a tribally owned business, a tribal entity or an affiliated Indian if the sale of tangible personal property takes place on an Indian reservation. A sale is deemed to take place on an Indian reservation if the tangible personal property is ordered from and delivered on an Indian reservation.
6. The sale of a motor vehicle to an enrolled member of an Indian tribe who resides on the Indian reservation established for that Indian tribe.

These exemptions had already been in practice since DOR issued Arizona Transaction Privilege Tax Ruling 95-11 (TPR 95-11) in April 1995. Laws 2021, Chapter 443 essentially codified these exemptions in statute.

REVENUE 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 TPT, as specified in A.R.S. § 42-5061 - A.R.S. § 42-5076. 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. § 42-5075]. Note, however, Laws 2014, Chapter 263 provides that prime contractors are not subject to tax from the gross sale proceeds or gross income resulting from contracts for the maintenance, repair, replacement or alteration (MRRA) of real property, if such contracts do not include modification activity.

Exemptions. There are numerous TPT and use 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. Beginning in calendar year 2015, DOR began using a specific deduction code for each TPT and use tax exemption. According to DOR, the total number of TPT deductions increased from 1 in 1952 to 345 in 2017, the most recent year for which such information was provided. See *Table 4* for specific tax exemption statutes for each TPT classification.

The primary type of business exempt from TPT in Arizona are those that provide services. If those services are not included in 1 of the 16 TPT classifications shown in *Table 4*, they are not subject to TPT, and therefore DOR does not assign them a deduction code.

The Transaction Privilege and Use Tax Expenditures section of DOR's publication, *The Revenue Impact of Arizona's Tax Expenditures, FY 2023* includes a complete list of all statutory tax exemptions and their deduction code, as well as a list of services that are excluded from TPT. *Table 3* below lists the major exemptions and exclusions (those with an estimated revenue impact of at least $500 million) included in DOR's report for FY 2023.

Table 3

THE FY 2023 DOLLAR VALUE OF MAJOR SALES TAX EXEMPTIONS

Exemptions	**Collections at a 5% Rate**
Wholesale Trade	$8,676,622,788
Health Care Services	2,779,131,341
Professional, Scientific and Technical Services	1,339,726,352
Financial Services	599,793,796
Administrative and Business Support Services	1,367,907,492
Prescription Drugs and Medical Oxygen	1,664,863,106
Food for Home Consumption	871,391,088
Commercial Lease	660,896,049
Other	6,385,666,644
Total	**$24,345,998,656**

Source: DOR, The Revenue Impact of Arizona's Tax Expenditures FY 2023

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 4* lists the tax rate for each classification.

TAX REFUNDS AND/OR TAX CREDITS

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 Credit. Taxpayers are allowed to claim a tax credit against their sales taxes for the expenses incurred for accounting and reporting those taxes. Pursuant to Laws 2017, Chapter 60, the amount of the accounting credit depends on whether the taxpayer files a paper return or uses electronic filing. For taxpayers that file paper returns, the credit is 1.0% of the tax due, not to exceed $10,000 in any calendar year. For taxpayers that file electronically, the credit is 1.2% of the tax due, not to exceed $12,000 in any calendar year [A.R.S. § 42-5017].

PAYMENT SCHEDULE

Due Dates. TPT is due to DOR 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 DOR by February 20 [A.R.S. § 42-5014].

Delinquency Dates. For taxpayers that are required or elect to file and pay electronically, tax payments are delinquent if not received by DOR on or before the last business day of the month. (A business day is any day except Saturday, Sunday, or a legal Arizona state holiday.) For taxpayers that file by mail or in person, tax payments are delinquent if not received by DOR on or before the business day preceding the last business day of the month [A.R.S. § 42-5014].

Penalties. Any return that is not filed timely is subject to a late filing penalty. The late filing penalty is the greater of 4.5% of the tax reported on the return, or $25. The penalty is added to the tax for each month or fraction of a month elapsing between the due date of the return and the date on which the return is filed. The total penalty cannot exceed the greater of 25% of the tax due, or $100 [A.R.S. § 42-1125].

Alternative Payment Schedules. DOR 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 $2,000 or less may pay on an annual basis.
- Taxpayers with an estimated annual tax liability of between $2,000 and $8,000 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.

Electronic Tax Filing and Payment Requirements. Any business that has 2 or more locations or operates under 2 or more business names is required to file and pay their taxes electronically. All other businesses have the option to enroll to file and pay electronically. Laws 2017, Chapter 60 requires that businesses with an annual tax liability of at least $500 in a calendar year file and pay their taxes electronically. Chapter 60 lowered the tax liability threshold for electronic filing and payments from $20,000 to $10,000 in CY 2019, $5,000 in CY 2020, and $500 in CY 2021 and subsequent years [A.R.S. § 42-5014].

Estimated Tax Payments. Taxpayers who pay income taxes and whose business had a combined tax liability for transaction privilege, telecommunication services excise, and county excise taxes in the preceding calendar year (or can reasonably anticipate a liability of such taxes) of $4.1 million 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).

Laws 2010, 7th Special Session, Chapter 12 lowered the threshold for estimated TPT payments from $1.0 million in annual sales tax liability to $100,000 for FY 2010 through FY 2012. Prior to FY 2007, the threshold for estimated payments was $100,000. Laws 2006, Chapter 351 increased the threshold to $1.0 million. Laws 2019, Chapter 290 increased the liability threshold for the June estimated payment from $1.0 million to $1.6 million in 2020, $2.3 million in 2021, $3.1 million in 2022, and $4.1 million in 2023 and each year thereafter. In FY 2020, the increase of the liability threshold from $1.0 million to $1.6 million was estimated to result in a one-time General Fund revenue loss of $(10.3) million. The one-time revenue losses in FY 2021 through FY 2023 were estimated to be approximately $(10.0) million annually [A.R.S. § 42-5014].

Table 4

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
Commercial Lease	42-5069	0.0%	0%	0%	None
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%	32%	68%	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
Online Lodging Marketplace	42-5076	5.5%	50%	50%	None

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.

Pursuant to A.R.S. § 42-5014, the estimated tax payment should equal either 1) one-half of the actual tax liability for May of the current calendar year, or 2) the actual tax liability for the first 15 days of June of the current calendar year. Estimated payments are due by June 20. In July of each year, those taxpayers that 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 (pursuant to Laws 1989, 2nd Special Session, Chapter 1), the estimated payments provided a one-time increase of state revenues by advancing a portion of the next fiscal year's revenues into the current fiscal year. If the program were ever eliminated, as is periodically proposed, it would result in a one-time loss of 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 revenue loss.

Collections. DOR was originally required (pursuant to Laws 2013, Chapter 255) to become the single point for licensing, filing tax return, and paying state, county, and municipal TPT, beginning January 1, 2015. However, due to the complexity of incorporating the cities' requirements into DOR's information technology system, the full implementation of this requirement did not begin until January 1, 2017.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

2024 LAWS

Laws 2024, Chapter 33 allows the Department of Revenue (DOR) to deny a city or town's request to audit a taxpayer that is engaged in business in more than one city or town and prevents that city or town from auditing the taxpayer. Chapter 33 requires the Unified Audit Committee to establish and publish audit guidelines.

Laws 2024, Chapter 43 transfers the designation of military reuse zones from the CEO of the Arizona Commerce Authority (ACA) to the Department of Revenue.

Laws 2024, Chapter 142 requires the Department of Revenue, by January 1, 2026, to establish a process for a third-party provider that offers sourcing services to taxpayers for transactions involving tangible personal property. Chapter 142 also outlines how liability is determined for sourcing errors. As permanent law, Laws 2024, Chapter 221 changes the implementation date of Laws 2024, Chapter 142 from January 1, 2026 to January 1, 2028.

Laws 2024, Chapter 221 extends the TPT and Use Tax Exemption for qualifying equipment purchased by businesses certified as healthy forest enterprises from June 30, 2024 to December 31, 2026. As noted above, Chapter 221 also changes the implementation date of Laws 2024, Chapter 142 from January 1, 2026 to January 1, 2028.

Laws 2024, Chapter 237 exempts a person who is under 19 years old and is engaging in business in Arizona from being required to obtain a TPT license and remitting any TPT or duly enacted special district TPT if the gross proceeds of sales or gross income from their business is less than $10,000 in a calendar year.

Laws 2024, Chapter 242 expands the definition of jet fuel, for the purpose of the jet fuel excise and use tax, to include an aviation turbine fuel that consists of conventional and synthetic blending components that can be used without the need to modify aircraft engines and existing fuel distribution infrastructure, and jet fuels derived from co-processed feedstocks at a conventional petroleum refinery.

2023 LAWS

Laws 2023, Chapter 14 provides procedures for qualifying health community centers, qualifying health care organizations, hospitals, or other nonprofit entities to obtain an exemption letter for transaction privilege tax purposes.

Laws 2023, Chapter 181 increases the statewide cap for the distribution of state TPT for public infrastructure improvements provided by A.R.S. § 42-5032.02 from $100 million to $200 million. Under this program, the State Treasurer is authorized to distribute prime contracting TPT revenue generated from qualifying projects to a municipality or county to fund up to 80% of the costs of public infrastructure improvements needed to support the activities of a qualifying manufacturing facility located in that municipality or county.

Chapter 181 was not scored as part of the 3-year budget plan adopted in May 2023. Based on a Fiscal Note issued by the JLBC Staff on an earlier version of this legislation (HB 2809), we estimate that Chapter 181 will result in a total one-time revenue loss of $(100) million, of which $(50) million is expected to occur in FY 2024 and the remaining $(50) million in FY 2025.

Laws 2023, Chapter 192 continues the Municipal Tax Code Commission (MTCC) through June 30, 2027 and requires the Department of Revenue (DOR) to incorporate changes to the Model City Tax Code (MCTC) that are required to conform the MCTC with a statutory change within 30 days of the effective date of that statutory change.

Laws 2023, Chapter 203 requires Maricopa County to hold a countywide election at least one year before the existing transportation tax under A.R.S. § 42-6105 would otherwise be discontinued, which is December 31, 2025. If approved by qualified electors in Maricopa County, a transportation excise tax of up to 0.5% will be authorized under A.R.S. § 42-6105.01 for a period of 20 years (from January 1, 2026 to December 31, 2045). The transportation tax cannot be more than 10% of the state TPT in effect as of January 1990 (or up to 0.5%). If approved, the Maricopa Association of Governments (MAG) will be required to distribute the 2026-2045 transportation excise tax revenues as follows: 63.0% to the Regional Area Road Fund (RARF) and 37.0% to the Public Transportation Fund (PTF). Of the 63.0% distributed to RARF, 40.5% will be allocated for freeways and roads in the state highway system and the other 22.5% will be allocated for major arterial streets, intersection improvements, and regional transportation infrastructure. PTF monies are to be used for capital costs, maintenance and operation of public transportation mode classifications, and capital rehabilitation costs associated with the light rail system. Chapter 203 prohibits any transportation tax revenues from being used for any light rail, commuter rail, streetcar, or trolly extension. If approved, Chapter 203 will not have any impact on the state General Fund. The current 0.5% Maricopa transportation tax is scheduled to expire on December 31, 2025.

Laws 2023, Chapter 204 prohibits a city, town, or other tax jurisdiction from levying a transaction privilege tax or other similar tax or fee on the business of renting or leasing real property for residential purposes effective January 1, 2025. Chapter 204 requires the monies allocated from the state transaction privilege tax levied on remote sellers to municipalities be used for public safety before any other municipal purposes. Chapter 204 prohibits the landlord of residential property located in a city/town that levies a transaction privilege tax on the rentals of such property (on or before January 1, 2025) from charging the tenant the amount of the repealed rental tax. Moreover, Chapter 204 provides that in any civil action that challenges the lawfulness of a charge, the landlord has the burden of proving that the challenged charge is not attributable to municipal TPT on residential rental property. The provision related to civil actions challenging the lawfulness of a landlord's charge is repealed after December 31, 2026.

2022 LAWS

Laws 2022, Chapter 43 expands the TPT exemption for the sale of vehicles to nonresidents. Under current law, sales of motor vehicles to nonresidents of Arizona for use outside of Arizona are exempt from TPT if the dealer ships or delivers the motor vehicle out of the state. Chapter 43 expands this exemption by also exempting the sale of a vehicle, trailer, or semitrailer to a nonresident for use outside of the state from state TPT and municipal tax if the vehicle, trailer, or semitrailer has a gross weight of over 10,000 pounds, is used for interstate commerce, and meets the statutory definition of a commercial motor vehicle. The General Fund impact of expanding the TPT exemption would likely be limited.

Laws 2022, Chapter 229 exempts use tax on service vehicles (such as a temporary "loaner" or courtesy vehicle) that are removed from dealers' inventory if such vehicles are continuously available for sale. Prior to Chapter 229, the state levied a general use tax of 5.0% on motor vehicles that were removed from a dealer's inventory and used in their business operations. The fiscal impact of Chapter 229 is unknown.

Laws 2022, Chapter 321 directs the State Treasurer to distribute revenues from the state General Fund portion of TPT revenues to various non-General Fund agency funds in FY 2023 as follows:

- ADOT State Highway Fund - $925,447,500
- ADOT State Aviation Fund - $20,600,000
- DEMA Border Security Fund - $209,205,000
- Parks Board State Parks Revenue Fund - $38,237,100
- Budget Stabilization Fund - $425,000,000

Additionally, Chapter 321 increases the cap, from $50 million to $100 million, of the amount of prime contracting state TPT revenues that is authorized to be transferred to cities, towns, and counties to fund the cost of public infrastructure improvements for manufacturing facilities. Moreover, it expands an existing TPT exemption to include the purchase of used (as opposed to only new) agricultural machinery and equipment, as well as short-term rentals. Finally, Chapter 321 provides a new TPT exemption for "Off-Highway Vehicles" that have been modified to be used for agricultural purposes. The TPT exemption is estimated to result in a General Fund revenue loss of $(583,000) annually, beginning in FY 2023.

2021 LAWS

Laws 2021, Chapter 67 makes changes to how Classroom Site Fund (CSF) monies generated from the 0.6% education sales tax are allocated by school districts and charter schools. (Effective September 29, 2021)

Laws 2021, Chapter 80 extends the public infrastructure improvements program under A.R.S. § 42-5032.02 by 10 years, from September 30, 2023 to September 30, 2033.

Laws 2021, Chapter 220 establishes the guidelines for insurance requirements, safety, and taxation of peer-to-peer (P2P) car sharing transactions using an online platform that connects vehicle owners with individuals who want to drive their vehicle under a car sharing agreement.

Under Chapter 220, the use of a shared vehicle by an individual other than the shared vehicle's owner through a peer-to-peer car sharing program is subject to state and municipal TPT as well as county excise taxes. Chapter 220 exempts such shared vehicle transactions from both the Maricopa County rental car surcharge (used to fund the Arizona Sports and Tourism Authority and the Maricopa County Stadium District) and the Pima County rental car surcharge (used to fund the Pima County Stadium District). Moreover, if the owner of the vehicle certifies to DOR that their vehicle is an "individual-owned shared vehicle," Chapter 220 exempts the shared vehicle transaction from the statewide rental car surcharge.

Chapter 220 adds peer-to-peer car sharing to the personal property rental classification under A.R.S. § 42-5071. Additionally, the act provides that TPT is collected and remitted by the peer-to-peer car sharing company and not the shared vehicle owner. (Effective September 29, 2021).

Laws 2021, Chapter 266 modifies some of the statutes related to the Arizona Commerce Authority's Computer Data Center (CDC) program (A.R.S. § 41-1519) and International Operations Center (IOC) program (A.R.S. § 41-1520). Under current law, equipment purchased and installed at a certified computer data center is exempt from retail TPT and Use Tax. Chapter 266 modifies statutes by providing that the installation, assembly, repair, or maintenance of computer data center equipment is exempt from the prime contracting TPT if it has "independent functional utility." (Independent functional utility means that the equipment "can independently perform its function without attachment to real property" such as land or buildings.) (Effective retroactively from September 13, 2013)

Laws 2021, Chapter 411 repeals the fee charged to cities, towns, counties, councils of governments and regional transportation authorities used to recover a portion of administrative expenses for tax collection services incurred by the Department of Revenue. (Effective retroactively from July 1, 2021)

Laws 2021, Chapter 412 clarifies retroactively from January 1, 2016 that the TPT and Use Tax exemption for machinery and equipment includes containment structures.

Laws 2021, Chapter 417 exempts utility scale energy storage machinery and equipment from retail TPT and the Use Tax. (Effective September 29, 2021).

Laws 2021, Chapter 443 exempts specified sales and contracting activities to and by Indian Tribes, tribally owned businesses, tribal entities, and affiliated Indians from state and municipal Transaction Privilege Tax. Chapter 443 requires non-affiliated Indians and non-Indian vendors to maintain sufficient documentation of their taxable and non-taxable gross proceeds to enable DOR to determine which transactions are subject to TPT.

DOR issued Arizona Transaction Privilege Tax Ruling 95-11 (TPR 95-11) in April 1995 relating to the imposition of TPT activities performed on Indian reservations in Arizona. TPR 95-11 states that an affiliated Indian or an affiliated Indian vendor engaged in business activities on the reservation are not subject to TPT. Additionally, non-Indian or non-affiliated Indian retailers engaged in business activities located on a reservation are not subject to tax if the activity is performed for an affiliated Indian. Chapter 443 codifies this ruling.

2020 LAWS

Laws 2020, Chapter 43 requires estimated payments, for taxpayers with an annual tax liability above the statutory threshold, to be made by the last business day in June if the taxpayer is required to make the payment by electronic means.

Additionally, Chapter 43 specifies that estimated tax payments made in June of each year, for taxpayers with an annual tax liability above a statutory threshold, must be made in the same manner as a taxpayer's regular payments.

Laws 2020, Chapter 49 directs, beginning in FY 2022, $64,100,000 each fiscal year collected from the 0.6 percent transaction privilege and use tax for education to the Superintendent of Public Instruction for basic state aid, rather than to the Classroom Site Fund.

2019 LAWS

Laws 2019, Chapter 50 increases the maximum county transportation excise tax rate pursuant to A.R.S. § 42-6106, by itself, or together with the county transportation excise tax rate pursuant to A.R.S. § 42-6107, from 10% to 20% of the state Transaction Privilege Tax (TPT) rate that was in effect on January 1, 1990, which. This has the effect of increasing the maximum county transportation excise tax rate from 0.5% to 1.0%.

By way of background information, there are currently 3 statutes that authorize county governments to levy a transportation excise tax. All such statutes provide the allowed amount as a percentage of the state Transaction Privilege Tax (TPT), which is currently 5%, and require county voters to approve any taxes.

A.R.S. § 42-6105 permits a transportation excise tax of up to 0.5% to be levied within Maricopa County. A.R.S. § 42-6106 permits the Regional Transportation Authority (RTA) of any county other than Maricopa to levy a transportation excise tax of up to 0.5%.

A.R.S. § 42-6107 permits counties to levy an additional 0.5% in transportation excise taxes. These collections, however, must be deposited pursuant to A.R.S. § 28-6397, which is restricted to counties with populations of 400,000 or less. Maricopa and Pima counties, therefore, are not able to levy the additional 0.5% under this provision.

Chapter 50 amends A.R.S. § 42-6106 to permit the RTA of any county other than Maricopa to levy a tax rate of up to 20% of the state TPT rate, or 1.0%. As noted above, the 1.0% rate cap includes levies under both A.R.S. § 42-6106 and A.R.S. § 42-6107. Because all counties other than Maricopa and Pima already can levy a rate of up to 1.0% (0.5% under A.R.S. § 42-6106 plus 0.5% under A.R.S. § 42-6107) and A.R.S. § 42-6106 excludes Maricopa County, Chapter 50 only affects Pima County. Chapter 50 has no direct General Fund revenue impact. (Effective August 27, 2019)

Laws 2019, Chapter 53 requires cities and towns to notify each residential transaction privilege tax licensee who is licensed with Department of Revenue and each individual residential rental property of a new or increased tax rate at least 60 days before the effective date. (Effective August 27, 2019)

Laws 2019, Chapter 124 allows the Department of Revenue to administer, collect, enforce and distribute taxes levied by a city, town or other taxing jurisdiction on an online lodging marketplace. (Effective August 27, 2019)

Laws 2019, Chapter 163 adds a video service provider (VSP) to the definition of a cable operator and grants the powers, duties and responsibilities of a cable operator to a VSP.

Laws 2019, Chapter 189 excludes over-the-top (OTT) audio or video programming services from the telecommunications classification and exempts them from municipal taxation. Additionally, Chapter 189 specifies the sourcing of any taxation in the absence of a delivery address.

Laws 2019, Chapter 203 was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. (Effective August 27, 2019)

Laws 2019, Chapter 236 removes the specific deadline of the fifth day of each month for the Department of Revenue to deliver the monthly tax collections report to the State Treasurer and the Director of the Department of Administration. In addition, Chapter 236 specifies that tax collection records will show amounts collected from businesses engaged within the state, rather than by county. (Effective August 27, 2019)

Laws 2019, Chapter 240 makes various changes to statute relating to vacation and short-term rental regulations, such as prohibiting an online lodging operator from offering for rent or renting a lodging accommodation without a current transaction privilege tax license. (Effective August 27, 2019)

Laws 2019, Chapter 241 requires the State Treasurer to distribute to the Workforce Development Account (WDA) 3% of the monies collected from the 0.6% sales tax that begins on July 1, 2021, remaining after the monthly distribution to the Classroom Site Fund (CSF), rather than after the distributions to both the CSF and the Technology and Research Initiative Fund (TRIF). Chapter 241 has no impact on the General Fund. (Effective August 27, 2019)

Laws 2019, Chapter 273 contains numerous provisions relating to individual income tax, corporate income tax, and transaction privilege tax (TPT). The TPT changes under Chapter 273 relate to the state's enactment of "Wayfair," as described below. Please see the *Individual and Corporate Income Tax sections* for details relating to the provisions in Chapter 273 specifically affecting these taxes. The ongoing revenue impact of Chapter 273 is discussed in detail in the *Individual Income Tax section* of the Tax Handbook.

Enactment of Wayfair Legislation – In June 2018, the United States Supreme Court overruled in *South Dakota v. Wayfair Inc*. a 1992 ruling made by the same court in *Quill Corp v. North Dakota*, which had held that only out-of-state ("remote") businesses with a physical presence ("nexus") inside a state could be required to collect and remit sales tax in that state. As a result of the Wayfair ruling, the physical presence requirement was effectively replaced by an economic nexus requirement.

Beginning October 1, 2019, Chapter 273 establishes the economic nexus thresholds under which an out-of-state business is required to collect and remit tax on retail sales in Arizona, which are as follows:

- If the out-of-state business does not conduct sales through a marketplace facilitator, economic nexus applies if sales in Arizona exceed $200,000 in calendar year (CY) 2019, $150,000 in CY 2020, and $100,000 in CY 2021 and thereafter.
- If the out-of-state business is a marketplace facilitator, economic nexus applies if sales in Arizona from the marketplace facilitator's own business or on behalf of at least one marketplace seller exceed $100,000 in the calendar year.

Besides establishing the state's economic nexus threshold requirements, Chapter 273 also added new language in state statutes with respect to the municipal tax treatment of retail sales, as outlined below.

- Requires municipal ordinances and other local laws related to the taxation of retail sales to be superseded by the state's transaction privilege tax statutes for the retail classification.
- Provides cities and towns the option to levy a transaction privilege tax on the sale of:
  1. Food for home consumption
  2. Textbooks required by a state university or community college sold at bookstores
  3. Livestock and poultry feed, salt, vitamins and other additives used in the business of farming and ranching
  4. Nonmetalliferous mined materials sold at retail
  5. Works of fine art
  6. Motor vehicles sold to nonresidents or enrolled members of an Indian Tribe.
- Allows a city or a town to continue to levy an existing transaction privilege tax, which was levied on or before May 1, 2019, on the sale of:
  1. Propagative materials, including fertilizers
  2. Implants used as growth promotants and injectable medicine for livestock or poultry
  3. Animals such as horses, sheep, and goats used as breeding or production stock.

  Depending on the size of its population, a municipality can continue levying a tax on these products either through December 31, 2019 (if population is more than 50,000) or through June 30, 2021 (if population is 50,000 or less).
- Provides cities and towns the option to exempt from tax the sale of paintings, sculptures, or similar works of fine art by the original artists.

- Provides that the Legislature will not move any sales tax classifications other than retail from the Model City Tax Code to state statute for a period of 5 years from the effective date of the act.

As noted above, beginning October 1, 2019, Laws 2019, Chapter 273 ("Wayfair") establishes the economic nexus thresholds under which an out-of-state business is required to collect and remit tax on retail sales in Arizona. The ongoing full-year revenue impact is estimated to be $85.0 million. However, due to the October 1, 2019 effective date, the revenue gain is reduced on a one-time basis by $(28.0) million in FY 2020.

Laws 2019, Chapter 288 expands the exemption on "propagative materials." Under current law, propagative materials, which include seeds, roots, bulbs, cuttings and similar materials, are exempt from state TPT and use tax. Beginning on December 1, 2019, Chapter 288 expands this exemption to include fertilizers, insecticides and similar materials. Chapter 288 is estimated to reduce General Fund revenues by $(7.3) million in FY 2020, followed by an additional reduction of $(7.4) million, beginning in FY 2021.

Laws 2019, Chapter 290 increases the liability threshold for the June estimated payment from $1.0 million to $1.6 million in 2020, $2.3 million in 2021, $3.1 million in 2022, and $4.1 million in 2023 and each year thereafter. Chapter 290 is estimated to result in a one-time General Fund revenue loss of $(10.3) million in FY 2020. The one-time revenue losses in both FY 2021 and FY 2022 are estimated to be $(10.0) million.

2018 LAWS

Laws 2018, Chapter 17 requires municipalities that impose TPT or use tax on the sale of food for home or premises consumption to apply the tax uniformly and without an additional tax or fee differential for any specific food item. In addition, Chapter 17 prohibits a municipality from imposing TPT or use tax on: (1) manufacturing, wholesale or distribution of food for home or premises consumption, and (2) any container or packaging used exclusively for transporting, protecting or consuming food at home or on premises. (Effective August 3, 2018)

Laws 2018, Chapter 74 extends the additional 0.6% tax exclusively dedicated to education (originally approved by voters in November 2000 as Proposition 301) from July 1, 2021 through June 30, 2041. Absent Chapter 74, the additional 0.6% tax rate would have expired June 30, 2021. Moreover, Chapter 74 extends the low-income individual income tax credit (authorized by Proposition 301) from TY 2021 through TY 2041. (Effective March 26, 2018)

Laws 2018, Chapter 104 was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. (Effective from August 3, 2018)

Laws 2018, Chapter 138 extends the due date for the Rio Nuevo Multipurpose Facilities District to operate and receive state TPT distributions to July 1, 2035, or upon the completion of authorized debt service payments, whichever occurs later. Prior to Chapter 138, the district was permitted to operate and receive state TPT distributions to no longer than July 1, 2025. (Effective August 3, 2018)

Laws 2018, Chapter 189 requires all online lodging marketplaces to register with Department of Revenue (DOR) for a TPT license for the purpose of remitting sales tax on online lodging transactions facilitated by them. (An online lodging marketplace is any digital platform that provides, at a cost, an unaffiliated third-party with a platform to rent lodging accommodations.) Prior to Chapter 189, which goes into effect January 1, 2019, an online lodging marketplace is allowed to (as opposed to being required to) remit sales tax on its online lodging transactions.

Laws 2018, Chapter 190 makes the use of any automated sales suppression (or "zapper") software for tax evasion purposes illegal and subject to a fine of no more than $500,000 for corporations and $100,000 for all others. While fines will be deposited in a new fund established by the act (Tax Fraud Interdiction Fund), taxes, penalties, and interest owed as a result of businesses using sales suppression software will be distributed in the same manner as for TPT. Combined, Chapters 189 and 190 are estimated to increase General Fund revenue by $10.0 million in FY 2019, followed by an additional $5.0 million annually, beginning in FY 2020.

Laws 2018, Chapter 249 specifies that the TPT and use tax exemptions for non-profit organizations associated with a major league baseball team or a professional golfing association do not apply to organizations that are owned, managed, or controlled by a major league baseball team, major league baseball association, or professional golfing association, unless the organization operated exhibition events before January 1, 2018 that were exempt from TPT under the amusement classification. (Effective retroactively from January 1, 2018)

Laws 2018, Chapter 263 exempts the sale of coal from state and municipal TPT and imposes a 0.5% county excise tax on the sale of coal that has been mined or extracted within the county boundaries. Chapter 263 is conditional upon the approval of the transfer of ownership of the Navajo Generating Station (NGS) by the Navajo Nation Council on or before December 31, 2022. (The NGS is currently scheduled to close December 31, 2019.)

Laws 2018, Chapter 286 adds mobile food units to the restaurant classification of TPT and repeals the TPT exemption for food sold by a retailer who uses a mobile facility, motor vehicle or similar conveyance. (Effective August 3, 2018)

Laws 2018, Chapter 341 specifies that the prime contracting classification does not include any work performed by a person who is not required to be licensed by the Registrar of Contractors. In addition, Chapter 341 removes the following exceptions from the definition of "alteration": (1) projects in which the scope applies to more than 40% of the square footage of the existing property, and (2) projects in which the scope involves expanding the square footage of the existing property by more than 10%. (Effective January 1, 2019)

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/24taxbook/tpt.pdf

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.

In June 2010, the use tax rose from 5.6% to 6.6%, with the additional 1.0% dedicated exclusively to public primary and secondary education, health and human services, and public safety. The tax increase, which lasted through May 2013, was not subject to the regular use tax distribution. This rate increase was approved by voters on May 18, 2010 and is commonly known as Proposition 100 *(see the Transaction Privilege Tax (TPT) section of this book for additional information)*.

In June 2001, the use tax rate had previously risen from 5.0% to 5.6%, with the extra 0.6% being dedicated to education. This tax increase, which is in effect through June 30, 2021, was approved by voters in November 2000 under Proposition 301. Laws 2018, Chapter 74 extends the additional 0.6% education sales tax through June 30, 2041. (*For more details on Laws 2018, Chapter 74, see the Transaction Privilege Tax section*.)

DISTRIBUTION

Almost all use tax revenues are deposited in the General Fund. Twenty percent of the revenue collected from the use tax on electricity purchased from electricity suppliers is designated as distribution base. The remaining 80% is deposited in General Fund [A.R.S. § 42-5164]. The use tax collected from utilities makes up less than 1% of total use tax collections.

Table 1

COLLECTIONS

Fiscal Year	State General Fund	Fiscal Year	State General Fund
2024	$402,016,717	2014	$235,984,933
2023	$533,335,054	2013	$257,899,313
2022	$502,880,173	2012	$263,724,399
2021	$449,765,543	2011	$229,250,912
2020	$384,263,505	2010	$271,763,845
2019	$362,026,745	2009	$292,698,574
2018	$327,200,971	2008	$340,535,252
2017	$300,875,454	2007	$303,010,863
2016	$283,352,073	2006	$303,198,808
2015	$281,143,731	2005	$259,615,656

SOURCE: Department of Revenue (DOR), Annual Reports.

WHO PAYS

Individuals and Businesses

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 goods over the Internet from an out-of-state vendor that does not meet the economic nexus requirements under Laws 2019, Chapter 273 (for more information, please refer to the description of Laws 2019, Chapter 273 in the *Transaction Privilege Tax section* of the Tax Handbook). In practice, the use tax is primarily paid by businesses. Individuals are also liable for the use tax but rarely pay it since individuals are often unaware of the tax or are unwilling to "voluntarily" report a taxable transaction [A.R.S. § 42-5155].

Tribal Members and Businesses

Purchases made on the reservation by Indian tribal members are not subject to the use tax. This exclusion applies to affiliated Indian members who have been adopted into the tribe and who have attained full and unrestricted membership privileges in that tribe.

Purchases made on the reservation by non-Indian or non-affiliated Indians are subject to the use tax if the property will be stored, used, or consumed in Arizona.

Purchases made by Indian tribal members off the reservation are subject to the use tax. Sales of tangible personal property to an Indian tribal member, however, are not subject to the use tax if the solicitation, delivery, and payment of the goods take place on the reservation.

REVENUE BASE AND RATE

The revenue 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 current use tax rate is 5.6%, the same as the TPT 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 DOR 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 DOR by February 20 [A.R.S. § 42-5162].

Tax payments are delinquent if not received by DOR on or before the business day preceding the last business day of the month [A.R.S. § 42-5162]. (A business day is any day except Saturday, Sunday, or a legal Arizona state holiday.)

DOR may allow taxpayers whose estimated annual use tax liability is between $500 and $1,250 to make quarterly tax payments. Also, DOR may permit taxpayers with an estimated annual tax liability of less than $500 to make an annual payment. If good cause is shown, DOR can allow a 2-month extension for filing the tax return [A.R.S. § 42-5162].

Electronic filing and payment requirements are the same as for the Transaction Privilege Tax (TPT) [A.R.S. § 42-5014].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018. There were no changes enacted from 2018 to 2021 and in 2023 and 2024.

2022 LAWS

Laws 2022, Chapter 229 exempts use tax on service vehicles (such as a temporary "loaner" or courtesy vehicle) that are removed from dealers' inventory if such vehicles are continuously available for sale. Prior to Chapter 229, the state levied a general use tax of 5.0% on motor vehicles that were removed from a dealer's inventory and used in their business operations. The fiscal impact of Chapter 229 is unknown.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf.

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

Eighty percent of metalliferous minerals tax revenue is designated as distribution base and is distributed as described in the Transaction Privilege Tax (TPT) section of this book. 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

COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Cities	Counties	Total
2024	$6,002,359	$2,522,424	$4,087,335	$12,612,118
2023	$9,490,194	$3,988,147	$6,462,393	$19,940,734
2022	$23,657,450	$9,941,776	$16,109,654	$49,708,871
2021	$16,947,569	$7,122,024	$11,540,528	$35,610,121
2020	$6,046,291	$2,540,886	$4,117,251	$12,704,428
2019	$8,210,336	$3,450,301	$5,590,868	$17,251,505
2018	$11,689,484	$4,912,373	$7,960,010	$24,561,867
2017	$8,746,056	$3,675,431	$5,955,669	$18,377,156
2016	$7,232,083	$3,039,201	$4,924,722	$15,196,006
2015	$11,832,303	$4,972,391	$8,057,263	$24,861,957
2014	$12,464,109	$5,237,901	$8,487,495	$26,189,505
2013	$14,196,409	$5,965,880	$9,667,113	$29,829,402
2012	$19,311,779	$8,115,557	$13,150,448	$40,577,783
2011	$19,149,246	$8,047,254	$13,039,770	$40,236,270
2010	$13,848,584	$5,819,711	$9,430,259	$29,098,554
2009	$8,666,537	$3,642,014	$5,901,520	$18,210,071
2008	$20,822,267	$8,750,323	$14,179,023	$43,751,613
2007	$20,725,843	$8,709,801	$14,113,362	$43,549,006
2006	$14,486,992	$6,087,995	$9,864,986	$30,439,973
2005	$7,804,650	$3,279,819	$5,314,617	$16,399,086

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS

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

REVENUE 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 under TPT.

PAYMENT SCHEDULE

Payments for this tax are due on the same schedule as for the Transaction Privilege Tax (TPT) [A.R.S. § 42-5205]. Electronic filing and payment requirements are the same as for TPT [A.R.S. § 42-5014].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this tax from 2018 through 2024.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf.

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 so long as the Urban Revenue Sharing Fund is maintained. The starting point for Arizona individual income tax is the federal adjusted gross income. Arizona used a graduated rate structure through Tax Year (TY) 2022. Beginning in TY 2023, the state imposes a single tax rate of 2.5% on the taxable income of all filers.

The individual income tax is an important revenue source for the state, representing 28.9% of total General Fund revenue collections in FY 2024. 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 4 components: (1) withholding, (2) estimated tax payments, (3) final payments, and (4) refunds. Generally, withholding payments are from taxes on wage and salary-based income, and estimated payments from non-wage earnings. Final payments and refunds represent the underpayment and overpayment of tax, respectively, settled between taxpayers and the state after tax returns have been filed.

DISTRIBUTION

Table 1

COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
2024	$4,845,766,544	2014	$3,462,381,996
2023	$5,239,565,232	2013	$3,397,545,131
2022	$7,530,010,735	2012	$3,086,137,363
2021 [1/,2/]	$6,532,753,230	2011	$2,863,657,980
2020 [1/]	$4,529,858,984	2010	$2,416,296,308
2019	$5,009,021,634	2009	$2,567,963,783
2018	$4,543,998,164	2008	$3,406,453,313
2017	$4,130,898,724	2007	$3,747,386,937
2016	$3,967,919,501	2006	$3,689,373,375
2015	$3,761,343,995	2005	$2,973,716,271

1/ By Executive Order, the Tax Year 2019 filing due date was moved from April 15, 2020 to July 15, 2020.
2/ Pursuant to Laws 2021, Chapter 177, the Tax Year 2020 filing due date was moved from April 15, 2021 to May 17, 2021.
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* and *Table 3* below.

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

Urban Revenue Sharing

The Urban Revenue Sharing Fund (URS), which was established based on a ballot initiative approved by voters in 1972, provides that a percentage of income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and towns within the state. *Table 2* below shows estimates of the FY 2025 URS distributions by city. Currently, 18% of individual and corporate net income tax revenue from 2 years prior is distributed to cities and towns. Pursuant to Laws 2021, Chapter 412, beginning in FY 2024, the URS distribution percentage was increased from 15% to 18%. This distribution is based on the most recent population estimates of each city and town made annually by the U.S. Census Bureau [A.R.S. § 42-5033.01]. Cities and towns have the option of using special census population counts for purposes of calculating distributions, but only during the 6th year following a decennial census. In the 2nd year following the special census, a city/town must use the most recent estimate from the U.S. Census Bureau [A.R.S. § 42-5033]. Prior to Laws 2016, Chapter 258, distributions were based on population counts from the last U.S. decennial census or special census. The figures in *Table 2* are provided by the Department of Revenue. *Table 3* below shows the URS distribution percentages in effect since the establishment of this revenue sharing program.

Voluntary Contribution Funds

Laws 1984, Chapter 76 provided for taxpayers to designate an amount of their income tax refund as a voluntary contribution to the Arizona Game, Non-Game, Fish and Endangered Species Fund. Laws 1985, Chapter 59 established a permanent check-off provision on the individual income tax return, which was also expanded to include contributions to the Child Abuse Prevention Fund.

Arizona statutes were amended in subsequent years to also include contributions to the Arizona Assistance for Education Fund, Domestic Violence Services Fund, Neighbors Helping Neighbors Fund, Special Olympics Fund, and National Guard Relief Fund. The list of voluntary contribution funds was further expanded to include the Veterans' Donation Fund (Laws 2006, Chapter 102), the I Didn't Pay Enough Fund (Laws 2010, Chapter 115), the Sustainable State Parks and Road Fund (Laws 2014, Chapter 120), and the Spaying and Neutering of Animals Fund (Laws 2017, Chapter 172). Laws 2015, Chapter 208 repealed the National Guard Relief Fund. In addition to voluntary contribution funds, taxpayers were also given the option to give all or part of their refund to a political party. *Table 4* below shows the total amount of refunds designated annually to voluntary contribution funds and political parties since the program started in 1984 [A.R.S. § 43-611 to 622].

WHO PAYS

Individuals

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]. Any individual whose permanent home is in the state is considered a resident. Every person who spends more than 9 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 the intent to establish or relinquish residency is considered a part-year resident [A.R.S. § 43-104].

Businesses

Businesses other than regular corporations must also pay the individual income tax [A.R.S. § 43-102A]. A business that is subject to the individual income tax is often referred to as a "pass-through entity" since its income passes or flows through the business to the individual owners or members of that business. In other words, the business itself is not a tax-paying entity. Instead, the individual owners or members of that business include their pro rata share of the business net income (or loss) on their personal tax return. Note, however, that Laws 2021, Chapter 425 created an optional entity-level income tax for partnerships and S corporations, beginning in TY 2022. For more details on this entity-level tax, see the *Impact of Statutory Changes* section. In Arizona, a pass-through entity operates as a sole proprietorship, partnership, limited liability company (LLC), or a Subchapter S Corporation. A brief overview of the different business structures is shown in *Table 5* below.

Table 2

FY 2025 URBAN REVENUE SHARING DISTRIBUTION BY CITY

Cities by County	Amount	Percent of Total
APACHE		
Eagar	$943,874	0.07%
Springerville	$367,381	0.03%
St. Johns	$715,191	0.06%
COCHISE		
Benson	$1,135,329	0.09%
Bisbee	$1,062,363	0.08%
Douglas	$3,326,639	0.26%
Huachuca City	$340,365	0.03%
Sierra Vista	$9,451,715	0.75%
Tombstone	$319,092	0.03%
Willcox	$681,155	0.05%
COCONINO		
Flagstaff	$16,291,982	1.29%
Fredonia	$319,092	0.03%
Page	$1,557,168	0.12%
Tusayan	$319,092	0.03%
Williams	$736,677	0.06%
GILA		
Globe	$1,527,174	0.12%
Hayden	$319,092	0.03%
Miami	$325,899	0.03%
Payson	$3,559,151	0.28%
Star Valley	$541,393	0.04%
Winkelman	$319,092	0.03%
GRAHAM		
Pima	$645,842	0.05%
Safford	$2,184,716	0.17%
Thatcher	$1,167,025	0.09%
GREENLEE		
Clifton	$804,112	0.06%
Duncan	$319,092	0.03%
LA PAZ		
Parker	$723,275	0.06%
Quartzsite	$508,207	0.04%
MARICOPA		
Avondale	$19,899,635	1.57%
Buckeye	$23,167,987	1.83%
Carefree	$774,755	0.06%
Cave Creek	$1,095,974	0.09%
Chandler	$59,599,347	4.70%
El Mirage	$7,626,297	0.60%
Fountain Hills	$5,022,719	0.40%
Gila Bend	$394,398	0.03%
Gilbert	$58,587,613	4.62%
Glendale	$54,002,050	4.26%
Goodyear	$23,784,047	1.88%
Guadalupe	$1,109,802	0.09%
Litchfield Park	$1,464,419	0.12%
Mesa	$108,841,823	8.58%
Paradise Valley	$2,659,525	0.21%
Peoria	$42,279,677	3.33%
Phoenix	$351,015,984	27.68%
Queen Creek	$16,288,578	1.28%
Scottsdale	$51,989,431	4.10%
Surprise	$33,671,641	2.66%
Tempe	$40,382,995	3.19%
Tolleson	$1,525,897	0.12%
Wickenburg	$1,727,989	0.14%
Youngtown	$1,471,865	0.12%
MOHAVE		
Bullhead City	$9,211,545	0.73%
Colorado City	$581,598	0.05%
Kingman	$7,516,529	0.59%
Lake Havasu City	$12,605,619	1.00%
NAVAJO		
Holbrook	$1,028,114	0.08%
Pinetop-Lakeside	$891,543	0.07%
Show Low	$2,593,579	0.20%
Snowflake	$1,418,895	0.11%
Taylor	$908,774	0.07%
Winslow	$1,811,804	0.14%
PIMA		
Marana	$12,429,693	0.98%
Oro Valley	$10,277,099	0.81%
Sahuarita	$7,733,937	0.61%
South Tucson	$961,743	0.08%
Tucson	$116,413,023	9.18%
PINAL		
Apache Junction	$8,754,393	0.69%
Casa Grande	$13,559,917	1.02%
Coolidge	$3,891,432	0.28%
Eloy	$3,941,423	0.31%
Florence	$5,167,374	0.41%
Kearny	$386,527	0.03%
Mammoth	$319,092	0.03%
Maricopa	$15,108,363	1.19%
Superior	$546,924	0.04%
SANTA CRUZ		
Nogales	$4,191,166	0.33%
Patagonia	$319,092	0.03%
YAVAPAI		
Camp Verde	$2,656,759	0.21%
Chino Valley	$2,938,836	0.23%
Clarkdale	$1,043,218	0.08%
Cottonwood	$2,791,841	0.22%
Dewey-Humboldt	$965,785	0.08%
Jerome	$319,092	0.03%
Prescott	$10,159,248	0.80%
Prescott Valley	$10,645,970	0.84%
Sedona	$2,088,776	0.16%
YUMA		
San Luis	$8,076,429	0.64%
Somerton	$3,104,551	0.24%
Wellton	$547,136	0.04%
Yuma	$21,455,314	1.70%
TOTAL	**$1,268,257,785**	**100.00%**

Table 3

URBAN REVENUE SHARING PERCENTAGE

Distribution Year Fiscal Year	Collection Year Fiscal Year	Percentage
1974 – 1992	1972 – 1990	15.0%
1993	1991	12.8%
1994	1992	12.8%
1995	1993	12.8%
1996	1994	12.8%
1997	1995	13.6%
1998	1996	15.0%
1999	1997	15.0%
2000	1998	15.8%
2001	1999	15.0%
2002	2000	15.0%
2003	2001	14.8%
2004	2002	14.8%
2005-2023	2003-2021	15.0%
2024-	2022-	18.0%

SOURCE: Department of Revenue.

Table 4 below provides historical urban revenue sharing distributions.

Table 4

DISTRIBUTION OF INDIVIDUAL AND CORPORATE INCOME TAX

Fiscal Year	Total Collections 1/	State General Fund	Urban Revenue Sharing	Voluntary Contribution Funds 2/
2024	$6,590,588,219	$5,025,768,425	$1,564,819,794	$1,251,315
2023	$7,045,876,586	$5,938,917,910	$1,106,958,676	$1,580,338
2022	$8,693,479,607	$7,937,091,317	$756,388,291	$1,623,572
2021	$7,379,669,357	$6,551,176,499	$828,492,858	$1,897,955
2020	$5,041,740,835	$4,304,179,653	$737,561,182	$1,135,451
2019	$5,523,285,723	$4,848,481,285	$674,804,438	$1,312,040
2018	$4,917,074,548	$4,235,060,332	$680,770,080	$1,244,411
2017	$4,499,035,169	$3,834,421,857	$663,582,168	$1,031,144
2016	$4,538,467,198	$3,931,904,086	$605,634,326	$928,786
2015	$4,424,347,015	$3,814,991,475	$608,935,700	$419,840
2014	$4,037,562,217	$3,475,671,441	$561,001,195	$889,581
2013	$4,059,571,528	$3,544,630,836	$513,584,045	$1,356,647
2012	$3,729,909,208	$3,298,428,797	$424,423,442	$7,056,969
2011	$3,423,893,632	$2,942,907,218	$474,006,520	$6,979,894
2010	$2,830,062,980	$2,194,412,321	$628,644,630	$7,006,029
2009	$3,160,121,036	$2,424,782,055	$727,677,400 3/	$7,661,581
2008	$4,190,964,093	$3,498,398,258	$684,538,927	$8,026,908
2007 4/	$4,648,252,998	$4,089,906,556	$551,230,661	$7,115,781
2006 4/	$4,520,688,826	$4,089,641,855	$425,228,927	$5,818,044
2005 4/	$3,549,619,113	$3,170,987,163	$373,072,578	$5,559,372

1/ Includes corporate income tax.
2/ Represents taxpayer contributions of their refunds to various entities through the tax "check-off" boxes.
3/ Laws 2006, Ch. 351 appropriated a total of $727.6 million for FY 2009 *(see 2009 Tax Handbook, page 33 for more details)*.
4/ Includes Ladewig refunds and attorney payments of $131.5 million in FY 2005, $48.7 million in FY 2006, and $80.7 million in FY 2007.

Estates and Trusts

Fiduciaries of estates and trusts are also subject to the individual income tax [A.R.S. § 43-102A]. Generally, a trust is a separate legal and taxable entity consisting of property that is held and administered by a fiduciary trustee for the benefit of another. An estate, for the purpose of tax law, is the collective real and personal property that a person possesses at the time of death and that is transferred to the heir(s) subject to payment of debts and claims. An estate is a temporary entity administered by a fiduciary executor and dissolved upon the completion of the probate process. For more details, see Title 43, Chapter 13 of Arizona Revised Statutes.

Pursuant to Laws 2021, Chapter 436, estates and trusts are taxed at the same 2.5% single rate as individual filers.

Government
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 [A.R.S. § 43-104].

Tribal Members
The income of an Indian tribal member is not subject to Arizona state income tax if he or she is: (1) living and working on the reservation, and (2) deriving income from reservation sources only. This exclusion applies to affiliated Indian members who have been adopted into the tribe and who have attained full and unrestricted membership privileges in that tribe.

Income of a non-affiliated tribal member or a non-Indian derived from reservation or non-reservation sources is subject to income tax in the same manner as all other Arizona residents.

There are no specific statutory references related to the imposition of Arizona state income tax on tribal members. Thus, to facilitate the administration of state income tax on Indian reservations, the Department of Revenue (DOR) has adopted income tax rulings based on the decisions in several court cases. The most recent ruling, which is reflected in the description above, was issued in May 1996 and is referred to as ITR 96-4.

REVENUE 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 [A.R.S. § 43-1023, §43-1041, and §43-1042].

Capital Gains
Prior to TY 2013, capital gains from the sale of capital assets, such as stocks, bonds, and real estate, were not taxed separately under the state's income tax statutes. Thus, income from net capital gains was subject to the same marginal tax rates as other income included under the definition of Arizona taxable income.

Laws 2012, Chapter 343 reduced the individual income tax rate paid on long-term capital gains accrued from assets acquired after 2011. (Long-term capital gains are realized on assets held longer than 1 year.) The reduction in the regular rate under Chapter 343 is 10% in TY 2013, 20% in TY 2014, and 25% in TY 2015 and thereafter. Capital gains realized on assets purchased before 2012 are not affected by Chapter 343. Additionally, beginning in TY 2014, Laws 2011, 2nd Special Session, Chapter 1 eliminates individual income tax on capital gains derived from investment in small businesses with assets up to $10 million. The historical amounts of net capital gains subject to income tax, as reported by Arizona taxpayers to the Internal Revenue Service (IRS), are shown in *Table 6* below.

Table 5

COMPARISON OF BUSINESS STRUCTURES

	Sole Proprietorship	Partnership	Limited Liability Company (LLC)	S Corporation
Control	• Owner	• General Partners	• Members	• Shareholders
Owner Restrictions	• Only one owner is permitted.	• Partners own the partnership.	• Members own LLC. • Minimum of 1 member required.	• Shareholders are owners. • Ownership limited to a maximum of 75 U.S. residents.
Filing Requirements	• Fictitious Name Certificate • Trade Name • Business License	• Consent of Statutory Agent	• Articles of Organization • Consent of Statutory Agent	• Articles of Incorporation • Certificate of Disclosure • Consent of Statutory Agent • Annual Report
Liability	• Owner is personally liable.	• General Partners are liable. • Limited partners are liable to the extent of their investments.	• All members are protected.	• All shareholders are protected.
Officers	• No	• No	• No, unless designated by management.	• Yes
Controlling Documents	• Business Plan	• Partnership Agreement	• Operating Agreement	• Articles of Incorporation
Income Tax Treatment	• Owner subject to individual income tax. • Tax items reported on Schedule C.	• Partners subject to individual income tax. • Partners taxed for their share of profits. • However, partnerships may choose to be taxed at entity level.	• Members subject to individual income tax. • Members taxed for their share of profits. • However, LLC may choose to be taxed at entity level.	• Shareholders subject to individual income tax. • Shareholders taxed for their share of profits. • However, S Corporations may choose to be taxed at entity level.

SOURCE: Arizona Corporation Commission.

Table 6

NET CAPITAL GAINS REPORTED BY ARIZONA TAXPAYERS TO THE IRS
(Millions of Dollars) 1/

Tax Year	Net Capital Gains 1/	Tax Year	Net Capital Gains 1/
2022	N/A 2/	2012	$7,167.7
2021	$36,323.2	2011	$4,706.6
2020	$20,311.6	2010	$4,276.2
2019	$15,607.7	2009	$3,242.3
2018	$15,455.8	2008	$6,606.2
2017	$13,751.2	2007	$14,853.7
2016	$8,716.9	2006	$15,214.8
2015	$9,287.6	2005	$14,784.3
2014	$8,639.5	2004	$8,732.1
2013	$6,280.1	2003	$4,580.4

1/ Note that amounts in this table refer to net capital gains subject to income tax as opposed to income tax collections attributable to net capital gains.
2/ Data not available as of publication.
SOURCE: IRS, Statistics of Income (SOI).

EXEMPTIONS

Organizations that are exempt from federal income tax under Section 501 of the Internal Revenue Code are also exempt from state income tax. In addition, the following organizations are exempt from state income tax [A.R.S. § 43-1201]:

(1) Any organization that is exempt from federal income tax.
(2) Insurance companies that pay taxes on premiums derived from sources within Arizona.
(3) Non-profit medical marijuana dispensaries.

RATE

Rates and Brackets. Laws 2021, Chapter 412, the Tax Omnibus bill, reduced the 2 Individual Income Tax brackets to 1 uniform rate of 2.5% starting in TY 2023. See Laws 2021, Chapter 412 under *Impact of Statutory Changes* for more information.

Proposition 208 – 3.5% Surcharge and the 4.5% Maximum Rate
In November 2020, a voter-initiated ballot measure known as Proposition 208 was passed, which would have established a 3.5% income tax surcharge on single taxpayers with taxable income in excess of $250,000 and married taxpayers with taxable income greater than $500,000, beginning January 1, 2021. The revenue from this surcharge would have been deposited into the Student Support and Safety Fund (SSSF). The Courts ruled that Proposition 208 was unconstitutional and overturned it, thereby rendering the surcharge invalid. The Court ruling also had the effect of invalidating the 4.5% maximum income tax rate created by Laws 2021, Chapter 411. See the *Impact of Statutory Changes* section.

History of Rates
From TY 1990 through TY 2018, Arizona used 5 graduated individual income tax brackets. Laws 2018, Chapter 273 reduced the number of income tax brackets from 5 to 4, beginning in TY 2019. These 4 income tax brackets were in effect from TY 2019 through TY 2021. Laws 2021, Chapter 412 reduced the number of income tax brackets from 4 to 2 in TY 2022. Beginning in TY 2023, Chapter 412 imposes a single rate of 2.5% on all taxable income irrespective of the amount. See *Table 11* in the Individual Income Tax section of the *2021 Tax Handbook* for

historical individual income tax rates and brackets in effect from TY 1990 through TY 2021. For the TY 2022 rates, see Laws 2022, Chapter 412 in the *Impact of Statutory Changes* section.

From TY 2015 to TY 2022, individual income tax brackets were adjusted annually for inflation as measured by the Metropolitan Phoenix Consumer Price Index. Tax brackets were not reduced for annual decreases in the index. [A.R.S. § 43-1011]. With all filers subject to a single 2.5% rate beginning in TY 2023, there is no need to adjust for inflation beginning that year.

Alternative Income Rate

Pursuant to Laws 2021, Chapter 436 (SB 1783), beginning in TY 2021, certain classes of income are subject to taxation at alternate rates from the individual income tax [A.R.S. § 43-1701 through A.R.S. § 43-1751]. To qualify for this alternative tax, a taxpayer's federal adjusted gross income must include one or more of the following income sources [A.R.S. § 43-1701]:

- Schedule B- Interest and Ordinary Dividends.
- Schedule C- Profit or Loss from Business. Income or loss from an individual who is operating a business or practicing a profession as a sole proprietor.
- Schedule E- Supplemental Income or Loss. Income or loss from rental real estate, royalties, partnerships, S corporations, estates, or trusts.
- Schedule F- Profit or Loss from Farming.
- Form 4797- Sale of Business Property.
- Form 4835- Farm Rental Income and Expenses.
- Schedule D- Capital Gains and Losses. Specifically, capital gains and losses with respect to either the taxable disposition of an ownership interest in any entity other than a publicly traded company, or the taxable disposition of capital assets used in connection with trade or business activity.

Under Chapter 436 (SB 1783), this income is referred to as "Arizona small business income" and is taxed at the following rates [A.R.S. § 43-1711]:

- 3.5% for TY 2021
- 3.0% for TY 2022
- 2.5% for TY 2023 and thereafter

Under Laws 2021, Chapter 436, the "Arizona small business income" tax rate was to be reduced to 2.8% in TY 2023 and TY 2024 and then further lowered to 2.5%, beginning in TY 2025. To match the TY 2023 individual income tax rate, Laws 2023, Chapter 67 accelerated the implementation of the 2.5% rate on small business income to TY 2023.

TAX CREDITS

A tax credit is a dollar-for-dollar reduction of a taxpayer's individual income tax liability. A credit is different from a subtraction, exemption, or deduction, which reduces the amount of income that will be taxed. For more details, see the *Tax Computation* section.

A tax credit is either refundable or non-refundable. Unlike refundable credits, non-refundable credits can never exceed a taxpayer's tax liability. However, many of the non-refundable tax credits allow the unused amounts to be carried forward to future years. As shown in *Table 7* below, only the following credits are refundable under current statutes:

Table 7

REFUNDABLE INCOME TAX CREDITS

Name of Credit	Type of Credit
Property Tax Credit	Individual
Low-Income Credit for Increased Excised Taxes Paid	Individual
Research and Development (R&D) Credit 1/	Individual and Corporate
Qualified Facility Credit 2/	Individual and Corporate
Motion Picture Production Credit 3/	Individual and Corporate

Notes:
1/ Credit is only available to businesses that employ less than 150 full-time employees. Refundable portion of R&D credit is subject to an aggregate cap of $5 million annually.
2/ Credit is subject to an aggregate cap of $125 million annually.
3/ Arizona Commerce Authority is authorized to pre-approve total credits of $75 million in Calendar Year (CY) 2023, $100 million in CY 2024, and $125 million, beginning in CY 2025.

The value of tax credits used and carried forward through tax year 2022 is summarized by the DOR summary report attached at the end of this section.

Laws 2002, Chapter 238 established the Arizona Joint Legislative Income Tax Credit Review Committee. The Committee is required to determine the purpose of income tax credits, develop performance standards for evaluating the credits, and evaluate the benefits to the state. The Committee reviews each tax credit every 5 years according to a rotating schedule [A.R.S. § 43-221].

Title 43, Chapter 10, Article 5 of the Arizona Revised Statutes lists all the individual income tax credits currently available to Arizona taxpayers. A brief description of each tax credit currently in statute is provided below. *Appendix C* in the Tax Handbook includes a list of all individual and corporate tax credits with statutory ending dates. *Appendix B* provides a complete list and detailed description of the various school tax credits currently available to individual and corporate taxpayers, as well as insurance companies.

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 to control, prevent, monitor, or reduce air, water, or land pollution. The credit is 25% of the cost of the property up to a maximum of $25,000. This non-refundable credit can be carried forward no more than 5 consecutive years [A.R.S. § 43-1081.01].

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 to Arizona gross income when computing taxable income. This non-refundable tax credit can be carried forward for no more than 5 years [A.R.S. § 43-1084].

Arizona National Guard Employees. A tax credit of $1,000 per employee is allowed for businesses that employ Arizona National Guard members who are called to active duty. This non-refundable tax credit, which is effective from January 1, 2006, can be carried forward for no more than 5 years [A.R.S. § 43-1079.01].

Arizona Small Business Excess Credit Amount. Allows a credit against a taxpayer's regular individual income tax liability equal to the excess amount of credits claimed under the alternative small business income tax provided by Laws 2021, Chapter 436 (SB 1783). Any amount of credit not used to offset individual income tax liability may be carried forward [A.R.S. § 43-1078].

Charitable Organizations and Foster Care Charitable Organizations. A credit can be claimed for cash contributions to qualified charitable organizations (QCO) that provide assistance to low-income residents and children that are chronically ill or physically disabled. A separate credit may be claimed for cash contributions to qualified foster care charitable organizations (QFCO) that provide foster care to children or services to under-21-year-old former foster youth in independent living programs. Qualifying organizations may not provide, pay for, promote, or financially support abortions or any entity that provides abortions.

The maximum amount of QCO contributions that can be claimed on the 2024 Arizona income tax return is $470 for taxpayers filing as single or head of household and $938 for those filing as married couples. The maximum credit that be claimed on the 2024 Arizona tax return for donations to QFCOs is $587 for taxpayers filing as single or head of household and $1,173 for those filing as married couples.

Prior to Laws 2016, Chapter 109, the QCO and QFCO credits shared a combined maximum amount of $400 for taxpayers filing as single or head of household and $800 for those filing as married couples. Laws 2016, Chapter 109 also permits a donation made between the close of the tax year and the individual income tax filing deadline to be applied to either the current or preceding tax year for the purpose of claiming the individual income tax credit. This non-refundable tax credit can be carried forward for no more than 5 consecutive years [A.R.S. § 43-1088].

Laws 2019, Chapter 297 expands the eligibility of this credit to include donations to organizations that serve all persons who have chronic illness or physical disability, including adults.

Laws 2021, Chapter 412 expands the definition of Qualifying Foster Care Charitable Organizations to allow tax credit donations to QFCOs that serve persons who have left the foster care system due to reaching 18 years of age, adoption, or legal guardianship after reaching 16 years of age or reunification at 14 or 15 years of age. Chapter 412 was only in effect for TY 2021.

Laws 2022, Chapter 385 annually adjusts for inflation the income tax credit limit for donations to Qualifying Charitable Organizations and Qualifying Foster Care Charitable Organizations, beginning in TY 2022. [A.R.S. § 43-1088].

Dependent Tax Credit. A credit can be claimed for each dependent claimed by a taxpayer. This credit is equal to $100 for each dependent under the age of 17, and $25 for each dependent age 17 or older. The credit is phased out for taxpayers with federal adjusted gross incomes above $200,000, or $400,000 in the case of married couples filing jointly. Claimed exemptions for taking care of individuals 65 and older and for stillborn deaths are in lieu of this credit (Laws 2020, Chapter 43). The credit is non-refundable and cannot be carried forward [A.R.S. § 43-1073.01].

Entity-Level Income Tax Credit. Laws 2021, Chapter 425 created an optional entity-level income tax for partnerships and S corporations, beginning in TY 2022. To ensure that taxpayers that use the optional entity-level income tax pay the same amount of state income tax as they would have under the regular individual income tax, an entity-level tax credit is provided [A.R.S. § 43-1077]. Laws 2022, Chapter 235 provide the same credit for estates and trusts that elect to pay the entity-level income tax [A.R.S. § 43-1382].

Excise Tax Credit. 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 refundable credit is considered a mitigation of the 0.6% sales tax increase resulting from Proposition 301 passed in November 2000. This law was effective from January 1, 2001 through December 31, 2020 [A.R.S. § 43-1072.01]. Laws 2018, Chapter 74 extended the credit to December 31, 2041 [A.R.S. § 43-1072.02]. Laws 2021, Chapter 196 combined this credit with the Credit for Excise Taxes Paid and named it the "Credit for Increased Transaction Privilege or Excise Tax Paid for Education" [A.R.S. § 43-1072.02].

Facility Credit. A business that expands or locates a qualified facility in the state may claim a credit for qualifying investment and employment [A.R.S. § 41-1512 and § 43-1083.03]. The credit is 10% of the lesser of: (1) the total capital investment in the qualified facility by the taxpayer or third-party lessor of the property or (2) $200,000 for each net new employee at the qualified facility if the total qualifying investment is less than $2 billion, or (3) $300,000 for each net new employee at the qualified facility if the total qualifying investment is $2 billion or more.

To be eligible for the credit, a business is required to devote at least 80% of its property and payroll at the facility to manufacturing, research, or a national or regional headquarter. The credit is dependent upon the taxpayer paying at least 51% of new full-time employees a wage exceeding 125% of the state median wage in urban areas and 100% in rural areas and paying 65% or more of the premium for all full-time employees' health insurance [A.R.S. § 41-1512]. Capital investments made by a company in a qualified facility up to 36 months before applying for preapproval by the Arizona Commerce Authority (ACA) are included in the computation of the credit (Laws 2020, Chapter 7). Prior to Laws 2016, Chapter 372, investments by a third-party lessor could not qualify for the credit and taxpayers in urban and rural areas were required to pay at least 80% of employee health insurance premiums and at least 125% of the state median wage.

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. Laws 2020, Chapter 7 extends the credit to TY 2030. Laws 2021, Chapter 80 increases the aggregate annual credit cap from $70 million to $125 million.

Family Income Credit. Residents are allowed a $40 non-refundable tax credit for each dependent exemption claimed, subject to certain income limitations. This credit cannot be carried forward to offset future years' income tax liability [A.R.S. § 43-1073].

Healthy Forest Production. Allows a taxpayer, beginning in TY 2021, to receive a tax credit for processing qualifying forest products if the taxpayer has a Healthy Forest Enterprise Incentive certification, processes qualifying forest products from a qualifying project between 2021 and 2030, and the facility processing the qualifying forest products is located in Arizona. The amount of credit is based on the number of tons of qualifying forest products that a taxpayer processes during a calendar year, $10,000 for the first 20,000 tons and $5,000 for every 10,000 tons after that. The maximum amount of credit for a calendar year that can be claimed is $500,000 per taxpayer and $2,000,000 in total. The credit is non-refundable and can be carried forward for no more than 5 years [A.R.S. § 43-1076.01].

Low-Income Housing (Affordable Housing). A taxpayer can claim a nonrefundable credit equal to at least 50% of the amount of the federal Low-Income Housing Tax Credit for qualified projects placed in service in Arizona after June 30, 2022. The Arizona Department of Housing is authorized to allocate a total of $4 million in tax credits per year from 2022 to 2025. At the end of the calendar year, if an unused balance occurs, the balance will be reallocated to the next year. Each of these 4 award cycles is available for 10 years. Unused credits may be carried forward up to 5 years [A.R.S § 43-1163].

Military Family Relief Fund Tax Credit. A credit may be claimed for cash contributions to the Military Family Relief Fund established by Laws 2007, Chapter 258. The maximum credit is $200 for taxpayers filing as single or head of household and $400 for those filing as married couples. The credit is not allowed to exceed the taxpayer's tax liability. The total dollar value of the credit, which is available for tax years 2008 through 2026, is capped at $1 million per taxable year [A.R.S. § 41-608.04 and A.R.S. § 43-1086]. Laws 2012, Chapter 281 extended the expiration of the credit from 2012 to 2018. Laws 2018, Chapter 199 extended the credit further to December 31, 2026.

Motion Picture Production Tax Credit. Beginning in TY 2023, a refundable credit may be claimed equal to a percentage of the total amount of approved and qualified motion picture production costs: 15% for the first $10 million, 17.5% on the next $25 million, and 20% when the production company spends more than $35 million. Additional credit may be claimed equal to 2.5% of production labor costs, production costs for using qualified facilities, and qualified production costs if the motion picture production is done in association with a long-term tenant of a qualified production facility. The credit program will be implemented and administered by the Arizona Commerce Authority (ACA). The credit, which was enacted by Laws 2022, Chapter 387, authorizes ACA to pre-approve up to $75 million in refundable credits in Calendar Year (CY) 2023, $100 million in CY 2024, and $125 million, beginning in CY 2025. The credit is set to be repealed on December 31, 2043. [A.R.S. § 43-1082]

New Employment Tax Credit. A $3,000 annual tax credit may be claimed for each net new qualifying job added by an employer in the state [A.R.S. § 43-1074]. To qualify for the credit, new employment positions must be full-time, meet wage requirements, and offer health insurance paid by the employer (at least 65% of the premium). Credits associated with each net new employment position created can be claimed for 3 consecutive years, for a cumulative total of $9,000. A company may claim first-year credits for each separate new job created for up to 3 years. This means that since second- and third-year credits may be claimed against each of the new employment positions created, a taxpayer may claim the new employment tax credit for up to a total of 5 consecutive years. ACA is authorized to issue first year credits for up to 10,000 new employees ($30.0 million) in each year.

Prior to Laws 2017, Chapter 340, a business could not claim the new credit unless it added at least 25 net new jobs in a year in an urban area (5 in a rural area), paid employees at least 100% of the county median wage, and made a capital investment of at least $5.0 million ($1.0 million in a rural area) [A.R.S. § 43-1074]. Beginning in TY 2018, Laws 2017, Chapter 340 permits businesses to qualify under alternative levels of capital investment and wages as displayed in *Table 8* and permits ACA to authorize credits through June 30, 2025. A business can now invest less than $5.0 million if they pay wages that exceed 100% of the county median level. The required number of net new jobs remains unchanged. Given the maximum 5-year schedule outlined above, businesses may claim credits through TY 2029. [A.R.S. § 41-1525]

Table 8

New Employment Tax Credit
Investment and Median Wage Requirements

Urban Location

Minimum Capital Investment	Wages as Percent of County Median
$5,000,000	100%
$2,500,000	125%
$1,000,000	150%
$500,000	200%

Rural Location

Minimum Capital Investment	Wages as Percent of County Median
$1,000,000	100%
$500,000	125%
$100,000	150%

In TY 2013 and later years, Laws 2012, Chapter 343 eliminates the requirement (provided by Laws 2011, 2nd Special Session, Chapter 1) that no employer can claim more than 400 new jobs in the first year of credit use, 800 jobs in the second year, and 1,200 jobs in the third year. The cap applied to credits claimed against insurance premium, individual income, and corporate income taxes. Laws 2014, Chapter 168 changes the requirement for the New Employment Tax Credit program by providing that second- and third-year credits can be claimed irrespective of whether the same employee remains employed so long as the employer replaces the vacant position with another qualified employee within 90 days.

Pollution Control Equipment. The credit is allowed for purchases of real or personal property used to control or prevent pollution. The qualifying facilities must be built or purchased to comply with U.S. Environmental Protection Agency or Arizona Department of Environmental quality regulations. The credit amount is equal to the lesser of 10% of the purchase price or $500,000 in a taxable year. This non-refundable tax credit can be carried forward for no more than 5 years [A.R.S. § 43-1081]. Laws 2022, Chapter 235 repealed this individual income tax credit, beginning in TY 2022. Credit from previous tax years may be carried forward.

Public School Extracurricular Activity Fees. A credit may be claimed for contributions for extracurricular activities, character education programs, standardized tests for college credit and readiness, career, and technical assessments, testing preparation courses and cardiopulmonary resuscitation (CPR) training at public schools. The maximum credit is $200 for taxpayers filing as single or head of household and $400 for those filing as married couples. (Prior to Laws 2005, Chapter 334, the maximum credit for married couples was $250). This credit is in lieu of any federal or state deduction for such contributions. A 5-year carry forward of the credit is allowed [A.R.S. § 43-1089.01].

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 older or receiving SSI Title 16 monies from the Social Security Administration.
- Paid either property taxes or rent during the taxable year.
- If the person lived alone, his income from all sources was below $3,751, or if he lived with others, the combined household income was below $5,501.

The amount of the credit allowed under this provision is prescribed in A.R.S. § 43-1072B.

Renewable Energy Production. A credit is allowed on the production of electricity using renewable energy. To be eligible for the credit, a taxpayer must hold title to a qualified energy generator that first produces electricity between January 1, 2011 and December 31, 2020. The new credit allows a qualified producer of renewable energy to receive an individual or corporate income tax credit of up to $2.0 million per year on the electricity they produce for 10 years. Given that a taxpayer may begin earning credits as late as TY 2020, the latest year a credit may be earned under a 10-year schedule is TY 2030. The renewable energy credit has an annual cap of $20.0 million for total individual and corporate income tax credits. A 5-year carry forward of the credit is allowed [A.R.S. § 43-1083.02]. For additional information on renewable energy incentives, see *Appendix A*.

Research and Development (R&D). The credit is calculated based on the amount of qualified research expenses exceeding a certain "base amount" (defined in the Internal Revenue Code). Prior to TY 2010, the credit was calculated as 20% of up to $2.5 million in qualified expenses and 11% of qualified expenses above $2.5 million. Laws 2008, Chapter 290 increased these credit percentages to 24% and 15%, respectively from TY 2010 to TY 2017. Laws 2017, Chapter 340 extended these enhanced credit percentages through TY 2021. This was further extended through TY 2030 by Laws 2020, Chapter 7. Laws 2010, Chapter 312 changed the credit from being nonrefundable to refundable for those companies that employ less than 150 full-time employees. Specifically, the act provides that such taxpayers receive a refund equal to 75% of the amount by which the credit exceeds their liability. The refundable aspect of the credit has an annual cap of $5.0 million cumulatively for the individual and corporate income tax and is effective retroactively from January 1, 2010. If in any year less than $5.0 million of credits are filed collectively by all taxpayers, any unused amount rolls over to the next year. Laws 2011, 2nd Special Session, Chapter 1 expands the tax credit, beginning in FY 2013, by increasing the credit calculation by 10% for university-related research. The credit is subject to an aggregate cap of $10.0 million per year between individual and corporate income taxpayers. A 15-year carry forward of the credit is allowed for credits claimed through TY 2021 [A.R.S. § 43-1074.01]. Laws 2021, Chapter 196 provides that credits claimed beginning in TY 2022 have a 10-year carry forward.

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. Laws 2021, Chapter 383 allows shareholders of an S Corporation to also claim their pro rata share of the credit based on ownership interest [A.R.S. 43-1089.02D]. This credit became available January 1, 2001. This non-refundable tax credit can be carried forward for no more than 5 consecutive years [A.R.S. § 43-1089.02].

School Tuition S Corporation Credit. Owners of an S corporation may claim a credit for cash contributions made to a school tuition organization (STO) that provides scholarships to “low income” or “displaced or disabled” students. Prior to Laws 2015, Chapter 301, only businesses classified as C corporations could receive income tax credits for such contributions, pursuant to A.R.S. § 43-1183 and A.R.S. § 43-1184. To be used for tax purposes, an S corporation’s credits must be pro-rated, passed through to the business owners and applied to the owners’ individual income tax liability [A.R.S. § 43-1089.04].

The full amount of the low-income tax credit was originally capped at $10.0 million per year, with the cap increasing by 20% per year beginning in FY 2008 [A.R.S. § 43-1183]. The credit cap was $74.3 million in FY 2018, $89.2 million in FY 2019, and $107.0 in FY 2020. Laws 2019, Chapter 281 limited the annual increase of the credit cap to 15% in FY 2021, 10% in FY 2022, 5% in FY 2023 and the greater of 2% or the annual change of the Metropolitan Phoenix consumer price index in FY 2024 and every year thereafter. In dollar terms, Chapter 281 limited the growth of the credit cap to $123.1 million in FY 2021, $135.4 million in FY 2022, $142.1 million in FY 2023 and $158.5 million in FY 2024. Actual use of the credit was $116.2 million in FY 2024. Laws 2024, Chapter 221 eliminated the growth factor and caps the aggregate credit amount at $135 million per fiscal year beginning in FY 2025.

This "low-income" cap applies to all credits cumulatively taken under Individual Income Tax S-Corporations, Corporate Income Tax, and Insurance Premium Tax. There is no cap on the amounts of contributions made by individual businesses.

The full amount of the displaced or disabled tax credit is capped at $6.0 million per year [A.R.S. § 43-1184]. Laws 2021, Chapter 412 increased the credit cap from $5.0 million to $6.0 million, beginning in FY 2022. A taxpayer may carry forward the unused portion of either tax credit for 5 years. See *Appendix B* in the Tax Handbook for a comparison of private school tax credits.

School Tuition Organizations (STO-1 or "Original" STO Credit). A credit may be claimed for donations to a non-governmental primary or secondary school tuition organization (STO) that allocates at least 90% of its annual revenue to educational scholarships or tuition grants. Laws 2010, Chapter 293 provides that the maximum amount of the credit be adjusted for inflation each year and prohibits taxpayers from swapping donations with others for the benefit of their dependents. The maximum credit that can be claimed on the 2024 Arizona tax return is $731 for taxpayers filing as single or head of household and $1,459 for married couples filing jointly. Laws 2010, Chapter 188 allows a donation made between the close of the tax year and the individual income tax filing deadline to be applied to either the current or preceding tax year for the purpose of claiming the individual income tax credit. A 5-year carry forward of the credit is allowed [A.R.S. § 43-1089]. See *Appendix B* in the Tax Handbook for a comparison of private school tax credits.

School Tuition Organizations (STO-2 or "Switcher" STO Credit). Laws 2012, Chapter 4 created a new tax credit for cash contributions to school tuition organizations (STO). The new credit, which is effective retroactively from January 1, 2012, is only available if the tax-filer has already claimed the maximum amount under the "Original" STO tax credit program for individuals (*see STO-1 above*). The Department of Revenue is required to adjust the maximum credit amount for inflation each year. The maximum credit that can be claimed for TY 2024 is $728 for taxpayers filing as single or head of household and $1,451 for married couples. Scholarship monies generated by the new credit are available only to students who either: (1) attended public school full-time for at least 90 days in the prior year and transferred to private school, (2) are the dependent of a member of the armed forces, (3) are entering Kindergarten, or (4) received a STO scholarship in the prior year under 1 of the first 3 criteria. Beginning in TY 2021, Laws 2021, Chapter 412 expands the list of eligible students to include those who were homeschooled, moved from out of state, or held an Empowerment Scholarship Account (ESA). Laws 2022, Chapter 388 expanded eligibility further to include any Arizona resident who is eligible to enroll in an Arizona public school and does not otherwise qualify for an ESA [A.R.S. § 43-1089.03]. Laws 2024, Chapter 221 expands the eligibility for scholarships to include foster care children that meet certain requirements, as outlined in the *Impact of Statutory Changes* section. See *Appendix B* in the Tax Handbook for a comparison of private school tax credits.

Small Business ("Angel") Investment Credit. This credit is provided to investors that make investments in targeted small businesses certified by the Arizona Commerce Authority (ACA). A qualified ("angel") investor must be either an individual, or a limited liability company, sub-chapter S corporation, or partnership. C corporations are not eligible for the credit. The credit is equal to 30% of the qualified investment unless the investment is made in a rural or bioscience company, in which case the credit is 35%. The credit must be claimed in installments over 3 years. Credit is nonrefundable and unused amounts can be carried forward up to 3 years.

Prior to Laws 2017, Chapter 319, the angel investment credit was limited to a total of $20.0 million over the life of the program, from July 1, 2006 through June 30, 2021. ACA reported completing approval of the full $20.0 million cap by June 2015. Laws 2017, Chapter 319 permitted ACA to authorize an additional $10.0 million in credits from July 1, 2017 to June 30, 2021. Of the $10.0 million in additional credits, ACA may approve up to $2.5 million for each year. Any unused portion of the $2.5 million annual cap may be authorized in the following years of the program. Laws 2021, Chapter 430 allows the Arizona Commerce Authority (ACA) to authorize $2.5 million in credit per year through June 30, 2031. Any unused portion of the $2.5 million annual cap may be authorized in the following years of the program. Taxpayers can claim authorized credits on their tax returns through TY 2034. For an individual investor, the credit is applied to investment amounts of up to $500,000 per calendar year in one or more qualified small businesses. Investment amounts in excess of $500,000 do not generate tax credits. To receive qualified angel investments, a business must employee at least 2 Arizona residents and must not have assets exceeding $10.0 million or be engaged in activities involving human cloning or embryonic stem cell research. Once a qualified business has received a total of $2.0 million in qualified investments, it is no longer allowed to receive credit-eligible angel investments [A.R.S. § 43-1074.02].

Solar Energy Devices for Commercial and Industrial Purposes. A taxpayer can claim a non-refundable credit equal to 10% of the installed cost of a solar energy device used in their trade or business. The credit cannot exceed $25,000 for the same building in the same year or $50,000 in total in any year. This income tax credit may be claimed by a taxpayer purchasing a solar energy device, or a taxpayer that finances the purchase of a qualifying device. The credit also may be transferred to a third party that manufactures or installs a qualifying device. The credit is available between tax years 2006 and 2018. Unused credits earned in TY 2018 can be carried forward to TY 2023 [A.R.S. § 43-1085]. For additional information on renewable energy incentives, see *Appendix A*.

Solar Energy Devices for Residential Purposes. 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. This non-refundable tax credit can be carried forward for no more than 5 consecutive years [A.R.S. § 43-1083]. For additional information on renewable energy incentives, see *Appendix A*.

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]. Laws 2021, Chapter 436 includes a credit for net income taxes paid to another state or country on Arizona alternate small business income [A.R.S. § 43-1071 and § 43-1381].

TAX COMPUTATION

The amount of individual income tax due (or owed) for individuals, partnerships, and fiduciaries are computed as follows:

Individuals:

Arizona Gross Income	Equivalent to taxpayer's federal adjusted gross income. Includes a taxpayer's capital gain or loss.
Plus	
Additions to Income	See A.R.S. § 43-1021 for amounts not taxed under federal income tax laws, but subject to Arizona income tax.
Minus	
Subtractions from Income	See A.R.S. § 43-1022 for amounts taxed under federal income tax laws, but not subject to Arizona income tax.
Minus	
Exemptions	See A.R.S. § 43-1023 for exemptions: (1) $1,500 for blind taxpayer and/or spouse (2) $2,100 for taxpayer and/or spouse who is age 65 or over, (3) $2,300 for stillborn child, and (4) $10,000 for qualifying parents and ancestors of parents. Prior to TY 2019, an exemption of $2,300 was allowed for each qualified dependent. Laws 2019, Chapter 273 repealed this exemption.
Equals	
Arizona Adjusted Gross Income	
Minus	
Standard or Itemized Deductions	See A.R.S. § 43-1041 and 43-1042: Standard deduction is $14,600 for single or married filing separately, $21,900 for singles filing as head of household, and $29,200 for married filing jointly and qualifying surviving spouses. Beginning in tax year 2005, the standard deduction is adjusted for inflation each year. Laws 2019, Chapter 273 increased these standard deduction amounts to be equal to the federal standard deduction. With several exceptions, itemized deductions are the same as on the federal income tax return.
Equals	
Taxable Income	
Multiply By	
Tax Rates	See *Tax Rate* Section.
Equals	
Tax Liability	
Minus	
Tax Credits	See *Tax Credits* Section.
Minus	
Tax Payments	Withholding, estimated, and extension payments made to the Department of Revenue.
Equals	
Tax Due	This can also be an overpayment; in which case, taxpayer will be entitled to a 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 3-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. 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. § 43-1301.
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 Credits* Section.
Tax Payments *Equals*	
Tax Due	

Table 9 below compares select differences in Arizona and Federal computations of individual income tax.

Table 9

State and Federal Individual Income Tax Systems
Tax Year 2024

	Arizona Individual Income Tax	**Federal Personal Income Tax**
Number of Tax Brackets 1/	1 bracket	7 brackets
Marginal Tax Rates		
Ordinary Income	2.5%	10.0% to 37.0%
Long-Term Capital Gains 2/	Ordinary rates reduced (25)%	0.0% to 20.0%
Arizona Small Business Income	2.5%	
Exemptions	(1) $1,500 if blind (2) $2,100 if age 65 years or over (3) $2,300 for stillborn child (4) $10,000 for qualifying parents and ancestors of parents	None.
Standard Deduction 3/		
Single	$14,600	$14,600
Married Filing Jointly	$29,200	$29,200
Head of Household	$21,900	$21,900
Added Deduction if Age 65 years +	See exemptions above	$1,550 - $3,100 4/
Added Deduction if Blind	See exemptions above	$1,550 - $3,100 4/
Additional Charitable Deduction 5/	Taxpayers who take the standard deduction may increase that deduction by 31% of their charitable contributions that would have been deductible had they itemized. 5/	None.
Select Differences in Taxation		
Social Security Income	Social Security Income is not taxable. Taxpayers may take a state subtraction of any income that is taxed at the federal level.	No amount is taxable if the sum of 50% of Social Security Income plus 100% of other income is less than specified income limits. Up to 85% of Social Security Income is taxable for taxpayers with income above the limits.
Medical Expenses	Taxpayers that itemize deductions may take a deduction of all unreimbursed medical expenses.	Taxpayers that itemize deductions may take a deduction of the amount of unreimbursed medical expenses that exceed 10% of federal adjusted gross income.
Child and Dependent Care Expenses	Taxpayers may claim a credit of $100 for each dependent under the age of 17 and $25 for each dependent age 17 and over.	Working taxpayers may claim a credit of up to $2,100 for costs incurred for child or dependent care. The credit is calculated as 20% to 35% of qualifying costs.

1/ Arizona and federal individual income tax brackets are adjusted annually for inflation.
2/ Long-term capital gains are realized on assets held longer than 1 year.
3/ Arizona and federal standard deduction amounts are adjusted annually for inflation.
4/ For married couples filing jointly, the added deduction is $1,550 for each taxpayer that qualifies, up to $3,100 per couple. For those filing single or as head of household, the added deduction is $1,950.
5/ Pursuant to Laws 2021, Chapter 412, beginning in TY 2022, the optional standard deduction percentage of 25.0% will be increased according to the average annual change in the metropolitan Phoenix CPI published by the U.S. Department of Labor, Bureau of Labor Statistics. This increase will be raised to the nearest whole percent and cannot be revised below the amount from the previous tax year. The total deduction cannot exceed 100.0%.

PAYMENT SCHEDULE

Withholding. To simplify payment of the individual income tax, a portion of the tax is paid through a system of withholding. Under Arizona law, a percentage of taxable wages is deducted and withheld by the employer for state income tax purposes at the time wages are paid [A.R.S. § 43-401].

Withholding of state income tax is determined based on withholding tables established by the Department of Revenue. Under this withholding table, an employee's state withholding is calculated as a percentage of their gross taxable wages. The withholding percentages effective from January 1, 2011 through December 31, 2022 were as follows: 0.8%, 1.3%, 1.8%, 2.7%, 3.6%, 4.2%, or 5.1% of gross taxable wages. Beginning January 1, 2023, DOR changed the withholding percentages to 0.5%, 1.0%, 1.5%, 2.0%, 2.5%, 3.0%, or 3.5% of gross taxable wages. The default withholding rate is 2.0% unless otherwise specified by the taxpayer. Additionally, employees can also choose to have their employer withhold an extra amount from each paycheck.

Employers have the option to <u>not</u> withhold income tax during the month of December. If an employer elects to not withhold tax in December, he is required to notify the Department of Revenue and his employees of this decision.

An individual income taxpayer may authorize his employer to reduce his withholding amount in order to make contributions to a school tuition organization, charitable organization, or public school.

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

Disposition. Employers that deduct withholding from their employees' wages are required to transfer the withholding collections to DOR. If an employer's withholding collections exceeded an average of $1,500 per quarter over the 4 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 4 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 (or $150,000 if the taxpayer filed a joint return) in the preceding taxable year or can reasonably expect to exceed $75,000 (or $150,000 if the taxpayer files a joint return) in the current year, is required to make payments of estimated tax during the individual's taxable year. The estimated amount shall be paid in 4 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. [A.R.S. § 43-581].

Laws 2021, Chapter 436 requires alternate income taxpayers to make estimated tax payments on Arizona small business income in 4 installments during the tax year if the tax liability is at least $1,000. The amount of required annual estimated tax payments is the lesser of 90% of the tax shown on the regular tax return for the tax year or 100% of the tax shown on the small business income tax return for the preceding tax year [A.R.S. § 43-583].

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].

Electronic Fund Transfer and Tax Filing Requirements. Employers that had withholding tax liability of at least $500 in the preceding taxable year are required to remit tax payments to DOR by electronic fund transfer (EFT). Laws

2017, Chapter 60 lowered the liability threshold for EFT payments from $20,000 to $10,000 for TY 2019, $5,000 for TY 2020, and $500 for TY 2021 and later years.

Beginning in TY 2018, Chapter 60 additionally requires tax professionals that prepare 11 or more state individual income tax returns a year to electronically file all prepared returns with DOR [A.R.S. § 42-1129 and A.R.S. § 43-323].

Extensions. If requested, the department will grant a taxpayer an automatic 6-month filing extension [A.R.S. § 42-1107]. Note, however, that a filing extension does not extend the taxpayer's time to pay his income tax. The taxpayer is still required to pay at least 90% of his tax liability by the original due date of the return. The department charges interest from the original due date to the date of payment. The department also imposes penalties as explained below.

Extension Underpayment Penalty. 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 cannot exceed 25% of the unpaid tax [A.R.S. § 42-1125].

Late Filing Penalty. This penalty is 4.5% of the tax required to be shown on the return for each month or fraction thereof the return is late. The penalty cannot exceed 25% of the unpaid tax [A.R.S. § 42-1125].

Late Payment Penalty. This penalty is 0.5% of the amount shown as tax for each month or fraction thereof for which the failure to pay tax continues. This penalty cannot exceed a total of 10% of the tax [A.R.S. § 42-1125].

TAX EXPENDITURES

DOR is required by law to prepare an annual report to the Governor and the Legislature detailing the estimated cost in lost revenues from the provision of tax expenditures [A.R.S. §42-1005]. Tax expenditures are provisions within the law, such as subtractions, exemptions, deductions, and credits that are designed to encourage certain kinds of activity or to aid taxpayers in certain categories. Tax expenditures result in a loss of tax revenues for both state and local governments.

Attachment A, located at the end of the Individual Income Tax section of the *2024 Tax Handbook,* lists individual income tax subtractions, exemptions, and deductions for tax year 2017, as shown in DOR's report *The Revenue Impact of Arizona's Tax Expenditures FY 2018/19*.

Laws 2015, Chapter 8 and Laws 2016, Chapter 125 requires DOR to report by September 30 each year on the amounts of individual income tax credits claimed in the preceding fiscal year. *Attachment B*, located at the end of the Individual Income Tax section of the *2024 Tax Handbook*, lists credits reported by DOR for FY 2024. The total annual tax expenditure estimate of $2.18 billion, which was derived from DOR's Individual Income Tax Simulation Model and FY 2019 tax credit report, represents foregone revenues to the state General Fund and to the Urban Revenue Sharing Fund.

In addition to tax expenditure provisions, the state permits individual and corporate income tax filers to accelerate depreciation of certain qualified asset purchases, for purposes of calculating state income tax liability. The *Accelerated Depreciation* section within this *Individual Income Tax* section includes more details on these allowances.

ACCELERATED DEPRECIATION ALLOWANCES

The Internal Revenue Code (IRC) allows individual and corporate income tax filers to accelerate depreciation of qualified asset purchases under multiple programs for purposes of calculating federal taxable income. Though historically authorized on an annual basis, these accelerations have recently been made permanent or extended several years. For purposes of calculating state taxable income, the state's individual and corporate income tax statutes have varied with regard to conforming to the federal business expensing allowance and the federal bonus depreciation allowance. Based on the amount of federal allowance available in a given tax year, tax filers can use these provisions, potentially together, to reduce their federal and state taxable income in the tax year that the qualified investment is made. Allowances adjust the timing, not the total amount, of depreciation that can be taken over the life of an asset.

Business Expensing

Section 179 of the IRC is a federal business expensing provision that allows individual and corporate tax filers to deduct 100% of their qualified property (up to a stipulated amount) in the year of purchase rather than in smaller installments over several years according to a federal depreciation schedule. The maximum business expensing deduction cannot exceed a filer's federal taxable income and is reduced, dollar for dollar, for investment exceeding a certain threshold. Qualified property generally includes purchase of new or used commercial machinery, equipment, and certain types of software.

Congress gradually increased the business expensing allowance on a temporary basis, from an amount of $24,000 in TY 2002 to $500,000 in TY 2010 through TY 2014. The $500,000 allowance available from TY 2010 through TY 2014 was reduced dollar for dollar, for investment exceeding $2.0 million.

Prior to TY 2013, Arizona capped the allowance at $25,000 (Laws 2004, Chapter 196) for purposes of calculating Arizona income tax liability for individuals and corporations. Laws 2013, Chapter 256 first conformed the state's tax statutes to the IRC's $500,000 business expensing federal deduction limit that was in place at the time of passage. Therefore, Chapter 256 effectively removed the $25,000 cap. Laws 2015, Chapter 227 conformed Arizona tax statutes to the temporary federal allowance of $500,000 in TY 2014, which reduced annual revenues by an estimated $(30.8) million in FY 2015 and later years *(see 2015 Tax Handbook, page 49 for detail about past conformity estimates)*.

The federal Consolidated Appropriations Act of 2016 made permanent the $500,000 business expensing allowance, beginning retroactively to TY 2015. Laws 2016, Chapter 155 conformed the state's tax statutes to the IRC's permanent expensing limit. There is no added revenue loss from conforming to the permanent limit, as the previous estimated impact of $(30.8) million a year assumed the continuation of the $500,000 limit in future years.

The 2017 federal Tax Cuts and Jobs Act increased the maximum deduction from $500,000 to $1.0 million and increased the phase-out threshold from $2.0 million to $2.5 million and indexes those amounts to inflation. Laws 2019, Chapter 273 conforms Arizona to these changes.

Bonus Depreciation

Federal bonus depreciation provides individual and corporate tax filers an added first-year depreciation allowance for purchases of qualified new property. Therefore, after deducting any bonus depreciation in the first year of an investment, the remaining value of the asset may be depreciated according to the percentages in federal depreciation schedules.

Congress established a temporary 30% bonus depreciation allowance in TY 2002 and eventually increased the limit to 50% in TY 2013 and TY 2014. Prior to TY 2013, Arizona tax statutes did not conform to the federal allowance for purposes of calculating state income tax liability (Laws 2002, Chapter 344 and Laws 2004, Chapter 196). Beginning in TY 2014, Laws 2012, Chapter 343 permitted individual income taxpayers to reduce their state taxable income by an amount equal to 10% of the federal allowance, if any. Arizona taxpayers were first able to take the partial allowance in TY 2014 on property placed in service in TY 2013 (10% of the 50% federal allowance in TY 2013). Conforming to 10% of the temporary allowance of 50% in TY 2014 (Laws 2015, Chapter 227) was estimated to reduce annual revenues by $(1.8) million in FY 2015 and later years.

The federal Consolidated Appropriations Act of 2016 extended federal bonus depreciation, providing allowances of 50% in TY 2015 through TY 2017, 40% in TY 2018, and 30% in TY 2019. Laws 2016, Chapter 118 conformed the state's deduction to 55% of the federal allowance in TY 2016 and 100% in TY 2017 and subsequent years. The 2-year phase-in of full state conformity of federal bonus depreciation was estimated to reduce individual income tax by $(8.0) million in FY 2017, followed by an additional reduction of $(8.0) million in FY 2018. Under the 2017 Internal Revenue Code (IRC) conformity bill (Laws 2017, Chapter 2), Chapter 118 was estimated to reduce individual income tax revenue by $(8.0) million in FY 2018. This estimate was based on the 50% federal bonus depreciation allowance in effect for TY 2017 when the 2017 IRCS conformity bill was enacted.

The federal Tax Cuts and Jobs Act (TCJA) enacted in December 2017 increased the federal bonus depreciation allowance from 50% to 100% for qualified equipment placed in service between September 28, 2017 and December 31, 2022. The 2018 Internal Revenue Code (IRC) conformity bill (Laws 2018, Chapter 142) conformed state statutes to the TCJA provisions that were effective retroactively for TY 2017. Therefore, the state income deduction for TY 2018 was based on the pre-TCJA bonus depreciation allowance of 50%. Chapter 142 was estimated to result in a one-time individual income tax revenue loss of $(5.0) million in FY 2019. Laws 2019, Chapter 273 conformed Arizona statute to the IRC for TY 2018, thus adopting 100% bonus depreciation for pass-through businesses.

The primary differences between bonus depreciation and business expensing are that bonus depreciation: (1) is only available for new property investments; (2) does not include an investment limitation for determining the deduction amount; (3) can be used to create a net operating loss that can be carried forward to future years; and (4) for purposes of calculating Arizona income tax liability, may only be used by individual taxpayers.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

2024 LAWS

Laws 2024, Chapter 7 was the annual conformity bill that updated the definition of the Internal Revenue Code (IRC) to include all IRC provisions that were in effect as of January 1, 2024.

Laws 2024, Chapter 221 caps the aggregate dollar level of the Corporate Low-Income Student Tuition Tax Credit at $135 million annually, beginning in FY 2025 cumulatively for Individual Income Tax S-Corporations, Corporate Income Tax and Insurance Premium Tax filers.

Chapter 221 also expands the eligibility for scholarships from the "Switcher" Individual Income Tax Credit and Corporate Low-Income Student Tuition Tax Credit programs to include children who were placed in foster care at any time prior to graduating from high school or receiving a General Equivalency Diploma (GED) who meet all the following criteria:

- The student is unable to attend a governmental school as a full-time student and has not attended such a school student for at least 90 days during the previous fiscal year or one semester before enrolling in a qualified school.
- A governmental school cannot meet the student's unique needs.
- The student is unable to receive other scholarships or tuition grants in an amount that is equal to the cost of tuition to attend the qualified school.

If a court rules that the $135 million aggregate tax credit cap is unenforceable and that judgement is no longer subject to further appeal or review, the provisions under Chapter 221 that expand the eligibility for scholarships to foster care children would not be effective.

2023 LAWS

Laws 2023, Chapter 2 conforms the Arizona tax code to the federal Internal Revenue Code (IRC) as of January 1, 2023 to reflect changes adopted by the U.S. Congress during 2022 and 2023. These changes included the Inflation Reduction Act (IRA) of 2022, the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act of 2022, and the Consolidated Appropriations Act, 2023 (CAA). We estimate that conforming to these federal provisions would reduce General Fund income tax collections by $(1.5) million in FY 2023 and increase revenues by $12.2 million and $10.7 million in FY 2024 and FY 2025, respectively.

Laws 2023, Chapter 11 is a tax correction bill that made technical and clarifying changes to the Arizona Revised statutes. Chapter 11 requires partners or shareholders of a business that is treated as a partnership or S corporation for federal income tax purposes that consent to Arizona's entity-level tax to be taxed at the highest individual income tax rate. For TY 2023, the Arizona individual income tax rate is a uniform 2.5% for all filers.

Laws 2023, Chapter 67 accelerates by 2 years the scheduled reduction of the Arizona small business income (SBI) tax rate to 2.5%. Prior to TY 2023, the SBI rate was 2.8% in TY 2023 and TY 2024 before being reduced to 2.5% in TY 2025. With the passing of this law, the 2.5% SBI rate was implemented January 1, 2023. This matches the SBI rate with the TY 2023 regular individual income tax rate.

Laws 2023, Chapter 136 decreases the annual amount deposited into the Job Creation Withholdings Clearing Account from $15,500,000 to $10,500,000 each fiscal year.

Laws 2023, Chapter 147 is the taxation budget reconciliation bill, which makes several changes to the individual income tax. As session law, it requires the Department of Revenue (DOR) to issue a one-time individual income tax general welfare rebate known as the Arizona Families Tax Rebate to an Arizona taxpayer who: (1) filed a full-year resident individual income tax return for TY 2021, (2) claimed a dependent tax credit on the TY 2021 tax return, and (3) had a tax liability of at least $1 in TY 2021. If the taxpayer does not meet the tax liability requirement for TY 2021, the taxpayer can still qualify for the rebate if the following requirements are met: (1) taxpayer has a tax liability of at least $1 in TY 2020 or TY 2019 and (2) filed a full-year resident tax return for TY 2020 or TY 2019 under the same filing status as for TY 2021. The rebate is $250 for each dependent tax credit claimed on the taxpayer's TY 2021 tax return for a dependent who was under 17 years of age at the end of TY 2021. The maximum rebate that can be claimed is for 3 dependents. To be eligible for the dependent tax credit, a taxpayer's federal adjusted gross income cannot exceed $219,000, or $419,000 in the case of married couples filing jointly. The bill provides that the tax rebate is excluded from state income tax and includes an intent statement that the general welfare rebate is issued to mitigate the harmful impacts of inflation by returning a portion of the state's surplus to taxpayers with dependents. It requires DOR to issue the rebates between October 15, 2023 and November 15, 2023. DOR must issue a report on or before February 15, 2025 that includes the following information: (1) the total amount of tax rebates paid, (2) administrative costs associated with the Tax Rebate program, and (3) the number of tax rebate claims.

As session law, Chapter 147 provides that the individual income tax subtraction for unreimbursed adoption expenses is increased from $3,000 to $40,000 from TY 2023 through TY 2025.

As permanent law, beginning in TY 2023, Chapter 147 provides that a business organized as a partnership may have all its income taxed at the entity level rather than having some of its income taxed at the entity level and the rest of it passed through to the individuals in the partnership. This change provides that partnerships and S corporations that elect to be taxed at the entity-level are treated the same way for income tax purposes.

2022 LAWS

Laws 2022, Chapter 41 conforms the Arizona tax code to the federal Internal Revenue Code (IRC) as of January 1, 2022 to reflect changes adopted by the U.S. Congress during 2021.

Laws 2022, Chapter 235 was a tax correction bill that made technical and clarifying to the Arizona Revised Statutes. This chapter repeals the individual Credit for Employment by a Healthy Forest Enterprise and the individual Credit for Pollution Control Equipment. Chapter 235 also repeals the corporate Credit for Construction Costs of Qualified Environmental Technology.

Laws 2022, Chapter 321 changes the income tax rate paid by the partners or shareholders of a business organized as a pass-through-entity and elected to be taxed at the entity-level from 4.5% to the same rate paid by other individual income taxpayers. This rate change has no impact on the General Fund.

This chapter also requires DOR to maintain an individual income tax model that estimates the fiscal impact of proposed individual income tax legislation and requires that the staff of DOR, JLBC, and OSPB have access to the model when the new lntegrated Tax System Modernization Project is completed.

Laws 2022, Chapter 369 established 2 new individual income tax subtractions related to virtual currency and non-fungible tokens. First, Chapter 369 allows a taxpayer to subtract the value of cryptocurrency received by the taxpayer in an "airdrop" (a mass distribution of cryptocurrency for free to encourage its widespread usage). Second, if a taxpayer reports a gain or loss related to the sale of cryptocurrency, Chapter 369 authorizes the taxpayer to subtract the amount of "gas fees" (transaction fees) associated with that cryptocurrency's purchase, unless those fees are already included in the cost basis for tax purposes. The fiscal impact of Chapter 369 is expected to be minimal. Any impact would likely be in the form of General Fund revenue that the state may forego in future years.

Laws 2022, Chapter 385 annually adjusts for inflation the income tax credit limit for donations to Qualifying Charitable Organizations (QCO) and Qualifying Foster Care Charitable Organizations (QFCO). The current cap for the QCO credit is $400 for single filers and $800 for married filers whereas the cap for the QFCO credit is $500 for single filers and S1,000 for married filers. The change to the QCO and QFCO credit caps is estimated to reduce General Fund revenue by $(1.0) million in FY 2023, $(2.0) million in FY 2024, and $(4.0) million in FY 2025.

Laws 2022, Chapter 387 creates a motion picture production income tax credit, beginning in TY 2023. The credit program will be implemented and administered by the Arizona Commerce Authority (ACA). Chapter 387 authorizes ACA to pre-approve up to $75 million in refundable credits in Calendar Year (CY) 2023, $100 million in CY 2023, and $125 million, beginning in CY 2025. Chapter 387 was not scored as part of the 3-year budget plan. We estimated that during the first 3 years of the credit program, Chapter 387 would reduce General Fund revenues by less than half of the credit cap. We did not attempt to quantify the indirect impacts of any additional economic activity associated with the bill.

2021 LAWS

Laws 2021, Chapter 80 makes several changes to the Credit for Qualified Facilities [A.R.S. § 41-1512, A.R.S. § 43-1083.03, and A.R.S. § 43-1164.04]. 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 credit is the lesser of 10% of the total qualifying investment in the facility <u>or</u> $20,000 for each net new job at the qualified facility. Chapter 80 makes the following changes to the Qualified Facility Credit:

(1) Increases the credit from $20,000 to $30,000 per net new job if the total qualifying investment is $2 billion or more. If the qualifying investment is less than $2 billion, the credit remains at $20,000 per net new job.
(2) Increases the aggregate cap of the credit that can be preapproved by the Arizona Commerce Authority (ACA) in a calendar year from $70 million to $125 million.
(3) Expands the statutory definition of "qualified manufacturing" to include products sold to other qualifying facilities regardless of whether such facilities have been pre-approved by ACA.

The changes under Chapter 80 are effective from September 29, 2021.

Laws 2021, Chapter 174 decreases the length of time a tax credit may go unused from 4 years to 3 years before DOR terminates the credit [A.R.S. § 43-224].

Laws 2021, Chapter 177 an emergency measure that changed the TY 2020 individual income tax filing due date from April 15, 2021 to May 17, 2021.

Laws 2021, Chapter 190 requires a conservation plan to be filed with the U.S. Department of Agriculture (USDA), Natural Resources Conservation Service, or a National Resource Conservation District (NRCD) within Arizona to qualify for the Agricultural Water Conservation System Credit [A.R.S. § 43-1084]. Previously, a conservation plan had to be submitted to the USDA only.

Laws 2021, Chapter 196 was a tax correction bill that made technical and clarifying to the Arizona Revised Statutes. Chapter 196 repeals the individual (but not the corporate) tax credit for Employment of Temporary Assistance of Needy Families (TANF) Recipients.

The individual income tax subtraction for World War II victims is repealed [A.R.S. § 43-1022].

A fiduciary is required to make a tax return for every individual required to file an individual income tax return [A.R.S. § 43-304].

The due date for a tax return that includes a period of less than 12 months is set as the 15th day of the 3rd month following the close of that period [A.R.S. § 43-931].

Laws 2021, Chapter 232 conforms Arizona tax statutes to the Internal Revenue Code (IRC) in effect as of March 11, 2021. Chapter 232 adopts all the federal changes enacted under the Families First Coronavirus Response Act (FFCRA), Coronavirus Aid, Relief, and Economic Security (CARES) Act, Paycheck Protection Program (PPP) Flexibility Act, Consolidated Appropriations Act, 2021 (CAA), and American Rescue Plan (ARP) Act. Chapter 232 is estimated to result in a one-time General Fund revenue reduction of $(624.8) million over the next several years.

Laws 2021, Chapter 383 makes the following changes to the School Site Donation Credit:
(1) restores the corporate School Site Donation Credit that was repealed by Laws 2020, Chapter 43, and
(2) allows shareholders of an S corporation to claim their pro rata share of the individual School Site Donation Credit [A.R.S. § 43-1089.02D]. (Effective retroactively from January 1, 2020)

Laws 2021, Chapter 395 allows contributions to college savings plans (authorized by section 529 of the Internal revenue Code, known as 529 plans) and to Achieving a Better Life Experience (ABLE) accounts to be subtracted from an individuals' Arizona adjusted gross income in the following amounts:

- $2,000 per beneficiary for an individual or head of household
- $4,000 per beneficiary for a married couple filing jointly

Previously, this subtraction applied to each tax filer and not each beneficiary [A.R.S. § 43-1022]. The JLBC Staff estimates this legislation will have minimal fiscal impact.

Laws 2021, Chapter 411 provides that, beginning in TY 2021, the total individual income tax rate for taxable income above $250,000 for single filers and $500,000 for married couples filing jointly, including the Proposition 208 surcharge, cannot exceed 4.5%. Proposition 208 was to receive the proceeds from the 3.5% surcharge. The remaining 1% would have been deposited in the General Fund. This provision was originally estimated to result in a General Fund revenue loss of $(836.0) million in FY 2022 and $(487.8) million in FY 2023 and FY 2024. Due to the subsequent Court ruling that Proposition 208 was invalid, this Chapter 411 provision no longer had any impact.

Laws 2021, Chapter 412 (Tax Omnibus) reduces the individual income tax rates to 2.55% for taxable income up to $27,272 for single filers and up to $54,544 for married couples filing jointly, and 2.98% for taxable income above $27,272/$54,544 in TY 2022. Further rate reductions are contingent upon the state receiving more General Fund revenue than forecast as determined in September of each year. JLBC Staff and OSPB are required to jointly report the level of prior year state General Fund revenue in September to ADOR. If General Fund revenue exceeds $12,782,800,000, statute requires ADOR to reduce the income tax rates to 2.53% and 2.75% in the following Tax Year. After receiving a report that General Fund revenue exceeds $12,976,300,000, ADOR is to establish a single 2.5% rate in the following Tax Year.

JLBC Staff and OSPB jointly reported on September 29, 2022, that the FY 2022 revenue level was $16.7 billion. Based on this report, ADOR is implementing the 2.5% single tax rate in TY 2023.

The reduction of the TY 2022 rates to 2.55%/2.98% was originally estimated to reduce General Fund revenues by $(1,016.6) million in FY 2023. This estimate was later revised to $(1,273.3) million. The reduction from the 2.55/2.98% tax rates to 2.5% will reduce revenues by a total of $(716) million in FY 2024.

Besides the rate reduction described above, Chapter 412 makes several other changes related to income tax, premium insurance tax, property tax, and unemployment insurance. These other provisions in the Tax Omnibus are described below.

- Provides a full individual income tax exemption for benefits, annuities, and pensions received by military retirees, beginning in TY 2021. The current exemption is $3,500. This provision is currently estimated to reduce General Fund revenues by $(48.3) million in FY 2022 and $(37.9) million in FY 2023 and FY 2024.
- Adjusts for inflation the percentage of charitable contributions that standard deduction filers can claim over and above the regular standard deduction, beginning in TY 2022. The adjusted percentage cannot exceed 100%. This provision is estimated to reduce General Fund revenues by $(2.0) million in FY 2023 and $(3.9) million in FY 2024.
- Increases the credit cap for contributions by corporations and insurers to School Tuition Organizations (STO) for displaced/disabled students from $5 million to $6 million, beginning in FY 2022. This provision is expected to have an annual revenue impact of $(1.0) million, starting in FY 2022. Since this provision also affects the corporate income tax as well as the insurance premium tax, it is also included in those sections of the Tax Handbook.
- Creates a new nonrefundable individual and corporate income tax credit for the processing of qualified forest products, beginning in TY 2021. The credit, which has an annual cap of $0.5 million per taxpayer and $2 million in the aggregate, is estimated to reduce General Fund revenues by $(395,800) annually, beginning in FY 2022.
- Expands the eligibility for students receiving "switcher" individual or low-income corporate STO scholarships to include those who were homeschooled, moved from out of state, or held an Empowerment Scholarship Account (ESA), beginning in TY 2021. The provision is expected to result in an annual revenue reduction of $(0.4) million, beginning in FY 2022. This provision affects both the individual and corporate income tax.
- Allows public service corporations to deduct for income tax purposes any amount of monies or other property contributed to them to expand, improve, or replace their water system or sewage disposal facilities, beginning in TY 2021. This provision is estimated to reduce General Fund revenues by $(0.4) million annually, beginning in FY 2022. This provision affects corporate (but not individual) income tax.
- Provides that for calendar year 2021, applications submitted to the Department of Revenue for the individual and corporate renewable energy production tax credit are allowed to be made prior to February 7, 2021. This provision is not expected to have any fiscal impact.
- Provides that the payments of estimated tax by individual income tax filers do not apply to liability accruing from the Proposition 208 Surcharge.
- Continues to include capital items, community school meal programs, student consumable health care supplies, and playground equipment as eligible expenses for purposes of the individual income tax credit for public school fees and extracurricular activities until June 30, 2024 (eligibility for these items expires June 30, 2022). This provision has no fiscal impact.
- Expands the definition of Qualifying Foster Care Charitable Organizations (QFCO) for TY 2021 to allow tax credit donations to QFCOs that serve persons who have has left the foster care system due to reaching 18 years of age, adoption, or legal guardianship after reaching 16 years of age or reunification at 14 or 15 years of age. This provision is not expected to have any fiscal impact.

Laws 2021, Chapter 425 creates an optional entity-level income tax for partnerships and S corporations, beginning in TY 2022. If the partners or shareholders of such pass-through-entities (PTE) elect to be taxed at the entity level, the PTEs are taxed at 4.5% of their Arizona taxable income. Such an election allows PTEs to claim a full deduction on their federal partnership return for state taxes paid at the entity level. Currently, the amount of itemized deductions that can be claimed for state and local taxes paid by each partner or shareholder of a PTE on their federal individual income tax return is limited to $10,000. Chapter 425 has no impact on General Fund revenues. At the state level, partners, and shareholders of PTEs will pay the same amount of state individual income tax under Chapter 425 as under current law. At the federal level, however, there will be a reduction of individual income tax revenues since Chapter 425 will effectively allow partners and shareholders of PTEs to claim their full deduction for state taxes.

Laws 2021, Chapter 430 creates a new individual and corporate nonrefundable affordable housing tax credit that is equal to at least 50% of the amount of the federal low-income housing credit for qualified projects placed in service after June 30, 2022. The Arizona Department of Housing is authorized to allocate a total of $4 million in tax credits per year from TY 2022 to TY 2025. Each of these 4 award cycles is available for 10 years. The credit is estimated to have a revenue impact of $(4.0) million in FY 2024.

Chapter 430 extends the Arizona Commerce Authority's (ACA) credit authorization of the individual income tax credit for Investment in Qualified Small Businesses ("Angel Investment Credit"), from June 30, 2021 to June 30, 2031. As under prior law, (ACA) can authorize up to $2.5 million each fiscal year.

Laws 2021, Chapter 436 (SB 1783) creates an alternative income tax for certain classes of income. These include interest and ordinary dividends, profit or loss from an individual who is operating a business as a sole proprietor, supplemental income or loss, profit or loss from farming, sale of business property, farm rental income and expenses, and certain capital gains and losses. This income is referred to as "Arizona small business income" in statute and is subject to separate income tax rates from the regular individual income tax. The rates under Chapter 436 are 3.5% in TY 2021, 3.0% in TY 2022, 2.8% in TY 2023 and 2024, and 2.5% beginning in TY 2025. Individuals can choose to be taxed either under the regular individual income tax or the alternative income tax established by SB 1783.
With the single 2.5% regular income rate starting in TY 2023, we do not anticipate a significant number of taxpayers to use the alternative income tax going forward. In FY 2022, a total of $143.2 million in net alternative income tax payments were made.

2020 LAWS

Laws 2020, Chapter 7 extends the Credit for Qualified Facilities to January 1, 2030. Computation of the tax credit only includes capital investments in a qualified facility that are made within 36 months before applying to the ACA for preapproval. An applicant can qualify for the Credit for Qualified Facilities if at least 51 percent of the net new full-time employment positions have job duties associated with the qualified facility, rather than at the qualified facility.

Chapter 7 maintains the current rates of the Research and Development Credit computation through December 31, 2030 and delays the modification to the rates of the computation for taxable years beginning January 1, 2031. It reduces, from 15 consecutive taxable years to 10 consecutive taxable years, beginning January 1, 2022, the number of years the amount of a credit claimed and not used to offset taxes may be carried forward, if the allowable credit exceeds the taxes due. Chapter 7 allows qualified research expenses that have been converted into a credit carryforward, for taxable years beginning January 1, 2022, to be carried forward to not more than 10 years from the year in which the expenses were incurred

Laws 2020, Chapters 24 and 40 is the annual conforming of the Arizona tax code to the federal Internal Revenue Code (IRC). This took effect of January 1, 2020 to reflect changes adopted by the U.S. Congress during 2019.

Laws 2020, Chapter 43 was a tax correction bill that made technical and clarifying to the Arizona Revised Statutes. Chapter 43 repeals the individual tax credit for Construction Costs of Qualified Environmental Technology Facility. In addition, this chapter also repeals the corporate tax credits for Employment by a Healthy Forest Enterprise, Agricultural Pollution Control Equipment, and the Donation of a School Site.

2019 LAWS

Laws 2019, Chapter 164 expands the tax credit for public school fees and contributions to include taxpayer's contributions towards capital items, community school meal programs, and student consumable health care supplies. This provision is in effect from FY 2020 through FY 2022.

Table 10

Chapter 273 Ongoing Impact

	Impact
Revenue Additions	
Conformity	$217.0
Wayfair	85.0
Eliminate Personal/Dependent Exemptions	353.9
Eliminate Lottery Winning Subtraction	0.1
Total, Additional Revenue	**$656.0**
Revenue Subtractions	
Increase Standard Deduction	$(404.0)
Dependent Tax Credit	(144.0)
Bracket/Rate Reduction	(108.0)
25% Charitable Deduction	(24.0)
Total, Reduced Revenue	**($680.0)**
Net Ongoing Impact	**($24.0)**

Laws 2019, Chapter 203 was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. In addition, Chapter 203 repealed the individual income tax credit for investments in renewable energy facilities used by International Operations Centers (Effective from August 27, 2019).

Laws 2019, Chapter 272 requires licensed escrow agents to file an information return for sales of real property located in Arizona with DOR. Licensed escrow agents would be required to submit this return to DOR by March 31 for sales closed during the prior calendar year. The bill is expected to increase compliance for capital gains taxes owed by non-residents that sell real estate in Arizona. DOR shall report to the JLBC and OSPB annually on the additional estimated revenue collected from the nonresident real estate transactions as a result of the new reporting requirement for licensed escrow agents (Effective from August 27, 2019).

Laws 2019, Chapter 273 contains numerous provisions relating to individual income tax, corporate income tax, and transaction privilege tax (TPT). The income taxes changes are described below. Please see the *Transaction Privilege Tax Section* for details relating to TPT provisions. The ongoing net impact of the bill, beginning in FY 2021, is shown in *Table 10.* In FY 2019, the bill will result in a General Fund revenue increase of $155.0 million.

In FY 2020, the bill will result in an estimated revenue loss of $(52.0) million. As noted in *Table 10,* in FY 2021 and beyond, the JLBC Staff estimates that the bill will result in an ongoing annual revenue loss of $(24.0) million.

<u>TY 2018 and TY 2019 Conformity</u> – Chapter 273 conforms Arizona to the federal definition of adjusted gross income as of January 1, 2018 for tax year 2018, and January 1, 2019 for tax year 2019.

<u>Changes to Arizona Individual Income Tax Statutes</u> – Beginning in TY 2019, Chapter 273 makes several changes to the state's individual income tax statutes, as described below.

- Reduces the number of marginal individual income tax brackets from 5 to 4 and reduces each marginal rate as shown in *Table 11.*

Table 11			
Marginal Income Tax Rate/Bracket Comparison			
Brackets – Current	**Rates – TY 2018**	**Brackets – Enacted**	**Rates – TY 2019**
$0 - $10,600	2.59%	$0 - $26,500	2.59%
$10,601 – 26,500	2.88%	Collapsed	2.59%
$26,501 - $53,000	3.36%	$26,501 - $53,000	3.34%
$53,001 - $159,000	4.24%	$53,001 - $159,000	4.17%
$159,001 and over	4.54%	$159,001 and over	4.50%

- Removes the Arizona subtraction from taxable income for lottery winnings.
- Increases the standard deduction as shown in *Table 12.* Indexes the standard deduction to the same inflation index used to calculate the federal standard deduction.

Table 12		
Standard Deduction Comparison		
Filing Status	**Standard Deduction - Current Law**	**Standard Deduction - Enacted**
Single/Married Filing Separate	$5,312	$12,000
Single Head of Household	$10,613	$18,000
Married Filing Jointly	$10,613	$24,000

- Eliminates the state personal and dependent exemptions, shown in *Table 13.*

Table 13	
Eliminated Exemptions	
Personal Exemption, No Dependents	$2,200
Personal Exemption, Married with Dependents	$6,600
Dependent Exemption	$2,300

- Allows taxpayers that take the standard deduction to increase their standard deduction by 25% of their charitable contributions that otherwise would have been deductible had they itemized their tax returns.
- Establishes a dependent tax credit of $100 for each dependent under 17 years old and $25 for each dependent age 17 and above. This credit is phased out for singles with over $200,000 of adjusted gross income and $400,000 for married couples filing jointly.

Laws 2019, Chapter 281 limits the annual increase of the aggregate credit cap for contributions made by corporations (including S Corporations) and insurers to qualifying school tuition organizations (STO) that provide education scholarships and tuition grants to students of low-income families from 20% to 15% in FY 2021, 10% in FY 2022, and 5% in FY 2023. Beginning in FY 2024, the increase of the credit cap is limited to the greater of 2% or the annual change of the Metropolitan Phoenix consumer price index. In dollar terms, Chapter 281 limits the growth of the credit cap to $123.1 million in FY 2021, $135.4 million in FY 2022, and $142.1 million in FY 2023.

Laws 2019, Chapter 297 expands the eligibility criteria for the state charitable tax credit to include organizations that serve both children and adults with chronic illness or disability rather than solely children. Chapter 297 is effective retroactively from January 1, 2019. Chapter 297 is expected to have an ongoing impact of $(1.2) million annually, beginning in FY 2020.

2018 LAWS

Laws 2018, Chapter 74 extends the low-income credit for Proposition 301 taxes to December 31, 2041. This credit was previously set to expire along with the 0.6% sales tax enacted by Proposition 301 in TY 2021. Chapter 74 extends both the temporary 0.6% sales tax and the tax credit through TY 2041.

Laws 2018, Chapter 104 was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. (Effective from August 3, 2018)

Laws 2018, Chapter 142 was the annual conformity bill that updated the definition of the Internal Revenue Code (IRC) to include all IRC provisions that were in effect as of January 1, 2017. This included provisions of the federal Tax Cuts and Jobs Act (TCJA) that were made retroactively effective for tax year 2017. The TCJA increased the allowable rate of the bonus depreciation allowance from 50% to 100% of qualified business investment made after September 27, 2017. Chapter 142 conforms to the full bonus depreciation deduction for individual income taxpayers for the final 3 months of TY 2017. Most TCJA provisions were effective January 1, 2018. Chapter 142 does not address those provisions.

Laws 2018, Chapter 199 extends the military family relief credit from December 31, 2018 to December 31, 2026.

Laws 2018, Chapter 283 increased the income tax deduction for military pensions from $2,500 to $3,500 in TY 2019 and beyond.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf.

Attachment A

DOLLAR VALUE OF TY 2017 INDIVIDUAL INCOME TAX SUBTRACTIONS, EXEMPTIONS AND DEDUCTIONS

TY 2017 data is the latest available information from DOR. As a result, these estimates are likely to underestimate the dollar value of these provisions. In addition, some of these provisions may no longer be in effect.

FEDERAL SUBTRACTIONS FROM INCOME:	**Tax Year 2017**
Certain business expenses of reservists, performing artists, etc.	$180,000
Health savings account deduction	4,120,000
Moving expenses	1,160,000
Deductible Portion of self-employment tax	12,930,000
Self-employed SEP and SIMPLE deduction	15,270,000
Self-employed health insurance deduction	16,050,000
Penalty on early withdrawal of savings	30,000
Alimony paid	8,080,000
Individual Retirement Account for Qualifying Individuals	7,470,000
Student Loan Interest Deduction	8,010,000
Tuition and fees deduction	870,000
Domestic Production Activities	8,100,000
Educator Expenses	590,000
Total Value of Federal Subtractions from Income 1/	**$86,210,000**
EXEMPTIONS:	
Personal Exemptions	$276,280,000
Preferential Personal Exemption for Unmarried Head of Household	18,680,000
Preferential Personal Exemption for Married Filers with One or More Dependents	33,270,000
Age 65 or over Exemptions	35,220,000
Dependent Exemptions	111,370,000
Blind Exemptions	430,000
Qualifying Parent or Ancestor Exemption	2,350,000
Total Value of Exemptions 1/	**$430,070,000**
SUBTRACTIONS FROM INCOME:	
Interest on U.S. Obligations	3,800,000
Exclusion for Federal, State, and Local Pensions	9,980,000
Excess Partnership Income Adjustment	2,300,000
Exempt State Lottery Winnings	50,000
Social Security or Railroad Retirement Benefits Included on Federal Form 1040	202,840,000
Bonus Depreciation Adjustment	74,520,000
Certain Wages of Native Americans	14,800,000
Active-Duty Military Pay	18,780,000
Net Operating Loss Adjustment	64,000
Contributions to 529 College Savings Plan	2,370,000
Net Capital Gains from a Qualified Small Business	2,030,000
Net Long Term Capital Gains Acquired After 12/31/2011	26,720,000
Other Subtractions	11,290,000
Total Value of Subtractions 1/	**$373,380,000**
DEDUCTIONS:	
Standard Deduction	$347,713,000
Preferential Standard Deduction for Unmarried Head of Household	35,790,000

Attachment A (continued)

Itemized Deductions:	
Medical and Dental Expenses	167,900,000
Additional Medical Allowed on Arizona Return	41,142,000
Taxes Paid:	
State and Local Income Taxes	163,689,000
Real Estate Taxes	79,012,000
Personal Property and Other Taxes	14,459,000
Total Value of Taxes Paid Deduction	$248,466,000
Interest Expense:	
Home Mortgage Interest and Points	202,066,000
Mortgage Interest not on Form 1098	3,226,000
Points not on Form 1098	1,298,000
Qualified Mortgage Insurance Premiums	2,862,000
Deductible Investment Interest	10,734,000
Total Value of Interest Expense	$219,370,000
Charitable Contributions:	
Cash Contributions	109,732,000
Contributions Other Than Cash	41,592,000
Carryover from Prior Year	7,410,000
Total Value of Charitable Contributions	$158,738,000
Casualty or Theft Losses	205,000
Job Expenses and most Other Miscellaneous Deductions	65,253,000
Nonlimited Miscellaneous Deductions	28,440,000
Total Value of Itemized Deductions 1/	**$653,735,000**
Total Value of Standard and Itemized Deductions 1/	**$1,291,436,000**
Total Value of Subtractions, Exemptions and Deductions	**$2,181,096,000**

1/ Totals may not add up due to rounding

____

SOURCE: Department of Revenue Report – *The Revenue Impact of Arizona's Tax Expenditures FY 2019*

Attachment B

FY 2024 INDIVIDUAL INCOME TAX CREDITS

CREDITS:	Effective Tax Years	Annual Cost [1/2/3/]
Agricultural Pollution Control Equipment	1999 -	$0
Agricultural Water Conservation System	1994 -	1,072,853
Commercial and Industrial Solar	2006 - 2018	42,709
Contributions to Qualifying Charitable Organizations	1998 -	83,912,603
Contributions to Qualifying Foster Charitable Org.	2016 -	27,272,962
Dependent Tax Credit	2019 -	143,980,081
Donations to the Military Family Relief Fund	2009 - 2018	960,289
Employing National Guard	2006 -	0
Excise Tax Credit [4/]	2001-	19,531,860
Entity Level Income Tax Paid [5/]	2022-	283,925,219
Family Tax	1996 -	227,601
Investment in Qualified Small Businesses	2007 - 2024	1,074,919
Low-Income Housing (Affordable Housing) [6/]	2022-2025	0
Military Reuse Zone	1993 - 2017	0
New Employment [7/]	2011 - 2029	163,254
Pollution Control Device	1995 -	N/R
Property Tax	1975 -	7,253,921
Public School Extra Curricular Activity Fee	1998 -	35,321,302
Renewable Energy Production [8/]	2011 - 2030	0
Research and Development - Nonrefundable	2001 -	21,357,649
Research and Development - Refundable [9/]	2010 -	492,517
Research and Development – University Research [10/]	2012 -	0
School Site Donation	2001 -	9,711
School Tuition Organizations (Original)	1998-	67,874,143
School Tuition Organizations (Switcher)	2012-	42,693,030
School Tuition Organization- S Corp (low-income) [11/]	2015-	26,898,711
School Tuition Organization- S Corp (disabled/displaced) [12/]	2015-	299,051
Solar Energy Device	1995-	17,600,936
Solar Hot Water Heater Plumbing Stub Out/ EV Recharge	1998-2017	N/R
Taxes Paid to Other State or Countries [13/]	1935-	234,727,099
Total Value of Credits [14/15/]		**$1,017,017,288**

____

1/ Amounts represent credits claimed in FY 2024.

2/ "N/R" indicates that information is not releasable due to Arizona confidentiality laws.

3/ Includes total of credits used under both the regular individual income tax and the alternative ("Small Business") income tax.

4/ Credit is subject to the 1998 Voter Protection Act (Proposition 105).

5/ Credit prevents double taxation of income. Partnerships and S-corporations can elect to have pass-through income taxed at the entity level in Arizona. This credit was implemented to prevent double taxation of income at both the business and individual level. The overall revenue impact of the credit is $0.

6/ The Arizona Department of Housing is required to allocate $4 million in tax credits per year. If there is an unused credit allocation at the end of the calendar year, the unused balance is required to be reallocated next year.

7/ Statute does not permit the Arizona Commerce Authority to authorize new credits after June 30, 2025. Given a maximum 5-year schedule, the credit may not be claimed after TY 2029.

Attachment B footnotes continued

8/ Credit is capped at $20.0 million annually between corporate and individual income taxpayers.
9/ Credit is capped at $5.0 million annually between corporate and individual income taxpayers.
10/ Credit is capped at $10.0 million annually between corporate and individual income taxpayers.
11/ Starting in FY 2025, the credit is capped at $135.0 million annually between corporate income tax, individual income tax S-corporations and insurance premium tax filers.
12/ Credit is capped at $6.0 million annually between corporate income tax, individual income tax S-corporations, and insurance premium tax filers.
13/ Credit prevents double-taxation of income.
14/ Includes total of credits used under both the regular individual income tax and the alternative ("Small Business") income tax.
15/ Totals include amounts that were not releasable by credit. As a result, credit amounts may not add to total.

SOURCE: Department of Revenue report to the Legislature on the amount of individual income tax credits claimed in FY 2024.

SUMMARY OF INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR

INDIVIDUAL		2022	2021	2020	2019	2018	2017	2016	2015	2014
Affordable Housing	# of claims	*0*								
	credit available	*$0*								
	credit used	*$0*								
	carry forward	*$0*								
Agricultural	# of claims	*0*	0	4	4	4	4	0	4	5
Pollution	credit available	*$0*	$0	$25,000	$16,905	$19,752	$16,225	$0	$18,342	$22,916
Control	credit used	*$0*	$0	$25,000	$16,905	$19,752	$16,225	$0	$18,342	$22,916
Equipment	carry forward	*$0*	$0	$0	$0	$0	$0	$0	$0	$0
Agricultural	# of claims	*121*	111	123	112	99	105	119	126	125
Water	credit available	*$8,287,293*	$13,765,246	$15,730,402	$15,371,478	$16,467,911	$16,970,577	$19,158,761	$13,199,232	$10,306,941
Conservation	credit used	*$775,340*	$1,187,775	$2,125,600	$1,744,994	$1,568,908	$2,614,803	$2,892,820	$2,150,572	$1,163,539
System	carry forward	*$7,511,953*	$12,577,471	$13,604,802	$13,626,484	$14,899,003	$14,355,774	$15,738,303	$10,784,162	$8,927,831
Commerical and	# of claims	*27*	34	37	59	94	97	124	123	108
Industrial Solar	credit available	*$454,741*	$468,893	$499,763	$561,750	$920,512	$802,636	$979,663	$1,100,042	$737,819
Energy	credit used	*$17,741*	$155,032	$122,504	$100,185	$274,308	$331,657	$373,231	$465,781	$324,529
	carry forward	*$437,000*	$427,416	$377,259	$454,565	$576,924	$389,430	$423,884	$574,549	$399,031
Contributions	# of claims	*181,042*	189,007	190,526	167,057	164,897	165,525	148,703	130,419	116,225
To Qualifying	credit available	*$97,432,599*	$101,640,893	$98,374,889	$83,573,904	$80,014,935	$77,783,334	$66,349,084	$41,882,428	$35,790,362
Charitable	credit used	*$78,506,574*	$83,496,087	$80,666,670	$70,311,855	$68,644,862	$68,594,148	$58,459,196	$36,796,635	$31,617,855
Organizations	carry forward	*$18,855,388*	$18,067,880	$17,592,411	$12,707,794	$10,968,030	$8,830,903	$7,594,772	$5,085,793	$4,172,507
Contributions	# of claims	*40,632*	43,431	40,953	36,075	36,440	33,839	26,235		
To Qualifying	credit available	*$31,350,312*	$33,435,447	$29,162,430	$25,434,460	$25,398,873	$24,012,278	$18,146,367		
Foster	credit used	*$25,811,219*	$28,208,242	$25,435,628	$22,609,627	$22,864,438	$21,502,241	$16,334,609		
Organizations	carry forward	*$5,539,093*	$5,227,205	$3,726,802	$2,824,833	$2,532,732	$2,510,037	$1,811,758		
Corporate Contributions	# of claims	*624*	709	960	984	846	574	209	129	
to School Tuition	credit available	*$16,232,530*	$22,408,135	$44,083,985	$36,882,310	$43,737,257	$14,216,612	$4,817,101	$4,394,874	
Organizations	credit used	*$11,282,228*	$16,221,870	$37,848,920	$29,311,614	$35,470,478	$11,571,012	$3,693,366	$3,651,946	
	carry forward	*$4,950,302*	$6,186,265	$6,235,065	$7,570,695	$8,266,779	$2,645,600	$1,123,735	$742,928	
Corporate Contributions to	# of claims	*11*	24	33	31	38	35	12	12	
School Tuition Organizations	credit available	*$122,891*	$799,751	$646,291	$1,038,879	$1,149,373	$380,686	$105,795	$59,839	
Organizations for Disabled	credit used	*$91,621*	$358,162	$422,899	$914,202	$1,064,193	$318,457	$91,642	$54,393	
or Displaced Students	carry forward	*$29,670*	$441,589	$223,392	$124,677	$85,180	$62,229	$14,153	$5,446	
Dependent	# of claims	*965,778*	984,345	994,901	1,027,101					
Tax Credit	credit available	*$140,312,879*	$144,591,809	$147,397,553	$150,259,177					
	credit used	*$140,312,879*	$144,591,809	$147,397,553	$150,259,177					
Donations to	# of claims	*2,868*	3,051	3,113	3,159	3,208	3,092	3,102	3,118	2,994
the Military Family	credit available	*$937,692*	$992,338	$1,022,228	$1,026,772	$1,053,281	$1,016,743	$1,011,959	$1,006,248	$971,838
Relief Fund	credit used	*$909,072*	$953,954	$983,559	$994,079	$1,022,673	$996,134	$989,958	$980,331	$953,251

SUMMARY OF INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR

INDIVIDUAL		2022	2021	2020	2019	2018	2017	2016	2015	2014
Employing	# of claims	0	0		0	0	0			
National Guard	credit available	$0	$0	Data Not	$0	$0	$0	Data Not	Data Not	Data Not
Members	credit used	$0	$0	Releasable	$0	$0	$0	Releasable	Releasable	Releasable
	carry forward	$0	$0		$0	$0	$0			
Enitity Level	# of claims	13,348								
Income Tax Paid	credit available	$260,077,376								
	credit used	$226,621,066								
		$33,456,310								
Employment of	# of claims	0	0	0	0	0	0	0		
TANF Recipients	credit available	$0	$0	$0	$0	$0	$0	$0	Data Not	Data Not
	credit used	$0	$0	$0	$0	$0	$0	$0	Releasable	Releasable
	carry forward	$0	$0	$0	$0	$0	$0	$0		
Enterprise	# of claims							7	12	28
Zone	credit available					Data Not	Data Not	$170,794	$223,008	$283,579
	credit used					Releasable	Releasable	$5,514	$32,030	$43,604
	carry forward							$154,702	$168,120	$219,030
Environmental	# of claims				0	0	0	0	0	0
Technology	credit available				$0	$0	$0	$0	$0	$0
Facility	credit used				$0	$0	$0	$0	$0	$0
	carry forward				$0	$0	$0	$0	$0	$0
Family Income	# of claims	462,088	511,641	571,958	530,175	534,595	558,737	581,877	594,928	580,028
Tax Credit	credit available	$32,753,880	$36,435,640	$38,541,880	$37,761,985	$39,759,760	$42,556,920	$44,929,720	$46,682,890	$46,798,120
	credit used	$459,831	$736,426	$871,031	$1,208,198	$3,214,670	$3,778,067	$4,298,041	$4,417,745	$4,770,077
Healthy Forest	# of claims	0	0	0	0	0	0		4	0
Enterprise Employment	credit available	$0	$0	$0	$0	$0	$0	Data Not	$5,071	$0
	credit used	$0	$0	$0	$0	$0	$0	Releasable	$36	$0
	carry forward	$0	$0	$0	$0	$0	$0		$5,035	$0
Healthy Forest	# of claims	$0	$0	0	0	0	0		3	0
Enterprise Ecological	credit available	$0	$0	$0	$0	$0	$0	Data Not	$224	$0
Restoration Workforce	credit used	$0	$0	$0	$0	$0	$0	Releasable	$158	$0
Training	carry forward	$0	$0	$0	$0	$0	$0		$66	$0
Healthy Forest	# of claims	0	0							
Production	credit available	$0	$0							
	credit used	$0	$0							
	carry forward	$0	$0							
Income Taxes Paid	# of claims	89,929	92,045	81,309	83,752	82,544	76,370	72,540	63,220	58,335
To Other States	credit available	$213,726,680	$345,005,266	$254,935,347	$220,594,074	$212,305,970	$178,356,886	$151,650,517	$149,668,202	$140,744,364
or Countries	credit used	$213,726,680	$345,005,266	$254,935,347	$220,594,074	$212,305,970	$178,356,886	$151,650,517	$149,668,202	$140,744,364
	carry forward									

SUMMARY OF INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR

INDIVIDUAL		2022	2021	2020	2019	2018	2017	2016	2015	2014
Increased Excise	# of claims	*458,189*	530,810	629,021	563,758	546,796	586,961	621,298	620,579	664,037
Taxes Paid	credit available	*$20,429,735*	$23,452,679	$26,265,049	$25,882,137	$26,152,002	$28,374,247	$30,054,916	$30,835,109	$33,511,567
	credit used	*$20,429,735*	$23,452,679	$26,265,049	$25,882,137	$26,152,002	$28,374,247	$30,054,916	$30,835,109	$33,511,567
Investment in	# of claims	*226*	232	290	234	219	213	297	349	364
Qualified Small	credit available	*$3,769,084*	$3,923,664	$4,524,565	$3,927,017	$3,610,139	$3,797,145	$3,367,769	$3,789,529	$3,581,936
Businesses	credit used	*$864,875*	$1,096,378	$1,878,461	$1,636,707	$1,085,055	$652,369	$1,204,816	$1,455,096	$1,716,442
	carry forward	*$2,904,209*	$2,827,518	$2,646,104	$2,290,310	$2,525,084	$1,393,627	$1,980,885	$2,193,668	$1,555,344
Military	# of claims	*0*	0	0	0	0	0			
Reuse Zone	credit available	*$0*	$0	$0	$0	$0	$0	Data Not	Data Not	Data Not
	credit used	*$0*	$0	$0	$0	$0	$0	Releasable	Releasable	Releasable
	carry forward	*$0*	$0	$0	$0	$0	$0			
Motion Picture	# of claims								0	0
Production and	credit available								$0	$0
Infrastructure	credit used								$0	$0
	carry forward								$0	$0
New Employment	# of claims	*0*	30	31	23	23	20	19	7	
	credit available	*$0*	$2,077,783	$2,312,762	$2,210,517	$2,467,293	$1,341,104	$924,291	$86,705	Data Not
	credit used	*$0*	$758,696	$709,531	$1,853,935	$1,280,781	$734,358	$894,771	$61,338	Releasable
	carry forward	*$0*	$1,319,087	$1,603,231	$356,582	$1,186,512	$606,453	$29,520	$25,367	
Pollution	# of claims	*0*						8	7	
Control Device	credit available	*$0*	Data Not	Data Not	Data Not	Data Not	Data Not	$135,451	$122,247	Data Not
	credit used	*$0*	Releasable	Releasable	Releasable	Releasable	Releasable	$99,666	$29,041	Releasable
	carry forward	*$0*						$35,725	$93,206	
Private School	# of claims	*81,440*	93,113	93,167	88,324	95,510	95,893	94,130	92,554	86,901
Tuition	credit available	*$77,638,915*	$88,547,422	$85,220,174	$77,769,754	$81,463,025	$80,919,789	$78,742,303	$76,116,018	$71,383,890
Organization	credit used	*$65,866,316*	$75,632,620	$71,305,313	$65,154,270	$69,216,283	$69,151,752	$66,639,027	$64,819,262	$60,123,591
(ORIGINAL)	carry forward	*$11,772,599*	$12,914,802	$13,527,826	$11,630,990	$11,268,851	$10,914,230	$11,197,833	$11,296,756	$11,260,299
Private School	# of claims	*52,373*	59,780	57,711	52,417	55,005	54,856	51,082	41,532	36,211
Tuition	credit available	*$54,817,023*	$61,938,961	$57,073,965	$50,527,476	$51,311,542	$50,175,050	$45,952,287	$36,046,212	$30,679,285
Organization	credit used	*$42,191,309*	$48,828,205	$43,901,006	$39,158,499	$40,858,648	$39,890,966	$36,838,940	$28,986,576	$25,520,329
(SWITCHER)	carry forward	*$12,613,282*	$13,094,901	$13,172,959	$11,368,977	$10,452,894	$10,284,084	$9,113,347	$7,371,020	$5,182,518
Property	# of claims	*17,912*	17,850	19,781	18,448	19,389	19,794	19,956	19,345	19,277
Tax	credit available	*$7,309,882*	$7,251,097	$8,004,005	$7,402,310	$7,603,194	$7,817,529	$7,671,378	$7,526,953	$7,406,381
	credit used	*$7,309,882*	$7,251,097	$8,004,005	$7,402,310	$7,603,194	$7,817,529	$7,671,378	$7,526,953	$7,406,381
	carry forward									
Public School	# of claims	*126,004*	122,653	121,325	159,149	165,331	167,832	167,438	168,809	152,101
Fees and Contributions	credit available	*$39,550,037*	$38,064,026	$37,634,002	$48,473,543	$50,618,717	$50,781,742	$50,960,447	$50,911,324	$45,833,570
	credit used	*$34,299,487*	$33,646,890	$32,457,428	$42,619,018	$45,221,748	$46,175,813	$45,709,479	$45,936,328	$41,138,422
	carry forward	*$5,250,550*	$4,181,767	$5,137,077	$5,620,263	$5,159,072	$4,435,093	$4,882,874	$4,503,123	$4,695,148

SUMMARY OF INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR

INDIVIDUAL		2022	2021	2020	2019	2018	2017	2016	2015	2014
Qualified Facilities	# of claims	*0*		0			3	3	0	0
	credit available	*$0*	Data Not	$0	Data Not	Data Not	$26,000	$26,000	$0	$0
	CREDIT REFUNDED	*$0*	Releasable	$0	Releasable	Releasable	$26,000	$26,000	$0	$0
REFUNDABLE										
Qualified Health	# of claims							5	5	11
Insurance Plans	credit available						Data Not	$29,220	$35,327	$49,997
	credit used						Releasable	$6,247	$8,680	$14,983
	carry forward							$22,973	$26,647	$35,014
Recycling	# of claims						0	0	0	0
Equipment	credit available						$0	$0	$0	$0
	credit used						$0	$0	$0	$0
	carry forward						$0	$0	$0	$0
Renewable Energy	# of claims						0	0	0	0
Industry-Investment	credit available						$0	$0	$0	$0
and Employment	**CREDIT REFUNDED**						$0	$0	$0	$0
REFUNDABLE										
Renewable Energy	# of claims					0	0	0	0	0
Investment and Production	credit available					$0	$0	$0	$0	0
for Self-Consumption	credit used					$0	$0	$0	$0	0
	carry forward					$0	$0	$0	$0	0
Renewable Energy	# of claims	*0*	0	4	4	5	5	5	5	5
Production	credit available	*$0*	$0	$343,577	$304,382	$392,247	$264,975	$386,388	$322,936	$320,171
	credit used	*$0*	$0	$127,723	$131,113	$262,695	$136,023	$376,221	$241,707	$309,243
	carry forward	*$0*	$0	$215,854	$173,269	$129,552	$128,952	$10,167	$81,229	$10,928
Research and	# of claims	*791*	926	1,139	1,067	1,019	972	882	736	795
Development	credit available	*$68,467,529*	$64,804,083	$69,260,279	$67,724,542	$62,661,643	$53,804,582	$44,615,124	$42,101,417	$39,425,245
	credit used	*$16,486,754*	$17,969,227	$26,303,456	$21,528,245	$21,322,073	$17,107,786	$14,463,496	$11,419,988	$10,496,157
	CREDIT REFUNDED	*$364,898*	$696,195	$732,323	$506,205	$579,438	$387,419	$349,355	$121,369	$80,069
	ltd carry forward							$55,476	$156,254	$156,419
	unltd carry forward	*$33,828,732*	$31,162,244	$41,980,391	$45,521,354	$40,566,986	$36,186,866	$29,703,484	$30,324,363	$28,665,910
Research and	# of claims	*0*	0	0	0	0	0	0	0	0
Development for	credit available	*$0*	$0	$0	$0	$0	$0	$0	$0	$0
University Research	credit used	*$0*	$0	$0	$0	$0	$0	$0	$0	$0
	carry forward	*$0*	$0	$0	$0	$0	$0	$0	$0	$0
School Site	# of claims		11	15	8	21	20	18	10	20
Donation	credit available	Data Not	$267,537	$499,541	$269,099	$1,136,373	$250,293	$214,307	$204,818	$508,350
	credit used	Releasable	$121,874	$158,399	$64,733	$772,093	$56,735	$18,679	$35,960	$303,735
	carry forward		$145,663	$341,609	$275,436	$366,226	$197,375	$195,628	$168,858	$204,615
Solar	# of claims	*32,993*	25,628	17,019	15,591	12,772	11,422	7,798	7,961	7,931
Energy	credit available	*$29,326,137*	$22,676,985	$14,432,044	$13,256,106	$10,369,192	$9,367,906	$5,997,206	$5,833,443	$5,872,740
Device	credit used	*$21,678,368*	$16,832,171	$10,434,778	$9,759,385	$7,896,075	$7,449,654	$4,596,644	$4,166,795	$4,142,240
	carry forward	*$7,647,769*	$5,844,814	$3,979,722	$3,426,775	$2,393,485	$1,868,706	$1,345,036	$1,574,175	$1,640,412

SUMMARY OF INDIVIDUAL INCOME TAX CREDITS CLAIMED BY TAX YEAR

INDIVIDUAL		2022	2021	2020	2019	2018	2017	2016	2015	2014
Solar Hot Water	# of claims			6	18	28	247	174	124	93
Plumbing Stub	credit available	Data Not	Data Not	$450	$1,125	$2,850	$19,350	$15,550	$15,536	$13,761
Outs and Electric	credit used	Releasable	Releasable	$46	$750	$1,645	$18,150	$13,350	$10,036	$9,384
Vehicle Recharge	carry forward			$404	$450	$1,205	$2,325	$2,200	$5,500	$4,375
Solar Liquid Fuel	# of claims						0	0	0	0
Research and	credit available						$0	$0	$0	$0
Development	credit used						$0	$0	$0	$0
Solar Liquid Fuel	# of claims						0	0		
Production	credit available						$0	$0		
	credit used						$0	$0		
Solar Liquid Fuel	# of claims						0	0		
Delivery Systems	credit available						$0	$0		
	credit used						$0	$0		
Water Conservation	# of claims								6	9
Systems	credit available							Data Not	$2,527	$3,345
	credit used							Releasable	$226	$374
	carry forward								$2,301	$2,971
Total	# of claims	***3,851,377***	**2,675,502**	**2,823,430**	**2,747,554**	**1,718,888**	**1,776,623**	**1,796,052**	**1,744,131**	**1,725,619**
	credit available	***$1,103,138,818***	**$1,012,734,462**	**$936,058,269**	**$870,477,188**	**$718,808,993**	**$643,265,602**	**$576,422,702**	**$512,199,240**	**$474,413,133**
	credit used	***$907,644,305***	**$846,504,535**	**$772,380,906**	**$713,427,910**	**$568,146,441**	**$505,671,840**	**$447,379,650**	**$393,775,706**	**$364,377,795**
	credit refunded	***$364,898***	**$856,655**	**$732,323**	**$506,205**	**$579,438**	**$413,419**	**$375,355**	**$121,369**	**$80,069**
	Credit used from SBI	***$333,829***	**$1,324,975**							
	carry forward	***$144,935,132***	**$114,444,894**	**$124,431,996**	**$118,009,042**	**$111,414,103**	**$94,980,939**	**$85,386,080**	**$75,034,611**	**$67,098,077**
	ltd carry forward							**$55,476**	**$156,254**	**$156,419**

Notes:

1. Shaded areas indicate that the credit was not in effect during the tax year.
2. "Data Not Releasable" indicates that the credit information cannot be released due to confidentiality restrictions.
3. "Total" includes credits for which information was "not releasable" individually.
4. DATA IN ITALICS ARE PRELIMINARY.

SUMMARY OF SMALL BUSINESS TAX CREDITS CLAIMED BY TAX YEAR

SMALL BUSINESS INCOME		2022	2021
Affordable Housing	# of claims	0	
	credit available	$0	
	credit used	$0	
	SBI to 301	$0	
	carry forward	$0	
Agricultural Pollution Control Equipment	# of claims	0	0
	credit available	$0	$0
	credit used	$0	$0
	SBI to 301	$0	$0
	carry forward	$0	$0
Agricultural Water Conservation System	# of claims	0	5
	credit available	$0	$493,115
	credit used	$0	$295,460
	SBI to 301	$0	Data Not Releasable
	carry forward	$0	$196,208
Commerical and Industrial Solar Energy	# of claims	0	Data Not Releaseable
	credit available	$0	
	credit used	$0	
	SBI to 301	$0	
	carry forward	$0	
Corporate Contributions to School Tuition Organizations	# of claims	Data Not Releaseable	265
	credit available		$16,397,487
	credit used		$12,975,724
	SBI to 301		$640,651
	carry forward		$2,781,112
Corporate Contributions to School Tuition Organizations Organizations for Disabled Displaced Students	# of claims	0	5
	credit available	$0	$258,622
	credit used	$0	$188,488
	SBI to 301	$0	Data Not Releasable
	carry forward	$0	
Employing National Guard Members	# of claims	0	0
	credit available	$0	$0
	credit used	$0	$0
	carry forward	$0	$0
Enitity Level Income Tax Paid	# of claims	55	
	credit available	$859,729	
	credit used	$504,737	
	SBI to 301	$333,829	
	carry forward	$21,163	
Healthy Forest Enterprise Employment	# of claims	0	0
	credit available	$0	$0
	credit used	$0	$0
	SBI to 301	$0	$0
	carry forward	$0	$0
Healthy Forest Enterprise Ecological Restoration Workforce Training	# of claims	0	0
	credit available	$0	$0
	credit used	$0	$0
	carry forward	$0	$0
Healthy Forest Production	# of claims	0	0
	credit available	$0	$0
	credit used	$0	$0
	carry forward	$0	$0

SUMMARY OF SMALL BUSINESS TAX CREDITS CLAIMED BY TAX YEAR

SMALL BUSINESS INCOME		2022	2021
Income Taxes Paid	# of claims	*35*	*1,634*
To Other States	credit available	*$578,166*	*$12,975,724*
or Countries	credit used	*$578,166*	*$12,975,724*
Investment in	# of claims	*0*	*22*
Qualified Small	credit available	*$0*	*$304,949*
Businesses	credit used	*$0*	*$300,447*
	SBI to 301	*$0*	Data
	carry forward	*$0*	Not Releasable
New Employment	# of claims	*0*	*0*
	credit available	*$0*	*$0*
	credit used	*$0*	*$0*
	carry forward	*$0*	*$0*
Pollution	# of claims	*0*	
Control Device	credit available	*$0*	Data
	credit used	*$0*	Not releasable
	SBI to 301	*$0*	
	carry forward	*$0*	
Qualified Facilities	# of claims	*0*	*0*
	credit available	*$0*	*$0*
	CREDIT REFUNDED	*$0*	*$0*
REFUNDABLE			
Renewable Energy	# of claims	*0*	*0*
Production	credit available	*$0*	*$0*
	credit used	*$0*	*$0*
	carry forward	*$0*	*$0*
Research and	# of claims	*0*	*149*
Development	credit available	*$0*	*$8,759,252*
	credit used	*$0*	*$5,457,677*
	CREDIT REFUNDED	*$0*	*$0*
	ltd carry forward		
	SBI to 301	*$0*	*$658,981*
	unltd carry forward	*$0*	*$2,642,594*
Research and	# of claims	*0*	*0*
Development for	credit available	*$0*	*$0*
University Research	credit used	*$0*	*$0*
	SBI to 301		
	carry forward		
School Site	# of claims	*0*	*0*
Donation	credit available	*$0*	*$0*
	credit used	*$0*	*$0*
	SBI to 301	*$0*	*$0*
	carry forward		
Solar Hot Water	# of claims	*$0*	*$0*
Plumbing Stub	credit available	*$0*	*$0*
Outs and Electric	credit used	*$0*	*$0*
Vehicle Recharge	carry forward		
Total	# of claims	***90***	***2,082***
	credit available	***$1,437,895***	***$39,220,348***
	credit used	***$1,082,903***	***$32,196,261***
	credit refunded	***$0***	***$0***
	SBI to 301	***$333,829***	***$1,324,975***
	carry forward	***$21,163***	***$5,699,112***

Notes:
1. Shaded areas indicate that the credit was not in effect during the tax year.
2. "Data Not Available" indicates that the credit data was not available at the time of publica
3. "Data Not Releasable" indicates that the credit information cannot be released due to cor
4. "Total" includes credits for which information was "not releasable" individually.
5. DATA IN ITALICS ARE PRELIMINARY.

CORPORATE INCOME TAX

DESCRIPTION

The corporate income tax is levied on corporations that engage in business within Arizona. Beginning in TY 2017, the tax rate is 4.9% of Arizona taxable income. A multi-state company must allocate a portion of its income to Arizona based on its Arizona property, payroll, and sales. Beginning in TY 2017, a multi-state corporation can also elect to allocate its income to Arizona based solely on its sales in the state.

The corporate income tax is an important revenue source for the state, representing 10.4% of total General Fund revenue collections in FY 2024. A portion of corporate income tax collections (along with individual income tax collections) is shared with incorporated cities and towns within the state.

COLLECTIONS

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].

Table 1

COLLECTIONS

Fiscal Year	State General Fund	Fiscal Year	State General Fund
2024	$1,744,821,675	2014	$575,180,221
2023	$1,806,337,145	2013	$662,026,399
2022	$1,163,468,883	2012	$643,771,845
2021 1/	$847,020,795	2011	$560,235,683
2020	$511,881,751	2010	$413,193,307
2019	$514,264,089	2009	$592,157,255
2018	$373,076,384	2008	$784,510,885
2017	$368,136,444	2007	$986,169,564
2016	$570,547,697	2006	$874,219,473
2015	$663,003,020	2005	$701,859,285

1/ By Executive Order, the tax year 2019 filing due date was moved from April 15, 2020 to July 15, 2020.
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.

DISTRIBUTION

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, 18% of net income tax revenue from 2 years prior is distributed to cities and towns. Pursuant to Laws 2021, Chapter 412, beginning in FY 2024, the URS distribution percentage was increased from 15% to 18%. This distribution is based on the most recent population estimates of each city and town made annually by the U.S. Census Bureau [A.R.S. § 42-5033.01]. Cities and towns have the option of using special census population counts for purposes of calculating distributions, but only during the 6th year following a decennial census. In the 2nd year following the special census, a city/town must use the most recent estimate from the U.S. Census Bureau [A.R.S. § 42-5033]. Prior to Laws 2016, Chapter 258, distributions were based on population estimates from the last U.S. decennial census or special census. *Table 4*

(Distribution of Individual and Corporate Income Tax) in the Individual Income Tax section provides historical urban revenue sharing distributions [A.R.S. § 43-206].

WHO PAYS

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 that are 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].

The income of a corporation owned by an Indian tribe or tribal member is not subject to Arizona's corporate income tax if its income is derived from businesses located on the reservation. Income from a corporation not owned by a tribe or tribal member, regardless of whether it is located on a reservation, is subject to the state corporate income tax. Corporations owned by tribes or tribal members that derive their income from non-reservation sources are subject to the income tax in the same manner as all other corporations with income in Arizona.

There are no specific statutory references related to the imposition of Arizona state income tax on tribal members or corporations. Thus, to facilitate the administration of state income tax on Indian reservations, the Department of Revenue (DOR) has adopted income tax rulings based on the decisions in several court cases.

Small business corporations that 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]. Laws 2021, Chapter 425 created an optional pass-through-entity (PTE) level income tax for partnerships and S corporations, beginning in TY 2022. Any business that elects to pay taxes at the PTE level must make corporate estimated payments if its taxable income exceeds $150,000. Prior to Laws 2021, Chapter 425, each partner of such partnership and each shareholder of such S corporation made individual estimated payments instead. Laws 2023, Chapter 11 applies the highest individual income tax rate to businesses that elect PTE taxation. Beginning in TY 2023, the state individual income tax rate is a uniform 2.5% for all filers. For more details on this entity-level tax, please see the *Individual Income Tax* section.

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].

EXEMPTIONS

Organizations that are exempt from federal income tax under Section 501 of the Internal Revenue Code are also exempt from state income tax. In addition, the following organizations are exempt from state income tax [A.R.S. § 43-1201]:

(1) Any organization that is exempt from federal income tax.
(2) Insurance companies that pay taxes on premiums derived from sources within Arizona.
(3) Non-profit medical marijuana dispensaries.

REVENUE BASE AND RATE

The tax is levied, paid, and collected each taxable year based on Arizona taxable income [A.R.S. § 43-1111]. The tax base for the corporate income tax starts with Arizona gross income, which is equivalent to the taxpayer's federal taxable income and is then 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]

The current tax rate for corporate income tax is 4.9% of a corporation's net Arizona taxable income or $50, whichever is greater [A.R.S. § 43-1111]. Laws 2011, 2nd Special Session, Chapter 1 reduced the corporate tax rate from 6.968% to 4.9% over 4 years, beginning in TY 2014. Prior to Chapter 1, a 6.968% tax was in effect from January 1, 2001 through December 31, 2013. Prior to 1990, Arizona used graduated brackets for the corporate income tax. (*Table 2* below displays historical corporate income tax rates since 1990). The $50 minimum tax was effective beginning January 1, 1988.

Table 2

Historical Corporate Income Tax Rates 1/ 2/

Tax Year	Rate
1990	9.300%
1994	9.000%
1998	8.000%
2000	7.968%
2001	6.968%
2014	6.500%
2015	6.000%
2016	5.500%
2017	4.900%

1/ For tax rates prior to 1990, see page 144 of the 1995 Tax Handbook
2/ Years represent a flat rate for all income levels.

Any corporation that has income from business activity that is taxable both within the state and outside of the state (hereafter referred to as "multistate corporation") is required to allocate a portion of the income to Arizona for purposes of computing its Arizona taxable income [A.R.S. § 43-1132]. The method of allocation depends on whether the income is classified as "business income" or "nonbusiness income," as described below.

Allocation of Business Income

Business income arises from transactions and activity in the course of the corporation's regular trade or business operations [A.R.S. § 43-1131]. Any multistate corporation (other than a commercial airline) can elect to allocate its business income based on what is commonly referred to as either the "Standard Apportionment Formula" or the "Enhanced Apportionment Formula." Commercial airlines are required to use a separate allocation method for business income commonly referred to as the "Air Carrier Apportionment Formula" [A.R.S. § 43-1139].

Both the Standard and Enhanced Apportionment Formulas allocate a corporation's business income based on the proportion of its property, payroll, and sales in Arizona relative to other states. These proportions are referred to as respectively the "property factor," "payroll factor," and "sales factor." The apportionment ratio used for the allocation of business income to Arizona is determined by calculating the weighted average of the 3 factors. Under the Standard Apportionment Formula, the sales factor is assigned a weight of 50% whereas the property factor and payroll factor are each given a weight of 25%.

The Enhanced Apportionment Formula, which was established by Laws 2005, Chapter 289, increased the weight of the sales factor to 60% in TY 2007, 70% in TY 2008, and 80% in TY 2009 and subsequent years. This formula was further modified by Laws 2011, 2nd Special Session, Chapter 1, which increased the weight of the sales factor to 85% in TY 2014, 90% in TY 2015, 95% in TY 2016, and 100% in TY 2017 and subsequent years. The phase-in of the increased weight of the sales factor enacted in 2005 and 2011 was simultaneously offset by a commensurate reduction of the weights for the property and payroll factors [A.R.S. § 43-1139 - A.R.S. § 43-1145].

Beginning in TY 2017, a multistate corporation may choose (for purposes of allocating its business income to Arizona) either the 50% sales factor under the Standard Apportionment Formula or the 100% sales factor under the Enhanced Apportionment Formula. The corporation is likely to choose the formula that reduces its Arizona tax liability the most. For example, a business with 10% of its total sales and 20% of its total property and payroll in Arizona would benefit from the 100% sales factor. In calculating the proportion of the corporation's business income allocated to Arizona, the 10% sales factor would receive a weight of 100% whereas the 20% property and payroll factors would each receive a weight of 0%. After applying the weights under the Enhanced Apportionment Formula, 10% of the total multistate business income would be allocated to Arizona. Under the Standard Apportionment Formula, the corporation would have to allocate 15% of its total business income to Arizona.

The proportion of sales allocated to Arizona (for purposes of calculating the sales factor) is determined differently for sales of tangible personal property ("goods") than for sales other than tangible personal property ("services") as described below:

- Sale of tangible personal property is allocated to Arizona if the property is delivered or shipped to a purchaser within the state [A.R.S. § 43-1146].
- Sale of other than tangible personal property is allocated to Arizona if either of the following applies [A.R.S. § 43-1147]: (1) the income producing activity is performed solely in the state, or (2) the income producing activity is performed both in and outside the state, but a greater proportion of the activity is performed in Arizona than in any other state. Beginning in TY 2014, Laws 2012, Chapter 2 provides multistate service providers the option to treat sales from services as being in this state based on a combination of income producing activity sales and market sales. For the 2014 taxable year, Chapter 2 provided an option for corporations that sold more than 85% of their services to consumers outside of Arizona to use the location of the buyer in calculating the sales factor. Chapter 2 increased this figure to 90% in TY 2015, 95% in TY 2016, and 100% in TY 2017 and subsequent years. Thus, beginning in TY 2017, the location of sales accounts for 100% of the sales factor for multistate service providers [A.R.S. § 43-1147]. Laws 2013, Chapter 236 expanded eligibility of this provision by broadening the definition of a multistate service provider to include regionally accredited institutions of higher education with at least one university campus in Arizona on which at least 2,000 students reside. Beginning in TY 2019, Laws 2019, Chapter 272 expands the definition of "multistate service provider" to include a taxpayer that has more than 2,000 employees in the state and that derives more than 85% of its sales from support services provided to a regionally accredited institution of higher education.

<u>Allocation of Nonbusiness Income</u>
Nonbusiness income refers to all income other than business income and typically includes rents and royalties from real property or tangible personal property, capital gains, interest and dividends, and patent and copyright royalties. Nonbusiness income is generally allocated to Arizona to the extent that 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].

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 DOR may require, an alternative method of allocation [A.R.S. § 43-1148].

Net Operating Loss. A net operating loss (NOL) is incurred when a corporation's allowable deductions exceed its taxable income within the same taxable year. Under current law, a corporation is allowed to apply prior years' net operating losses against its current year's Arizona income. Pursuant to Laws 2012, Chapter 343, the net operating loss incurred in one taxable year can be carried forward to offset taxable income in each of the next 20 taxable years, beginning in TY 2012. Prior to Chapter 343, a corporation's net operating loss was only allowed to be carried forward to the next 5 taxable years.

TAX REFUNDS AND/OR TAX CREDITS

Tax credits are either refundable or non-refundable. Unlike refundable credits, non-refundable credits can never exceed a taxpayer's tax liability. However, many of the non-refundable tax credits allow the unused amounts to be carried forward to future years. Only the credits shown in *Table 3* below are refundable under current statutes.

The value of tax credits used and carried forward through tax year 2021 is summarized by the DOR summary report attached at the end of this section.

Laws 2002, Chapter 238 established the Arizona Joint Legislative Income Tax Credit Review Committee. The Committee is required to determine the purpose of income tax credits, develop performance standards for evaluating the credits, and evaluate the benefits to the state. The Committee reviews each tax credit every 5 years according to a rotating schedule [A.R.S. § 43-221].

Table 3

REFUNDABLE INCOME TAX CREDITS

Name of Credit	Type of Credit
Motion Picture Production Credit 1/	Individual and Corporate
Research and Development (R&D) Credit 2/	Individual and Corporate
Qualified Facility Credit 3/	Individual and Corporate

Notes:
1/ Arizona Commerce Authority is authorized to pre-approve total credits of $75 million in Calendar Year (CY) 2023, $100 million in CY 2024, and $125 million, beginning in CY 2025.
2/ Credit is only available to businesses that employ less than 150 full-time employees. Refundable portion of R&D credit is subject to an aggregate cap of $5 million annually.
3/ Credit is subject to an aggregate cap of $125 million annually.

Income tax credits available to corporate taxpayers are described below. Laws 2016, Chapter 125 requires DOR to report by September 30 each year on the amounts of corporate income tax credits claimed in the preceding fiscal year. *Table 4* lists the cost of these credits on a fiscal year basis.

Title 43, Chapter 11, Article 6 of the Arizona Revised Statutes lists all the corporate income tax credits currently available to Arizona taxpayers. A brief description of each tax credit currently in statutes is provided below. *Appendix C* in the Tax Handbook lists all individual income, corporate income, and insurance premium tax credits with statutory ending dates. *Appendix B* provides a complete list and detailed description of the various school tax credits currently available to individual and corporate taxpayers, as well as insurance companies. In addition to tax credit provisions, the state permits individual and corporate income tax filers to accelerate depreciation of certain qualified asset purchases, for purposes of calculating state income tax liability. The *Accelerated Depreciation* sub-section to the *Individual Income Tax* section of the Tax Handbook includes more details.

Arizona National Guard Employees. A tax credit of $1,000 per employee is allowed for businesses that employ Arizona National Guard members who are called to active duty. This non-refundable tax credit, which is effective from January 1, 2006, is allowed to be carried forward for no more than 5 years [A.R.S. § 43-1167.01].

Environmental Technology Facility Construction Costs. A non-refundable credit is allowed for expenses incurred in constructing a qualifying facility involved in recycled materials or renewable energy as described in A.R.S. § 41-1514.02. The credit is equal to 10% of the amount spent to construct the facility, including land acquisition, improvements, building improvements, machinery, and equipment, but not to exceed 75% of the tax liability for the taxable year. Certain recapture provisions apply to this credit. Laws 2022, Chapter 235 repealed this corporate credit beginning in TY 2022. Unused credits can be carried forward for 15 years [A.R.S. § 43-1169].

Facility Credit. A business that expands or locates a qualified facility in the state may claim a credit for qualifying investment and employment [A.R.S. § 41-1512 and § 43-1164.04]. The credit is 10% of the lesser of: (1) the total capital investment in the qualified facility by the taxpayer or third-party lessor of the property or (2) $200,000 for each net new employee at the qualified facility if the total qualifying investment is less than $2 billion, or (3) $300,000 for each net new employee at the qualified facility if the total qualifying investment is $2 billion or more.

To be eligible for the credit, a business is required to devote at least 80% of its property and payroll at the facility to manufacturing, research, or a national or regional headquarter. The credit is dependent upon the taxpayer paying at least 51% of new full-time employees a wage exceeding 125% of the state median wage in urban areas and 100% in rural areas and paying 65% or more of the premium for all full-time employees' health insurance [A.R.S. § 41-1512]. Prior to Laws 2016, Chapter 372, investments by a third-party lessor could not qualify for the credit and taxpayers in urban and rural areas were required to pay at least 80% of employee health insurance premiums and at least 125% of the state median wage.

Table 4

FY 2024 CORPORATE INCOME TAX CREDITS

Credit	Effective	Annual Cost [1/][2/]
Commercial and Industrial Solar Energy Devices	2006 – 2018	N/R
Employing National Guard Members	2006 -	N/R
Employing TANF Recipients	1998 -	N/R
Facility Credit	2013 - 2030	51,468,499
Low-Income Housing (Affordable Housing) [3/]	2022-2025	$0
New Employment [4/]	2011 - 2029	8,872,520
Pollution Control Device	1995 -	N/R
Renewable Energy Investment for Production and Self-Consumption [5/]	2014 - 2025	$0
Renewable Energy Production [6/]	2011 - 2030	N/R
Research & Development - Nonrefundable	2001 -	186,323,096
Research & Development - Refundable [7/]	2010 -	4,031,790
Additional Research & Development - University Research [8/]	2012 -	$0
Private School Tuition Organizations - Low-Income Students [9/]	2006 -	43,018,443
Private School Tuition Organizations - Disabled/Displaced Students [10/]	2009 -	2,149,831
School Site Donation	2001 -	N/R
Taxes paid for Coal Consumed in Electric Power Generation	1998 -	200
TOTAL VALUE OF CORPORATE INCOME TAX CREDITS [11/]		**$300,727,506**

1/ Amounts represent credits claimed in FY 2024.
2/ "N/R" indicates that the information is not releasable due to Arizona confidentiality laws.
3/ The Arizona Department of Housing is required to allocate $4 million in tax credits per year. If there is an unused credit allocation at the end of the calendar year, the unused balance is required to be reallocated next year.
4/ Statute does not permit the Arizona Commerce Authority to authorize new credits after June 30, 2025. Given a maximum 5-year schedule, the credit may not be claimed after TY 2029.
5/ Credit is capped at $10.0 million annually.
6/ Credit is capped at $20.0 million annually between corporate and individual income taxpayers.
7/ Credit is capped at $5.0 million annually between corporate and individual income taxpayers.
8/ Credit is capped at $10.0 million annually between corporate and individual income taxpayers.
9/ Pursuant to A.R.S. § 43-1183, the aggregate credit cap for corporations and insurers combined was $158.5 million in FY 2024. Laws 2024, Chapter 221 reduces the credit cap to $135 million, beginning in FY 2025.
10/ Credit is capped at $6.0 million annually.
11/ Totals include amounts that were not releasable by credit. As a result, credit amounts may not add to total.

SOURCE: Department of Revenue report to the Legislature on the amount of corporate income tax credits claimed in FY 2024.

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 credit is available through TY 2030 but may be claimed through TY 2034 under the 5-year installment schedule. Laws 2021, Chapter 80 increased the aggregate annual credit cap from $70 million to $125 million per calendar year. [A.R.S. § 43-1164.04].

Healthy Forest Production. Allows a taxpayer, beginning in TY 2021, to receive a tax credit for processing qualifying forest products if the taxpayer has a Healthy Forest Enterprise Incentive certification, processes qualifying forest products from a qualifying project between 2021 and 2030, and the facility processing the qualifying forest products is located in Arizona. The amount of credit is based on the number of tons of qualifying forest products that a taxpayer processes during a calendar year, $10,000 for the first 20,000 tons and $5,000 for every 10,000 tons after that. The maximum amount of credit for a calendar year that can be claimed is $500,000 per taxpayer and $2,000,000 in total. The credit is non-refundable and can be carried forward for no more than 5 years [A.R.S. § 43-1162].

Low-Income Housing (Affordable Housing). A taxpayer can claim a nonrefundable credit equal to at least 50% of the amount of the federal Low-Income Housing Tax Credit for qualified projects placed in service in Arizona after June 30, 2022. The Arizona Department of Housing is authorized to allocate a total of $4 million in tax credits per year from 2022 to 2025. At the end of the calendar year, if an unused balance occurs, the balance will be reallocated to the next year. Each of these 4 award cycles is available for 10 years. Unused credits may be carried forward up to 5 years [A.R.S § 43-1163].

Motion Picture Production Tax Credit. Beginning in TY 2023, a refundable credit may be claimed equal to a percentage of the total amount of approved and qualified motion picture production costs: 15% for the first $10 million, 17.5% on the next $25 million and 20% when the production company spends more than $35 million. Additional credit may be claimed equal to 2.5% of production labor costs, production costs for using qualified facilities, and qualified production costs if the motion picture production is done in association with a long-term tenant of a qualified production facility. The credit program will be implemented and administered by the Arizona Commerce Authority (ACA). The credit, which was enacted by Laws 2022, Chapter 387, authorizes ACA to pre-approve up to $75 million in refundable credits in Calendar Year (CY) 2023, $100 million in CY 2024, and $125 million, beginning in CY 2025. The credit is set to be repealed on December 31, 2043. [A.R.S. § 43-1165]

New Employment Tax Credit. A $3,000 annual tax credit may be claimed for each net new qualifying job added by an employer in the state [A.R.S. § 43-1161]. To qualify for the credit, new employment positions must be full-time, meet wage requirements, and offer health insurance paid by the employer (at least 65% of the premium). Credits associated with each net new job can be claimed for 3 consecutive years, for a cumulative total of $9,000. A company may claim first year credits for each separate new job for up to 3 consecutive years. Since second- and third year credits may be claimed against each of the new positions, the taxpayer may claim credits for up to a total of 5 consecutive years. ACA is authorized to issue first year credits for up to 10,000 new employees ($30.0 million) in each year.

Prior to Laws 2017, Chapter 340, a business could not claim the new credit unless it added at least 25 net new jobs in a year in an urban area (5 in a rural area), paid employees at least 100% of the county median wage, and made a capital investment of at least $5.0 million ($1.0 million in a rural area) [A.R.S. § 43-1161]. Beginning in TY 2018, Laws 2017, Chapter 340 permits businesses to qualify under alternative levels of capital investment and wages as displayed in *Table 5* and permits ACA to authorize credits through June 30, 2025. A business can now invest less than $5.0 million if they pay wages that exceed 100% of the county median level. The required number of net new jobs remains unchanged. Given the maximum 5-year schedule outlined above, businesses may claim credits through TY 2029. [A.R.S. § 41-1525]

Table 5

New Employment Tax Credit
Investment and Median Wage Requirements

Urban Location

Minimum Capital Investment	Wages as Percent of County Median
$5,000,000	100%
$2,500,000	125%
$1,000,000	150%
$500,000	200%

Rural Location

Minimum Capital Investment	Wages as Percent of County Median
$1,000,000	100%
$500,000	125%
$100,000	150%

In TY 2013 and later years, Laws 2012, Chapter 343 eliminates the requirement (provided by Laws 2011, 2nd Special Session, Chapter 1) that no employer can claim more than 400 new jobs in the first year of credit use, 800 jobs in the second year, and 1,200 jobs in the third year. The cap applied to credits claimed against insurance premium, individual income, and corporate income taxes. The credit cannot be claimed against employees that are also claimed under the Military Reuse Zone Tax Credit (A.R.S. § 41-1525; Laws 2017, Chapter 299 repeals credit after December 31, 2017). Laws 2014, Chapter 168 changes the requirement for the New Employment Tax Credit program by providing that second-year and third-year credits can be claimed irrespective of whether the same employee remains employed as long as the employer replaces the vacant position with another qualified employee within 90 days.

Pollution Control Equipment. The credit is allowed for purchases of real or personal property used to control or prevent pollution. The qualifying facilities must be built or purchased to comply with U.S. Environmental Protection Agency or Arizona Department of Environmental quality regulations. The credit amount is equal to the lesser of 10% of the purchase price or $500,000 in a taxable year. This non-refundable tax credit can be carried forward for no more than 5 years [A.R.S. § 43-1170].

Renewable Energy Investment and Production for Self-Consumption. This is a corporate income tax credit for investment in new renewable energy facilities that produce energy for self-consumption using renewable energy sources if the power is primarily used by an International Operations Center [A.R.S. § 41-1520 and A.R.S. § 43-1164.05].

The taxpayer must qualify for this credit as an International Operations Center (IOC), which requires the taxpayer to:

- Invest at least $100 million in one or more renewable energy facilities in Arizona by December 31, 2018.
- Invest at least $1.25 billion in new capital assets, including land, buildings, and IOC equipment, within 10 years after being certified as an IOC by the Arizona Commerce Authority (ACA).
- Use at least 51% of the energy produced for self-consumption by the 5th year the IOC is in operation.

Approval by the Department of Revenue (DOR) is required to take the credit. The amount of the credit is $5 million per year for 5 years for each renewable facility. The credit per taxpayer cannot exceed $5 million per year, and $25 million in total over 5 years. The total amount of credits that DOR can approve for all taxpayers in a calendar year is $10 million. No new credits can be claimed for any taxable year beginning after December 31, 2025.

To meet the definition of a "renewable energy facility" for purposes of claiming the credit, the taxpayer must have invested at least $30 million in each facility. Furthermore, the facility must have a minimum generating capacity of 20 megawatts, or a minimum annual generation of 40,000 megawatt hours, be located in Arizona, and produce electricity using a renewable energy resource.

According to DOR's most recent "Arizona's Individual and Corporate Income Tax Report," one renewable energy facility has been approved for this credit. Since no other taxpayer met the minimum investment requirement by the statutory due date of December 31, 2018, no additional credits will be authorized under this program.

Laws 2019, Chapter 203 repealed the individual income tax credit for IOCs but retained the corporate income tax credit. This credit cannot be claimed against the same facilities that are used to claim the Renewable Energy Production Credit [A.R.S. § 43-1164.03]. For additional information on renewable energy incentives, see *Appendix A*.

Renewable Energy Production. A credit is allowed on the production of electricity using renewable energy. To be eligible for the credit, a taxpayer must hold title to a qualified energy generator that first produces electricity between January 1, 2011 and December 31, 2020. The credit allows a qualified producer of renewable energy to receive an individual or corporate income tax credit of up to $2.0 million per year on the electricity that they produce for up to 10 years. Given that a taxpayer may begin earning credits as late as TY 2020, the latest year a credit may be earned under a 10-year schedule is TY 2030. The renewable energy credit has an annual cap of $20.0 million for total individual and corporate income tax credits. A 5-year carry forward of the credit is allowed [A.R.S. § 43-1164.03]. This credit cannot be claimed against the same facilities that are also claimed under the Renewable Energy Investment and Production for Self-Consumption Credit [A.R.S. § 43-1164.05]. For additional information on renewable energy incentives, see *Appendix A*.

Research and Development (R&D). The credit is calculated based on the amount of qualified research expenses exceeding a certain "base amount" (defined in the Internal Revenue Code). Prior to TY 2010, the credit was calculated as 20% of up to $2.5 million in qualified expenses and 11% of qualified expenses above $2.5 million. Laws 2008, Chapter 290 increased these credit percentages to 24% and 15%, respectively from TY 2010 to TY 2017. Laws 2017, Chapter 340 extended these enhanced credit percentages through TY 2021. This was further extended through TY 2030 by Laws 2020, Chapter 7. Laws 2010, Chapter 312 changed the credit from being nonrefundable to refundable for those companies that employ less than 150 full-time employees. Specifically, the act provides that such taxpayers receive a refund equal to 75% of the amount by which the credit exceeds their liability. The refundable aspect of the credit has an annual cap of $5.0 million cumulatively for the individual and corporate income tax and is effective retroactively from January 1, 2010. If in any year less than $5.0 million of credits are filed collectively by all taxpayers, any unused amount rolls over to the next year. Laws 2011, 2nd Special Session, Chapter 1 expands the tax credit, beginning in FY 2013, by increasing the credit calculation by 10% for university-related research. The credit is subject to an aggregate cap of $10.0 million per year between individual and corporate income taxpayers. A 15-year carry forward of the credit is allowed for credits claimed through TY 2021 [A.R.S. § 43-1074.01]. Laws 2021, Chapter 196 provides that credits claimed beginning in TY 2022 have a 10-year carry forward.

Laws 2010, Chapter 312 changes the credit from being nonrefundable to refundable for those companies that employ fewer than 150 full-time employees. Specifically, the act provides that such taxpayers receive a refund equal to 75% of the amount by which the credit exceeds their liability. The refundable aspect of the credit has an annual cap of $5.0 million cumulatively for the individual and corporate income tax and is effective retroactively from January 1, 2010. If in any year less than $5.0 million of credits are filed collectively by all taxpayers, any unused amount rolls over to the next year. Laws 2011, 2nd Special Session, Chapter 1 expands the tax credit, beginning in FY 2013, by increasing the credit calculation by 10% for university-related research. The credit is subject to an aggregate cap of $10.0 million per year between individual and corporate income taxpayers.

School Site Donation. 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. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [A.R.S. § 43-1181]. Laws 2020, Chapter 43 repealed the corporate (but not the individual) credit retroactively from TY 2020. Laws 2021, Chapter 383 reinstates the corporate credit retroactively from TY 2020.

School Tuition Organization. A corporation (and an insurer) may claim a tax credit, up to the full amount of the donation, for contributions made to a school tuition organization (STO) that provides education scholarships and tuition grants either to students of low-income families pursuant to A.R.S. § 43-1183 (and A.R.S. § 20-224.06) or to disabled students or students in foster care ("displaced students") pursuant to A.R.S. § 43-1184 (and A.R.S. § 20-224.07). Laws 2015, Chapter 301 expands the "low-income" and "disabled/displaced" STO credits to include businesses organized as S corporations pursuant to Section 1361 of the Internal Revenue Code, beginning in TY 2015. Since tax credits earned by an S corporation are pro-rated and passed through to the owners, such credits are claimed against the individual income tax rather than the corporate income tax (*see the Individual Income Tax section for more details on Laws 2015, Chapter 301*).

Beginning in TY 2021, Laws 2021, Chapter 412 expands credit-eligible corporate donations to STOs to include students who are homeschooled before enrolling in a qualified school, students who moved to Arizona from out of state before enrolling in a qualified school, and to students who participated in an Arizona Empowerment Scholarship Account (ESA) and did not renew the account or accept the scholarship in order to accept a scholarship or tuition grant. Laws 2024, Chapter 221 expands the eligibility for scholarships to include foster care children that meet certain requirements, as outlined in the *Impact of Statutory Changes* section.

The total amount of the low-income tax credit was originally capped at $10.0 million per year, with the cap increasing by 20% per year beginning in FY 2008. The credit cap was $74.3 million in FY 2018, and increased to $89.2 million in FY 2019, and $107.0 million in FY 2020. Laws 2019, Chapter 281 limited the annual increase of the credit cap to 15% in FY 2021, 10% in FY 2022, and 5% in FY 2023. Beginning in FY 2024, the increase of the credit cap is limited to the greater of 2% or the annual change of the Metropolitan Phoenix consumer price index. In dollar terms, Chapter 281 limited the growth of the credit cap to $123.1 million in FY 2021, $135.4 million in FY 2022, $142.1 million in FY 2023, and $158.5 million in FY 2024. Actual use of the credit was $116.2 million in FY 2024.

Laws 2024, Chapter 221 caps the aggregate credit amount at $135 million per fiscal year beginning in FY 2025. This "low-income" cap applies to all credits cumulatively taken under Individual Income Tax S-Corporations, Corporate

Income Tax, and Insurance Premium Tax. Due to the aggregate credit cap, all corporations and insurers must be pre-approved for the credit. There is no cap on the amount of contributions made by individual corporations and insurers.

The full amount of the disabled/displaced student tax credit approved by DOR pursuant to A.R.S. § 43-1184 is capped at $6.0 million per year. Laws 2021, Chapter 412 increased the credit cap from $5.0 million to $6.0 million, beginning in FY 2022. A taxpayer may carry forward the unused portion of either tax credit for 5 years. A taxpayer shall not claim a tax credit under both A.R.S. § 43-1183 and A.R.S. § 43-1184 for the same contribution [A.R.S. § 43-1183 and A.R.S. § 43-1184]. See *Appendix B* in the Tax Handbook for a comparison of private school tax credits.

Solar Energy Devices for Commercial and Industrial Purposes. A taxpayer can claim a credit equal to 10% of the installed cost of a solar energy device used in their trade or business. The credit cannot exceed $25,000 for the same building in the same year or $50,000 in total in any year. This income tax credit may be claimed by a taxpayer purchasing a solar energy device, or a taxpayer that finances the purchase of a qualifying device. The credit may be transferred to a third party that manufactures or installs a qualifying device. The credit is available from TY 2006 through TY 2018. Unused credits earned in 2018 can be carried forward to TY 2023 [A.R.S. § 43-1164]. For additional information on renewable energy incentives, see *Appendix A*.

Taxes Paid for Coal Consumed in Generating Electric Power. The credit is for 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. The credit can be carried forward for 5 years [A.R.S. § 43-1178].

Temporary Assistance for Needy Families 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. The credit is 25% of the taxable wages paid in the first year of employment for each newly created position, 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].

PAYMENT SCHEDULE

Period Covered by the Taxable Year

Every taxpayer (individual, business entity, etc.) must figure its taxable income based on an annual accounting period called a tax year. For individual income taxpayers the calendar year is also their tax year. Other taxpayers, such as corporations or partnerships may use a fiscal year as their tax year.

A calendar year is 12 consecutive months beginning on January 1 and ending on December 31. Taxpayers that adopt the calendar year as their tax year must maintain their books and records and report their income and expenses from January 1 through December 31 of each year.

A fiscal year is 12 consecutive months ending on the last day of any month except December 31. Taxpayers that adopt a fiscal year must consistently maintain their books and records and report their income and expenses using the period (fiscal year) adopted.

The federal and state filing due date for C corporations and partnerships is the 15th day of the 4th month following the close of the tax year. For S corporations the state and federal due date is the 15th day of the 3rd month following the close of the tax year [A.R.S. § 43-501]. For example, a corporation whose tax year is the same as the calendar year has a federal and state filing due date of April 15. Prior to passage of the federal Surface Transportation and Veterans Health Care Choice Improvement Act of 2015, C and S corporations had a federal filing due date of the 15th day of the 3rd month following a tax year.

On March 20, 2020, the Governor issued an executive order that instructed the Department of Revenue to move the due date for filing and paying state income taxes from April 15, 2020 to July 15, 2020. The July 15th filing due applied to 2019 state individual and corporate income tax returns. The executive order did not apply to quarterly estimated payments made by individual and corporate filers.

A filing extension may be granted if 90% of the corporation's 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].

The *Table 6* below provides 3 examples of when a corporation's 2024 tax return is due. The due date depends on the corporation's elected tax year (calendar year or fiscal year) as well as whether the corporation files for a 6-month extension or not.

Table 6

FILING DUE DATE FOR CORPORATE INCOME TAX RETURN

Accounting Period	Corporation's Taxable Year	Filing Due Date	Extension Due Date	Income Tax Return Year
1/1/2024 – 12/31/2024	CY 2024	4/15/2025	10/15/2025	2024
7/1/2024 – 6/30/2025	FY 2025	10/15/2025	4/15/2026	2024
12/1/2024 – 11/30/2025	FY 2025	3/15/2026	9/15/2026	2024

As indicated in the table above, a corporation's 2024 state tax return could be filed as early as April 15, 2025 and as late as September 15, 2026 depending on: (1) the corporation's elected tax year (calendar year or fiscal year) and (2) whether the corporation requests a 6-month extension or not. According to DOR, large corporations typically file for the 6-month extension.

Estimated Tax Payments

Corporations that expect an Arizona income tax liability for the taxable year of $1,000 or more must make Arizona estimated tax payments during the year [A.R.S. § 43-582]. Corporations whose Arizona income tax liability for the preceding taxable year was $500 or more must make their estimated payments via electronic fund transfer ("EFT"). Any corporation that fails to make the required estimated tax payments is subject to a penalty on any payment that is late or underpaid [A.R.S. § 43-582]. The required annual payment of the estimated tax is the smaller of:

- 90% of the corporation's Arizona tax liability for the current taxable year, or
- 100% of the corporation's Arizona tax liability for the prior taxable year.

Large corporations (defined as having a federal tax liability of $1.0 million or more for any 1 of the preceding 3 taxable years) are required to make total estimated payments of 90% of the current year's tax liability.

Calendar year and fiscal year basis taxpayers are required to make their Arizona corporate estimated tax payments by the 15th day of the 4th, 6th, 9th, and 12th months of the taxable year. If the installment due date falls on a weekend or legal holiday, the payment is considered timely if made on the next business day.

Electronic Fund Transfer and Tax Filing Requirements

Businesses with corporate income tax liability of at least $5,000 in the preceding taxable year are required to remit estimated tax payments to DOR by electronic fund transfer (EFT). Laws 2017, Chapter 60 lowered the tax liability threshold for EFT payments from $20,000 to $10,000 for TY 2019, $5,000 for TY 2020, and $500 for TY 2021 and later years [A.R.S. § 42-1129].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

2024 LAWS

Laws 2024, Chapter 7 was the annual conformity bill that updated the definition of the Internal Revenue Code (IRC) to include all IRC provisions that were in effect as of January 1, 2024.

Laws 2024, Chapter 221 caps the aggregate dollar level of the Corporate Low-Income Student Tuition Tax Credit at $135 million annually, beginning in FY 2025.

Chapter 221 also expands the eligibility for scholarships from the "Switcher" Individual Income Tax Credit and Corporate Low-Income Student Tuition Tax Credit programs to include children who were placed in foster care at any time prior to graduating from high school or receiving a General Equivalency Diploma (GED) who meet all the following criteria:

- The student is unable to attend a governmental school as a full-time student and has not attended such a school student for at least 90 days during the previous fiscal year or one semester before enrolling in a qualified school.
- A governmental school cannot meet the student's unique needs.
- The student is unable to receive other scholarships or tuition grants in an amount that is equal to the cost of tuition to attend the qualified school.

If a court rules that the $135 million aggregate tax credit cap is unenforceable and that judgement is no longer subject to further appeal or review, the provisions under Chapter 221 that expand the eligibility for scholarships to foster care children would not be effective.

2023 LAWS

Laws 2023, Chapter 2 conforms the Arizona tax code to the federal Internal Revenue Code (IRC) as of January 1, 2023 to reflect changes adopted by the U.S. Congress during 2022 and 2023. These changes included the Inflation Reduction Act (IRA) of 2022, the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act of 2022, and the Consolidated Appropriations Act, 2023 (CAA). We estimate that conforming to these federal provisions would reduce General Fund income tax collections by $(1.5) million in FY 2023 and increase revenues by $12.2 million and $10,7 million in FY 2024 and FY 2025, respectively.

Laws 2023, Chapter 11 is a tax correction bill that made technical and clarifying changes to the Arizona Revised statutes. This chapter requires partners or shareholders of a business that is treated as a partnership or S corporation for federal income tax purposes that consent to Arizona's entity-level tax to be taxed at the highest individual income tax rate. For TY 2023, the Arizona individual income tax rate is a uniform 2.5% for all filers.

Laws 2023, Chapter 147 is the TY 2023 Taxation budget reconciliation bill, which included changes to the individual and corporate income tax. The provision related to the corporate income tax allows a business organized as a partnership, beginning in TY 2023, to have all of its income taxed at the entity level rather than having some of its income taxed at the entity level and rest of it passed through to the individuals in the partnership. This change provides that partnerships and S corporations that elect to be taxed at the entity-level are treated the same way for income tax purposes.

2022 LAWS

Laws 2022, Chapter 41 conforms the Arizona tax code to the federal Internal Revenue Code (IRC) as of January 1, 2022 to reflect changes adopted by the U.S. Congress during 2021.

Laws 2022, Chapter 235 was a tax correction bill that made technical and clarifying changes to the Arizona Revised Statutes. This chapter repeals the corporate credit for Environmental Technology Facility Construction Costs. Chapter 235 also repeals the individual Credit for Employment by a Healthy Forest Enterprise and the individual Credit for Pollution Control Equipment.

Laws 2022, Chapter 387 creates a motion picture production income tax credit, beginning in TY 2023. The credit program will be implemented and administered by the Arizona Commerce Authority (ACA). Chapter 387 authorizes ACA to pre-approve up to $75 million in refundable credits in Calendar Year (CY) 2023, $100 million in CY 2023, and $125 million, beginning in CY 2025. Chapter 387 was not scored as part of the 3-year budget plan. We estimated that during the first 3 years of the credit program, Chapter 387 would reduce General Fund revenues by less than half of the credit cap. We did not attempt to quantify the indirect impacts of any additional economic activity associated with the bill.

2021 LAWS

Laws 2021, Chapter 80 makes several changes to the Credit for Qualified Facilities [A.R.S. § 41-1512, A.R.S. § 43-1083.03, and A.R.S. § 43-1164.04]. 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 credit is the lesser of 10% of the total qualifying investment in the facility <u>or</u> $20,000 for each net new job at the qualified facility. Chapter 80 makes the following changes to the Qualified Facility Credit:
(1) Increases the credit from $20,000 to $30,000 per net new job if the total qualifying investment is $2 billion or more. If the qualifying investment is less than $2 billion, the credit remains at $20,000 per net new job.
(2) Increases the aggregate cap of the credit that can be preapproved by the Arizona Commerce Authority (ACA) in a calendar year from $70 million to $125 million.
(3) Expands the statutory definition of "qualified manufacturing" to include products sold to other qualifying facilities regardless of whether such facilities have been pre-approved by ACA.

The changes under Chapter 80 are effective from September 29, 2021.

Laws 2021, Chapter 174 reduces the automatic repeal of unused tax credits from 4 years to 3 years. Tax credits with remaining carryforward amounts may still be claimed under the carryforward period provided for the repealed credit.

Laws 2021, Chapter 196 was a tax correction bill that made technical and clarifying to the Arizona Revised Statutes. Chapter 196 repeals the individual (but not the corporate) tax credit for Employment of Temporary Assistance of Needy Families (TANF) Recipients.

Laws 2021, Chapter 232 conforms Arizona tax statutes to the Internal Revenue Code (IRC) in effect as of March 11, 2021. Chapter 232 adopts all the federal changes enacted under the Families First Coronavirus Response Act (FFCRA), Coronavirus Aid, Relief, and Economic Security (CARES) Act, Paycheck Protection Program (PPP) Flexibility Act, Consolidated Appropriations Act, 2021 (CAA), and American Rescue Plan (ARP) Act. Chapter 232 is estimated to result in a one-time General Fund revenue reduction of $(624.8) million over the next several years.

Laws 2021, Chapter 383 reinstates the School Site Donation credit that was repealed by Laws 2020, Chapter 43.

Laws 2021, Chapter 412 is the 2021 Tax Omnibus, which included changes to the individual and corporate income tax, as well as insurance premium tax, property tax, Transaction Privilege Tax and Unemployment Insurance Tax (for a detailed description, see the *Individual Income Tax* section of the Tax Handbook). The corporate income tax provisions in the Tax Omnibus are described below.

- Increases the credit cap for contributions by corporations and insurers to School Tuition Organizations (STO) for displaced/disabled students from $5 million to $6 million, beginning in FY 2022.

- Creates a new nonrefundable individual and corporate income tax credit for the processing of qualified forest products, beginning in TY 2021. The credit has an annual cap of $0.5 million per taxpayer and $2 million in the aggregate.

- Expands the eligibility for students receiving "switcher" individual or low-income corporate STO scholarships to include those who were homeschooled, moved from out of state, or held an Empowerment Scholarship Account (ESA), beginning in TY 2021.

- Allows public service corporations to deduct for income tax purposes any amount of monies or other property contributed to them to expand, improve, or replace their water system or sewage disposal facilities, beginning in TY 2021.

- Increases the distribution from the Urban Revenue Sharing (URS) Fund to incorporated cities and towns from 15% to 18% of the amount of individual and corporate income taxes collected 2 fiscal years prior, beginning in FY 2024.

Laws 2021, Chapter 425 creates an optional entity-level income tax for partnerships and S corporations, beginning in TY 2022. If the partners or shareholders of such pass-through-entities (PTE) elect to be taxed at the entity level, the PTEs are taxed at 4.5% of their Arizona taxable income. Such an election allows PTEs to claim a full deduction on their federal partnership return for state taxes paid at the entity level. Currently, the amount of itemized deductions that can be claimed for state and local taxes paid by each partner or shareholder of a PTE on their federal individual income tax return is limited to $10,000. Chapter 425 has no impact on General Fund revenues. At the state level, partners, and shareholders of PTEs will pay the same amount of state individual income tax under Chapter 425 as under current law. At the federal level, however, there will be a reduction of individual income tax revenues since Chapter 425 will effectively allow partners and shareholders of PTEs to claim their full deduction for state taxes.

Laws 2021, Chapter 430 creates a new individual and corporate nonrefundable affordable housing tax credit that is equal to at least 50% of the amount of the federal low-income housing credit for qualified projects placed in service after June 30, 2022. The Arizona Department of Housing is authorized to allocate a total of $4 million in tax credits per year from TY 2022 to TY 2025. Each of these 4 award cycles is available for 10 years. The credit is estimated to have a revenue impact of $(4.0) million in FY 2024.

2020 LAWS

Laws 2020, Chapter 7 extended the availability of credits for Qualified Facilities (A.R.S. § 43-1083.03), Renewable Energy Investment and Production for Self-Consumption by International Operations Centers (A.R.S. § 43-1164.05) and Research and Development (A.R.S. § 43-1168). These credits are set to expire in 2030.

Laws 2020, Chapters 24 and 40 conform the Arizona tax code to the federal Internal Revenue Code (IRC) as of January 1, 2020 to reflect changes adopted by the U.S. Congress during 2019.

Laws 2020, Chapter 43 was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. This chapter also repeals the corporate tax credits for employment by a healthy forest enterprise, agricultural pollution control equipment, and the donation of a school site.

2019 LAWS

Laws 2019, Chapter 203 was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. (Effective from August 27, 2019)

Laws 2019, Chapter 272 expands the definition of "multistate service provider" to include a taxpayer that has more than 2,000 employees in the state and that derives more than 85% of its sales from support services provided to a regionally accredited institution of higher education (Effective retroactively from January 1, 2019)

Laws 2019, Chapter 273 conforms Arizona to the federal definition of taxable income as of January 1, 2018 for tax year 2018, and January 1, 2019 for tax year 2019. In addition, Chapter 273 includes numerous changes related to individual income tax and transaction privilege tax. For more details on these changes, please see the *Individual Income Tax* and *Transaction Privilege Tax* sections of the Tax Handbook.

Laws 2019, Chapter 281 limits the annual increase of the aggregate credit cap for contributions made by corporations and insurers to qualifying school tuition organizations (STO) that provide education scholarships and tuition grants to students of low-income families from 20% to 15% in FY 2021, 10% in FY 2022, and 5% in FY 2023. Beginning in FY 2024, the increase of the credit cap is limited to the greater of 2% or the annual change of the Metropolitan Phoenix consumer price index. In dollar terms, Chapter 281 limits the growth of the credit cap to $123.1 million in FY 2021, $135.4 million in FY 2022, and $142.1 million in FY 2023.

2018 LAWS

Laws 2018, Chapter 104 was a correction bill that made technical and clarification changes to the Arizona Revised Statutes. (Effective from August 3, 2018)

Laws 2018, Chapter 106 expands the definition of a multistate-service-provider to include taxpayers that derive more than 85% of its sales from services or other intangibles provided to out-of-state purchasers. The prior definition had been limited to just sales of services. See Laws 2012, Chapter 2 (below) for more information.

Laws 2018, Chapter 142 was the annual conformity bill that updated the definition of the Internal Revenue Code (IRC) to include all IRC provisions that were in effect as of January 1, 2017. This included provisions of the federal Tax Cuts and Jobs Act (TCJA) that were made retroactively effective for tax year 2017. The TCJA increased the allowable rate of the bonus depreciation allowance from 50% to 100% of qualified business investment made after September 27, 2017. However, Arizona does not conform to federal bonus depreciation amounts for the corporate income tax. Most TCJA provisions were effective January 1, 2018. Chapter 142 does not address those provisions.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf.

SUMMARY OF CORPORATE INCOME TAX CREDITS CLAIMED BY TAX YEAR

CORPORATE		2021	2020	2019	2018	2017	2016	2015	2014	2013
Agricultural	# of claims			0	0	0	0	0	0	0
Pollution	credit available			$0	$0	$0	$0	$0	$0	$0
Control	credit used			$0	$0	$0	$0	$0	$0	$0
Equipment	carry forward			$0	$0	$0	$0	$0	$0	$0
Commercial and	# of claims			7	15	15	14	14	13	16
Industrial Solar	credit available	Data Not	Data Not	$153,193	$226,988	$201,337	$228,174	$301,662	$218,675	$262,893
Energy	credit used	Releasable	Releasable	$23,112	$43,248	$26,121	$83,314	$200,140	$141,059	$164,752
	carry forward			$130,081	$178,266	$154,010	$119,860	$101,522	$77,616	$98,141
Contributions to	# of claims	*94*	101	109	90	103	85	75	75	99
School Tuition	credit available	*$47,191,704*	$37,852,365	$37,979,845	$32,769,883	$36,019,358	$40,089,723	$32,059,671	$29,235,862	$32,216,112
Organizations	credit used	*$35,535,634*	$29,574,661	$22,539,535	$22,437,784	$18,662,234	$30,602,407	$22,987,001	$20,873,381	$26,777,303
	carry forward	*$11,656,070*	$8,277,704	$15,332,001	$10,330,779	$14,044,722	$9,527,316	$9,072,670	$8,355,333	$4,768,192
Contributions to School	# of claims			9	9		9	12	17	14
Tuition Organizations	credit available	Data Not	Data Not	$493,114	$1,066,099	Data Not	$1,084,581	$2,516,042	$2,624,318	$506,595
for Disabled or Displaced	credit used	Releasable	Releasable	$330,819	$942,985	Releasable	$677,488	$1,919,840	$2,334,026	$368,627
Students	carry forward			$162,295	$123,114		$407,093	$596,202	$290,292	$137,968
Employing	# of claims	*0*	0						5	5
National Guard	credit available	*$0*	$0	Data Not	Data Not	Data Not	Data Not	Data Not	$6,950	$13,000
Members	credit used	*$0*	$0	Releasable	Releasable	Releasable	Releasable	Releasable	$6,000	$10,050
	carry forward	*$0*	$0						$950	$2,950
Employment of	# of claims				4	4	5	6	11	8
TANF	credit available		Data Not	Data Not	$109,073	$154,988	$124,401	$155,862	$240,649	$221,260
Recipients	credit used		Releasable	Releasable	$79,991	$88,915	$27,100	$64,619	$131,046	$121,998
	carry forward				$4,350	$58,073	$86,801	$72,173	$81,243	$90,762
Enterprise	# of claims					8	11	15	19	49
Zone	credit available				Data Not	$551,221	$1,051,707	$2,420,000	$3,282,845	$6,814,505
	credit used				Releasable	$32,130	$95,793	$59,703	$50,215	$2,469,687
	carry forward					$75,951	$551,221	$1,652,852	$2,420,000	$3,283,745
Environmental	# of claims		0	0	0					
Technology	credit available		$0	$0	$0	Data Not	Data Not	Data Not	Data Not	Data Not
Facility	credit used		$0	$0	$0	Releasable	Releasable	Releasable	Releasable	Releasable
	carry forward		$0	$0	$0					
Healthy Forest	# of claims			0	0	0	0	0	0	0
Enterprise Employment	credit available			$0	$0	$0	$0	$0	$0	$0
	credit used			$0	$0	$0	$0	$0	$0	$0
	carry forward			$0	$0	$0	$0	$0	$0	$0

SUMMARY OF CORPORATE INCOME TAX CREDITS CLAIMED BY TAX YEAR

CORPORATE		2021	2020	2019	2018	2017	2016	2015	2014	2013
Healthy Forest	# of claims			0	0	0	0	0	0	0
Enterprise Ecological	credit available			$0	$0	$0	$0	$0	$0	$0
Restoration Workforce	credit used			$0	$0	$0	$0	$0	$0	$0
Training	carry forward			$0	$0	$0	$0	$0	$0	$0
Healthy Forest	# of claims	*0*								
Production	credit available	*$0*								
	credit used	*$0*								
	carry forward	*$0*								
Military	# of claims	*0*	0	0	0	0	0	0	0	
Reuse	credit available	*$0*	$0	$0	$0	$0	$0	$0	$0	Data Not
Zone	credit used	*$0*	$0	$0	$0	$0	$0	$0	$0	Releasable
	carry forward	*$0*	$0	$0	$0	$0	$0	$0	$0	
Motion Picture	# of claims							0		3
Production and	credit available							$0	Data Not	$835,946
Infrastructure	credit used							$0	Releasable	$833,889
	carry forward							$0		$2,057
New Employment	# of claims	*37*	41	43	41	34	33	26	24	19
Credit	credit available	*$25,208,855*	$31,482,672	$32,396,802	$33,350,375	$27,978,323	$18,193,937	$11,315,628	$8,162,272	$6,962,900
	credit used	*$8,592,359*	$13,816,109	$14,496,446	$16,344,698	$11,973,945	$8,119,188	$5,917,220	$5,260,897	$5,910,034
	carry forward	*$16,616,496*	$18,319,797	$17,756,456	$16,541,151	$16,004,378	$10,074,749	$5,397,958	$2,901,375	$1,052,866
Pollution	# of claims	*6*	7	8	7	11	16	14	15	20
Control Device	credit available	*$4,018,978*	$2,318,223	$4,137,757	$3,700,346	$5,240,144	$8,005,607	$7,910,962	$7,870,693	$7,381,262
	credit used	*$1,434,834*	$849,105	$1,353,981	$1,105,049	$1,903,714	$2,390,645	$1,481,363	$1,481,996	$1,714,214
	carry forward	*$2,417,884*	$1,199,554	$2,339,497	$2,287,800	$2,724,292	$4,693,192	$5,876,596	$6,137,146	$5,167,287
Qualified Facilities	# of claims	*31*	34	16	13	6			0	
	credit available	*$27,784,455*	$27,725,956	$5,118,786	$3,432,000	$2,812,000	Data Not	Data Not	$0	
	CREDIT REFUNDED	*$27,784,455*	$27,725,956	$5,118,786	$3,432,000	$2,812,000	Releasable	Releasable	$0	
Qualified Health	# of claims					0	0	0		
Insurance Plans	credit available					$0	$0	$0	Data Not	Data Not
Credit	credit used					$0	$0	$0	Releasable	Releasable
	carry forward					$0	$0	$0		
Renewable Energy	# of claims					0				
Industry-Investment	credit available					$0	Data Not	Data Not	Data Not	Data Not
and Employment	**CREDIT REFUNDED**					$0	Releasable	Releasable	Releasable	Releasable
						$0				

SUMMARY OF CORPORATE INCOME TAX CREDITS CLAIMED BY TAX YEAR

CORPORATE		2021	2020	2019	2018	2017	2016	2015	2014	2013
Renewable Energy	# of claims							0	0	
Investment and Production	credit available		Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	$0	$0	
for Self-Consumption	credit used							$0	$0	
	carry forward							$0	$0	
Renewable Energy	# of claims	*8*	9	10	9	10	10	10	9	8
Production	credit available	*$63,354,089*	$77,874,080	$75,973,598	$71,794,005	$66,265,792	$54,685,334	$44,211,353	$34,182,183	$24,371,476
	credit used	*$692,448*	$5,211,213	$1,628,631	$6,822,898	$9,232,420	$8,742,119	$9,220,860	$9,658,821	$8,869,123
	carry forward	*$56,699,787*	$64,033,367	$65,340,104	$57,069,046	$52,106,701	$45,823,716	$34,990,493	$24,523,362	$15,502,353
Research and	# of claims	*471*	460	461	449	409	400	388	363	357
Development	credit available	*$1,622,378,621*	$2,242,535,501	$2,028,694,807	$1,781,284,076	$1,507,820,736	$1,304,363,579	$1,193,085,710	$1,051,692,081	$895,538,784
	credit used	*$67,392,795*	$90,645,981	$76,420,671	$75,474,234	$35,683,460	$67,176,438	$90,688,681	$91,971,879	$92,952,561
	CREDIT REFUNDED	*$3,510,130*	$3,300,368	$3,328,938	$3,710,434	$4,539,811	$4,094,460	$4,513,320	$3,754,656	$4,229,020
	ltd carry forward						$39,012,285	$92,634,072	$229,898,885	$312,963,882
	unltd carry forward	*$1,515,687,974*	$2,113,389,475	$1,906,110,127	$1,668,944,386	$1,465,256,097	$1,229,572,431	$1,095,186,345	$953,559,246	$793,367,662
Research and	# of claims	*0*								
Development for	credit available	*$0*	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable	Data Not Releasable
University Research	credit used	*$0*								
	carry forward	*$0*								
School Site	# of claims			0	0	0	0	0	0	
Donation	credit available	Data Not Releasable	Data Not Releasable	$0	$0	$0	$0	$0	$0	Data Not Releasable
	credit used			$0	$0	$0	$0	$0	$0	
	carry forward			$0	$0	$0	$0	$0	$0	
Solar Hot Water	# of claims	*0*	0	0	0	0	0	0	0	0
Plumbing Stub	credit available	*$0*	$0	$0	$0	$0	$0	$0	$0	$0
Outs and Electric	credit used	*$0*	$0	$0	$0	$0	$0	$0	$0	$0
Vehicle Recharge	carry forward	*$0*	$0	$0	$0	$0	$0	$0	$0	$0
Solar Liquid Fuel	# of claims					0	0	0	0	0
Research and	credit available					$0	$0	$0	$0	$0
Development	credit used					$0	$0	$0	$0	$0
Solar Liquid Fuel	# of claims					0	0			
Production	credit available					$0	$0			
	credit used					$0	$0			

SUMMARY OF CORPORATE INCOME TAX CREDITS CLAIMED BY TAX YEAR

CORPORATE		2021	2020	2019	2018	2017	2016	2015	2014	2013
Solar Liquid Fuel	# of claims					0	0			
Delivery Systems	credit available					$0	$0			
	credit used					$0	$0			
Taxes Paid for	# of claims			4	4		4	4		
Coal Consumed	credit available	Data Not	Data Not	$8,259,118	$8,202,055	Data Not	$9,078,655	$9,022,346	Data Not	Data Not
In Generating	credit used	Releasable	Releasable	$1,094,641	$1,028,355	Releasable	$1,415,191	$642,803	Releasable	Releasable
Electrical Power	carry forward			$6,104,334	$6,036,441		$6,547,313	$7,494,682		
Water	# of claims						0	0	0	0
Conservation	credit available						$0	$0	$0	$0
Plumbing Stub-Out	credit used						$0	$0	$0	$0
	carry forward						$0	$0	$0	$0
Total	# of claims	***655***	**667**	**673**	**646**	**618**	**598**	**573**	**564**	**614**
	credit available	***$1,798,078,388***	**$2,435,838,887**	**$2,199,783,322**	**$1,940,950,590**	**$1,667,504,779**	**$1,449,690,114**	**$1,311,262,310**	**$1,155,192,668**	**$990,863,987**
	credit used	***$114,171,209***	**$147,822,243**	**$122,108,915**	**$127,784,970**	**$85,770,892**	**$124,363,683**	**$133,197,888**	**$136,766,630**	**$141,134,715**
	credit refunded	***$31,294,585***	**$31,026,324**	**$8,447,724**	**$7,142,434**	**$7,351,811**	**$7,457,127**	**$8,347,987**	**$4,081,323**	**$4,555,687**
	carry forward	***$1,609,944,500***	**$2,212,618,753**	**$2,015,630,118**	**$1,763,016,285**	**$1,561,703,146**	**$1,311,791,441**	**$1,164,854,242**	**$1,009,939,888**	**$836,300,600**
	ltd carry forward						**$39,012,285**	**$92,634,072**	**$229,898,885**	**$312,963,882**

Notes:
1. Shaded areas indicate that the credit was not in effect during the tax year.
2. "Data Not Releasable" indicates that the credit information cannot be released due to confidentiality restrictions.
3. "Total" includes credits for which information was "not releasable" individually.
4. DATA IN *ITALICS* ARE PRELIMINARY.

APPENDIX A

Appendix A

RENEWABLE ENERGY TAX INCENTIVES

DESCRIPTION

The state has numerous Individual and Corporate Income tax credits for renewable energy investment, production, and installation. The state also allows for property tax incentives and sales or use tax exemptions for the purchase of certain renewable energy equipment or facilities.

INDIVIDUAL AND CORPORATE TAX CREDITS

A tax credit is a dollar-for-dollar reduction of a taxpayer's income tax liability. A credit is different from a subtraction, exemption, or deduction, which reduces the amount of income that will be taxed.

A tax credit is either refundable or non-refundable. Unlike refundable credits, non-refundable credits can never exceed a taxpayer's tax liability. However, many of the non-refundable tax credits allow the unused amounts to be carried forward to future years.

Current statutes include the following tax credits which are sorted by whether they relate to the investment in, or production of, renewable energy, or whether they pertain to the installation of a renewable energy device:

Investment and Production:
Renewable Energy Investment and Production for Self-Consumption by an International Operations Center. This is a corporate income tax credit for investment in new renewable energy facilities that produce energy for self-consumption using renewable energy sources if the power is primarily used by an International Operations Center [A.R.S. § 41-1520 and A.R.S. § 43-1164.05].

The taxpayer must qualify for this credit as an International Operations Center (IOC), which requires the taxpayer or third-party on behalf of the taxpayer to:

- Invest at least $100 million in one or more renewable energy facilities in Arizona by December 31, 2018.
- Invest at least $1.25 billion in new capital assets, including land, buildings, and IOC equipment, within 10 years after being certified as an IOC by the Arizona Commerce Authority (ACA).
- A portion of the energy produced at each renewable energy facility must be for self-consumption in Arizona.
- Use at least 51% of the energy produced for self-consumption by the 5th year the IOC is in operation.

A taxpayer is not eligible for this tax credit if they were initially authorized as an IOC after December 31, 2018. However, any business certified by ACA as an IOC on or before December 31, 2030 is eligible for a Transaction Privilege Tax (TPT) and Use Tax exemption on the purchase of electricity and natural gas (exemption is referred to as "utility relief" under A.R.S. § 41-1520). This means that any business that is certified as an IOC after December 31, 2018 but on and before December 31, 2030 can qualify for the TPT exemption but not the income tax credit.

Approval by the Department of Revenue (DOR) is required to take the credit. The amount of the credit is $5 million per year for 5 years for each renewable facility. The credit per taxpayer cannot exceed $5 million per year, and $25 million in total over 5 years. The total amount of credits that DOR can approve for all taxpayers in a calendar year is $10 million. No new credits can be claimed for any taxable year beginning after December 31, 2025.

To meet the definition of a "renewable energy facility" for purposes of claiming the credit, the taxpayer or third-party on behalf of the taxpayer must have invested at least $30 million in each facility. Furthermore, the facility must have a minimum generating capacity of 20 megawatts, or a minimum annual generation of 40,000 megawatt hours, be located in Arizona, and produce electricity using a renewable energy resource.

According to DOR's most recent "Arizona's Individual and Corporate Income Tax Report," one renewable energy facility has been approved for this credit. Since no other taxpayer met the minimum investment requirement by the statutory due date of December 31, 2018, no additional credits will be authorized under this program.

Laws 2021, Chapter 266 grants a taxpayer eligibility for the credit if a third-party entity invests in one or more renewable energy facilities in Arizona on behalf of or for the direct benefit of the taxpayer. The requirements for third-party investments to qualify for the credit are the same as those for the taxpayer with a few exceptions. The minimum investment threshold for new capital assets for third-party investors is $1.50 billion instead of $1.25 billion and the third-party entity cannot include the owner or operator of the IOC or affiliated entities [A.R.S. § 41-1520].

The definition of "renewable energy facility" is expanded to include battery storage that is independent from or coupled with other sources [A.R.S. § 41-1520].

Laws 2019, Chapter 203 repealed the individual income tax credit for IOCs but retained the corporate income tax credit. This credit cannot be claimed against the same facilities that are used to claim the Renewable Energy Production Credit [A.R.S. § 43-1164.03].

Renewable Energy Production. An individual and corporate credit is allowed on the production of electricity using renewable energy, including solar light, solar heat, wind or biomass. To be eligible for the credit, a taxpayer must hold title to a qualified energy generator that first produces electricity between January 1, 2011 and December 31, 2020. The new credit allows a qualified producer of renewable energy to receive a tax credit of up to $2.0 million per year on the electricity they produce for up to 10 years. Given that a taxpayer may begin earning credits as late as tax year 2020, the latest year a credit may be earned under the 10-year schedule is tax year 2030. The credit is equal to 1¢ per kilowatt hour for the first 200,000 megawatt hours of biomass or wind energy produced and 1¢ - 4¢ for every kilowatt hour of solar energy [A.R.S. § 43-1164.03].

Approval from DOR is required to take the credit. DOR is authorized to approve up to $20.0 million in total individual and corporate income tax credits each year. DOR approved $1.3 million in credits in calendar year (CY) 2011, $9.7 million in CY 2012, $18.4 million in CY 2013, and $20.0 million a year in CY 2014 through CY 2019. For CY 2020 and CY 2021, DOR's credit approval totaled $19.4 million and $14.9 million, respectively. Approvals, however, do not automatically translate into a credit. The production credit was originally forecast to be $10.0 million in FY 2012 and grow to $20.0 million annually by FY 2013. DOR reports that the credit had a General Fund revenue impact of $(1.2) million in FY 2023. A 5-year carry-forward of the credit is allowed.

Installation:
Commercial and Industrial Solar Energy Devices. Taxpayers can claim individual and corporate credits equal to 10% of the installed cost of a solar energy device used in their trade or business. The credit cannot exceed $25,000 for the same building in the same year, or $50,000 for the same taxpayer in total in any year. This income tax credit may be claimed by a taxpayer purchasing a solar energy device, or a taxpayer that finances the purchase of a qualifying device. The credit also may be transferred to a third party that manufactures or installs a qualifying device. This tax credit may be carried forward for no more than 5 consecutive years. The credit was available between tax years 2006 and 2018 [Laws 2010, Chapter 294; Laws 2007, Chapter 180; Laws 2006, Chapter 333; A.R.S. § 41-1510.01; A.R.S. § 43-1085, and A.R.S. § 43-1164].

Residential Solar Energy Devices. An individual income 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. This non-refundable tax credit is allowed to be carried forward for no more than 5 consecutive years [Laws 1998, Chapter 1; Laws 1997, Chapter 218; Laws 1994, Chapter 117, and A.R.S. § 43-1083].

Table 1 on the following page provides a summary of the main provisions of the above-mentioned tax credits.

PROPERTY, SALES, AND USE TAX EXEMPTIONS

Electricity and Natural Gas Exemption for International Operations Centers. Gross proceeds from sales of electricity and natural gas to an International Operations Center (IOC) are exempt from the Transaction Privilege Tax. To be certified by ACA as an IOC, an owner or operator must make minimum capital investments of at least $100 million per year for 10 years, make a total capital investment of at least $1.25 billion over 10 years, and use at least 51% of self-generated renewable energy for self-consumption by the fifth year of the operation (See the

Renewable Energy Investment and Production for Self-Consumption credit for more information) [A.R.S. § 41-1520; A.R.S. § 42-5063 and A.R.S. § 43-1164.05].

Mixed Waste Processing Facility. Gross proceeds from building a mixed waste processing facility are exempt from the prime contracting tax. To qualify for this Transaction Privilege Tax exemption, a facility must be located on a municipal landfill and constructed for the purposes of recycling solid waste or producing renewable energy from landfill waste. The exemption is effective retroactively from January 1, 2013 [Laws 2014, Chapter 228; A.R.S. § 42-5075].

Renewable Energy Investment. Qualifying renewable energy companies that build headquarters or manufacturing facilities in the state will receive a class 6 property designation, which reduces the assessment ratio to 5% instead of the current class 1 assessment ratio of 16.5%. The class 6 property designation remains in effect for 10 or 15 years, depending upon the level of wages paid to employees of the facility in relation to the median wage of the state [Laws 2009, Chapter 96; A.R.S. § 42-12006]. No new properties may be classified pursuant to this paragraph from and after December 31, 2014

Solar Energy Devices for Commercial and Industrial Purposes. Solar energy systems that are utilized for the production of solar energy primarily for on-site consumption are prohibited from being added to a property's value for the purposes of property tax assessments or from being counted as part of the Transaction Privilege Tax or Use Tax base [Laws 2010, Chapter 294; Laws 2008, Chapter 60; Laws 2006, Chapter 333; A.R.S. § 42-12056; A.R.S. § 42-5061; A.R.S. § 42-5075; A.R.S. § 42-5159, and A.R.S. § 42-11054].

Table 1

SUMMARY OF MAIN TAX CREDIT PROVISIONS

Tax Credit	Value of Credit	Annual Aggregate Credit Cap	Annual Credit Use	Qualifications
Renewable Energy Investment and Production for Self-Consumption by an International Operations Center (IOC)	\$5.0 million per qualifying facility	\$10.0 million	\$5.0 million 1/	(1) Invest at least \$100 million in one or more renewable energy facilities in Arizona by December 31, 2018. (2) Invest at least \$1.25 billion in new capital assets, including land, buildings, and IOC equipment, within 10 years after being certified as an IOC. (3) Use at least 51% of the energy produced for self-consumption by the 5th year in operation.
Renewable Energy Production	1¢ per kilowatt hour for the first 200,000 megawatt hours of biomass or wind energy and 1¢ - 4¢ for every kilowatt hour of solar energy	\$20.0 million	N/R 2/	Energy must be produced from a qualified generator that did not first produce energy before January 1, 2011 or after December 31, 2020
Commercial and Industrial Solar Energy Devices	10% of the installed cost of a solar device used in the business	None	N/R 2/	Qualified solar device that is utilized for business purposes
Residential Solar Energy Devices	25% of the purchase price for a solar energy device	None	\$17.6 million 3/	Qualified solar device for residential use

1/ Estimate based on report by DOR that only 1 company was approved for the credit.
2/ Data not releasable due to confidentiality laws in Arizona.
3/ Reflects the FY 2024 General Fund revenue impact as reported by DOR.

Table 2 below shows the estimated dollar impact of renewable energy tax credits and exemptions and provides the year of the estimate.

Table 2

ESTIMATED ANNUAL REVENUE IMPACT OF TAX CREDITS AND EXEMPTIONS

Description	Year of Estimate	Revenue Impact
Credits		
Renewable Energy Investment and Production for Self-Consumption by an IOC	FY 2024	$0 1/
Renewable Energy Production	FY 2024	N/R 2/
Solar Energy Devices of Commercial and Industrial Purposes	FY 2024	N/R 2/
Solar Energy Devices of Residential Purposes	FY 2024	(17,600,936) 3/
Subtotal		**$(17,600,936)**
Exemptions		
Electricity and Natural Gas Sold to International Operations Centers	CY 2015	$ (1,300,000) 4/
Mixed Waste Processing Facility	CY 2014	(184,000) 4/
Solar Energy Devices for Commercial and Industrial Purposes (TPT Exemption)	FY 2023	(17,410,500) 5/
Subtotal		**$(18,894,500)**

1/ The statutory due date to qualify for the credit was December 31, 2018. According to ACA, 1 company was approved for the credit. The credit is capped at $5.0 million annually for 5 years. According to DOR, no credits were claimed in FY 2024.
3/ Data not releasable due to confidentiality laws in Arizona.
2/ Actual General Fund revenue impact as reported by DOR.
3/ Data not releasable due to confidentiality laws in Arizona.
4/ Based solely on the budgeted estimate. No actual data is available.
5/ Estimated General Fund revenue impact based on DOR's *FY 2023 Tax Expenditure Report*.

APPENDIX B

Appendix B

COMPARISON OF PUBLIC AND PRIVATE SCHOOL TAX CREDITS

Table A: Statutes, Caps & Data

Type	Category	Statute: STO	Statute: Tax Credit	Cap	# of STOs [1/] (that received donations)	Donations [1/]: $ [2/]	Donations [1/]: #	Donations [1/]: Average	Scholarships [1/]: #	Scholarships [1/]: Average	Credits Claimed [1/]
Individual	Public School Extracurricular	NA	A.R.S. § 43-1089.01	$200 single/ $400 married filing jointly	--	$42.5M	194,414	$219	--	--	$35.3M
Individual	Private School Original	A.R.S. § 43-1601 through 43-1605	A.R.S. § 43-1089	$769 single/ $1,535 married filing jointly [3/]	51	$69.5M	80,057	$869	23,826	$2,093	$67.9M
Individual	Private School "Switcher" [4/]	A.R.S. § 43-1601 through 43-1605	A.R.S. § 43-1089.03	$766 single/ $1,527 married filing jointly [3/]	49	$46.7M	49,323	$947	21,421	$1,710	$42.7M
Corporate, IIT S-Corporations & Insurance Premium	Private School Low-Income Student	A.R.S. § 43-1501 through 1507 (except 1505)	A.R.S. § 43-1183, 43-1089.04 & 20-224.06	$135,000,000 [5/]	45	$142.1M	1,151	$123,468	29,582	$3,834	$116.2M
Corporate, IIT S-Corporations & Insurance Premium	Private School Displaced/ Disabled Student	A.R.S. § 43-1501 through 1507 (except 1504)	A.R.S. § 43-1184, 43-1089.04 & 20-224.07	$6.0 M	6	$6.0 M	21	$285,714	1,168	$3,844	$7.9M

1/ Public school tax credit donations and scholarship data are for *calendar* year 2023 (latest reported data); private school donations and scholarship data are for *fiscal* year 2023 (individual income tax and corporate income tax; latest reported data). Data on credits claimed for both the public school credit and STOs are for *fiscal year* ~~2023~~ 2024.

2/ In addition to the $42.5 million of public school donations in calendar year 2023, FY 2023 private school donations in the table total $264.3 million. Donations for a given year may not equal tax credits for that year depending on donors' tax liabilities and because corporations and insurers may carry forward tax credits for up to 5 years before using them. Similarly, donations for a given year may not equal total scholarship disbursements for that year because STOs may reserve a portion of current year donations for future year scholarships and may use up to 10% of donations for administration.

3/ Adjusted annually for inflation. Figures shown are for Tax Year 2025.

4/ Referred to as the "Switcher" credit in Department of Revenue publications, since it is limited mostly to students switching from public to private schools (A.R.S. § 43-1603E)

5/ Cap is for FY 2025. As amended by Laws 2024, Chapter 221, A.R.S. § 43-1183.C1 sets the cap at $135M in FY 2025 and for each year thereafter.

Note: "Empowerment Scholarship Accounts" (ESA's) authorized by A.R.S. § 15-2402 are not included in this analysis, as they are funded with appropriated state monies rather than contributions that qualify an individual or corporation for a state tax credit. Student must meet criteria specified in A.R.S. §15-2401 (original) or A.R.S. §15-2401 (universal) to qualify for an ESA. ESAs are funded under formulas prescribed in A.R.S. §15-2402C&D.

Table B: Program Restrictions

<table>
<tr><th>Type</th><th>Category</th><th>Donors</th><th>Recipients</th><th>Use of Funds [1/]</th><th>Earmarking</th><th>Other</th></tr>
<tr><td rowspan="3">Individual</td><td>Public School Extracurricular</td><td>Individual income tax filers</td><td>Public schools</td><td>Extracurricular activities, character education, and college or industry testing fees</td><td>Can designate a specific student, school club, or use</td><td>Funds can only be used for activities or programs of public schools specified in statute, such as standardized testing for college credit, standardized testing preparation, industry certification exams, CPR training, character education programs and extracurricular activities. Extracurricular activities include band uniforms, equipment or uniforms for varsity athletics, scientific laboratory equipment or materials, or in-state or out-of-state trips that are solely for competitive events. Extracurricular activities do not include any senior trips or events that are recreational, amusement or tourist activities.</td></tr>
<tr><td>Original</td><td>Individual income tax filers</td><td>Private school students</td><td>Private school scholarships</td><td>Taxpayer may recommend recipient; may not recommend funds for own dependent or another's dependent in a donation swap</td><td>The tax credit is not allowed if the taxpayer designates the taxpayer's contribution to the school tuition organization for the direct benefit of any dependent of the taxpayer or if the taxpayer designates a student beneficiary as a condition of the taxpayer's contribution to the school tuition organization. A taxpayer may not claim a tax credit if the taxpayer agrees to swap donations with another taxpayer to benefit either taxpayer's own dependent. A STO cannot award, restrict or reserve scholarships solely based on a donor's recommendation. If a STO scholarship exceeds a school's total cost of educating the recipient, the school must return the excess portion to the STO.</td></tr>
<tr><td>“Switcher”</td><td>Individual income tax filers</td><td>Private school students</td><td>Private school scholarships</td><td>Taxpayer may recommend recipient; may not recommend funds for own dependent or another's dependent in a donation swap</td><td>The tax credit is allowed only after the taxpayer has used the maximum tax credit available under the “Original” program. All restrictions for "Original" also apply to "Switcher." In addition, "Switcher" scholarships may only be awarded to public school transfers, kindergartners, preschool disabled students, military dependents, pupils who received a corporate STO or "Switcher" scholarship in the prior year, are homeschooled before enrolling in a private school, moved from out of state before enrolling in a private school, or previously participated in the ESA program. A STO shall give priority to students and siblings of students on a waiting list for scholarships if the STO maintains a waiting list. If a STO scholarship exceeds a school's total cost of educating the recipient, the school must return the excess to the STO.</td></tr>
<tr><td rowspan="2">Corporate and Insurance Premium</td><td>Low-Income Student</td><td>Corporations, Insurers & S Corporations</td><td>Private school students from "low income" households</td><td>Private school scholarships</td><td>Not allowed</td><td>1. Family income cannot exceed 185% of the income limit required to qualify a child for reduced price lunches under the national school lunch and child nutrition acts (maximum annual income of $106,782 for a family of four for FY 2025).
2. The student receiving the scholarship must meet one of the following:
a. Attended a public primary or secondary school as a full-time student or attended a public program for preschool disabled pupils for at least ninety days or one full semester of the prior fiscal year.
b. Enroll in a private school kindergarten or preschool disabled program.
c. Be a military dependent.
d. Be homeschooled before enrolling in a private school.
e. Moved from out of state before enrolling in a private school.
f. Previously Participated in the ESA program
g. Received an individual or corporate STO scholarship in the prior year and continues to attend a qualified private school.
3. The total scholarship amount per pupil from each STO increases each year by $200. In FY 2025, a STO cannot issue a scholarship in an amount that exceeds:
a. $6,200 for students in kindergarten through grade 8
b. $8,100 for students in grades 9 through 12.</td></tr>
<tr><td>Displaced/ Disabled Student</td><td>Corporations, Insurers & S Corporations</td><td>Private school students with disabilities or foster care history</td><td>Private school scholarships</td><td>Not allowed</td><td>1. The student must have been either placed in foster care at any time before graduating from high school or obtaining GED or have been identified at any time as having a disability under federal or state law.
2. The amount of the scholarship shall not exceed the lesser of the cost of tuition or 90% of the amount of state aid that would have been computed for the student to attend public school.</td></tr>
</table>

1/ All STOs must allocate at least 90% of their tax credit-related revenues for scholarships or grants, so STOs can spend a maximum of 10% of those revenues on program administration.

APPENDIX C

Appendix C

LIST OF TAX CREDITS WITH STATUTORY ENDING DATES

INCOME TAX CREDITS WITH STATUTORY ENDING DATES

Name of Credit	Type of Credit	Statutory Ending Date
Agricultural Pollution Control Equipment	Corporate	December 31, 2019 [1/]
Facility Credit	Individual/Corporate	December 31, 2030 [2/]
Healthy Forest Production	Individual/Corporate	December 31, 2030 [3/]
Low Income Housing ("Affordable Housing")	Individual/Corporate	December 31, 2025
Military Family Relief Fund	Individual	December 31, 2026 [4/]
Motion Picture Production	Individual/Corporate	December 31, 2043
New Employment	Individual/Corporate/Insurance	June 30, 2025 [5/]
Renewable Energy Investment and Production for Self-Consumption	Corporate	December 31, 2018 [6/]
Renewable Energy Production	Individual/Corporate	December 31, 2030 [7/]
Small Business ("Angel") Investment	Individual	December 31, 2034 [8/]
Solar Energy Devices for Commercial and Industrial Purposes	Individual/Corporate	December 31, 2018 [9/]

____

1/ Laws 2020, Chapter 43 repealed the corporate (but not the individual) credit after December 31, 2019, but statute allows unused credits earned in TY 2019 to be carried forward to TY 2024.

2/ Statute provides that credits can be claimed in 5 annual installments. Laws 2020, Chapter 7 extended the credit from December 31, 2022 to December 31, 2030. Given that a taxpayer may begin earning credits as late as TY 2030, the latest year a credit may be claimed under the 5-year schedule is TY 2035.

3/ Statute provides that unused credits can be claimed for 5 consecutive years following the calendar year in which the taxpayer processes qualifying forest products. Since December 31, 2030 is the deadline for processing qualifying forest products, unused credits earned in TY 2030 can be carried forward to TY 2035.

4/ Laws 2018, Chapter 199 extended the ending date of the credit from December 31, 2018 to December 31, 2026.

5/ Statute prevents the Arizona Commerce Authority from authorizing new credits after June 30, 2025. Credits associated with 1 net new job can be claimed for 3 years. A company may claim first year credits for separate new jobs for up to 3 consecutive years. Since second year and third year credits may be claimed against each of the new positions, the taxpayer may claim credits for up to a total of 5 consecutive years. Therefore, credits may be claimed through TY 2029.

6/ Credit authorization for a certified International Operation Center (IOC) was allowed through December 31, 2018. The credit it taken annually for 5 years. No credits, other than unused carryforwards, can be claimed after December 31, 2025.

7/ Statute provides that credits can be claimed for 10 consecutive years beginning with the calendar year in which the taxpayer holds title to a qualified energy generator that first produces electricity between January 1, 2011 and December 31, 2020. Since a taxpayer may begin earning first-year credits as late as TY 2020, the latest year a credit may be earned under the 10-year schedule is TY 2030. Unused credits earned in TY 2030 can be carried forward to TY 2035.

8/ Credit authorization is only allowed through June 30, 2031. Thus, no new credits can be generated after this date.

9/ The credit was repealed December 31, 2018, but statute allows unused credits earned in TY 2018 to be carried forward to TY 2023.

PROPERTY TAXES

PROPERTY TAX

DESCRIPTION

Arizona has 2 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 2 categories: real property and personal property. Real property includes land, buildings, and improvements to land. Personal property includes property used for commercial, industrial, and agricultural purposes, such as office furniture, business equipment, and tools. In addition, most mobile homes in Arizona are taxed as personal property.

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 17%, 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. (Please see *Tax Rate* section for more discussion.) Property tax collected and deposited in the General Fund is shown in *Table 1* below.

Table 1

STATE GENERAL FUND COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
2024	$25,995,007	2014	$25,611,186
2023	$22,208,013	2013	$13,202,508
2022	$26,787,448	2012	$15,887,896
2021	$22,380,047	2011	$20,333,501
2020	$24,142,944	2010	$20,269,632
2019	$29,683,305	2009	$18,244,500
2018	$38,719,634	2008	$20,041,338
2017	$32,538,497	2007	$24,486,025
2016	$38,483,335	2006	$24,998,760
2015	$36,515,876	2005	$25,245,622

SOURCE: DOR and State Treasurer's Office.

Property tax in Arizona is primarily a local revenue source as the state General Fund currently receives less than 0.2% 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 2024	FY 2023	FY 2022	FY 2021	FY 2020
State [1/]	$34,893,267	$31,772,235	$351,760,428	$338,490,715	$331,639,370
Counties	$1,789,876,129	$1,716,958,833	$1,706,680,035	$1,650,068,770	$1,592,272,542
Cities & Towns	$866,374,009	$836,250,240	$807,121,713	$764,435,024	$731,541,390
School Districts	$4,625,393,341	$4,455,170,072	$4,314,629,033	$4,168,363,680	$4,015,912,086
Special Districts	$771,286,089	$699,490,162	$675,413,041	$636,418,883	$613,797,032
Community Colleges	$1,021,611,300	$995,822,004	$963,709,568	$951,525,958	$925,914,892
TOTAL	**$9,109,434,135**	**$8,735,463,546**	**$8,819,313,818**	**$8,509,303,030**	**$8,211,077,312**

1/ Although the state equalization assistance property tax (SETR) is technically a school district tax (see A.R.S. § 15-994), ATRA lists it as a state tax for reporting purposes since the tax levy reduces Basic State Aid to schools by an equal amount. The decline in FY 2023 is the result of Laws 2022, Chapter 317, which repealed the SETR.

SOURCE: Arizona Tax Research Association (ATRA).

WHO PAYS

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].

Tribal Members

The Arizona Constitution provides that a property owned by an Indian tribal member is exempted from taxation if such property is located within an Indian reservation or has been acquired under an act of Congress [Article 20, Section 5]. Laws 2005, Chapter 276 provides that property outside an Indian reservation that is owned by an Indian tribe or tribally designated housing authority, is exempted from taxation if such property provides low-income rental housing for Indian tribal members. Laws 2023, Chapter 14 requires an Indian tribe or tribal housing authority to notify the county assessor if any part of their property is being used for non-qualifying exemption purposes or if any part of the property changes ownership [A.R.S. § 42-11131].

REVENUE BASE

Since 1980, the state has used 2 distinct valuation bases for levying property taxes and for this reason each property is assigned 2 values: limited property value and full cash value. The former is also referred to as primary value and the latter as secondary value.

Full Cash Value (FCV)

A property's full cash value is the value determined as prescribed by statute. If no statutory method is prescribed, full cash value is synonymous with market value, as determined by standard appraisal methods. There are no restrictions or limitations on full cash value growth [A.R.S. § 42-11001].

Although property values in Arizona are based on market value as represented by sales price, Arizona statutes set sales ratio standards at 81% of nominal sales price for commercial and industrial properties, and 82% for residential and other properties. These standards allow for the exclusion of personal property items included in sales, financing incentives, time on the market, and reasonable mass appraisal errors [A.R.S. § 42-11054E].

The Legislature has also mandated that specific types of property be appraised on a basis other than market value. These property types are agricultural, shopping centers, certain golf courses, and most centrally valued properties, such as electric and gas utilities [A.R.S. § 42-13101 through 42-13206].

Limited Property Value (LPV)

A property's limited value is the value determined as provided by Article 9, Section 18 of the Arizona Constitution, and further defined by Section 42-13301, 42-13302, and 42-13304 of Arizona Revised Statutes. The limited value can equal but not exceed the full cash value of a property. Limited property valuations are derived on an individual parcel basis by using one of the following methods:

- For a parcel in which there has been no physical change in either land or improvement since the prior year, no change in use, and the property was not totally omitted from the tax roll in the preceding valuation year, the parcel's limited value is established at its previous year's LPV increased by 5%. The property's LPV can never exceed its FCV [A.R.S. § 42-13301]. In DOR's *Assessment Procedures Manual*, this calculation is referred to as "Rule A."

- For a parcel for which the land or improvement was erroneously omitted from the preceding year's property tax roll, had a change in use, was modified by new construction, destruction, or demolition, or was spilt or consolidated, the parcel's limited value is established at a level or percentage that is commensurate to the relationship of LPV to FCV of other properties of the same or similar use or legal classification [A.R.S. § 42-13302]. Laws 2022, Chapter 300 requires that a change in the use of a property must be physical and objectively verifiable for the purpose of determining limited property value and that a change in occupant or classification of a single-family residence does not constitute a change in use. Laws 2023, Chapter 171 clarifies that a change in the property tax classification of a guest ranch is not a change in use, in and of itself, for the purpose of determining the LPV of the property. In DOR's *Assessment Procedures Manual*, this calculation is referred to as "Rule B."

Prior to the enactment of Laws 2019, Chapter 306, DOR's guidelines stipulated that Rule B applied when modification to a property resulting from construction, destruction of demolition equaled 10% or more of the prior valuation year's FCV for that property. If the value of such modification was less than 10%, Rule A applied. Chapter 306 provides that the Rule B calculation be applied when the value of the modification resulting from construction, destruction, or demolition is 15% or greater that the property's FCV in the preceding valuation year.

The limit on increases in property values, as described above, does not apply to: (1) personal property other than mobile homes and (2) centrally valued property [A.R.S. § 42-13304]. The limited and full cash values of personal property (except mobile homes) and most centrally valued property are the same.

Proposition 117

On November 6, 2012, voters approved Proposition 117, which provided 2 significant changes to the Arizona Constitution, beginning in TY 2015. First, Proposition 117 reduced the maximum year-over-year increase of limited property value from 10% (or an amount equal to 25% of the difference between the current year's full cash value and the previous year's limited value, whichever is greater) to 5%. Second, Proposition 117 provides that limited property value be the basis for levying all property (i.e., both primary and secondary) taxes. Through TY 2014, limited property value was the basis for levying primary taxes whereas full cash value was the basis for levying secondary taxes.

Laws 2013, Chapter 66 conformed Arizona Revised Statutes to the voter-approved constitutional amendments under Proposition 117. Among the conforming changes included in Chapter 66 was the removal of any statutory reference to the terms "primary net assessed valuation" and "secondary net assessed valuation." To reflect the use of a single tax base, these terms were replaced by the generic term "net assessed valuation." Note, however, that Chapter 66 retained the statutory terms "primary property taxes" and "secondary property taxes." Additionally, Chapter 66 clarified that limited value is the basis for levying both primary and secondary taxes on all property except locally assessed personal property (other than mobile homes) and centrally valued property. Instead, full cash value is the basis for levying primary and secondary taxes on such property [A.R.S. § 42-13304].

Net Assessed Value (NAV)
A property's assessed value is derived by multiplying the property's full cash value and limited value by the applicable assessment ratio, which depends on the legal classification of the property as shown in *Table 3*. NAV is obtained by subtracting any applicable exemption from the property's assessed value.

A property's tax liability is determined by multiplying the applicable tax rate with the NAV 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 3 factors: (1) the limited property value as determined by the county assessor or DOR, (2) the assessment ratio based on the use of the property, and (3) the tax rate as set by the taxing jurisdiction (see *Tax Rate* section).

Table 3

PROPERTY TAX CLASSES AND TAX YEAR 2024 ASSESSMENT RATIOS

Class	Assessment Ratio	Property Usage
1	16.5%	Properties of mining, utility, and telecommunication companies, standing timber, airport fuel delivery, producing oil and gas property, pipeline property, shopping centers, golf courses, manufacturers, and most other commercial property. [A.R.S. § 42-12001]. Note that Laws 2011, 2nd Special Session Chapter 1 reduced the assessment ratio to 19.5% in TY 2013, 19.0% in TY 2014, 18.5% in TY 2015, and 18.0% in TY 2016. Laws 2021, Chapter 412 reduces the assessment ratio to 17.5% in TY 2022, 17.0% in TY 2023, 16.5% in TY 2024, and 16.0% in TY 2025. Laws 2022, Chapter 171 further reduces the assessment ratio to 15.5% in TY 2026 and 15.0% in TY 2027 and each year thereafter.
2	15%	Agricultural property, properties of nonprofit organizations, and vacant land. [A.R.S. § 42-12002]. Note that Laws 2011, 2nd Special Session Chapter 1 reduced the assessment ratio to 15% beginning in TY 2016.
3	10%	Primary residential property. [A.R.S. § 42-12003].
4	10%	Non-primary residential property as well as leased or rented residential property. [A.R.S. § 42-12004].
5	14%	Airlines, railroad, and private car company property. [A.R.S. § 42-12005]. This assessment ratio is annually determined by DOR.
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	16.5% or 1%	Property that meets the criteria for Class 1 property and 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 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].

Table 4

STATEWIDE PRIMARY AND SECONDARY NET ASSESSED VALUATION (NAV)

Tax Year	Primary NAV	Secondary NAV
2024	$88,425,611,337	$158,962,333,751
2023	$83,026,530,244	$129,473,530,919
2022	$78,405,598,978	$103,872,223,919
2021	$74,200,360,570	$97,282,221,465
2020	$69,914,521,042	$90,007,317,461

SOURCE: ATRA and DOR.

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.

Centrally Valued Property. As noted previously, certain property is subject to valuation by 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].

Equalization of Valuations. 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 appropriately valued [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

Table 5

PROPERTY TAX EXEMPTIONS AUTHORIZED BY THE ARIZONA CONSTITUTION

Article	Section	Exemption
9	2(C)(1)	Federal, state, county, and municipal properties
	2(C)(2)	Public debts (i.e., bonds of Arizona, its counties, municipalities, or other subdivisions)
	2(C)(3)	Household goods owned by the user and used solely for non-commercial purposes
	2(C)(4)	Inventory of materials, parts, and products owned by a retailer or wholesaler for resale purposes
	2(E)(1)	Property owned by non-profit educational, charitable, and religious organizations
	2(E)(2)	Personal property that is used in a trade or business or for agricultural purposes [1/]
	2(E)(3)	Property of cemeteries
	2(E)(4)	Property of widows or widowers [2/]
	2(E)(5)	Property of persons with medically certified total and permanent disability [2/]
	2(E)(6)	Property of honorably discharged veterans with service or nonservice connected disability [3/]

1/ Pursuant to A.R.S. § 42-11127, the maximum amount of the exemption is increased each year to account for inflation. For TY 2024, the maximum amount of the exemption is $248,691.

2/ Pursuant to A.R.S. § 42-11111, the maximum amount of the exemption is increased each year to account for inflation. For TY 2024, the exemption reduces the assessed value of the property by up to $4,476. To qualify for the exemption, a property owner's income and assessed property value cannot exceed certain amounts, which are adjusted for inflation each year. For TY 2024, the assessed value of the property cannot exceed $30,099 (which corresponds to a limited property value of $300,990) and the household income cannot exceed $37,297 (or $44,745 if minor children reside in the home).

3/ Pursuant to A.R.S. § 42-11111, the maximum amount of the exemption is increased each year to account for inflation. For TY 2023, the exemption for veterans with 100% disability reduces the assessed value of their property by up to $4,476. For other veterans, the exemption amount is based on the percentage rating of their disability. The income and assessed property value limits to qualify for the exemption are the same as that for widows, widowers, and persons with total and permanent disability.

All property in Arizona is subject to taxation unless exempted by law. The exemptions are provided in Article 9, Sections 2, of the Arizona Constitution, and are summarized in *Table 5* above. Arizona Revised Statutes further define the property tax exemptions provided by the Arizona Constitution. As a general rule, under Arizona law, property classification is based on the use of the property by the owner, whereas property exemption is provided based on the ownership of the property. All exemptions currently listed in statutes are displayed in *Table 6* below.

Table 6

PROPERTY TAX EXEMPTIONS FURTHER DEFINED BY ARIZONA REVISED STATUTES

Title	Section	Exemption
42	11102	Government property
	11103	Government bonded indebtedness
	11104	Education and library property
	11105	Health care property
	11106	Apartments for elderly or handicapped residents
	11107	Institutions for relief of indigent or afflicted
	11108	Grounds and buildings owned by agricultural societies
	11109	Religious property
	11110	Cemeteries
	11111	Property of widows, widowers, disabled veterans, and permanently disabled persons
	11112	Observatories
	11113	Land and buildings owned by animal control and humane societies
	11114	Property held for conveyance as parkland
	11115	Property held to preserve or protect scientific resources
	11116	Property of arts and science organizations
	11117	Property of volunteer fire departments
	11118	Social welfare and quasi-governmental service property
	11119	Property of volunteer roadway cleanup and beautification organizations
	11120	Property of veterans' organizations
	11121	Property of charitable community service organizations
	11122	Trading commodities
	11123	Animal and poultry feed
	11124	Possessory interests for educational or charitable activities
	11125	Inventory, materials, and products
	11126	Production livestock and animals
	11127	Personal property
	11128	Personal property in transit
	11129	Property of fraternal societies
	11130	Property of public library organizations
	11131	Property providing low-income rental housing for Indians
	11132	Property leased to an educational institution
	11132.01	Property leased to a church, religious assembly, or religious institution
	11132.02	Property leased to a veterans' organization
	11133	Low-income housing projects.

As noted earlier, Article 20, Section 5 of the Arizona Constitution provides that property owned by Indians, when such property is located within an Indian reservation or has been acquired under an act of Congress, is exempted from taxation.

RATE

The tax rates for primary and secondary property taxes are determined by each individual taxing jurisdiction in the state. The rates vary considerably among the state's taxing authorities, as reflected in the total average tax rate by county shown in *Table 7* below. (Note that a taxing authority is required by statute to determine the tax rate, rounded to 4 decimal places, on each $100 of NAV [A.R.S. § 42-17151]).

Table 7

TOTAL COMBINED PRIMARY AND SECONDARY AVERAGE TAX RATE PER $100 NAV

County	TY 2023	TY 2022	TY 2021	TY 2020	TY 2019	TY 2018	TY 2017	TY 2016
Apache	$6.94	$6.96	$6.97	$7.17	$6.78	$6.61	$6.75	$6.17
Cochise	$12.18	$12.02	$12.52	$12.85	$13.12	$13.05	$13.27	$12.78
Coconino	$8.84	$8.56	$8.80	$8.86	$9.08	$9.27	$9.30	$9.54
Gila	$12.88	$12.94	$13.76	$13.88	$13.76	$13.74	$13.59	$13.38
Graham	$9.22	$9.49	$10.79	$11.49	$12.52	$12.59	$12.08	$11.96
Greenlee	$3.90	$3.39	$3.78	$3.52	$3.95	$3.89	$4.00	$4.10
Maricopa	$10.63	$10.82	$11.60	$11.95	$12.17	$12.38	$12.43	$12.74
Mohave	$9.70	$9.69	$10.60	$10.60	$10.69	$11.02	$11.19	$10.74
Navajo	$10.16	$10.09	$10.67	$10.74	$11.03	$11.06	$10.96	$10.81
Pima	$13.54	$13.81	$14.44	$14.75	$15.14	$15.45	$16.01	$15.91
Pinal	$13.33	$13.58	$14.77	$14.81	$14.85	$15.22	$15.46	$15.53
Santa Cruz	$13.12	$13.66	$13.74	$13.73	$13.08	$13.09	$13.06	$13.10
Yavapai	$8.95	$9.17	$9.83	$10.17	$10.57	$10.65	$10.85	$11.13
Yuma	$11.77	$12.19	$13.11	$13.08	$13.29	$13.27	$13.34	$14.01
La Paz	$11.30	$10.81	$11.53	$11.61	$11.38	$10.63	$11.07	$10.81
State of Arizona	**$10.97**	**$11.14**	**$11.89**	**$12.17**	**$12.41**	**$12.62**	**$12.75**	**$12.95**

SOURCE: DOR

Unlike local government entities, the state does not levy property taxes due to the repeal of the state property tax in 1996 [Laws 1996, 7th Special Session, Chapter 2]. However, statute requires that the counties levy and collect certain primary property taxes, which are transmitted to the state to aid in school financial assistance. First, each county is required (pursuant to A.R.S. § 15-991.01) to levy a primary tax on property not located in a school district ("unorganized district") at a rate equal to 50% of the qualifying tax rate (QTR) used to calculate state equalization assistance for unified school districts. Second, each county is also required (pursuant to A.R.S. § 15-992) to levy an additional primary tax in school districts that are ineligible for state equalization assistance ("zero-aid districts"). This additional tax rate, referred to as the minimum qualifying tax rate (MQTR), is determined based on the difference between the levy that would be produced by 50% of the zero-aid district's applicable QTR and its "equalization base." (Under the statutory K-12 funding formula, each school district is provided a certain amount of funding based on its student count and other factors. This funding amount is referred to as the district's equalization base.) If the levy produced by 50% of the district's applicable QTR is equal to or less than its equalization base, the MQTR will not be levied in such zero-aid district. Otherwise, the MQTR will be levied at a rate such that the additional tax generates an amount equal to the difference between 50% of the zero-aid district's QTR and its equalization base. Although the additional taxes levied in unorganized districts and certain zero-aid school districts are collected by the counties, these monies are later transmitted to the state for deposit into the General Fund.

In addition, through FY 2022, each county was also required to levy and collect the "State Equalization Assistance Property Tax" on all property within the county [A.R.S. § 15-994]. Laws 2022, Chapter 317 repealed the State Equalization Assistance Property Tax, beginning in FY 2023. The monies collected from this state-mandated tax were apportioned to each school district within the county. Through FY 2022, the "local share" of the statutory K-12 funding formula consisted of both the state equalization tax and the qualifying tax. The K-12 tax rates used in the statutory school funding ("Basic State Aid") formula are shown in *Table 8* below.

Table 8

K-12 TAX RATES PER $100 NAV

	Qualifying Tax Rate (QTR)		State Equalization Rate
Fiscal Year	**Unified School Districts**	**Non-Unified School Districts**	**All School Districts**
2025	$3.1860	$1.5930	N/A 1/
2024	$3.3098	$1.6549	N/A 1/
2023	$3.4266	$1.7133	N/A 1/
2022	$3.5388	$1.7694	$0.4263
2021	$3.6742	$1.8371	$0.4426
2020	$3.7908	$1.8954	$0.4566
2019	$3.9358	$1.9679	$0.4741
2018	$4.0468	$2.0234	$0.4875
2017	$4.1586	$2.0793	$0.5010
2016	$4.1954	$2.0977	$0.5054

1/ Laws 2022, Chapter 317 eliminated the State Equalization Tax Rate, beginning in FY 2023

A.R.S. § 15-971. *Equalization Assistance* ("*Basic State Aid"*). The purpose of the basic state aid formula is to establish a comparable funding amount per pupil in each school district. The funding formula consists of 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/or State Equalization rate, will cause the state share (i.e., basic state aid) to increase by the same amount. As noted above, Laws 2022, Chapter 317 eliminated the State Equalization Tax Rate, beginning in FY 2023.

A.R.S. § 15-972. *Additional State Aid ("Homeowner's Property Tax Rebate"*). In return for reducing the school district primary tax levy for primary residential properties (Class 3) by 50%, 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 $600 per parcel.

Beginning in FY 2012, Laws 2010, 7th Special Session, Chapter 8 limits the Homeowner's Rebate to the lesser of the QTR or the school district's primary property tax rate. 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).

Laws 2011, 2nd Special Session, Chapter 1 increased the Homeowner's Rebate percentage for FY 2014 through FY 2017 by an amount determined by DOR. The purpose of the rebate increase was to offset the property tax shift to homeowners that would otherwise occur as a result of the reduced assessment ratios for commercial (Class 1) and agricultural (Class 2) property under Chapter 1. As a result of this act, the Homeowner's Rebate percentage was gradually increased to 47.19% by FY 2017.

Laws 2021, Chapter 412 increased the Homeowner's Rebate percentage from 47.19% to 50.0%, beginning in TY 2022 (FY 2023).

A.R.S. § 41-1276. *Truth in Taxation for Equalization Assistance.* Absent any tax rate changes, a property owner's tax liability changes whenever the valuation of their property changes. The purpose of truth in taxation (TNT) is to prevent such a change in property tax liability by adjusting the tax rate commensurately. Prior to the enactment of TNT (Laws 1998, 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 equalization tax rate was $0.53 per $100 NAV. However, starting in FY 2000, these tax rates have been adjusted each year to offset the statewide appreciation or depreciation of property, as reflected in *Table 8* above. Note that since these tax rates are used both for collecting property taxes and for disbursing basic state aid, the annual TNT rate adjustments affect both General Fund revenues and General Fund expenditures.

In addition to the K-12 property tax rates shown in *Table 8*, which help fund the Basic State Aid formula, school districts may establish property tax rates to fund "overrides," bonds, and certain other miscellaneous costs:

<u>K-12 Budget Overrides</u>
Voter-approved K-12 budget overrides allow school districts to spend more than would be permitted under statutory budget limits, such as the "Revenue Control Limit" (RCL) defined in A.R.S. § 15-947. The 3 types of K-12 budget overrides are (1) Maintenance and Operation (M&O) overrides, (2) "special program" overrides, and (3) capital overrides. M&O and "special program" overrides combined cannot exceed 15% of a school district's RCL and capital overrides are separately capped at 10% of a district's RCL. Revenues from M&O overrides may be spent on any M&O expenditure, whereas revenues from "special program" overrides and capital overrides must be spent only on "special programs" or capital improvements, respectively. All 3 types of overrides may be approved for a maximum of 7 years and are funded with secondary property tax revenues.

<u>K-12 Bonding</u>
A.R.S. § 15-1021 authorizes school districts to issue voter-approved bonds for long-term capital needs, such as school construction and renovation. Article 9, Section 8.1 of the State Constitution caps a unified school district's bonded indebtedness at 30% of its NAV for secondary tax purposes, but A.R.S. § 15-1021D further caps its "Class B" bonds (bonds issued after December 31, 1999) at 10% of its NAV. The corresponding constitutional (Article 9, Section 8) and statutory (A.R.S. § 15-1021B) caps for non-unified school districts are 15% and 5% of NAV, respectively. Laws 2013, 1st Special Session, Chapter 3 increases the Class B bonding capacity cap for unified school districts from 10% to 20% of NAV. The Class B bonding capacity cap for non-unified school districts is increased from 5% to 10% of NAV. The proceeds from K-12 bonds may only be used for expenditures listed in A.R.S. § 15-491A3&4. Bond debt service is funded with secondary property tax revenues.

<u>K-12 Miscellaneous Costs</u>
School districts may also establish property tax rates to fund desegregation programs and other miscellaneous costs authorized in A.R.S. § 15-910. These rates do not require voter approval and are mainly funded with primary, rather than secondary, property taxes. The Arizona Supreme Court has ruled that the funding for desegregation program must be financed with secondary property taxes. Such programs are therefore ineligible for reimbursement from the Additional State Aid program established in A.R.S. § 15-972E for school districts with primary property tax rates that exceed the constitutional 1% cap. Unlike secondary taxes levied for bonds and overrides, desegregation levies do not require voter approval.

TAX LIMITATIONS

The following <u>constitutional</u> provisions limit property taxation in Arizona:

- Arizona Constitution, Article 9, Section 8. *"Local Debt Limits."* The amount of General Obligation (GO) debt issued by a county, city, town, school district, or other municipal corporation is limited to 6% of the jurisdiction's NAV. The voters of a county, elementary or high school district may authorize additional debt for up to 15% of NAV. (Pursuant Article 9, Section 8.1, unified school districts are allowed additional debt for up to 30% of NAV.) The voters of a city or town may approve additional debt for up to 20% of NAV for providing services such as water, artificial lights, sewers, and for the acquisition and development of land for open space preserves, parks, playgrounds, and recreational facilities. Proposition 104, which was approved by voters in November 2006, added the following list of items to be included within a city's or town's 20% debt limit: public safety, law enforcement, fire and emergency service facilities, and street and transportation facilities.
- Arizona Constitution, Article 9, Section 18. *"The 1% Cap."* The total amount of taxes collected on *residential* property (Class 3) for primary tax purposes is not allowed to exceed 1% of the parcel's limited property value. Through FY 2015, the combined primary property taxes on a parcel of residential property that exceeded this limit was reduced through a commensurate increase in additional state aid to schools [A.R.S. § 15-972]. Beginning in FY 2016, Laws 2015, Chapter 15 caps the state's cost of the 1% Cap program to $1.0 million per

county. Additionally, Chapter 15 requires the Property Tax Oversight Commission to allocate the loss of state 1% Cap funding among local taxing jurisdictions based on its determination of their pro rata shares of the overall 1% Cap exceedance. The 2015 law was subsequently ruled unconstitutional by the Maricopa County Superior Court in May 2016.

- Arizona Constitution, Article 9, Section 18. *"Limited Property Valuation."* This constitutional provision imposes a limitation on increases in the value of real property and mobile homes, as described in the *Revenue Base* section.
- Arizona Constitution, Article 9, Section 18. *"The Senior Property Valuation Freeze."* An Arizona resident who meets the following requirements is eligible for a property valuation freeze on their home: (1) is 65 years of age or older, (2) the home is their primary residence, (3) has lived in their home for at least 2 years, and (4) their gross income does not exceed 400% of the supplemental security income benefit rate. If the homeowner meets these requirements, they can apply for a "property valuation protection option" from their county assessor. The county assessor then fixes the value of the home at the full cash value in effect during the year the application was filed. The value of the home will remain frozen for as long as the owner remains eligible for the protection option. To be eligible for the senior valuation protection option in 2024, the income cannot exceed $45,264 for single owners and $56,580 for 2 or more owners.
- Arizona Constitution, Article 9, Section 19. *"The 2% Levy Limit."* A city, town, county, or community college district is not allowed to levy primary property taxes on existing property in excess of a 2% increase from the maximum allowable amount in the preceding tax year unless approved in an override election, as prescribed by A.R.S. § 42-17201 through 42-17203. Proposition 101, which was approved by voters in November 2006, changed the base year used to calculate the levy limits of cities, towns, counties, and community colleges from 1980 to 2005. By resetting the base year to 2005, Proposition 101 eliminated any unused taxing capacity of such taxing jurisdictions as of TY 2005. Any unused taxing capacity accumulated after TY 2005 is carried forward to subsequent years. (Note that the 2% levy limit does not apply to school districts.)

The following statutory provisions limit property taxation in Arizona:

- *Truth in Taxation Levy for Equalization Assistance to Schools.* The QTR, which is the statutory K-12 tax rate used to determine basic state aid for school districts, is required to be adjusted each year to offset the statewide valuation increase or decrease of existing property. The statutory K-12 tax rate cannot exceed the TNT rates provided under this statute unless the Legislature overrides them by a two-thirds vote [A.R.S. § 41-1276].
- *Truth in Taxation Base Limit for School Expenditures outside the Budget Limit.* Each school district is required to determine a TNT base limit for expenditures (desegregation, dropout prevention, excess utilities, vocational education, and small school adjustments) not paid for by the statutory K-12 tax rates. Any school district that budgets an amount that exceeds its TNT base limit (or levies any amount for adjacent ways or liabilities in excess) is required to issue a special TNT notice that includes information on the resulting property tax increase [A.R.S. § 15-905.01].
- *Truth in Taxation Levy for Counties, Cities, and Towns.* Any county, city, or town that proposes a primary property tax levy, excluding amounts attributable to new construction, which exceeds the preceding year's levy, is required to issue a special TNT notice that includes information on the property prior to and after the increase. The levy equals net assessed valuation of existing property for primary tax purposes divided by $100 and multiplied by the primary tax rate. If such taxing jurisdiction fails to comply with the requirements under this statute, it is not allowed to levy an amount that exceeds the preceding year's levy, except for amounts attributable to new construction [A.R.S. § 42-17107].
- *Truth in Taxation Levy for Community Colleges.* Any community college district that proposes a primary property tax levy, excluding amounts attributable to new construction, which exceeds the preceding year's levy, is required to issue a special TNT notice that includes information on the resulting property tax increase. If a district fails to comply with the requirements under this statute, it is not allowed to levy an amount that exceeds the preceding year's levy, except for amounts attributable to new construction [A.R.S. § 15-1461.01].

Note that while a county, city, town, or community college district may exceed its TNT levy, it can never exceed its constitutional levy limit.

Elderly Assistance Fund
The Board of Supervisors in a county with a population of more than 2 million is authorized by statute to establish a fund to reduce the property tax of qualified elderly taxpayers [A.R.S. § 42-17401]. In February 2007, the Maricopa County Board of Supervisors established the Elderly Assistance Fund (EAF), which has since been administered by the Maricopa County Treasurer's Office. Qualified applicants of the tax relief program are those who have limited income, live within an organized school district, and have enrolled in the Seniors Valuation Protection Program.

Through FY 2015, the EAF received its funding from some of the proceeds resulting from the Arizona tax lien sales held in February of each year by the Maricopa County Treasurer's Office. Beginning in FY 2016, Laws 2015, Chapter 324 disallows this funding mechanism but permits existing monies in EAF to be used to fund the Elderly Assistance Program.

Laws 2016, Chapter 125 specifies that the Maricopa County Board of Supervisors must spend the remaining monies in EAF after December 31, 2015 solely on the Elderly Assistance Program. In addition, Chapter 125 requires that any subsequent appropriations made to EAF must be spent solely on the Program.

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 1 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 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 1 year and the fiscal year by 2 years. The relationship of the valuation year and tax year to FY 2024 is summarized in *Table 9* below.

Table 9

PROPERTY VALUATION AND TAXATION CALENDAR

Type of Property	Valuation Years 2023 & 2024 (When Tax Base Is Determined)	Tax Year 2024 (When Tax Rate Is Determined)	Fiscal Year 2025 (When Tax Is Due and Payable)
Locally Assessed Real Property (Old Construction)	January 1, 2023	August 19, 2024	October 1, 2024 and March 1, 2025
Locally Assessed Real Property (New Construction)	October 1, 2022 through September 30, 2023	August 19, 2024	October 1, 2024 and March 1, 2025
Locally Assessed Personal Property	January 1, 2024	August 19, 2024	October 1, 2024 and March 1, 2025
Centrally Valued Property	January 1, 2023	August 19, 2024	October 1, 2024 and March 1, 2025

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]. This means that for real property, the period between when the parcel's initial value is determined (January 1) and its tax is due and payable (March 1) is more than 2 years. For new construction, the valuation date is between October 1 in the year preceding 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.

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, they 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. § 42-16204] 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 through a "Notice of Value" form 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 State Board of Equalization for property located in Maricopa or Pima County or the County Board of Supervisors for property located in other counties [A.R.S. § 42-16105]. The county or state board must rule on these appeals by October 15 [A.R.S. § 42-16108]. If the taxpayers are still unsatisfied with the result, they may directly appeal to the state tax court within 60 days after the mailing of the decision, or by December 15, whichever is later [A.R.S. § 42-16202].

For new construction, additions to, deletions from, or splits or consolidations of assessment parcels, or changes to the use of real property resulting in a change of legal classification, the county assessor is required to notify the property owners of the initial values through a "Notice of Change" form by September 30 of the valuation year. The Notice of Change applies to property changes that occurred after September 30 of the year preceding the valuation year and before October 1 of the valuation year. As with the Notice of Value, the valuation year for the Notice of Change is defined as the calendar year preceding the year in which taxes are levied [A.R.S. § 42-15105]. Within 25 days after the date of the assessor's Notice of Change, the owner may file an appeal to the County Board of Equalization or the State Board of Equalization, whichever is applicable. The Board of Equalization must issue a ruling on or before the third Friday in November. The taxpayer then has 60 days to appeal to the state tax court [A.R.S. § 42-16205].

On or before February 10, each county assessor is required to provide the staff of JLBC and the Governor's Office of Strategic Planning and Budgeting (OSPB) the property values used to compute the TNT Rates for Equalization Assistance to School Districts [A.R.S. § 42-17052C].

On or before February 10, the governing board of each fire district is required to transmit to the Property Tax Oversight Commission the total assessed value of all property annexed by the district in the preceding calendar year [A.R.S. § 42-17052D].

Collections. The lieu taxes on private car companies and airline flight property are collected by DOR [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 to 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 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 these payments fall in the same fiscal year.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018. As noted previously, due to the repeal of the state property tax in 1996 (Laws 1996, 7th Special Session, Chapter 2), the state no longer levies a property tax. For this reason, property tax legislation primarily affects the state General Fund through its impact on Arizona Department of Education (ADE) expenditures. Under the K-12 funding formula, the state must offset any loss of local property tax revenue by a commensurate increase in ADE state aid to schools.

2024 LAWS

Laws 2024, Chapter 8 requires golf course property owners to notify their county assessor if any part of the property's use is changed in violation of the property's statutorily required 10-year deed restriction. Notification of the county assessor must be made within 30 days of the change in property use. Upon a change in use, the deed restriction must be refiled with the county assessor.

Laws 2024, Chapter 43 transfers the designation of military reuse zones from the CEO of the Arizona Commerce Authority (ACA) to the Department of Revenue (DOR).

Laws 2024, Chapter 134 deducts county levies for elementary districts without a high school (i.e., "Type 03" districts) from the minimum qualifying tax rate (MQTR) on an ongoing basis, beginning in FY 2025. Directs that monies from the Type 03 levy be deposited in the General Fund.

Laws 2024, Chapter 221 is the Taxation BRB for FY 2025. Chapter 221 requires country supervisors, as session law, to reduce property tax levies in FY 2025 in elementary districts without a high school (commonly referred to as "Type 03" districts) that are non-state aid districts and that were required to levy the minimum qualifying tax rate (MQTR) in FY 2024 (the MQTR is required if the district's property tax collections for basic state aid are less than 50% of what would be generated by the full MQTR). The reduction is equal to the district's Type 03 county levy (a county property tax authorized by Laws 2022, Chapter 285 and first levied in FY 2024 to fund the basic state aid costs of high school students who reside in Type 03 districts) <u>or</u> its MQTR levy from FY 2024, whichever is less. The reduction in intended to reimburse the affected districts for MQTR rate increases that occurred in FY 2024 as a result of the Type 03 county levies being excluded from the MQTR rate calculation. Beginning in FY 2025, Type 03 county levies will be deducted from the MQTR on an ongoing basis pursuant to Laws 2024, Chapter 134.

The Taxation BRB also includes several provisions related to the *Qasimyar vs Maricopa County* litigation. According to statute, parcels with a change of use must have their Limited Property Value (LPV) reassessed by a county assessor in a manner commensurate with properties of the same or similar class. This is known as "Rule B" (for more details, see *Limited Property Value* section above). If a property does not have a change in use, its LPV is increased by a standard rate of 5% above the parcel's LPV in the prior year. This is known as "Rule A".

In *Qasimyar v. Maricopa County*, property owners in Maricopa County filed a lawsuit in 2016 alleging that the county made inaccurate property tax assessments of owner-occupied homes (class 3) and rentals/non-primary residence (class 4) because the county failed to classify conversion from owner-occupied status to rental (or vice-versa) as changes in the use of property. Since the County did not classify the change of occupancy as a change of use, the LPV of the plaintiffs' parcels was evaluated based on "Rule A" (a standard yearly increase of 5%) instead of "Rule B" (reassessed according to the value of similar properties). The property owners claimed that the change in occupancy constituted a change in use, and therefore should have been assessed based on "Rule B." They further argued that the Maricopa County's LPV calculation based on "Rule A" rather than "Rule B" resulted in an overpayment of property taxes. The Court concurred with the plaintiffs, resulting in court-ordered property tax refunds totaling $333.0 million across all Maricopa County taxing jurisdictions, including $147.8 million across school districts in Maricopa County. These refunds will be paid by the Maricopa County Treasurer, beginning in FY 2025.

Laws 2022, Chapter 300 adjusted the "Rule B" calculation so that only physical and objectively verifiable changes to a property qualify as a change in use. This means that, beginning in September 2022, a property's reclassification from class 3 (owner-occupied) to class 4 (rental/non-primary residence), or vice versa, no longer constitutes a change in use and therefore its LPV will not be reassessed by a county assessor. As such, the *Qasimyar v. Maricopa County* litigation only addresses the period prior to Laws 2022, Chapter 300. The changes implemented in Laws 2022, Chapter 300 apply to the entire state, not just Maricopa County.

The Tax BRB provisions include:

- As session law, require school districts to reduce their levies to cover property tax refunds ordered in *Qasimyar vs Maricopa County* litigation to account for estimated revenues from basic state aid recalculation. The Arizona Department of Education (ADE) was required to estimate these recalculations by August 1, 2024, and submit them to the Property Tax Oversight Committee, JLBC, and OSPB.

- As session law, authorize ADE to recalculate basic state aid for districts liable for tax refunds without the adoption of a resolution by a school district governing board. Before making any adjustments to basic state aid, ADE must submit its proposed recalculations to JLBC for review.
- As session law, stipulate that taxing jurisdictions (including school districts) that are liable for tax refunds in the *Qasimyar vs Maricopa County* litigation and that estimate the judgment would result in a property tax increase of 4% or more may issue tax anticipation notes that mature four years following the issuance of the notes and request that the state loan commissioners issue bonds to redeem or refund the tax anticipation notes. This provision is repealed December 31, 2030.
- As session law, clarifies that any limitations on school district tax levies for *Qasimyar vs Maricopa County* tax refunds shall not be construed to prevent school districts from levying sufficient property taxes to pay required debt service on general obligation bons.
- As session law, authorize school districts liable for *Qasimyar vs Maricopa County* tax refunds to use any unbudgeted cash balances from FY 2023 from their Maintenance and Operations Fund or Unrestricted Capital Fund that were not included in the school district's adopted FY 2024 budget to cover the cost of the refunds.
- As session law, require the Maricopa County Treasurer to include a statement on tax year 2023 property tax bills stating, "Your tax rate includes an increase to cover the cost of tax refunds ordered in class action litigation".

2023 LAWS

Laws 2023, Chapter 7 allows an extension of the due date for mailing notices of a property's full cash value and limited property value in a state of emergency. Normally, county assessors are required to send a notice to property owners by March 1 of each year.

Laws 2023, Chapter 14 requires cemeteries, Indian tribes or tribal housing authorities, educational, religious, or charitable organizations, and veterans' organizations to notify the county assessor if any part of their property is being used for non-qualifying exemption purposes or any part of the property changes ownership.

Laws 2023, Chapter 79 defines "competent medical authority" for the purpose of the property tax exemption provided to widows and widowers, persons with a total and permanent disability, and veterans with a disability under A.R.S. §42-11111 as either: (1) a person who is appropriately licensed under current law, (2) a registered nurse practitioner, or (3) the U.S. Department of Veterans' Affairs. A "person with a total and permanent disability" is defined as someone who is unable to engage in gainful activity for pay or profit by reason of a physical or mental impairment expected to last for a year of longer or result in death within 12 months.

Laws 2023, Chapter 171 makes several technical and conforming changes with respect to the types of properties that can be classified under legal class 2 and 4, particularly guest (dude) ranches. Chapter 171 specifies that Class 2 property includes real and personal property and improvements of a guest ranch for which the owner has recorded a deed restriction with the county recorder and that is not already classified as Class 4 property, and that is valued at full cash value. Real and personal property and improvements of a guest ranch are to be classified as Class 4 property if it is included in the Arizona Dude Ranch Heritage Trail Program and meets the other requirements of a guest ranch. Moreover, Chapter 171 specifies that a change in the property tax classification of a guest ranch is not a change in use, in and of itself, for purposes of determining limited cash value of the property.

2022 LAWS

Laws 2022, Chapter 103 sets the full cash value of business and agricultural personal property initially classified in TY 2022 or later to 2.5% of the property's acquisition cost. Under the valuation tables in place prior to Chapter 103, it generally took between 3 and 30 years for such property to depreciate to 2.5% of its acquisition cost. Laws 2022, Chapter 103 was not scored as part of the 3-year budget plan. Under a separate fiscal analysis by the JLBC Staff, Chapter 103 was estimated to increase General Fund K-12 funding formula costs by $9.2 million in FY 2023, $19.2 million in FY 2024, and $29.6 million in FY 2025. Since the state does not levy a property tax, there is no General Fund revenue impact.

Laws 2022, Chapter 171 reduces the Class 1 (commercial) property assessment ratio from 16.0% in TY 2025 to 15.5% in TY 2026 and 15.0%, beginning in TY 2027. The JLBC Fiscal Note estimated that the Class 1 assessment ratio reduction will increase General Fund K12 funding formula costs by $3.8 million in FY 2027 and $6.9 million, beginning in FY 2028. Since the state does not levy a property tax, there is no General Fund revenue impact.

Laws 2022, Chapter 261 allows property leased to a U.S. veterans' organization to qualify as Class 9 property. According to the JLBC Fiscal Note, the Maricopa County Assessor's Office expects the bill to have a minimal impact on the tax base.

Laws 2022, Chapter 287 removes the 200-unit cap for an affordable rental housing project to qualify for the low-income housing property tax exemption under A.R.S. § 42-11133.

Laws 2022, Chapter 300 makes several mostly technical and clarifying changes with respect to the types of properties that can be classified under legal class 3 and 4. For the purpose of the "Rule B" calculation (which is used to determine a property's limited value under certain circumstances), Chapter 300 requires that a property's change of use must be physical and objectively verifiable.

Laws 2022, Chapter 317 eliminates the State Equalization Assistance Tax Rate (SETR), beginning in FY 2023. The elimination of SETR is estimated to increase the General Fund cost for the K-12 funding formula by $330.5 million in FY 2023.

Laws 2022, Chapter 341 provides a property tax exemption for veterans with service- or nonservice-connected disabilities in direct proportion to the percentage rating of the veteran's disability. If approved by voters in the November 2022 General Election, the veterans' exemption is estimated to result in a General Fund K-12 funding formula savings of $1.0 million, beginning in FY 2024. The savings is due to a property tax shift from homes owned by veterans to owners of other types of property. Since the state does not levy a property tax, there is no General Fund revenue impact. Chapter 341 is contingent on voter approval of Proposition 130 at the November 2022 General Election.

2021 LAWS

Laws 2021, Chapter 26 requires DOR to adjust the base value used to determine the Full Cash Value (FCV) of pipelines in cases of: 1) a final court ruling that the FCV of a pipeline determined using the required statutory valuation formula is more than the market value determined using standard appraisal methods and techniques; 2) an agreement between a pipeline company and DOR resulting from a pending tax appeal, in which the parties enter into a binding stipulation approved by the court; or 3) an agreement between a pipeline and DOR to correct an error in the calculation of the FCV of the system plan in service. In the first case, the FCV of the system plant determined by the court for the most recent tax year involved in the tax appeal is the base value for the subsequent tax year and DOR must adjust all valuations for future tax years. In the second and third cases, DOR must adjust the base value as set forth in the binding stipulation or agreement. (Effective retroactively from January 1, 2016)

Laws 2021, Chapter 109 requires a county board of supervisors to compile property tax rates, levies, and valuations for all taxing jurisdictions on a worksheet prescribed by DOR within seven days of adoption.

Laws 2021, Chapter 185 classifies real property and improvements to property of a guest ranch as Class 2(R) property and classifies personal property of a guest ranch as Class 2(P) property. (Effective from September 29, 2021)

Laws 2021, Chapter 352 classifies low-income multifamily residential rental properties as Class 4 (residential rental) property and requires a county assessor to value these properties using an income-based method.

Laws 2021, Chapter 412 reduces the assessment ratio for Class 1 (commercial) property from 18.0% to 17.5% in TY 2022, 17.0% in TY 2023, 16.5% in TY 2024, and 16.0% in TY 2025, when fully implemented. Chapter 412 also increases the Homeowner's Rebate percentage on Class 3 (residential) property from 47.19% to 50.0%, beginning in TY 2022. Finally, the act increases the maximum property tax rate for Fire Assistance Districts from $3.25 per $100 NAV to $3.375 in TY 2022 and $3.50, beginning in TY 2023. (Effective from September 29, 2021)

Laws 2021, Chapter 417 sets the FCV of renewable energy storage equipment at 20% of the depreciated cost of the equipment. DOR is required to determine the FCV of taxable renewable energy storage equipment through December 31, 2040. (Effective from September 29, 2021)

2020 LAWS

Laws 2020, Chapter 11 requires the county treasurer to mail the statement of taxes due to the owners of a mortgaged property by November 1. In addition, the statement must separately list the amount of primary and secondary taxes applicable to the property that is due to each taxing jurisdiction and, if applicable, the amount of additional state aid to school districts provided to class 3 property. (Effective from August 25, 2020)

2019 LAWS

Laws 2019, Chapter 31 makes several changes to the procedures used for the sale of tax liens by county treasurers. Most notably, Chapter 31 allows a county treasurer to prohibit a purchaser who failed to pay the amount due on a closed tax lien sale from purchasing tax liens from any county in Arizona for up to 1 year. (Effective from August 27, 2019)

Laws 2019, Chapter 49 allows inactive or partially inactive agricultural land due to partial reduction in water supply or irrigation district water allotment to be eligible for classification as property used for agricultural purposes (Class 2). (Effective from August 27, 2019)

Laws 2019, Chapter 167 requires the county treasurer to mail a statement of taxes due to the owners of a mortgaged property and when requested send a statement to the lender. (Effective from August 27, 2019)

Laws 2019, Chapter 208 exempts property owned by a nonprofit Residential Treatment Center from property taxation. Property that is leased to but not owned by a nonprofit Residential Treatment Center is assessed and taxed as Class 9 property. (Effective retroactively from January 1, 2019)

Laws 2019, Chapter 225 provides that tax-exempt personal property is not required to be reported to the county assessor. (Effective from August 27, 2019)

Laws 2019, Chapter 249 requires that possessory improvements qualify for a limited property value and are valued as real property. Chapter 249 defines possessory improvement as all residential, commercial, and industrial buildings, together with appurtenant awnings, decks, docks, garages, carports, storage, or other incidental buildings located on federal, state, county or municipal property or the property of another political subdivision of Arizona that is owned by a nongovernmental possessor. (Effective from August 27, 2019)

Laws 2019, Chapter 291 establishes an appraisal method for solar energy devices such that the value is set at the device's taxable original cost minus a 10-year accelerated depreciation schedule. In addition, businesses that own solar energy devices are required to annually report the cost for property valuation purposes. The appraisal method provided by Chapter 291 applies to solar energy devices for all tax years preceding the act's effective date. In practice, this is for tax years 2015 through 2018. (Effective from August 27, 2019)

Laws 2019, Chapter 294 defines "agritourism" and sets criteria for it to be classified as Class 2 agricultural real property. Agritourism under Chapter 294 is defined as any activity that allows members of the public to view, enjoy, and participate in rural activities for recreational or educational purposes. (Effective from August 27, 2019)

Laws 2019, Chapter 303 includes outstanding fees in the sale of a tax lien property and specifies that the expiration date to foreclose on a tax lien property is determined by the original certificate of purchase. (Effective from August 27, 2019)

Laws 2019, Chapter 306 makes changes to the "Rule B" calculation for purposes of determining a property's Limited Property Value (LPV) when such property has been modified by construction, destruction, or demolition. Under "Rule B," a parcel’s limited value is established at a level or percentage that is commensurate to the relationship of LPV to Full Cash Value (FCV) of other properties of the same or similar use or legal classification. Prior to Chapter 306, guidelines issued by the Department of Revenue stipulated that "Rule B" applied when modification to a property resulting from construction, destruction of demolition equaled 10% or more of the prior valuation year's FCV for that property. If the value of such modification was less than 10%, Rule A applied. Chapter 306 provides that the Rule B calculation be applied when the value of the modification resulting from construction, destruction, or demolition is 15% or greater that the property's FCV in the preceding valuation year. (Effective from August 27, 2019)

Laws 2019, Chapter 308 modifies some of the conditions to qualify for tax exempt low-income housing. (Effective from August 27, 2019)

2018 LAWS

Laws 2018, Chapter 73 prohibits the court from setting the full cash value of real property in a property tax appeal to be greater than the amount appealed by the taxpayer to the Board of Equalization. This was an emergency measure signed by the Governor on March 23, 2018. (Chapter 73 applies retroactively to property tax appeals filed after December 31, 2016)

Laws 2018, Chapter 281 permits a community college district to resubmit a proposed primary tax levy amount to the voters between 20 and 35 years after the initial tax levy amount was approved. The proposed levy must be less than or equal to 2 times the otherwise authorized levy amount for the same year. Chapter 281 stipulates that if the proposal is approved by voters in an election, the difference between the prior and new levy amounts must be phased in over 3 tax years. Moreover, Chapter 281 prohibits a community college district whose proposal was rejected by voters in an election from resubmitting a proposed primary tax levy until at least 2 years after the election. (Effective from August 3, 2018)

Laws 2018, Chapter 319 makes several changes to the redemption and removal of real property tax liens, including allowing a real property tax lien to be redeemed by any person who wants to pay on behalf of the owner by making a charitable gift. (Effective from August 3, 2018)

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf.

PAYMENTS IN LIEU OF PROPERTY TAXES

AIRCRAFT LICENSE TAX

DESCRIPTION

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

DISTRIBUTION

Effective August 9, 2017, Laws 2017, Chapter 312 provides that monies received from the aircraft license tax be deposited as follows [A.R.S. § 28-8345]:

- 50% to the state General Fund.
- 35% to the State Aviation Fund for use in the construction, development, and improvement of airports.
- 9.5% to counties based on proportion of total state population.
- 5.5% to incorporated cities and towns based on proportion of total state population.

Table 1

COLLECTIONS UNDER LAWS 2017, CHAPTER 312

Fiscal Year	General Fund	Aviation Fund	Counties	Cities and Towns	Total
2024	$4,972,634	$3,480,843	$944,800	$546,990	$9,945,267
2023	$5,037,935	$3,526,554	$957,208	$554,173	$10,075,870
2022	$4,689,790	$3,282,853	$891,060	$515,877	$9,379,580
2021	$4,329,434	$3,030,604	$822,592	$476,238	$8,658,868
2020	$4,134,843	$2,894,390	$785,620	$454,833	$8,269,686
2019	$4,121,315	$2,816,905	$783,050	$453,345	$8,174,614

SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning.

Prior to Chapter 312, all monies received from the aircraft license tax were deposited in the State Aviation Fund, as reflected in *Table 2*.

Table 2

COLLECTIONS PRIOR TO LAWS 2017, CHAPTER 312

Fiscal Year	Aviation Fund	Fiscal Year	Aviation Fund
2018 1/	$146,117	2009	$6,900,648
2017	$7,590,999	2008	$7,413,608
2016	$7,937,596	2007	$7,748,524
2015	$6,986,349 2/	2006	$5,980,022
2014	$7,326,085	2005	$5,577,258
2013	$7,374,472	2004	$5,748,210
2012	$8,802,691	2003	$4,360,187
2011	$7,733,417	2002	$3,543,819
2010	$7,582,645	2001	$3,176,180

1/ Includes collections from July 1, 2017 to August 9, 2017.
2/ Does not include a 13th month fiscal year adjustment.
SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning.

WHO PAYS

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

REVENUE BASE AND RATE

The revenue 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) A balloon. A balloon is defined as an aircraft that is a flexible, nonporous bag inflated with a gas that is lighter than air or a hot air balloon [A.R.S. § 28-8322].
(4) 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. The aircraft license tax may not have an annual percentage change that is more than the annual percentage change in the average consumer price index as published by the United States Department of Labor, Bureau of Labor Statistics. The aircraft license tax is benchmarked in FY 2022 to the fair market value of the aircraft in 2019. [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, or homebuilt 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].

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. ADOT establishes a system of staggered registrations on a monthly basis to distribute the work of registering aircraft throughout the 12 months in a calendar year. Within the staggered system, ADOT may register an aircraft for more or less than a 12-month period, but not more than an 18-month period, and will prorate the license tax to 1/12 the full amount for each full month of the registration cycle [A.R.S. § 28-8322.01].

ADOT may register a fleet of two or more aircraft on an annual basis so that the registrations for all aircraft in the fleet expire in the same month. ADOT is required to approve such requests, if an applicant meets the specified requirements, 30 days prior to the registration date [A.R.S. § 28-8322.02].

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 as established under the staggered registration system [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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this tax in the period from 2018 through 2021 and in 2023.

2024 LAWS

Laws 2024, Chapter 208 clarifies the exemptions for the aircraft license tax and rules for registering aircraft. A balloon is not required to register the aircraft even if the aircraft is engaged in intrastate commercial operations.

2022 LAWS

Laws 2022, Chapter 264 modifies the exemptions for the aircraft license tax and rules for registering aircraft. A balloon is exempt from the aircraft license tax. In lieu of a registration date on or before the last day of February each year, ADOT must establish a system of staggered registration on a monthly basis in a calendar year. Under the staggered registration system, ADOT may register an aircraft for more or less than a 12-month period, but not more than an 18-month period, and will prorate the license tax to 1/12 the full amount for each full month of the registration cycle. ADOT is permitted to register a fleet of two or more aircraft on an annual basis. ADOT must approve such requests, if an applicant meets the specified requirements, 30 days prior to the registration date.

Laws 2022, Chapter 321 limits the assessment of the aircraft license tax to not exceed the annual percentage change in the U.S. Consumer Price Index (CPI). Chapter 321 further benchmarks the license tax in FY 2022 to the fair market value of the aircraft in 2019. ADOT is required to apply a credit in FY 2023 to any aircraft in FY 2022 that was assessed and paid an aircraft license tax that exceeds the benchmark to make up the difference.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

IN 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 for the past 20 years. 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

COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
2024	$2,273,945	2014 3/	$(1,061,682)
2023	$2,248,548	2013 4/	$3,698,193
2022	$2,426,134	2012	$1,065,773
2021	$2,380,655	2011	$1,283,026
2020	$2,220,383	2010	$1,335,091
2019	$2,027,884	2009	$1,435,069
2018	$2,038,908	2008	$1,615,246
2017	$1,726,458	2007	$1,709,362
2016 1/	$(189,264)	2006	$1,426,435
2015 2/	$3,484,442	2005	$1,312,163

1/ Absent a refund of $(1,819,028) to correct for an error from FY 2015, collections would have been $1,629,764 in FY 2016.
2/ This figure includes $1,819,028 that should have been deposited to Flight Property Tax.
3/ Absent a refund of $(2,473,651) to correct for an error from FY 2013, collections would have been $1,411,969 in FY 2014.
4/ This figure includes $2,473,651 that should have been deposited to Flight Property Tax.

SOURCE: Department of Revenue, Annual Reports.

WHO PAYS

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

REVENUE 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 TY 2024 assessment ratio for this type of property is 14%.

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 for TY 2023 was $10.97 per $100 of assessed value.

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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this tax from 2018 through 2024.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

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 *Revenue 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

COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
2024	$0	2014	$1,490,121
2023	$0	2013	$243,985
2022	$0	2012	$767,569
2021	$0	2011	$422,596
2020	$0	2010	$84,855
2019	$48	2009	$708,972
2018	$1,141,412	2008	$1,053,210
2017	$1,967,722	2007	$2,037,640
2016	$1,620,904	2006	$2,490,685
2015	$1,445,224	2005	$2,653,117

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

WHO PAYS

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 (SRP).

REVENUE BASE AND RATE

The revenue 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.
   (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 of the net contributions for 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. § 48-242E]. Each County Treasurer is required to remit to the State Treasurer the state's portion of the net voluntary contribution.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this revenue category from 2018 through 2024.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

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, but not on electronic cigarettes and vapor products. 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 $2.00 per pack of 20. Most of the revenues from this tax are dedicated to health care programs.

DISTRIBUTION

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

<u>Tax on Cigarettes</u>

Of the $2.00 tax, 18¢ is distributed as part of the general tax rate for the following purposes:

- *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].

In addition, $1.00 of the $2.00 cigarette tax is dedicated to health care and distributed to the following funds and their subaccounts:

- *Tobacco Tax and Health Care Fund*. 40¢ is distributed to the following accounts of the Tobacco Tax and Health Care Fund [A.R.S. § 36-771, § 42-3251, § 42-3252, § 42-3302]. While the 40¢ tax was originally created by Proposition 200 in 1994, it was re-enacted by Proposition 200 in 2000. While the 40¢ tax was re-enacted, Proposition 200 in 2000 did not recreate the accounts. As a result, the distributions are governed by the 1994 ballot proposition and are as follows:

    a. Medically Needy Account – 70% of revenues, to provide health care or behavioral health care services for those who cannot afford these services [A.R.S. § 36-774]. Created by Proposition 200 in 1994.
    b. Health Education Account – 23% of revenues, for the prevention and reduction of tobacco use [A.R.S. § 36-772]. Created by Proposition 200 in 1994.
    c. Health Research Account – 5% of revenues, for research on preventing and treating tobacco-related disease and addiction [A.R.S. § 36-773]. Created by Proposition 200 in 1994.
    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]. The distribution, when combined with existing tobacco tax revenues to the Corrections Fund, cannot exceed the FY 1994 tobacco tax revenues to the Corrections Fund. Any revenues in excess of this amount are deposited into the General Fund. Created by Proposition 200 in 1994.

- *Tobacco Products Tax Fund*. Under the provisions of Proposition 303 in 2002, 60¢ is distributed to the following accounts of the Tobacco Products Tax Fund [A.R.S. § 36-770, § 42-3251.01, § 42-3302]:

    a. Proposition 204 Protection Account – 42% of revenues, to implement and fund the programs established by Proposition 204 in the 2000 General Election [A.R.S. § 36-778]. Created by Proposition 303 in 2002.

b. Medically Needy Account – 27% of revenues, to provide health care services for those who cannot afford these services [A.R.S. § 36-774].
c. Emergency Health Services Account – 20% of revenues, to provide reimbursement of uncompensated care, primary care services, and trauma center readiness costs [A.R.S. § 36-776]. Created by Proposition 303 in 2002.
d. Health Research Fund – 5% of revenues, for health research [A.R.S. § 36-275].
e. Health Care Adjustment Account – 4% of revenues, to compensate the subaccounts of the Tobacco Tax and Health Care Fund for decreases in cigarette tax revenues resulting from the levy of this portion of the cigarette tax [A.R.S. § 36-777]. Created by Proposition 303 in 2002.
f. Health Education Account – 2% of revenues, for the prevention and early detection of the 4 leading causes of death in Arizona [A.R.S. § 36-772]. Created by Proposition 303 in 2002.

Of the $2.00 cigarette tax, Proposition 203 in 2006 dedicated 80¢ to childhood development and health, which is deposited into the following fund and its subaccounts:

- *Early Childhood Development and Health Fund*. Monies are distributed to the following accounts of the Early Childhood Development and Health Fund [A.R.S. § 42-3371, A.R.S. § 8-1181]:

  a. Program Account – 90% of revenues, to improve the quality and availability of health and education programs for pre-kindergarten children and their families who otherwise have limited access to such services [A.R.S. § 8-1181, A.R.S. § 8-1171]. Created by Propositions 203 in 2006.
  b. Administrative Costs Account – 10% of revenues, to cover the administrative costs of the Arizona Early Childhood Development and Health Board [A.R.S. § 8-1181]. Created by Proposition 203 in 2006.

The remaining 2¢ of the $2.00 tax is distributed under the provisions of Proposition 201 in 2006 for the following purpose:

- *Smoke-Free Arizona Fund*. Revenues are used to enforce the provisions of the Smoke-Free Arizona Act with any unexpended monies being deposited in the Tobacco Products Tax Fund to be used for education programs to reduce and eliminate tobacco use [A.R.S. § 42-3251.02, A.R.S. § 36-601.01].

Tax on Tobacco, Cavendish, and Cigars

Apart from the $2.00 cigarette tax, tobacco, cavendish, and cigars are taxed at different rates *(see Table 3)*.

All of the general tax rate collections are distributed as follows:

- *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].

All monies collected from the 1994 Tobacco Tax and Health Care Tax, the 2002 Tobacco Product Tax, and the 2006 Early Childhood Development and Health Tax are distributed into their relevant funds at the same percentage as cigarettes, described previously. However, the 2006 Smoke Free Arizona Tax only applies to cigarettes.

Table 1

COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Corrections Fund	TTHCF 1/	TPTF 2/	ECDHF 3/	SFAF 4/	Total
2024	$19,037,537	$4,450,416	$53,020,926	$73,972,360	$103,999,049	$2,354,745	$256,835,033
2023	$18,751,883	$3,441,219	$51,285,271	$77,012,695	$103,184,375	$2,326,487	$256,001,930
2022	$21,040,797	$5,309,673	$57,769,425	$86,696,532	$115,391,517	$2,591,349	$288,799,293
2021	$21,687,135	$5,187,491	$61,306,692	$84,966,240	$118,163,262	$2,680,993	$293,991,813
2020	$22,074,751	$5,039,778	$63,188,971	$86,729,908	$121,115,685	$2,765,706	$300,914,799
2019	$21,046,021	$4,909,797	$61,105,427	$83,852,401	$115,853,834	$2,645,393	$289,412,873
2018	$21,984,160	$5,074,109	$61,665,004	$84,606,892	$121,554,785	$2,784,370	$297,669,320
2017	$22,923,141	$5,150,372	$64,973,753	$90,112,386	$124,515,638	$2,879,410	$310,554,700
2016	$24,550,412	$5,143,144	$66,415,766	$92,031,875	$126,206,733	$2,941,563	$317,289,493
2015	$23,645,756	$5,230,839	$67,071,278	$93,055,529	$122,239,828	$2,848,986	$314,092,216
2014	$25,810,507	$5,100,324	$61,694,151	$91,923,081	$124,371,662	$2,918,213	$311,817,939
2013	$24,530,414	$5,041,634	$65,750,954	$91,044,441	$125,771,470	$2,956,134	$315,095,047
2012	$24,931,105	$5,142,535	$65,665,913	$90,953,118	$129,391,158	$3,043,448	$319,127,277
2011	$25,066,894	$5,230,772	$68,781,910	$95,586,289	$130,083,235	$3,058,479	$327,807,579
2010	$25,810,438	$5,307,048	$69,089,344	$96,335,427	$133,118,902	$3,888,483	$333,549,642
2009	$29,080,647	$5,129,852	$76,972,057	$108,934,079	$151,363,815	$2,868,990	$374,349,440
2008	$32,467,344	$6,206,674	$83,868,465	$116,127,254	$164,805,113	$3,946,308	$407,421,158
2007	$37,558,776	$6,206,673	$100,500,062	$137,624,178	$74,445,246	$1,778,847	$358,121,881
2006	$39,578,709	$6,206,674	$106,821,045	$145,399,774			$298,006,202
2005	$38,360,552	$6,206,608	$102,310,127	$138,521,611			$285,398,898

1/ Tobacco Tax and Health Care Fund (Proposition 200 in 1994. The distribution was altered in Laws 2007, Chapter 150).
2/ Tobacco Products Tax Fund (Proposition 303 in 2002).
3/ Early Childhood Development and Health Fund (Proposition 203 in 2006).
4/ Smoke-Free Arizona Fund (Proposition 201 in 2006).

SOURCE: Department of Revenue, Luxury Tax Section.

WHO PAYS

Licensed distributors of cigars and other tobacco products besides cigarettes submit tax payments together with a monthly return [A.R.S. § 42-3501]. 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. § 42-3401 and § 42-3452]. There are 4 categories of stamps that are sold by the Department of Revenue to distributors, each with a different tax rate:

- Blue stamps have a face value of $2.00 and include all cigarette taxes;
- Red stamps have a face value of $1.00 and include only the 40¢ and 60¢ health care taxes; and
- Green and Yellow stamps have a face value of $0.00.

Green, Yellow, and Red Stamps are used only on tribal nations.

The 40¢ tax (per package of 20 cigarettes) and the 60¢ tax per package are direct taxes on the consumer and are to be collected and paid to the Department of Revenue by the distributors [A.R.S. § 42-3303]. The 18¢ general tax rate per package, the 80¢ Early Childhood Development and Health Tax, and the 2¢ Smoke-Free Arizona tax are considered to be a tax on the seller.

The type of stamp sold on tribal nations varies depending on 4 factors: 1) whether the consumer is an enrolled member of the Indian Tribe or the consumer is a member of the general public; 2) whether the seller is a tribal member of the nation in which it is conducting business or the seller is a non-tribal member licensed by the federal government to sell goods and services on the nation; 3) whether or not the Indian Tribe levies its own tribal tax; and 4) whether the Indian Tribe exempts its members from the tribal tax.

Cigarette sales on tribal nations to non-members require either a $2.00 Blue or $1.00 Red stamp, depending on the seller. Federally-licensed, non-tribal member sellers are required to purchase Blue stamps, meaning all $2.00 in state taxes are applied to packs of cigarettes sold by these vendors. Tribal member sellers are required to purchase Red stamps, meaning only $1.00 in state health care related cigarette taxes are included. If the tribe has elected to impose its own tobacco tax, the amount of the tax collected (up to $1.00) is retained by the tribe and not deposited into the state health care accounts. Tribal member sellers are exempt from paying the 18¢ general, the 80¢ Early Childhood Development, and 2¢ Smoke-Free Arizona tax rates when selling to non-tribal members. A December 2006 Attorney General Legal Opinion determined that the Early Childhood Development and Smoke-Free Arizona taxes could be levied on tribal nation cigarettes sold only by federally-licensed, non-tribal member sellers, in addition to the general cigarette tax rate. These taxes make up the $1.00 value of Red stamps.

Cigarette purchases by tribal members on their own nations are exempt from state taxes, regardless of seller classification. These sales require a Green or Yellow stamp. Statute gives Indian tribes the ability to levy their own tax on tobacco sales. Green stamps are used if the Tribe does not levy a tax, or if the Tribe has levied a tax, but exempts members of the Tribe. A Yellow stamp is used when the Tribe levies a tax and does not exempt members of the tribe. This provision allows the tribe to retain the funding collected from the optional tax and does not specify how the tribe should spend the revenues collected. *Table 2* displays the stamp assignments by customer and seller classifications.

Table 2

CIGARETTE STAMP ASSIGNMENTS PER PACK

Seller	**Indian Tribe Member (No tribal tax)**	**Exempt Indian Tribe Member**	**Non-Exempt Indian Tribe Member**	**All Other Consumers**
All Vendors not on a tribal nation	$2 Blue Stamp	$2 Blue Stamp	$2 Blue Stamp	$2 Blue Stamp
Tribal Member Retailer	$0 Green Stamp	$0 Green Stamp	$0 Yellow Stamp	$1 Red Stamp[1/]
Federally-Licensed Non-Tribal Seller	$0 Green Stamp	$0 Green Stamp	$0 Yellow Stamp	$2 Blue Stamp

1/ If the tribe has elected to impose its own tobacco tax, the amount of the tax collected (up to $1.00) is retained by the tribe and not deposited into the state health care accounts.

If the tribe imposes its own tax on cigarettes, the taxes collected by the state for cigarette sales on nations will be levied at a rate that is the difference between the rate the state would otherwise levy and what the tribe imposes [A.R.S. § 42-3302]. The offset applies only to the $1.00 in taxes collected for each pack sold that are dedicated to the Tobacco Tax and Health Care Fund (40¢) and to the Tobacco Products Tax Fund (60¢) [A.R.S. § 42-3302]. For example, if a tribe imposes a $0.75 tribal tax rate, the state tax rate would be $0.25. To date, 5 nations have not enacted a tribal tax on cigarettes and 16 nations have enacted taxes that offset all or a part of the $1.00 per pack of state cigarettes taxes dedicated to health care.

The tax treatment of other tobacco products is similar to the treatment of cigarettes described above, with the tax rates detailed below in *Table 3.*

REVENUE BASE AND RATE

The revenue 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, § 42-3251, § 42-3251.01, § 42-3251.02, and § 42-3371]:

Table 3

TOBACCO PRODUCT TAX RATES

Item	General Tax Rate	1994 TTHCF 1/	2002 TPTF 1/	2006 ECDHF	2006 SFAF	Total Tax Rate
Cigarettes (per pack of 20)	18¢	40¢	60¢	80¢	2¢	$2.00
Tobacco per ounce	2¢	4.5¢	6.75¢	9¢	--	22.25¢
Cavendish per ounce	0.5¢	1.1¢	1.65¢	2.2¢	--	5.45¢
Small Cigars per 20	4¢	8.9¢	13.35¢	17.8¢	--	44.05¢
Large cigars 5¢ or less (per 3)	2¢	4.4¢	6.6¢	8.8¢	--	21.8¢
Large cigars more than 5¢	2¢	4.4¢	6.6¢	8.8¢	--	21.8¢

1/ Tax Rates Dedicated to Health Care.

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]. Additionally, electronic cigarettes and vapor products are not subject to this tax, based on a July 30, 2014 Attorney General legal opinion.

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. § 42-3452].

Statute allows distributors to purchase stamps at a cost less than the face value of the stamps. This discount allows distributors to recoup the administrative cost of affixing stamps to cigarette packages. Beginning October 1, 2016, statute allows distributors that purchase cigarette stamps to receive a discount of 3.52% of the purchase of the stamps. Blue and Red stamps will be purchased from the Department of Revenue for 96.48% of the face value of the stamps, or $1.9296 for Blue stamps and $0.9652 for Red stamps. Distributors of Green and Yellow stamps will receive the discount via a 3.52 cent administrative allowance for each Green and Yellow stamp purchased, which will be realized when distributors file their monthly reports with DOR. *Table 4* displays the amount of the administrative discount as well as the amount of the tax collected by DOR for each stamp category [A.R.S. § 42-3458].

Electronic Funds Transfer and Tax Filing Requirements
All licensed tobacco distributors are required to submit payments for cigarette stamp and other tobacco products to DOR via Electronic Fund Transfer (EFT) [A.R.S. 42-3053]. A distributor who fails to make payments in a timely manner via EFT is subject to civil penalties.

Additionally, licensed tobacco distributors are required to submit monthly tax returns and reports as well as refund and rebate requests electronically to DOR.

Table 4

CIGARETTE STAMP DISCOUNTS AND COLLECTED TAX

Stamp Category	Discount per Stamp [1/]	DOR Tax Collected per Pack
Blue Stamps	$0.0704	$1.9296
Red Stamps	$0.0352	$0.9648[2/]
Green Stamps	$0.0352	$0[3/]
Yellow Stamps	$0.0352	$0[3/]

1/ Retained by distributor
2/ If Red stamps are sold to tribal member retailers on a tribal nation that has instituted its own tobacco tax, the distributor who purchased the stamps may file for a rebate with DOR for the full face value of the stamps.
3/ Green and Yellow stamps are differentiated by the end consumer. Green stamps are to be sold to members of the tribal nation where the tribe has not imposed a tribal tax or the tribe exempts its members from its own tribal tax. Yellow stamps are to be sold to tribal members where the tribe does not exempt its members from the tax imposed by the tribe.

If distributors sell Red stamps to Tribal Member Retailers where the Tribe has levied its own tribal tax, the distributors may file for a rebate of the cost of Red stamps with the Department of Revenue. This rebate is granted for the full face value of the purchased stamps, creating a 3.52 cent administrative allowance because the stamps were purchased at 96.48% of face value. Prior to Laws 2016, Chapter 125 rebates of Red stamps were granted at the same price that stamps were purchased.

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 pay the tax within 10 days of the due date will result in penalty and interest charges from the time the tax was due until paid [A.R.S. § 42-3501].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this tax in 2018 or in the period from 2020 to 2024.

2019 LAWS

Laws 2019, Chapter 65 defines cavendish as a tobacco product that is smoked from a pipe that is either described on packaging as cavendish, contains cavendish or has a cavendish blend, or appears to have been manufactured with flavorings and humectants that exceed 20% of the weight of the tobacco contained in the product.

A listing of tax law changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf.

LUXURY TAX ON LIQUOR

DESCRIPTION

The luxury tax on liquor is levied on wholesalers of spirituous, vinous, and malt liquors. In addition, the luxury tax is also levied on every farm winery, microbrewery, craft distiller, or winery holding a direct shipment license that sells vinous or malt liquor at retail or to certain licensees.

Arizona operates on a three-tier distribution system for most liquor sales. The first tier consists of manufacturers or producers of liquor who sell to licensed wholesalers. The second tier consists of licensed wholesalers who sell to licensed retailers. The third tier consists of licensed retailers who make final sales to consumers, and not for resale. Farm wineries, microbreweries, and craft distillers are not subject to the three-tier distribution system and may sell directly to retailers or consumers within the state.

Within the three-tier distribution system, Arizona imposes a luxury tax only at the second-tier level (i.e., on the wholesalers for sales of liquor with the state). Producers or manufacturers (first tier) and licensed retailers (third tier) are generally not liable for luxury tax.

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 [A.R.S. § 42-3104].

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. § 42-3106A].

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. § 42-3106B].

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

WHO PAYS

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

- Wholesalers who purchase malt liquors for resale within Arizona [A.R.S. § 42-3353A].
- Wholesalers who sell spirituous liquors within Arizona [A.R.S. § 42-3354A].
- Wholesalers who sell vinous liquors within Arizona [A.R.S. § 42-3354B].
- Every farm winery, microbrewery, craft distiller, or winery holding a direct shipment license that sells vinous or malt liquor at retail or to certain licensees. [A.R.S. § 42-3355].

REVENUE BASE AND RATE

The following is the revenue base and rate for each liquor type [A.R.S. § 42-3052]. 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 brandy. According to the Department of Revenue, no revenue has been collected from this tax in recent years.
- *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 made from apples, pears and other pome fruit that does not exceed an alcohol content of 7%.

Table 1

COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund 1/	Corrections Fund	Wine Promotional Fund 2/	Corrections Revolving Fund	Drug Treatment & Education Fund	Total Collections
2024	$45,239,154	$28,847,131	$0	$4,141,316	$10,282,246	$88,509,848
2023	$45,509,913	$30,609,969	$0	$4,386,076	$10,918,902	$91,424,860
2022	$43,919,974	$31,352,671	$0	$4,296,865	$10,704,820	$90,274,330
2021	$43,150,557	$31,795,434	$0	$4,384,893	$10,944,235	$90,275,119
2020	$38,068,485	$28,345,593	$0	$4,048,034	$10,124,758	$80,586,870
2019	$37,268,293	$27,235,821	$0	$3,891,849	$9,726,060	$78,122,023
2018	$36,029,582	$26,898,876	$0	$3,841,109	$9,608,327	$76,377,895
2017	$34,687,070	$26,292,469	$0	$3,752,748	$9,393,483	$74,125,770
2016	$33,618,388	$25,774,829	$0	$3,677,579	$9,209,833	$72,280,629
2015	$33,101,191	$25,446,032	$0	$3,630,371	$9,092,642	$71,270,235
2014	$32,901,156	$25,496,628	$0	$3,636,704	$9,111,608	$71,146,096
2013	$31,654,182	$24,686,455	$0	$3,520,472	$8,822,750	$68,683,859
2012	$31,425,990	$24,635,454	$0	$3,512,658	$8,805,069	$68,379,171
2011	$28,532,514	$23,221,811	$0	$3,307,459	$8,303,445	$63,365,229
2010	$29,541,822	$23,918,010	$0	$3,407,130	$8,551,873	$65,418,835
2009	$28,797,539	$23,587,644	$0	$3,358,868	$8,434,654	$64,178,705
2008	$28,562,812	$23,976,492	$29,003	$3,411,936	$8,576,309	$64,556,552
2007	$28,277,919	$23,273,991	$35,965	$3,313,708	$8,323,288	$63,188,906
2006	$27,192,240	$22,636,747	$38,481	$3,221,929	$8,096,444	$61,147,360
2005	$26,085,548	$22,068,568	$34,667	$3,139,770	$7,894,513	$59,223,067

1/ Includes funds to be used for state school aid.
2/ Monies collected for this fund were transferred quarterly by the General Accounting Office to the Department of Commerce to pay back an outstanding loan the now defunct Wine Commission had taken from the Commerce Economic Development Fund. The statute establishing the Wine Promotion Fund was repealed by Laws 2005, Chapter 11.

SOURCE: Department of Revenue, Annual Reports.

PAYMENT SCHEDULE

Wholesalers must submit a return and 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 [A.R.S. § 42-3353 and § 42-3354]

Farm wineries, microbreweries, or craft distillers holding a direct shipment license and that sell spirituous or vinous liquor on site must submit a return and pay the luxury tax on liquor to the Department of Revenue annually on or before the 20th day of the first month following the year in which the tax accrues. The tax must be paid within 10 days of the due date to avoid penalty and interest charges [§ 42-3355].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018. There were no changes enacted to this tax from 2018 through 2022 and in 2024.

2023 LAWS

Laws 2023, Chapter 25 changes the frequency of luxury tax payments from every farm winery, microbrewery, craft distiller, or winery holding a direct shipment license that sells vinous or malt liquor at retail or to certain licensees from once per month to once per year, on or before the 20th day of the first month following the end of the tax year. Wholesalers are still required to pay the tax on a monthly basis.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf.

ALCOHOLIC BEVERAGE LICENSE FEES

DESCRIPTION

Alcoholic beverage license fees are charged to sellers and producers of these beverages. Fees are charged for original licenses, license renewals, and transfers of licenses. 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 (e.g., 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's Economic Security Capital Investments Fund [A.R.S. § 4-116].

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

Sampling and Growler Permits. Collections from sampling and growler permit applications are deposited in the Liquor Licenses Fund and continuously appropriated to the Department of Liquor Licenses and Control in addition to the department's legislative appropriation [A.R.S. § 4-116.01].

All Other Licenses. Except for the above club, special event, and some restaurant license fees, two-thirds of license fees are deposited in the Liquor Licenses Fund. Any revenues of this two-thirds of license fees in excess of the amount appropriated to the Liquor Licenses Fund are deposited into 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 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 farm wineries or microbreweries. All sellers of alcoholic beverages, including Indian tribal members on reservations, are required to pay the license fees [A.R.S. § 4-209].

REVENUE BASE AND RATE

License and Permits. A flat fee is charged for an original license, annual and biannual license renewals, transfers of licenses, assignments of agents, and interim permits. Licenses can expire annually or biannually depending on the type of license renewal and whether the holder received any compliance penalties in the year prior to renewal. In addition, for each additional original license issued there will be levied a 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. § 4-209J&K].

Maximum Additional Licenses Per County. With the exception of bar, beer and wine bar, liquor store and some restaurant licenses issued pursuant to A.R.S. § 4-213E, there is no maximum number of licenses that can be issued. Restaurant licenses that do not meet the definition of a restaurant and receive permission from the Department of Liquor Licenses and Control to continue to operate as a restaurant are limited to a maximum of 15 restaurant licenses in any fiscal year. In FY 2013 and beyond, no additional licensees will be granted permission to continue to operate under A.R.S. § 4-213E.

The Department of Liquor Licenses and Control shall annually issue 1 bar and 1 liquor store license in each county for each 10,000 person increase over the population in that county as estimated by the Office of Economic Opportunity as of July 1, 2010 minus the number of licenses distributed since 2010. The director may also issue new bar and liquor store licenses for each license that has been revoked, reverted, or suspended in each county for the first 5 revoked, reverted, or suspended licenses. If the number of revoked or reverted licenses is greater than 5, the director may issue the initial 5 new licenses plus a number equal to 20% of the difference between the total number of revoked or reverted licenses and 5.

The department shall annually issue 1 beer and wine bar license in each county for each 5,000 person increase over the population in that county as of July 1, 2010 minus the number of licenses distributed since 2010 until January 1, 2022, and issue 1 new license for each 10,000 person increase thereafter. However, the director may opt to waive the issuance of any new, or reissuance of any revoked, reverted, or suspended licenses in any county for 1 year if there has been no request made to the department for the issuance of a license of that series (A.R.S. § 4-206.01B).

Table 1

COLLECTIONS AND DISTRIBUTION

Fiscal Year	Total	General Fund	Dept. of Economic Security	Dept. of Health Services	Dept. of Public Safety	Counties	Audit Surcharge	Enforcement Surcharge	Liquor Dept. 1/2/3/	Liquor Licenses Fund	Lease Payments /Cocktails To Go
2024	$17,151,984	$9,200,000	$49,400	$71,900	$56,582	$384,720	$205,320	$903,035	$327,294	$5,749,300	$204,433
2023	$24,297,866	$11,717,464	$48,200	$74,715		$429,312	$202,170	$884,160	$329,345	$10,612,500	
2022	$13,236,732	$7,000,154	$47,500	$64,050		$427,287	$196,290	$871,655	$368,905	$4,260,891	
2021	$10,773,440	$5,453,200	$51,575	$13,545		$430,485	$195,420	$836,105	$294,910	$3,498,200	
2020	$11,485,604	$6,298,746	$45,625	$62,615		$420,244	$188,710	$817,910	$277,955	$3,373,800	
2019	$10,008,340	$5,121,964	$45,025	$80,135		$434,381	$187,260	$810,980	$242,595	$3,086,000	
2018	$9,741,176	$5,032,422	$41,700	$72,500		$396,657	$182,550	$785,625	$128,000	$3,047,500	
2017	$9,994,536	$5,349,139	$48,825	$70,925		$390,872	$179,230	$807,145	$141,000	$3,007,400	
2016	$8,532,918	$3,713,973	$47,225	$71,200		$382,115	$173,190	$789,915	$0	$3,355,300	
2015	$7,651,662	$3,187,414	$47,775	$66,725		$440,228	$169,080	$777,940	$0	$2,962,500	
2014	$6,379,186	$1,932,468	$54,550	$64,725		$442,258	$170,680	$782,305	$0	$2,932,200	
2013	$6,476,642	$2,064,997	$59,025	$57,800		$448,900	$166,800	$767,820	$0	$2,911,300	
2012	$5,989,607	$1,716,990	$45,550	$57,850		$427,877	$164,220	$761,520	$0	$2,815,600	
2011	$8,760,692	$4,660,056	$55,650	$54,675		$404,971	$165,030	$761,610	$0	$2,658,700	
2010	$6,110,927	$2,913,632	$46,200	$45,275		$385,795	$144,300	$662,025	$0	$1,913,700	
2009	$6,559,069	$5,040,087	$56,400	$49,175		$530,252	$158,730	$724,425	$0		
2008	$6,333,680	$4,871,121	$49,600	$45,775		$483,938	$162,186	$721,060	$0		
2007	$6,042,559	$4,661,571	$47,750	$45,975		$448,928	$155,040	$683,295	$0		
2006	$5,903,308	$4,431,909	$49,275	$51,250		$446,672	$152,580	$673,290	$98,332		
2005	$5,581,198	$4,206,281	$48,850	$47,775		$458,487	$151,650	$668,155			

1/ See Laws 2005, Chapter 284 – the Department of Liquor Licenses and Control may retain costs associated with the random selection of additional licensees.

2/ See Laws 2016, Chapter 76 – the director may charge an administrative fee for Wine Direct Shipment licenses for costs associated with administering the direct shipment license.

3/ See Laws 2018, Chapter 240 – Designates all revenue collected from sampling and growler permits as continuously appropriated within the Liquor Licenses Fund without regard for the legislative appropriation from the fund.

Note: 5% of the revenues generated from licensees that are permitted to continue operation as a restaurant pursuant to A.R.S. § 4-213E will be deposited into the Driving Under the Influence Abatement Fund beginning in FY 2009.

SOURCE: Department of Liquor Licenses and Control.

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 non-beverage 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].

Application Fees:

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

Issuance fees for original licenses [A.R.S. § 4-209B]*:*

Table 2

ISSUANCE FEES FOR ORIGINAL LICENSES

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	300
3.	Microbrewery license	300
4.	Wholesalers of spirituous liquors	1,500
5.	State, and local government, community colleges, or National Guard 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.	Farm winery	100
14.	Clubs	1,000
15	Out-of-state winery selling 240 or fewer cases of wine in a calendar year	125
16.	Craft distiller	300
17.	Direct Shipment Wine	50
18.	To-Go Cocktails	TBD[1/]

1/ This permit will be available beginning in 2026 and the fee will be determined by the Department of Liquor Licenses and Control. Until the To-Go Cocktail License is established, a restaurant may lease an off-sale privilege license from a bar or liquor store at a fee determined by the Department. The fee may differ for urban and rural counties.

Annual License Fees [A.R.S. § 4-209D]

Table 3

ANNUAL LICENSE FEES

1.	In-state producers of spirituous liquors	$350
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.	Microbrewery license	300
4.	Wholesalers of spirituous liquors	250
5.	Local government, community colleges, or National Guard 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 1/
13.	Farm winery	100
14.	Clubs	150
15.	Out-of-state winery selling 240 or fewer cases of wine in a calendar year	25
16.	Craft distiller	300
17.	Direct Shipment Wine	175
18.	To-Go Cocktails	NA 2/

1/ If the restaurant is continuing to operate under A.R.S. § 4-213E, an additional fee, to be determined by the Department of Liquor Licenses and Control will be levied. In FY 2013 and beyond, no additional licensees will be granted permission to continue to operate under A.R.S. 4-213E. *(Please see Laws 2006, Chapter 383 and Laws 2008, Chapter 256 for additional information)*

2/ This permit will be available beginning in 2026 and the fee will be determined by the Department of Liquor Licenses and Control. Until the To-Go Cocktail License is established, a restaurant may lease an off-sale privilege license from a bar or liquor store at a fee determined by the Department. The fee may differ for urban and rural counties.

Note: 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. § 4-209C].

Note: 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. § 4-209E].

Note: Any licenses that receive nonuse status are excluded from paying any municipal fee or tax attributed to the time that the license was held in nonuse status [A.R.S. § 4-203.05].

Transfer Fees for Spirituous Liquor Licenses:

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

[A.R.S. § 4-209F-G]

Assignment Fees. A $100 fee is charged to transfer control of a license or to change the license agent responsible for receiving communication from and filing documents with the department. For a holder of multiple licenses, the fee is $100 for the first license and all remaining licenses transferred to the same agent are $50 each, with a maximum fee of $1,000 [A.R.S. § 4-209H].

NOTE: License transfers are not permitted for restaurants, hotels, motels, clubs or 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 wine festival license fee and the farm winery fair license fee are both statutorily set by the director and are currently set at $15 per day. There is also a microbrewery festival license for which the director may set the fee [A.R.S. § 4-203.02, § 4-203.03, and § 4-205.14].

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 of $150 [A.R.S. § 4-209A].

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

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this fee in 2020.

2024 LAWS

Laws 2024, Chapter 202 includes the following provisions:

- Requires a special event license to be approved prior to issuance by the President of a university under the jurisdiction of the Arizona Board of Regents if the event is to be held on the university's property.
- Allows a special event license to be issued concurrently with a microbrewery festival license.
- Removes the ability of the Department of Liquor Licenses and Control (DLLC) to approve the location of a wine festival license within an excluded area of a special event license.
- Adds that DLLC may issue a new license of the same series in the same county for licenses that have been surrendered.
- Allows an applicant for a liquor store license and a bar license to consolidate the application and apply for both licenses at the same time.
- Requires a liquor store license and a bar license on the same premises to be owned by and issued to the same licensee.

2023 LAWS

Laws 2023, Chapter 25 includes the following provisions:

- Requires licensees who have off-sale privileges and spirituous liquor delivery to complete written records of each delivery at the time of delivery. At a minimum, each delivery record shall include the name, address, and license number of the licensee making the delivery; the date, time, and address of the delivery; and the type and brand of all spirituous liquor delivered.
- Requires licensees who have off-sale privileges and spirituous liquor delivery to obtain the name, date of birth, and signature of anyone accepting a delivery.
- Establishes a new microbrewery festival license, for which the Director of the Department of Liquor Licenses and Control may set the daily fee to be assessed to each licensee for up to 150 days.
- Specifies that if the local government review and recommendation for an extended premises application is complete, then the Director of the Department of Liquor Licenses and Control may act on it before the 60-day review period is over.

2022 LAWS

Laws 2022, Chapter 282 includes the following provisions:

- Allows an owner of more than one microbrewery to conduct retail operations remotely.
- Repeals a provision excluding establishments within 300 feet of a church from receiving an alcoholic beverage retailer's license.
- Establishes an extended premises application process and rules for extending licensee premises on a one-time or ongoing basis.
- Establishes special rules for extended premises applications from retail shopping centers exceeding 400,000 square feet.
- Affirms the right of licensees to use reasonable intervention, restraint, and/or removal of a person from the premises to prevent that person from harming others.
- Allows the governor to issue an executive order extending closing time for spirituous liquor sales to 3:00 AM in connection with a professional or collegiate national sporting championship event held in this state.

2021 LAWS

Laws 2021, Chapter 94 increases the gallons that a craft distiller may sell from 1,189 gallons to 3,566 gallons.

Laws 2021, Chapter 375 allows bars, restaurants, and liquor stores to sell mixed cocktails for carry-out and delivery orders beginning October 1, 2021. Restaurants are required to lease off-sale privileges from a bar or liquor store through December 31, 2025, as approved by the Department of Liquor License and Control. Beginning January 1, 2026, restaurants will be required to apply for a permit to sell to-go cocktails. In addition, Chapter 375 requires the Department to register alcohol delivery contractors.

2019 LAWS

Laws 2019, Chapter 136 includes the following provisions:

- Allows a licensee that provides sampling services incidental to an instructional course to charge a fee to the customer for the educational course.
- Creates a new Joint Premises Permit, which can be provided to one or more on-sale licensees with the same type of bar, beer and wine bar, restaurant or remote tasting room license type.
- Creates a pilot program that allows the director to issue up to 10 permits to extend the premises for on-sale licensee located at regional shopping centers. The program terminates on December 31, 2022.

2018 LAWS

Laws 2018, Chapter 240 includes the following provisions:

- Allows a special event license to be issues to a government entity.
- Allows the director to determine the amount of farm winery festival and farm winery fair licenses, which were previously statutorily set at $15 per day.
- Allows a farm winery license that operates primarily as a remote tasting room to convert to a remote tasting room license without any additional fee if done by December 31, 2018.
- Allows a county, city or town to deny a craft distillery festival license within 60 days of receiving the application.
- Allows the director to issue a new bar or liquor store license for each revoked or reverted license in a county that has not been reverted, but not to exceed 20% of the total number of revoked or reverted licensees in that county.
- Adjusts the definition of fair market value of bar, beer and wine bar, or liquor store licenses to include market trends during the previous 12 months, and requires a appraisal to determine the fair market value.
- Designates all revenue collected from sampling and growler permits as continuously appropriated within the Liquor Licenses Fund without regard for the legislative appropriation from the fund.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

INSURANCE PREMIUM TAX

INSURANCE PREMIUM TAX

DESCRIPTION

This 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, AHCCCS contracted coverage, 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) and insurance companies formed under the laws of another state within the United States or another country ("out-of-state" insurance carriers).

Insurance premium tax also includes "retaliatory" taxes, which are taxes owed by out-of-state 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 tax on fire insurance premiums and an additional tax paid on vehicle insurance premiums, these tax revenues are deposited in the state's General Fund [A.R.S. § 20-227].

Eighty-five percent of the fire insurance premium tax 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 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 historical distribution of insurance premium tax. 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

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. § 20-206, A.R.S. § 20-224, A.R.S. § 20-401.05, 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].

Out-of-state insurers pay the greater of the Arizona insurance premium tax or the tax imposed by their home state on Arizona insurers. For example, if an out-of-state insurer operating in Arizona pays a 2% insurance premium tax to the Department of Insurance and Financial Institutions (DIFI), but an Arizona insurer operating in the out-of-state insurer's home state pays a 3% premium tax, the out-of-state insurer must also pay DIFI a 1% retaliatory tax that equals the difference in rates charged in the 2 states. Arizona provides an exemption from retaliatory tax if the out-of-state insurer's home state does not charge retaliatory taxes on Arizona insurers. Retaliation applies to taxes, fees, assessments or other charges levied in the insurance company's home state [A.R.S. § 20-230].

Table 1

INSURANCE PREMIUM COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Transfer to Public Safety Retirement System	Transfer to Cities and Fire Districts	Total
2024	$820,435,089	$44,802,257	$38,991,239	$904,228,585
2023	$761,341,988	$28,079,433	$27,324,457	$816,745,877
2022	$707,654,005	$27,522,673	$22,243,723	$757,420,401
2021	$616,251,446	$27,159,531	$19,246,959	$662,657,936
2020	$535,163,356	$26,507,317	$18,797,111	$580,467,784
2019	$549,596,876	$25,562,011	$18,195,409	$593,354,293
2018	$509,276,002	$23,233,981	$17,165,571	$549,675,554
2017	$504,339,292	$21,009,348	$16,419,859	$541,768,499
2016	$490,576,281	$19,312,244	$16,777,097	$530,178,577
2015	$449,546,754	$18,212,445	$13,343,767	$481,102,966
2014	$411,760,685	$16,942,842	$14,481,050	$443,184,577
2013	$386,776,104	$16,185,326	$13,141,283	$416,102,713
2012	$393,990,499	$15,720,974	$12,606,341	$422,317,814
2011	$413,765,850	$15,978,058	$12,514,392	$442,258,300
2010	$405,612,042	$16,696,764	$13,492,671	$435,801,477
2009	$411,370,853	$17,507,607	$12,480,006	$441,358,466
2008	$407,035,082	$17,569,437	$13,361,461	$437,965,980
2007	$399,850,367	$17,861,557	$12,652,891	$430,364,815
2006	$373,703,789	$17,057,414	$11,842,931	$402,604,134
2005	$358,752,402	$16,234,673	$12,459,164	$387,446,239

SOURCE: Department of Insurance and Financial Institutions

REVENUE BASE AND RATE

The 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, refund reductions, savings coupons, and similar amounts paid or credited to policyholders within the state, and not reapplied as premiums for new, additional, or extended insurance [A.R.S. § 20-224].

Beginning in calendar year (CY) 2021, the insurance premium tax rate on most insurance lines, including property and casualty insurance as well as life insurance and annuities is 1.7%. Laws 2016, Chapter 358 gradually decreased the tax rate from 2.0% in CY 2015 to 1.7% by CY 2021 and every subsequent year (*See Table 2*). This schedule of rate reductions replaced the schedule enacted under Laws 2015, Chapter 220, in which the rate was decreased gradually from 2.0% in CY 2015 to 1.7% in CY 2026 [A.R.S. § 20-224].

The insurance premium tax rate on other lines of insurance is as follows:

- Fire insurance on properties located in an incorporated city or town which procures the services of a private fire company [A.R.S. § 20-224]: 0.66%
- All other fire insurance [A.R.S. § 20-224] [A.R.S. § 20-224]: 2.2%
- Vehicle insurance [A.R.S. § 20-224.01]: 2.1312% of which 0.4312% is an additional tax to assist in funding the pension plan for highway patrol personnel
- Disability Insurance [A.R.S. § 20-224]: 2.0%
  - Health Care Service Plans, including AHCCCS contractors [A.R.S. § 20-837, 20-1010, and 20-1060]: 2.0%
  - Surplus line insurance [A.R.S. § 20-416] (types of insurance that are not sufficiently offered by authorized insurers and therefore may be procured from unauthorized out-of-state insurers): 3.0%

- Industrial insurance contracts procured from unauthorized insurers [A.R.S. § 20-401.07]: 3.0%

Certain types of insurers, employee benefit trusts, and voluntary employees' beneficiary associations are exempted from the insurance premium tax, including some hospital and medical service corporations, some fraternal benefit societies, non-profit military mutual aid associations, and extended warranty insurers [A.R.S. § 20-108].

Title insurance premiums are also exempted from the insurance premium tax and title insurers 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 and medical, dental, and optometric service corporations are exempt from the insurance premium tax [A.R.S. § 20-837].

Table 2

INSURANCE PREMIUM TAX RATES 1/2/

Calendar Year	Rate
2015	2.00%
2016	1.95
2017	1.90
2018	1.85
2019	1.80
2020	1.75
2021 -	1.70

1/ As enacted by Laws 2016, Chapter 358.
2/ Rates apply to life, vehicle, and other property and casualty lines of insurance.

TAX REFUNDS AND/OR TAX CREDITS

Health Insurance Premium Tax Credit. A premium tax credit is allowed for health care insurers that provide health insurance to qualified individuals and small businesses that are certified by the Arizona Department of Revenue (DOR). An application must be submitted to DOR for the tax credit, which includes a written declaration subject to the penalties of perjury [A.R.S. § 20-224.05 and A.R.S. § 43-210].

An individual or small business must obtain health insurance to receive the credit. In order for the insurer to claim a credit on an individual, that individual must be a United States citizen or legally residing resident. The individual must also: 1) earn less than 250% of the federal poverty level, be a resident of Arizona, not have had health insurance for at least the past 6 consecutive months, and not be enrolled by any other state or federal government health insurance program; or 2) work for a small business that has been in existence for at least 1 calendar year and that has not provided health insurance to its employees for at least 6 months. A small business is defined as between 2 and 25 employees during the most recent calendar year.

The amount of the tax credit for individuals is the lesser of the following: a) $1,000 for single coverage, $500 for coverage of a child, or $3,000 for family coverage; or b) 50% of the health insurance premium. The amount of the tax credit for small businesses is the lesser of the following: $1,000 for single coverage or $3,000 for family coverage; or 50% of the health insurance premium.

Health insurers are required to deduct the amount of the tax credit from the premium paid by the individual or small business for health insurance. In this way, the state effectively subsidizes the cost of the individual or small business's health insurance in the amount of the premium tax credit. The maximum amount of tax credits allowed in a calendar year is capped at $5.0 million. The tax credits are administered by DOR.

Insurance Guaranty Fund Assessment Credit. A taxpayer may claim an insurance premium tax credit on 20% of any assessment paid to the Arizona Life and Disability Insurance Guaranty Fund (ALDIGF). Taxpayers may take an additional credit of 20% of the assessment in each of the 4 subsequent years following the assessment, thus allowing taxpayers to offset 100% of the cost over a 5-year period.

The ALDIGF was created as a safeguard to meet the obligations of a licensed insurance company in the event that the insurer becomes insolvent. Monies in the fund come from an assessment levied on all other licensed insurers. The maximum assessment amount that can be levied on a single insurer in any one year is capped at 2% of the insurer's average total premiums of similar insurance lines covered by the ALDIGF in the previous 3 years. This assessment was levied in FY 2018 due to the failure of 2 national insurance companies with business in Arizona. Prior to FY 2018, the assessment was last levied in FY 1997. (For more information on Insurance Guarantee Fund Assessments, see *Insurance Guarantee Fund Assessments* section of the Tax Handbook.)

Low-Income Housing ("Affordable Housing") Tax Credit. A credit against insurance premium tax liability is allowed if the Arizona Department of Housing issues an eligibility statement for qualified projects for affordable housing. The amount of the credit is equal to at least 50% of the federal Low-Income Housing Credit for the qualified project. The Department of Housing cannot authorize more than $4 million in total credits annually. The credit may be distributed among the partners, members or shareholders of the claimant regardless of the size of the participants ownership interest. The total amount of claimed credit may not exceed the claimant organization's tax liability for the year but may be carried forward for up to 5 years. The credit is repealed on January 1, 2026 [A.R.S. § 20-224.04, A.R.S. § 41-3954 and A.R.S. § 43-225].

New Employment Tax Credit. A $3,000 annual tax credit may be claimed for each net new qualifying job added by an employer in the state. To qualify for the credit, new employment positions must be full-time, meet wage requirements, and offer health insurance paid by the employer (at least 65% of the premium). Credits associated with 1 net new job can be claimed for 3 years. A company may claim first year credits for separate new jobs for up to 3 consecutive years. Since second- and third-year credits may be claimed against each of the new positions, the taxpayer may claim credits for up to a total of 5 consecutive years. The Arizona Commerce Authority (ACA) is authorized to issue first year credits for up to 10,000 new employees ($30.0 million) in each year.

Prior to Laws 2017, Chapter 340, a business could not claim the new credit unless it added at least 25 net new jobs in a year in an urban area (5 in a rural area), paid employees at least 100% of the county median wage, and made a capital investment of at least $5.0 million ($1.0 million in a rural area). Beginning in TY 2018, Laws 2017, Chapter 340 permits businesses to qualify under the alternative levels of capital investment and wages shown in *Table 3* and permits ACA to authorize credits through June 30, 2025. A business can now invest less than $5.0 million if they pay wages that exceed 100% of the county median level. The required number of net new jobs remains unchanged. Given the maximum 5-year schedule outlined above, businesses may claim credits through TY 2029. [A.R.S. § 41-1525]

In TY 2013 and later years, Laws 2012, Chapter 343 eliminates the requirement (provided by Laws 2011, 2^{nd} Special Session, Chapter 1) that no employer can claim more than 400 new jobs in the first year of credit use, 800 jobs in the second year, and 1,200 jobs in the third year. The cap applied to credits claimed against insurance premium, individual income, and corporate income taxes. The credit cannot be claimed against employees that are also claimed under the Military Reuse Zone Tax Credit (A.R.S. § 20-224.04 and A.R.S. § 41-1531). Laws 2014, Chapter 168 changes the requirement for the New Employment Tax Credit program by providing that second and third-year credits can be claimed irrespective of whether the same employee remains employed as long as the employer replaces the vacant position with another qualified employee within 90 days.

Table 3

Investment and Median Wage Requirements

Urban Location

Minimum Capital Investment	Wages as Percent of County Median
$5,000,000	100%
$2,500,000	125%
$1,000,000	150%
$500,000	200%

Rural Location

Minimum Capital Investment	Wages as Percent of County Median
$1,000,000	100%
$500,000	125%
$100,000	150%

School Tuition Organization Tax Credit. A taxpayer may claim an insurance premium tax credit, up to the full amount of the donation, for contributions made to a school tuition organization that provides education scholarships and tuition grants either to children of low-income families (A.R.S. § 20-224.06) or to disabled children or children in foster care (A.R.S. § 20-224.07).

The full amount of tax credits approved by DOR pursuant to A.R.S. § 43-1183 (low-income credit) for both corporate income tax credits and insurance premium tax credits combined was initially capped at $10.0 million per year, with the cap increasing by 20% per year, beginning in FY 2008. Laws 2019, Chapter 281 limited the annual increase of the credit cap to 15% in FY 2021, 10% in FY 2022, and 5% in FY 2023. Beginning in FY 2024, the increase of the credit cap under Chapter 281 was limited to the greater of 2% or the annual change of the Metropolitan Phoenix consumer price index. In dollar terms, Chapter 281 limited the growth of the credit cap to $123.1 million in FY 2021, $135.4 million in FY 2022, $142.1 million in FY 2023, and $158.5 million in FY 2024. Laws 2024, Chapter 221 subsequently reduced the cap to $135.0 million annually, beginning in FY 2025. Under Chapter 221, the credit cap no longer receives automatic adjustments each year.

Pursuant to A.R.S. § 43-1184 (displaced and disabled credit), the full amount of tax credits approved by DOR was capped at $5.0 million per year. Laws 2021, Chapter 412 increased the cap to $6 million beginning in FY 2022. A taxpayer may carry forward the unused portion of either tax credit for 5 years. A taxpayer claiming the credit shall not be required to pay any retaliatory taxes required by A.R.S. § 20-230. [A.R.S. § 20-224.06 and A.R.S. § 20-224.07].

The actual dollar impact of these tax credits is included in *Table 4*:

Table 4

FY 2024 INSURANCE PREMIUM TAX CREDIT USE

CREDITS:	**Effective Calendar Years**	**Annual Cost**
Health Insurance Premium 1/	2007 -	$3,240,003
Insurance Guaranty Fund Assessment	1991 -	6,561,589
New Employment 2/	2011 - 2029	90,000
Private School Tuition Organization – Low-Income Students 3/	2006 -	46,273,581
Private School Tuition Organization – Disabled/Displaced Students 4/	2009 -	5,443,420
Total Value of Credits		**$61,608,593**

1/ Credit is capped at $5 million annually.
2/ Credits claimed by individuals and corporations are separately reported under individual and corporate income tax credits. The ACA is authorized to issue up to $30 million of 1st year credits in each year between individual and corporate income and insurance premium taxpayers.
3/ Credits claimed by corporations are separately reported under corporate income tax credits. The credit was capped at $158.5 million in FY 2024 between corporate income and insurance premium taxpayers.
4/ Credits claimed by corporations are separately reported under corporate income tax credits. The credit is capped at $6 million annually beginning in FY 2022 between corporate income and insurance premium taxpayers.

SOURCE: Department of Insurance and Financial Institutions, *Report of Insurance Premium Tax Credits*.

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 that paid or is required to pay a tax of $50,000 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. Laws 2017, Chapter 153 increased the threshold of tax liability above which an insurer is required to make installment payments, from $2,000 to $50,000 in the preceding calendar year, beginning in calendar year 2018. Installment payments are credited against the insurance premium tax due on March 1 of the following year [A.R.S. § 20-224(F)]. *Table 5* lists the dates and descriptions of insurance premium tax payments due in FY 2025.

AHCCCS health contractors make separate quarterly estimated payments for taxes on Medicaid premiums. As shown in *Table 5* below, estimated payments are due on March 15, June 15, September 15, and December 15 of each year. DIFI bills (refunds) the insurer for any balance of liability (overpayment) that remains on April 1 of the following year. [A.R.S. § 36-2944.01].

Table 5

FY 2025 Insurance Premium Tax Payment Schedule 1/

Due Date	Payment Description
July 15, 2024	CY 2024 Installment Payment (15% of CY 2023 Liability)
August 15, 2024	CY 2024 Installment Payment (15% of CY 2023 Liability)
September 15, 2024	AHCCCS contractor taxes for estimated capitation payments received from July 1 through September 30, 2024.
December 15, 2024	AHCCCS contractor taxes for estimated capitation payments received from October 1 through December 31, 2024.
March 1, 2025	Final Payment (Refund) of CY 2024 Liability
	Retaliatory Tax Payment for CY 2024
March 15, 2025	CY 2025 Installment Payment (15% of CY 2024 Liability)
March 15, 2025	AHCCCS contractor taxes for estimated capitation payments received from January 1 through March 31, 2025.
April 15, 2025	CY 2025 Installment Payment (15% of CY 2024 Liability)
May 15, 2025	CY 2025 Installment Payment (15% of CY 2024 Liability)
June 15, 2025	CY 2025 Installment Payment (15% of CY 2024 Liability)
June 15, 2025	AHCCCS contractor taxes for estimated capitation payments received from April 1 through June 30, 2025.

1/ If tax liability is at least $50,000 annually.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018. There were no changes enacted to this tax in 2020, 2022, and 2023.

LAWS 2024

Laws 2024, Chapter 221 reduces the aggregate credit cap for contributions made by corporations and insurers to qualifying school tuition organizations (STOs) that provide education scholarships and tuition grants to low-income students to $135.0 million annually, beginning in FY 2025. Previously, the credit cap increased by the greater of 2% or the annual change of the Metropolitan Phoenix consumer price index each year. Under Chapter 221, the credit cap will no longer receive these automatic adjustments.

LAWS 2021

Laws 2021, Chapter 412 increases the aggregate credit cap for contributions made by corporations and insurers to qualifying school tuition organizations (STOs) that provide education scholarships and tuition grants to disabled/displaced students from $5 million to $6 million, beginning in FY 2022.

Laws 2021, Chapter 430 creates a new insurance premium tax credit for affordable housing, which is administered by the Arizona Department of Housing. The Department is required to allocate the Affordable Housing credit for projects in Arizona that qualify for the federal Low-Income Housing Tax Credit and that are placed in service after June 30, 2022. The Affordable Housing credit is at least 50% of the federal Low-Income Housing Tax Credit but cannot exceed $4 million annually. The credit may not exceed the tax liability of the claimant but may be carried forward for up to 5 years. The Arizona Department of Housing is authorized to allocate a total of $4 million in tax credits per year from TY 2022 to TY 2025. Each of these 4 award cycles is available for 10 years.

LAWS 2019

Laws 2019, Chapter 281 limits the annual increase of the aggregate credit cap for contributions made by corporations and insurers to qualifying school tuition organizations (STO) that provide education scholarships and tuition grants to students of low-income families from 20% to 15% in FY 2021, 10% in FY 2022, and 5% in FY 2023. Beginning in FY 2024, the increase of the credit cap is limited to the greater of 2% or the annual change of the Metropolitan Phoenix consumer price index. In dollar terms, Chapter 281 limits the growth of the credit cap to $123.1 million in FY 2021, $135.4 million in FY 2022, and $142.1 million in FY 2023.

2018 LAWS

Laws 2018, Chapter 104 repeals the requirement that taxpayers that claim the Military Reuse Zone Insurance Premium tax credit may not claim the New Employment tax credit with respect to the same employment positions. The Military Reuse Zones Tax Credit was repealed by Laws 2017, Chapter 299.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf.

OTHER GENERAL FUND 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

COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
2024	$652,136	2014	$521,583
2023	$477,015	2013	$519,998
2022	$331,145	2012	$508,145
2021	$165,181	2011	$504,905
2020	$397,780	2010	$520,655
2019	$469,026	2009	$531,588
2018	$473,625	2008	$558,330
2017	$486,660	2007	$619,387
2016	$476,079	2006	$623,480
2015	$507,211	2005	$610,055

SOURCE: Department of Revenue, Annual Report.

WHO PAYS

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 and 5-407(H)].

REVENUE BASE

Licenses. A flat fee and a percentage of adjusted gross receipts or gross receipts are charged for bingo licenses, license renewals and games, depending on the license classification. Class A licenses are taxed on adjusted gross receipts, while Class B and Class C licenses are taxed on gross receipts. 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 $75,000 per year. This license cannot be issued to persons holding a liquor license unless it is a club license. The reporting period is 1 year coinciding with the license's term.
- *Class B License*. Bingo games for which gross receipts do not exceed $500,000 per year. There are 4 reporting periods coinciding with the quarters of the license's term.

- *Class C License*. Bingo games for which gross receipts exceed $500,000 per year. There are 12 reporting periods coinciding with each month of the license's term.

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 1 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(I)].

License Fee Collection. The initial application for license is submitted to the local governing body along with the one-time local governing body fee and the license fee. The license fee and an original or certified copy of the application must be received by the Department of Revenue before a license is issued. 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(H)].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this tax in 2018, 2019, 2020, 2023, or 2024.

2022 LAWS

Laws 2022, Chapter 59 removes the statutory language requiring bingo license applicants to be of "good moral character" to be issued a license.

2021 LAWS

Laws 2021, Chapter 97 increases the bingo licenses gross receipt thresholds and the cap on the amount of cash prizes payable by check. Chapter 97 provides that Class A License applies to annual gross receipts up to $75,000 (previous threshold was $15,000); Class B License applies to annual gross receipts up to $500,000 (previous threshold was $300,000); and Class C License applies to annual gross receipts greater than $500,000 (previous threshold was $300,000). Chapter 97 also raises the threshold at which bingo prizes must be paid by check from $150 to $1,100.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

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. § 45-1331A].

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

COLLECTIONS

Fiscal Year	General Fund	Fiscal Year	General Fund
2024	$200,000	2014	$200,000
2023	$200,000	2012	$200,000
2022	$200,000	2011	$200,000
2021	$200,000	2010	$200,000
2020	$200,000	2009	$200,000
2019	$200,000	2008	$200,000
2018	$200,000	2007	$200,000
2017	$200,000	2006	$200,000
2016	$200,000	2005	$200,000
2015	$200,000	2004	$200,000

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

WHO PAYS

Department of the Interior - Bureau of Reclamation.

REVENUE 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 made in June of each year.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this tax in the period from 2018 through 2024.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

GAMING FEES

DESCRIPTION

Certain gaming fees are levied by the Arizona Department of Gaming (ADG) on the licensed operators of event wagering and fantasy sports contests as a requirement for conducting the authorized gaming activities in this state. These activities were authorized by Laws 2021, Chapter 234.

There are 2 types of gaming fees levied by the state related to event wagering and fantasy sports contests:

- A license fee paid to ADG for the costs of reviewing licensure applications and processing required background checks.
- A privilege fee paid to ADG by operators (or their designee) based on the adjusted gross revenue derived from the gaming activity.

Event wagering, also known as sports betting, involves wagers on the outcomes of professional and collegiate athletic events, motor racing events, Olympic events and E-Sport events (competitive video games competitions). [A.R.S. § 5-1301].

Fantasy sports contests involves individuals paying a fee to enter a simulated contest, where multiple individual athletes are selected by the individual and the winning outcome is determined by the aggregated statistical results of the athlete's actual performance in the athletic event. [A.R.S. § 5-1201].

DISTRIBUTION

Event wagering licensure and privilege fee revenue is deposited into the Event Wagering Fund. ADG is authorized to retain 10% of monies in the fund for event wagering regulation and enforcement costs, after which the remaining 90% is transferred to the General Fund. Laws 2022, Chapter 306 requires 90% of the money deposited into the Event Wagering Fund to be transferred to the General Fund on or before the 25th day of the following month [A.R.S. § 5-1318].

Fantasy sports licensure and privilege fee revenue is deposited into the Fantasy Sports Contest Fund. Subject to legislative appropriation, ADG is authorized to spend up to 10% of monies in the fund on fantasy sports regulation and enforcement costs. Laws 2022, Chapter 306 requires all fantasy sports contest revenue exceeding the amount appropriated from the fund to be transferred to the General Fund at the end of each fiscal year [A.R.S. § 5-1212].

The total amount of gaming revenue (privilege fees plus license fees) deposited into the General Fund in FY 2022 and FY 2023 is shown in *Table 1* below.

Table 1

General Fund Gaming Revenue

FY	Privilege Fees	License Fees	Total
2024	$36,477,300	$3,297,700	$39,775,000
2023	$31,565,600	$17,811,600 2/	$49,377,200
2022	$10,437,000 1/	$0 2/	$10,437,000

1/ This amount only includes amounts transferred to the General Fund during FY 2022 and does not reflect the total amount of privilege fees collected and deposited into the Event Wagering Fund or Fantasy Sports Contest Fund.
2/ Of this amount, $13.4 million represents FY 2022 license fee revenue which was deposited in August 2022 and recorded as FY 2023 General Fund revenue. The remaining $4.4 million represents FY 2023 license fee revenue collections.

WHO PAYS

Event Wagering – License Eligibility

ADG is authorized to issue event wagering licenses subject to the following restrictions:

- Not more than 10 event wagering operator licenses to non-tribal entities, which must be one of the following types of organizations: a professional sports team or franchise based in Arizona, the operator of an Arizona sports facility that hosts an annual tournament on the PGA Tour, or a promoter of a NASCAR national touring race in Arizona.
- Not more than 10 event wagering operator licenses to Indian tribes, for the purpose of operating mobile event wagering outside the boundaries of tribal lands. To qualify, an Indian tribe must have signed the most recent Tribal-State Gaming Compact and any applicable appendices or amendments.
- Not more than 10 limited event wagering licenses, which must be issued to racetracks or additional wagering facilities (off-track betting locations).

As of publication, there are 7 tribal operators, 7 non-tribal operators, and 9 limited operators licensed and operating in the state. Event wagering that is conducted by an Indian Tribe only on Tribal land is not subject to ADG licensure but is instead governed by the Tribal-State Gaming process and federal law. [A.R.S. § 5-1303 and A.R.S. § 5-1304].

Event Wagering – License Fees

Statute and ADG regulations outline 7 different event wagering license categories based on what role the entity performs in event wagering operations:

- *Event Wagering Operator* – An entity authorized to facilitate event wagering in the state.
- *Designee* – A person authorized to act on behalf of an event wagering operator and who is responsible for the management and control of event wagering operations. A designee must maintain a designation from a qualified event wagering operator to continue providing event wagering services. Designee licenses last 5 years.
- *Limited Event Wagering Operator* – A racetrack or additional wagering facility with a permit issued by the Division of Racing to offer wagers on horseracing. Limited event wagering licenses last 5 years.
- *Management Services Provider* – An entity that contracts with an event wagering operator to conduct event wagering. Management services provider licenses last 2 years.
- *Supplier* – Individuals who manufacture, distribute, sell, or lease event wagering equipment, systems, or other gaming items to conduct event wagering. A supplier license lasts 2 years.
- *Ancillary Supplier* – A category of supplier that includes affiliates, bookmakers, data centers, geofence providers, identity verification service providers, independent test laboratories, integrity monitoring providers, league data providers, marketing affiliates, payment processors, and any other person as determined by ADG. These licenses last 2 years.
- *Employee* – Primary management officials responsible for event wagering in the state, those who accept wagers, redeem tickets, handle monies, and any other individual as determined by ADG. These licenses last 2 years.

Event Wagering – Privilege Fee

Event wagering privilege fees are the responsibility of the event wagering operator or their designee [A.R.S. § 5-1318]. Under ADG regulation, privilege fees may be remitted by any "responsible party", which includes event wagering operators, designees, limited event wagering operators, and management services providers.

Fantasy Sports Contests – License Fees

Statute and ADG regulations outline 4 different fantasy sports license categories based on what role the entity performs in fantasy sports operations:

- *Fantasy Contest Operator* – An entity authorized to facilitate fantasy sports contests and fantasy sports betting
- *Management Company* – A person retained by a fantasy sports contest operator to manage a fantasy sports contest platform and provide general administration as well as other operational services [A.R.S. § 5-1201].
- *Holding Company* – Fantasy contest operators and management companies must identify holding companies that hold at least 10% ownership interest in the operation. ADG may require such a holding company to be licensed.
- *Suppliers* – Provides goods or services to a fantasy sports contest operator or management company. Suppliers include fantasy sports contest platform providers, identity verification service providers, payment processors, geofence providers, and any other relevant person as determined by ADG.

As of publication, there are 8 licensed fantasy sports contest operators in the state.

Fantasy Sports Contests – Privilege Fee

Fantasy sports contests privilege fees are the responsibility of the fantasy sports contest operator [A.R.S. § 5-1211].

REVENUE BASE AND RATE

Event Wagering – License Fees

Event wagering operators are required to have a license to facilitate event wagering in the state. Laws 2021, Chapter 234 authorizes ADG to establish the event wagering license fees without any specified dollar limitation. ADG has established the license fees as outlined in *Table 2* below. For each license there is a non-refundable application fee that will be credited toward the initial license fee if the application is accepted. After the initial application acceptance, licenses are issued for multiple years and are subject to the following annual payments as listed in the "Annual Fee" column. Laws 2023, Chapter 134 requires ADG to issue refunds to specific Indian tribes that paid event wagering operator licensing fees but did not receive a license. The FY 2024 budget appropriated $600,000 to ADG to provide refunds to the Cocopah Tribe, Colorado River Indian Tribe, Yavapai-Apache Nation, White Mountain Apache Tribe, Pascua Yaqui, and the Havasupai Tribe.

Table 2

Event Wagering License Fees

	Application Fee	Initial License Fee	Annual Fee
Event Wagering Operator	$100,000	$750,000	$150,000
Designee	100,000	750,000	150,000
Limited Event Wagering Operator	1,000	10,000	5,000
Management Services Provider	1,000	10,000	5,000
Supplier	N/A	1,500	500
Ancillary Supplier	N/A	1,500	500
Employee	N/A	250	125

Event Wagering – Privilege Fee

ADG is required to establish a fee that is applied to the adjusted gross event wagering receipts collected by event wagering operators. Statute requires that ADG "consider" the highest percentage of revenue share that an Indian tribe pays to the state pursuant to the Tribal-State Gaming Compact, which is 8%. Laws 2022, Chapter 306 set the maximum fee rate that ADG may apply to adjusted gross wagering receipts at 10%. [A.R.S. § 5-1318].

Adjusted gross event wagering receipts is defined as the total gross amount wagered (known as the handle) minus winnings paid out and any federal excise tax paid by the licensee. In addition, a deduction equal to the value of free bets and promotional credits redeemed by bettors is allowed, subject to the following restrictions. In 2022 and 2023, up to 20% of gross amount wagered; in 2024, up to 15% of gross amount wagered; up to 10% of gross amount wagered in 2025 and 2026. In 2027 and thereafter, the free bet and promotional credit deduction is not allowed. [A.R.S. § 5-1301].

ADG set the fee for the privilege of operating event wagering at 8% of adjusted gross event wagering receipts for bets placed at retail locations and 10% of adjusted gross event wagering receipts for online/mobile bets.
Table 3 below shows event wagering privilege fee revenue as reported by ADG in their annual reports.

Table 3

Event Wagering Fund Revenue 1/

FY	Handle	Net Win	Free Bets 2/	Adjusted Net Win	Privilege Fee Revenue 3/	License Revenue	Total
2024	$7,069,600,694	$619,618,574	$222,155,979	$397,462,595	$39,621,754	$3,393,650	$43,015,404
2023	$6,148,838,900	$516,158,600	$178,694,600	$337,464,000	$33,660,300	$2,929,500	$36,589,800
2022	$4,463,917,600	$343,415,400	$184,693,900	$158,721,500	$15,789,100	$14,919,100	$30,708,200

1/ These totals reflect privilege fee data as reported by ADG.
2/ Represents promotional credits subtracted from taxable adjusted gross wagering revenue.
3/ Represents privilege fee revenues deposited in the Event Wagering Fund prior to transfer to the General Fund.
SOURCE: ADG, Annual Reports

Fantasy Sports Contests – License Fees

Fantasy sports contest operators are required to have a license to facilitate fantasy sports contests in the state. Laws 2021, Chapter 234 authorizes ADG to establish the fantasy sports contest license fees without any specified dollar limitation. ADG has established the license fees as outlined in *Table 4* below. Each license lasts 2 years and has an initial license fee and a renewal fee paid every 2 years.

Table 4

Fantasy Sports Contest License Fees

	Initial License Fee	Renewal Fee
Fantasy Sports Contest Operator	$2,000	$1,000
Management Company	2,000	1,000
Holding Company	500	250
Suppliers	250	125

Fantasy Sports Contests – Privilege Fees

ADG is required to establish a fee that is applied to the fantasy sports contest adjusted revenues collected by a fantasy sports contest operator. Statute requires that ADG "consider" the highest percentage of revenue share that an Indian tribe pays to the state pursuant to the Tribal-State Gaming Compact, which is 8%. Laws 2022, Chapter 306 set the maximum fee rate that ADG may apply to fantasy sports contest adjusted revenues at 10%. [A.R.S. § 5-1211].

Table 5

Fantasy Sports Contest Fund Revenue 1/

FY	Handle	Adjusted Revenue	Privilege Fee Revenue 2/	License Revenue	Total
2024	$119,237,065	$19,975,894	$1,003,240	$19,500	$1,022,740
2023	$68,721,709	$10,443,288	$522,200	$19,500	$541,700
2022	$30,589,200	$2,943,200	$170,400	$34,300	$204,700

1/ These totals reflect privilege fee data as reported by ADG.
2/ Represents privilege fee revenues deposited in the Fantasy Sports Contest Fund prior to transfer to the General Fund.
SOURCE: ADG, Annual Reports

Fantasy sports contest adjusted revenues are the total entry fees an operator collects (known as the handle) minus the total paid out as prizes to fantasy sports contest players, multiplied by the in-state percentage. The in-state percentage is calculated by dividing the total entry fees collected from participants in the state by the total entry fees collected from all participants in the fantasy sports contest. [A.R.S. § 5-1201, A.R.S. § 5-1211].

ADG set the fee for the privilege of operating fantasy sports contests at 5% of fantasy sports contest adjusted revenue.

Table 5 above shows the fantasy sports contest privilege fee revenue as reported by ADG in their annual reports.

PAYMENT SCHEDULE

Event Wagering
Initial event wagering license fees are due upon application. Annual license fees must be paid within 12 months of the date in which they were approved for licensure and annually thereafter. License renewal must be applied for at least 30 days prior to the expiration date of the license.

Fees paid on adjusted gross event wagering receipts collected each month are due to ADG by the 25th of the following month [A.R.S. § 5-1318].

Fantasy Sports Contest
Initial fantasy sports contest license fees are due upon application. Annual license fees must be paid within 12 months of the date in which they were approved for licensure and annually thereafter. License renewal must be applied for at least 30 days prior to the expiration date of the license.

Fees paid on fantasy sports contest adjusted revenues collected each month are due to ADG on the 25th of the following month [A.R.S. § 5-1211].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since sports betting was enacted in 2021.

There were no changes enacted to this revenue category in 2024.

2023 LAWS

Laws 2023, Chapter 134 requires the Department of Gaming to issue refunds for any event wagering operator applications fees associated with the Cocopah Tribe, Colorado River Indian Tribe, Pascua Yaqui Tribe, Yavapai-Apache Nation, White Mountain Apache Tribe, and Havasupai Tribe. The FY 2024 budget includes $600,000 to the Department of Gaming to meet these obligations.

2022 LAWS

Laws 2022, Chapter 306 caps the event wagering privilege fee that ADG can set at 10% of adjusted gross wagering receipts for both retail and mobile wagers. The fantasy sports contest privilege fee is also capped at 10% [A.R.S. § 5-1211 and A.R.S. § 5-1318].

Chapter 306 requires ADG to transfer 90% of the monies deposited into the Event Wagering Fund from the prior month into the General Fund by the 25th of the following month. Any fantasy sports contest revenues collected in excess of the amount appropriated from the Fantasy Sports Contest Fund must be transferred to the General Fund at the end of each fiscal year [A.R.S. § 5-1211 and A.R.S. § 5-1318].

2021 LAWS

Laws 2021, Chapter 234 contains all the provisions in this section. The FY 2022 budget 3-year plan assumed a General Fund revenue impact of $200 million in FY 2023 and $300 million in FY 2024 related to Chapter 234. At the time of enactment, the JLBC Staff estimated that the General Fund impact of this legislation would be $34.2 million once the market for the authorized games becomes more fully operational. The JLBC Staff estimate reflected the event wagering and fantasy sports contest license and privilege fee revenue described above, along with revenue from the Lottery keno and mobile draw games authorized in the legislation. In the following year during the FY 2023 budget development, the estimates of Gaming proceeds were revised. Actual FY 2022 General Fund collections were $10 million. As a result, the enacted FY 2023 budget incorporated Gaming revenue estimates that would grow from $18 million in FY 2023 to $21 million in FY 2025.

UNCLAIMED PROPERTY COLLECTIONS

DESCRIPTION

Unclaimed property includes intangible personal property such as traveler's checks, money orders, stocks or other equity interest, principal on debt, demand or savings deposits, customer credits, insurance settlements, property received or held by a court, wages, retirement accounts, and other miscellaneous types of property that are presumed abandoned according to the schedule set out in statute (A.R.S. § 44-302). Unclaimed property also includes tangible property held in a safe deposit box which remains unclaimed after the expiration of the lease on the box (A.R.S. § 44-303). Property is presumed abandoned and therefore unclaimed after it is held for an extended period of time with no owner contact and a "good faith" effort has been made to locate the owner. Abandoned property is transferred to the Department of Revenue (DOR) from many holders, including banks, credit unions, corporations, utilities, insurance companies, governmental entities, and retailers. DOR also establishes and maintains records of escheated estates. An escheated estate is created when a person dies without leaving a will and has no known heirs; the property reverts to the state after 5 years.

DOR acts as custodian of the property and administers a program to locate the owners. Once reported to DOR, unclaimed property is available for refund for 35 years after the last day of the fiscal year in which DOR receives the unclaimed property. Statute requires businesses and other organizations to review their records each year to determine whether they hold any funds, securities, or other property that are unclaimed for the statutory abandonment period. Holders file an annual report and transfer the property to the state. The holding period before property is considered unclaimed varies by type of property. If the properties received by DOR remain unclaimed within a specified time period, the properties are sold by DOR with the proceeds distributed to a number of state funds.

Although the collection and sale of unclaimed property held by the DOR does not constitute a tax, monies derived from this activity represent a significant state revenue source.

DISTRIBUTION

Monies from the collection and sale of unclaimed property are deposited in the non-appropriated Estate and Unclaimed Property Fund administered by DOR. DOR retains not less than $100,000 to pay allowed claims while the state attempts to locate abandoned property owners. Revenues from the sale of escheated estates are deposited in the Escheated Estates Fund.

Monies received by DOR from the collection and sale of unclaimed properties and escheated estates are distributed as follows:

- Monies derived from unclaimed victim restitution payments are deposited in the Victim Compensation and Assistance Fund (VCAF) [A.R.S. § 44-313C and A.R.S. § 41-2407A].
- Monies from unclaimed shares and dividends of any corporation incorporated under the laws of Arizona, escheated estates, and unclaimed property in a self-storage unit are deposited in the Permanent State School Fund (PSSF) [A.R.S. § 44-313B, § 37-521A, § 12-885B, § 33-1704G].

The remaining monies are distributed as follows:

- The first $2.0 million in unclaimed property collections are deposited into the Seriously Mentally Ill Housing Trust Fund.
- The next $2.5 million are deposited into the Housing Trust Fund.
- The next $24.5 million are deposited into the DOR Administrative Fund to cover DOR's administrative costs, including unclaimed property contract auditors and the handling, publicizing, and selling of abandoned property.
- All remaining monies are redirected to the General Fund.

Unclaimed Property Collections

Table 1

Unclaimed Property Distributions

Fiscal Year	General Fund	Housing Trust Fund	DOR Admin. Fund	Racing Funds	VCAF [1/]	UAF [2/]	PSF [3/]	AHCCCS SMIHTF [4/]	Total
2024	$211,277,131	$2,500,000	$24,500,000	$0	$1,120,656	$0	$96,466	$2,000,000	$241,494,253
2023	$159,392,041	$2,500,000	$24,500,000	$0	$792,481	$0	$150,060	$2,000,000	$172,097,563
2022	$123,953,407	$2,500,000	$24,500,000	$0	$825,986	$0	$51,025	$2,000,000	$153,830,418
2021	$117,570,231	$2,500,000	$24,500,000	$0	$719,854	$0	$366,550	$2,000,000	$147,656,635
2020	$98,913,893	$2,500,000	$24,500,000	$0	$428,344	$0	$180,124	$2,000,000	$128,522,361
2019	$91,509,200	$2,500,000	$24,500,000	$0	$394,900	$0	$201,600	$2,000,000	$121,105,700
2018	$81,318,200	$2,500,000	$24,500,000	$0	$643,600	$0	$233,800	$2,000,000	$111,195,600
2017	$48,834,800	$2,500,000	$24,500,000	$0	$631,200	$0	$650,800	$2,000,000	$79,116,800
2016	$65,996,200	$2,500,000	$24,500,000	$0	$716,800	$0	$273,600	$2,000,000	$95,986,600
2015	$54,052,200	$2,509,300	$24,500,000	$0	$683,200	$0	$737,100	$2,000,000	$84,481,800
2014	$49,186,400	$2,511,100	$24,500,000	$0	$864,600	$0	$234,600	$2,000,000	$79,296,700
2013	$60,899,600	$2,500,000	$25,014,700 [5/]	$0	$612,500	$0	$356,900	$2,000,000	$91,383,700
2012 [6/]	$45,840,400	$2,500,000	$24,500,000	$0	$100,500	$0	$140,400	$2,000,000	$75,081,300
2011	$49,120,900	$10,500,000	$24,500,000	$0	$1,143,800	$0	$59,100	0	$85,323,800
2010 [7/8/]	$101,669,100	$10,500,000	$24,500,000	$0	$739,400	$0	$20,600	0	$137,429,100
2009	$9,526,600	$28,554,100		$10,383,300	$144,600	$0	$9,100	0	$48,617,700
2008 [9/10]	$58,020,600	$33,684,300		$12,248,800	$173,100	$26,300	$11,200	0	$104,164,300
2007 [11/]	$12,346,200	$40,972,900		$14,899,200	$1,250,300	$2,550,700	$408,600	0	$72,427,900
2006 [11/]	$22,825,000	$26,004,600		$9,456,200	$128,300	$855,500	$408,700	0	$59,678,300
2005 [11/]	$30,715,200	$23,942,700		$8,706,400	$299,600	$1,664,500	$426,100	0	$65,754,500

1/ Victim Compensation and Assistance Fund distributions became effective January 1, 2001, with the implementation of Laws 2001, Chapter 146.
2/ Utility Assistance Fund.
3/ Permanent School Fund.
4/ Arizona Health Care Cost Containment System Seriously Mentally Ill Housing Trust Fund.
5/ Includes one-time revenues of $514,700 from General Fund Unclaimed Property collections to cover retention payments and rent expenses.
6/ In FY 2012 the first $2 million in unclaimed property collections were deposited into the Department of Health Services Seriously Mentally Ill Housing Trust Fund, the next $2.5 million were deposited into the Housing Trust Fund, the next $24.5 million into the Department of Revenue Administration Fund, and all the remaining monies were deposited in the General Fund. Transfers to the VCAF, UAF, and PSF continue to be distributed as under current law.
7/ In FY 2010 and FY 2011, the first $10.5 million in unclaimed property collections were deposited in the Housing Trust Fund, the next $24.5 million were deposited in the DOR Administrative Fund, and all remaining monies were deposited in the General Fund. Transfers to VCAF, UAF and PSF were made in accordance with statute.
8/ Laws 2009, 4th Special Session, Chapter 3 as permanent law, accelerated by 2 years the holding periods for all property types to be presumed abandoned and therefore unclaimed. Chapter 3 also revised the holding period for traveler's checks from 15 to 3 years as well as the holding period for money orders from 7 to 3 years. This was estimated to generate one-time additional revenue of $39.4 million to the General Fund in FY 2010. Actual FY 2010 collections totaled $83.7 million, or $44.3 million more than anticipated. Laws 2010, Chapters 102 and 119 restored the holding period for traveler's checks to 15 years as well as the holding periods for stocks, principal and interest on debt, and any dividend, profit distribution, redemption, payment on principals or other sum held by a business association for its shareholders to 3 years.
9/ Laws 2007, Chapter 260 as session law, allowed DOR to sell unclaimed securities upon their receipt with the requirement that all proceeds from the sales of these securities in FY 2008 be deposited into the General Fund, instead of the statutory split among the General Fund, Department of Housing, and Department of Racing. This was estimated to generate increased revenue of $45 million to the General Fund in FY 2008; the actual amount was $47.2 million.
10/ Laws 2007, Chapter 218 eliminated the Utility Assistance Fund and required a utility to transmit all abandoned utility deposits to a qualified fuel fund entity for the purpose of assisting low-income residents in making utility deposits or owner repairs or replacement of utility-related appliances or systems.
11/ FY 2005 – FY 2007 General Fund distributions include unclaimed monies arising from the cases of Ladewig v. State of Arizona and Kerr v. State of Arizona.

SOURCE: DOR, Annual Reports. Figures are net of refunds and agency administrative expenses.

Prior to FY 2012, the first $10.5 million in unclaimed property collections were deposited into the Housing Trust Fund. The next $24.5 million in collections were deposited into the DOR Administrative Fund and the remaining monies were deposited into General Fund.

Prior to FY 2010, 55% of all remaining monies were transferred to the Housing Trust Fund, 25% to the General Fund, and the remaining 20% was distributed among 8 funds administered by the Department of Racing.

REVENUE BASE

Property is presumed abandoned and, therefore, unclaimed after it has been held for an extended period of time with no owner contact and a “good faith” effort has been made to locate the owner. The length of time for property to be presumed abandoned varies depending on the classification of property. The property classifications and presumption of abandonment timeframes are as follows [A.R.S. § 44-302, A.R.S. § 38-722, A.R.S. § 12-881]:

1 Year
- Life or endowment insurance policy or an annuity that is payable on proof of death - 1 year after the insured has attained, or would have attained, the limiting age on the mortality table on which the reserve is based.
- Life or endowment insurance policy or an annuity not matured by actual proof of death is deemed matured - 1 year after the insured has attained, or would have attained, the limiting age on the mortality table on which the reserve is based.
- Property that is distributable by a business association or financial organization in a course of dissolution – 1 year after the property becomes distributable.
- Property that is received by a court as proceeds of a class action suit and that is not distributed pursuant to the judgment - 1 year after the date the court distributed the proceeds.
- Wages or other labor compensation - 1 year from payment date.

2 Years
- Property that is held by a court or governmental entity - 2 years after the property becomes distributable.
- Property in any individual retirement account or defined benefit - 2 years after date of the required distribution.
- Excess proceeds from a trustee sale deposited with the county treasurer pursuant to A.R.S. § 33-812 - 2 years from the date of deposit.

3 Years
- Money Order - 3 years after issuance.
- Any stock or other equity interest in a business association or financial organization, including security entitlements - 3 years after the most recent unclaimed dividend, stock split, or other distribution.
- The principal and interest on corporate bonds - 3 years after the maturity and after the last interest payment date.
- Demand, savings, or time deposit and any interest or dividends accrued by the accounts - 3 years after maturity.
- Credits owed to a retail customer - 3 years after the obligation accrued.
- Life or endowment insurance policy or an annuity that has matured or terminated - 3 years after the obligation to pay arose.
- Check, or similar instrument, to include cashier's and certified checks - 3 years after the check or instrument was payable.
- Dividend, profit, distribution, interest, redemption, payment on principal or other sum held or owed by a business to shareholders, bondholders, or other security holders who have not claimed it - 3 years after the date prescribed for payment or delivery.
- All other property not otherwise specified - 3 years after the owner's rights to demand the property or after the obligation to pay or distribute the property arises, whichever occurs first.
- Tangible property held in safe deposit box - 3 years after expiration of safe deposit box lease or rental period.
- Monies deposited into the Arizona State Retirement System (ASRS) Trust Fund established by A.R.S. § 38-712 and the Long-Term Disability (LTD) Trust Fund established by A.R.S. § 38-797.02 - Monies in both the ASRS and LTD Trust Funds are presumed abandoned if the apparent owner has not communicated in writing with ASRS and has not otherwise indicated an interest in the monies for the 3-year period following the required beginning date of distributions.
- Certificates of Deposit and resultant interest – 3 years after maturity.

5 Years
- Escheated estate - 5 years without having identified an heir.

15 Years

- Traveler's Check - 15 years after issuance.

Property that is not covered under the Arizona Unclaimed Property Act includes gift certificates, electronic gift cards, nonrefundable tickets, prepaid phone cards, frequent flyer miles, stored value cards, merchandise points and business accounts of less than $50 [A.R.S. § 44-301].

A.R.S. § 44-304 provides further guidance on how to determine whether property is abandoned.

HOW REVENUES ARE COLLECTED

Holders of unclaimed property include banks, credit unions, corporations, utilities, insurance companies, governmental entities, and retailers. Each institution is required, except for state agencies, to annually report to DOR unclaimed property in its possession. Life insurance companies are required to file the report for each reporting year before May 1 of the succeeding year; all other holders of property presumed abandoned file the report before November 1 and the report covers the last 12 months before July 1 of that year. For the prior fiscal year, county treasurers must file the report on or before November 1. State agencies that hold monies for the payment of voided warrants report no later than the 10th day of each month [A.R.S. § 44-307]. In FY 2010 only, Laws 2009, 4th Special Session, Chapter 3 required holders of property presumed abandoned to file the report before June 1, 2010 for the period that covered the last 12 months before July 1, 2009.

Upon filing the report with DOR, the holder of unclaimed property shall pay or deliver it to DOR. On payment or delivery of property to DOR, the State of Arizona assumes custody and responsibility for the property. A holder who pays or delivers property to the department in good faith is relieved of all liability with respect to the property that arises after the payment or delivery [A.R.S. § 44-310].

Statute requires DOR to publish a notice at least semiannually of abandoned property that has been paid or delivered to the department. The notice must be published in a newspaper circulated in each county and also published via social media, the radio or another means determined by DOR. DOR's website must contain information about abandoned property no later than November 30 of the year following the year in which abandoned property was paid or delivered to the department [A.R.S. § 44-309].

Unclaimed securities may be sold upon receipt *(for more detail, refer to Laws 2007, Chapter 260)*. Within 3 years after receiving abandoned property other than securities, the department must sell the unclaimed properties to the highest bidder at a public sale. Before conducting a sale, the department publishes a notice at least 3 weeks before the sale in the county in which the sale will occur. A purchaser of property at a sale conducted by the department takes the property free of all claims of the owner or previous holder and of all persons claiming through or under the owner or previous holder. [A.R.S. § 44-312].

Securities that are listed on an established stock exchange are sold at prices prevailing on the exchange at the time of the sale. DOR may sell all other securities in the over-the-counter market at prices prevailing at the time of the sale. Except in a case of intentional misconduct or malfeasance by the department, a person claiming their property is not entitled to receive any appreciation in property value that occurred after the delivery to DOR [A.R.S. § 44-312].

Any person who claims property that was paid or delivered to DOR may file a claim to recover the property or its monetary value at the time the property was sold. Within 90 days after a claim is filed the department is required to allow or deny the claim. If the claim is denied, the department informs the claimant of the reasons for the denial and specifies what additional evidence is required before the claim will be allowed. Within 30 days after a claim is allowed the department must deliver the property or pay the net proceeds of a sale of the property to the claimant [A.R.S. § 44-317]. *Table 2* displays refunds of unclaimed properties to its owners.

Table 2

Unclaimed Property Refunds

Fiscal Year	Refund	Fiscal Year	Refund
2024	$88,050,256	2014	$34,059,200
2023	$61,085,903	2013	$40,013,500
2022	$47,034,353	2012	$40,049,500
2021	$48,321,802	2011	$34,677,600
2020	$42,494,170	2010	$24,207,900
2019	$48,373,100	2009	$22,267,200
2018	$64,385,400	2008	$27,859,500
2017	$57,030,300	2007	$22,541,000
2016	$54,884,200	2006	$17,693,700
2015	$42,673,900	2005	$16,241,200

SOURCE: DOR, Annual Reports.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018. There were no changes enacted in the period from 2019 through 2024.

2018 LAWS

Laws 2018, Chapter 50 limits the time window in which a person can receive a refund for unclaimed property from DOR to 35 years after the final day of the fiscal year in which DOR receives the unclaimed property. Prior to Chapter 50, unclaimed property was available for refund to the owners or their heirs indefinitely. Chapter 50 also requires DOR to publish a notice with the unclaimed property website via social media, radio or another means determined by DOR. (These changes take effect retroactively to December 31, 2017.)

Laws 2018, Chapter 59 exempts patronage capital credits and fees issued by electric cooperatives from state unclaimed property statute and allows the cooperative to use the abandoned property as specified by the cooperative's bylaws.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

PAYMENTS IN LIEU OF PROPERTY TAXES

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

Laws 1986, Chapter 369 shifted flight property tax revenues from the General Fund to the Aviation Fund over a phase-in period of 3 years. Beginning on January 1, 1987, 33% of total tax receipts were deposited in the Aviation Fund. On the same date the following 2 years, the distribution level to the Aviation Fund increased to 66% and 100%, respectively.

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.

Laws 2003, Chapter 263 provided that, beginning in FY 2005, 100% of flight property tax revenues are deposited in the Aviation Fund [A.R.S. § 42-14255].

Table 1

COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Aviation Fund	Total
2024	$0	$9,761,281	$9,761,281
2023	$0	$8,652,296	$8,652,296
2022	$0	$12,655,949	$12,655,949
2021	$0	$12,714,725	$12,714,725
2020	$0	$13,883,835	$13,883,835
2019	$0	$11,728,981	$11,728,981
2018	$0	$13,003,735	$13,003,735
2017	$0	$10,364,980	$10,364,980
2016	$0	$9,295,293	$9,295,293
2015	$0	$9,727,092	$9,727,092
2014	$0	$12,974,652	$12,974,652
2013	$0	$8,084,374	$8,084,374
2012	$0	$10,585,261	$10,585,261
2011	$0	$9,709,712	$9,709,712
2010	$0	$9,451,430	$9,451,430
2009	$0	$11,712,920	$11,712,920
2008	$0	$13,821,790	$13,821,790
2007	$0	$15,300,127	$15,300,127
2006	$0	$13,685,936	$13,685,936
2005	$0	$13,180,039	$13,180,039

SOURCE: Department of Transportation, Office of Financial Planning.

WHO PAYS

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

REVENUE 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. § 42-14254A]. DOR establishes the full cash value as follows [A.R.S. § 42-14254B]:

(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. § 42-14254C]. (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. § 42-14254D].

Flight property is assessed as Class 5 property [A.R.S. § 42-12005]. The assessment ratio for Class 5 property is equal to the ratio that the total *net assessed valuation* of all taxable property for primary and secondary tax purposes in Class 1 (commercial/industrial) and Class 6, paragraph 3 (military reuse zones), and personal property in Class 2 (agricultural/non-profit/golf courses) bears to the total *limited valuation* of such property [A.R.S. § 42-15005].

As the formulas above suggest, the assessment ratio for Class 5 property may change from one year to the next. In the period from 2015 to 2023, the assessment ratio has varied between 14% and 15%. The TY 2024 assessment ratio for this type of property is 14%.

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 dividing the product by 100.

PAYMENT SCHEDULE

The flight property tax is due and payable at the same time as real and 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 payments fall in the same fiscal year.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018. There were no changes enacted to this tax from 2018 through 2024.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf.

Table 2

HISTORICAL AVERAGE PROPERTY TAX RATES PER $100 OF ASSESSED VALUATION

Tax Year	Sum of Average State Tax Rates	Primary Tax Rate	Secondary Tax Rate
2023	$10.97	$6.96	$4.02
2022	$11.14	$7.07	$4.07
2021	$11.89	$7.76	$4.12
2020	$12.17	$7.87	$4.30
2019	$12.41	$8.05	$4.37
2018	$12.62	$8.01	$4.61
2017	$12.75	$8.54	$4.21
2016	$12.95	$8.73	$4.22
2015	$12.77	$8.74	$4.03
2014	$12.67	$8.75	$3.92
2013	$12.54	$8.52	$4.02
2012	$11.75	$7.89	$3.87
2011	$10.94	$7.28	$3.67
2010	$9.67	$6.32	$3.35
2009	$9.20	$6.13	$3.07
2008	$9.23	$6.24	$2.99
2007	$10.04	$6.75	$3.29
2006	$10.99	$7.24	$3.75
2005	$11.56	$7.81	$3.75
2004	$11.81	$8.09	$3.72

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

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. § 17-272A].

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 Property Taxes) [A.R.S. § 17-272E].

Table 1

COLLECTIONS

Fiscal Year	Net Collections 1/
2024	$44,002
2023	$41,354
2022	$44,760
2021	$43,528
2020	$38,139
2019	$34,534
2018	$34,867
2017	$22,140
2016	$22,736
2015	$18,127
2014	$16,286
2013	$35,242
2012	$10,776
2011	$11,141
2010	$11,482
2009	$10,799
2008	$10,369
2007	$12,630
2006	$12,382
2005	$12,009

1/ Laws 1996, 7th Special Session, Chapter 2 repealed the state property tax. Beginning in FY 1998, amounts represent contributions that were collected for local jurisdictions. Amounts were distributed to local jurisdictions and not retained by the state.

SOURCE: Arizona Game and Fish Department, Habitat Branch.

WHO PAYS

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. § 17-272A]:

(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. § 17-272F].

REVENUE 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. § 17-272B].

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. § 17-272C].

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 Property Taxes) [A.R.S. § 17-272D].

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 Arizona Game and Fish Commission Heritage Fund, or any other source of monies available to and budgeted by the commission [A.R.S. § 17-272A].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this revenue category from 2018 to 2024.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

WATERCRAFT REGISTRATION FEE

DESCRIPTION

The Arizona Constitution, Article 9, Section 16 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 registration fee, which is a fee levied based on the length of a watercraft [A.R.S. § 5-321]. The watercraft registration fee replaced the former watercraft license tax in FY 2006 (Laws 2005, Chapter 318).

(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 fee revenues are deposited as follows [A.R.S. § 5-323]:

- 65% 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.
- The remaining 35% of revenues are deposited by the 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.

Total net collections from the watercraft license fee are shown in the table below.

Table 1

COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
2024	$6,348,172	2014	$4,432,379
2023	$7,542,473	2013	$4,146,344
2022	$7,748,283	2012	$4,301,047
2021	$6,984,326	2011	$4,450,746
2020	$6,765,844	2010	$5,120,398
2019	$6,581,150	2009	$5,468,067
2018	$4,233,043	2008	$4,955,124
2017	$4,245,613	2007	$5,398,134
2016	$4,217,386	2006	$4,338,741
2015	$4,348,579	2005	$2,317,368

SOURCE: Game and Fish Department

WHO PAYS

The fee 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].

REVENUE BASE AND RATE

The watercraft registration fee is levied on watercraft based on 7 different watercraft length ranges [A.R.S. § 5-321 and A.R.S. § 5-327].

The fees for watercraft are as follows:

	Registration	NBSIF
Twelve feet and less	$20	$80
Twelve feet one inch through sixteen feet	$22	$88
Sixteen feet one inch through twenty feet	$30	$192
Twenty feet one inch through twenty-six feet	$35	$224
Twenty-six feet one inch through thirty-nine feet	$39	$253
Thirty-nine feet one inch through sixty-four feet	$44	$286
Sixty-four feet one inch and over	$66	$429

Pursuant to Laws 2012, Chapter 237, residents and nonresidents pay the same boating registration fee. The prior system of a different fee for residents compared to nonresidents was out of compliance with federal law; however, Chapter 237 additionally requires nonresidents to pay a boating safety infrastructure fee (NBSIF).

Pursuant to Laws 2013, Chapter 197, the Arizona Game and Fish Commission is authorized to establish by rule new registration and boating safety infrastructure fees for watercraft owned by residents and non-residents of Arizona.

The commission held public meetings on the proposed new watercraft registration fees, which became effective January 1, 2014.

Chapter 197 stipulated that the total amount of watercraft registration fees collected in any fiscal year does not exceed 50% more than the amount appropriated from the Watercraft Licensing Fund in FY 2013 (which was $4,504,200). Laws 2018, Chapter 103 later repealed that provision.

In addition, owners of motorized watercraft may be charged a fee for the Lower Colorado River Multispecies Conservation Program (MSCP) [A.R.S. § 5-323].

The main exemptions from the watercraft registration fee are [A.R.S. § 5-322A]:

(1) Foreign 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.
(5) Documented watercraft numbered in accordance with the regulations of the United States Coast Guard.

PAYMENT SCHEDULE

Watercraft registration fees are due at the time of application for watercraft registration with the Arizona Game and Fish Department [A.R.S. § 5-321A].

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 STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this fee from 2019 through 2024.

2018 LAWS

Laws 2018, Chapter 103 repeals the limitation on watercraft license fees, which capped fee collections at 150% of the department's FY 2013 appropriation from the Watercraft Licensing Fund.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

GOVERNMENT PROPERTY LEASE EXCISE TAX

DESCRIPTION

The Government Property Lease Excise Tax (GPLET) was enacted in 1996 (Laws 1996, Chapter 349) to allow cities, towns, counties, and county stadium districts (hereafter referred to as "government lessors") to lease property that they own to private parties ("prime lessees") for commercial, residential rental, or industrial purposes for at least 30 days [A.R.S. § 42-6201]. GPLET replaced the tax on possessory interests that was repealed in 1995 *(for a more detailed discussion, see Possessory Interest section).*

Because the Arizona Constitution exempts federal, state, county, and municipal property from taxation, government lessors do not have to pay any property taxes. Instead, the prime lessees are required to pay a GPLET on the building ("government property improvement") that they lease from the government lessor. Unlike the property tax, GPLET is based on factors other than a property's assessed value, such as a building's square footage and usage.

<u>Grandfather Provisions</u>
Laws 2010, Chapter 321 provided new requirements for all leases subject to GPLET that were entered into on or after June 1, 2010. The act provided new and higher tax rates, as well as new abatement and reporting requirements. Additionally, the act grandfathered all leases that were entered into before June 1, 2010, or that resulted from a development agreement, ordinance, or resolution approved before this date and entered into within 10 years of such approval. Laws 2017, Chapter 120 provides that for a lease to be grandfathered under the original GPLET rates, the Department of Revenue (DOR) must determine that such lease is in compliance with the aforementioned requirement.

A grandfathered lease that is amended after June 1, 2010 continues to be subject to the provisions in effect prior to Laws 2010, Chapter 321, if all of the following conditions are met: (1) the amendment furthers the purpose of the original lease, (2) any land added under the amendment is contiguous to the land under the original lease and does not increase the land area by more than 50%, and (3) any government property improvement added under the amendment does not increase the area of gross building space by more than 100% [A.R.S. § 42-6203].

DISTRIBUTION

The county treasurer is required to distribute the excise tax within 30 days of receipt 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* below shows the annual amount of GPLET collections in the last 20 years.

Table 1

COLLECTIONS 1/ 2/

Calendar Year	Net Collections	Calendar Year	Net Collections
2023	$14,446,533	2013	$6,042,658
2022	$15,044,961	2012	$5,812,888
2021	$14,036,288	2011	$6,038,494
2020	$14,368,848	2010	$5,672,312
2019	$14,229,685	2009	$3,091,291
2018	$13,718,519	2008	$3,204,870
2017	$9,489,639	2007	$3,108,195
2016	$9,492,158	2006	$2,921,164
2015	$8,780,769	2005	$2,696,092
2014	$6,643,785	2004	$2,898,944

1/ The tax became effective December 1, 1996.
2/ The state does not collect any monies from the tax.

SOURCE: League of Arizona Cities and Towns, 1996 – 2010
County Treasurers, 2011 – 2023

WHO PAYS

County treasurers collect the tax annually on prime lessees who use or occupy the government property [A.R.S. § 42-6202].

The following are exempt from GPLET [A.R.S. § 42-6208]:

1. Property used for government activity.
2. Property used for public housing.
3. Easements and rights-of-way of railroads and gas, electric, pipeline, and telephone utilities.
4. Interests in a facility that is owned by the government lessor and used primarily for athletic, recreational, entertainment, artistic, cultural, or convention activities.
5. Property that is used for aviation-related purposes, including hangars, tie-downs, aircraft maintenance, commercial aircraft terminal franchises, rental car operations, parking facilities, restaurants, stores, and other services located in a terminal.
6. The use by a commercial airline of the runways and terminal facilities of a state, city, town, or county airport.
7. Leases of property or interests in a transportation facility that is constructed or operated pursuant to Title 28, Chapter 22.
8. Interest in state trust lands.
9. Interest in property held in trust for an Indian tribe by the United States government.
10. Interest in “contractor-acquired property” or “government-furnished property” that is owned by the government and used to perform a government contract.
11. Property of a corporation that is organized or directed by a county, city, or town to be used for public purposes.
12. Interest in property used by a chamber of commerce.
13. Interest in property used by tax-exempt organizations under 501(c)(3) of the Internal Revenue Code.
14. Interest in parking garages or decks owned and operated by the government lessor, or operated on behalf of the government lessor by an entity other than the prime lessee.
15. Residential rentals occupied by the prime lessee.

<u>Tax Abatement</u>
As noted in *Table 2*, a city or town is allowed to fully abate the tax on a government property improvement in the first 8 years after the certificate of occupancy is issued if the following requirements are met [A.R.S. § 42-6209]:

1. The improvement is located in a single central business district in the city or town and is subject to a lease or development agreement entered into on or after April 1, 1985.
2. The improvement is located entirely within a "slum or blighted area" established pursuant to Title 36, Chapter 12, Article 3.
3. The government property improvement resulted or will result in an increase in property value of at least 100%.

Pursuant to Laws 2018, Chapter 231, the central business district must be "geographically compact" and no larger than the greatest of: (1) the total land area of an existing central business district as of January 1, 2018, (2) 2.5% of the total land area within the exterior boundaries of the city or town, or (3) 960 acres. Chapter 231 defines a "geographically compact" central business district as having a length that is no more than twice its width. Any central business district existing prior to January 1, 2018 is deemed "geographically compact."

Laws 2010, Chapter 321 prohibits a city or town from designating more than 1 central business district within its corporate boundaries and approving a new lease or development agreement within 1 year of such designation. Unless the grandfather provisions are met, the act prohibits a city or town from approving a new lease or development agreement on or after June 1, 2010 unless the government lessor: (1) approves the lease or development agreement by simple majority vote without the use of consent calendar, (2) notifies the governing bodies of affected taxing jurisdictions where the government property is located at least 60 days prior to approval, and (3) determines that the economic and fiscal benefits to the state and county, city, or town where the government property is located will exceed the benefits received by the prime lessee, as determined by an independent third party.

Laws 2017, Chapter 120 limits the lease period for a government property improvement for which GPLET is abated to 8 years, including the abatement period. The 8-year limit applies to leases approved by the governing body of the government lessor after December 31, 2016. For leases approved prior to January 1, 2017, the lease period is limited to 25 years, including the abatement period.

<u>Park Property Lease Excise Tax</u>
Each county is required to levy and collect an annual Park Property Lease Excise Tax on each prime lessee of a lease with the National Park Service of a property improvement located in that county [A.R.S. § 42-6210]. The tax is assessed, collected, and distributed in the same manner GPLET, except that:

1. Each lease or development agreement is neither required to include a notice of tax liability nor a provision that failure to pay could result in divesting the prime lessee of any interest in the right of occupancy of the property.
2. The tax rate cannot be less than 20% of GPLET (see the *Tax Base and Rate* section below).

REVENUE BASE AND RATE

<u>Grandfathered Leases</u>
The tax rates applied to a government property improvement subject to a pre-June 2010 grandfathered lease are as follows [A.R.S. § 42-6203(A)]:

- $1.00 per square foot for 1-story office buildings
- $1.25 per square foot for office buildings with 2 to 7 stories
- $1.75 per square foot for office buildings with 8 or more stories
- $1.50 per square foot for retail buildings
- $1.50 per square foot for hotel/motel buildings
- $0.75 per square foot for warehouse or industrial buildings
- $0.50 per square foot for residential rental buildings

- $1.00 per square foot for any other building
- $100 per parking space for parking garages

Lessees pay a percentage of the "base" rates listed above depending on where the property is located, the start date of the lease, and when the original certificate of occupancy for the government property improvement was issued, as summarized in *Table 2* below.

The tax rate on a government property improvement subject to a lease or development agreement entered into after June 30, 1996 and that is located outside a "slum and blighted area" is 150% of the applicable rate listed above. The tax rate on a government property improvement subject to a pre-April 1, 1985 lease or development agreement, or on an improvement at a rural (county population under 400,000 prior to 1988) county or city airport is 20% of the applicable rate listed above.

As noted above, tax abatement is restricted to government property improvements within a single central business district within the "slum and blighted area." Other improvements outside the single central business district but still within the "slum and blighted area" will pay 80% of the tax.

<u>New Leases</u>
The 2024 tax rates applied to a government property improvement subject to a new lease entered into on or after June 1, 2010 are as follows [A.R.S. § 42-6203(B)]:

- $3.25 per square foot for 1-story office buildings
- $3.74 per square foot for office buildings with 2 to 7 stories
- $5.04 per square foot for office buildings with 8 or more stories
- $4.08 per square foot for retail buildings
- $3.25 per square foot for hotel/motel buildings
- $2.19 per square foot for warehouse or industrial buildings
- $1.24 per square foot for residential rental buildings
- $3.25 per square foot for any other building
- $325.16 per parking space for parking garages

The GPLET rates above apply to Tax Year 2024. Laws 2010, Chapter 321 requires the Department of Revenue (DOR) to adjust the tax rates for inflation each year. The act also provides that the tax rates for government property improvements subject to a lease entered into on or after June 1, 2011 be reduced by 10% if the aggregate of all property tax rates of all taxing jurisdictions in which the government property improvement is located is less than 90% of the county-wide average combined property tax rates in the tax year in which the lease is entered into. For example, if the average combined property tax rate is $10.00 for all properties in a county but $9.00 or less for those properties located in the same taxing jurisdictions as the GPLET property, then the tax rates would be reduced by 10%.

Laws 2010, Chapter 321 requires that all new leases entered into on or after June 1, 2010 begin within 10 years after the approval of the development agreement. The act limits the term of such lease to 25 years, including any abatement period regardless of whether the lease is transferred or conveyed to subsequent prime lessees during that period. Moreover, the act requires the government lessor to convey the title to the government property improvement and underlying land to the prime lessee as soon as practicable but no later than 12 months after the expiration of the lease. Additionally, such property is prohibited from subsequently being designated as Class 6 or any other discounted assessment.

For leases approved after December 31, 2016, Laws 2017, Chapter 120 reduces the maximum lease period for a government property improvement for which GPLET is abated from 25 to 8 years, including the abatement period regardless of whether the lease is transferred or conveyed to subsequent prime lessees during that period. As under prior law, the government lessor is required to convey the title to the government property improvement and underlying land to the prime lessee as soon as practicable but no later than 12 months after the expiration of the lease. In addition, property conveyed to a prime lessee is prohibited from subsequently being designated as Class 6 or any other discounted assessment.

PAYMENT SCHEDULE

The excise tax is due and payable to the county treasurer annually on or before December 1 [A.R.S. § 42-6204].

POSSESSORY INTEREST

In 1985, the Arizona Legislature enacted legislation that provided a method for the taxation of possessory interests. A possessory interest is created when a private party is granted the exclusive use of real property owned by a non-taxable entity. Typically, possessory interests are created when private individuals, companies, or corporations lease, rent, or use federal, state, county, or municipal government-owned facilities and land for their own benefit.

The tax on possessory interest was enacted in response to the extensive use of the property tax exemption for government owned property as an economic development tool. (Article 9 of the Arizona Constitution provides that federal, state, county, and municipal government property be exempt from taxation.) The new law specifically provided that possessory interests in federal, state, county, and municipal government property would become subject to taxation. Additionally, the law established possessory interest tax exemptions and provided special valuation rules for possessory interests that were created prior to April 1, 1985.

Over time, the possessory interest tax was challenged in court in a number of cases. As a result, the court held that limiting the special valuation to possessory interests created before April 1, 1985 was in violation of the uniformity clause under the Arizona Constitution. The court also held that the possessory interest exemptions went beyond the constitutional tax exemptions and were therefore ruled invalid. The effect of these court rulings was that all possessory interests became taxed in the same manner as other properties.

In 1995, the Legislature repealed the possessory interest tax (effective retroactively from January 1, 1995). The intent statement expressed the Legislature's desire that possessory interests not be subject to ad valorem taxation until a new taxing mechanism was enacted. Laws 1996, Chapter 349 created such a taxing mechanism in the form of GPLET, which was to serve as the successor to the possessory interest tax.

Table 2

TAX RATES FOR GRANDFATHERED PRE-JUNE 2010 LEASES

Location of Property	Start Date of Lease	Years Since Date of Issuance of Original Certificate of Occupancy (COO)	Percentage of "Base" Excise Tax Rate (by age of COO)
Inside of a Redevelopment Area	On or after 4/1/1985	0 – 10	100%
		10 – 20	80%
		20 – 30	60%
		30 – 40	40%
		40 – 50	20%
		50 or more	0%
Outside of a Redevelopment Area	On or after 4/1/1985 but before 6/30/1996	0 – 10	100%
		10 – 20	80%
		20 – 30	60%
		30 – 40	40%
		40 – 50	20%
		50 or more	0%
Inside of a "Slum" or "Blighted" Area	Before 6/1/2010	0 – 10	80%
		10 – 20	80%
		20 – 30	60%
		30 – 40	40%
		40 – 50	20%
		50 or more	0%
Outside of a "Slum" or "Blighted" Area	On or after 6/30/1996	0 – 10	150%
		10 – 20	120%
		20 – 30	90%
		30 – 40	60%
		40 – 50	30%
		50 or more	0%
Inside of a "Central Business District"	On or after 4/1/1985	0 – 8	0%
		8 – 10	80%
		10 – 20	80%
		20 – 30	60%
		30 – 40	40%
		30 – 40	20%
		50 or more	0%
At an Airport Owned by a County (or a City within a County) with a Population of 400,000 or Less	Before 6/1/2010	0 – 10	20%
		10 – 20	16%
		20 – 30	60%
		30 – 40	40%
		40 – 50	20%
		50 or more	0%
Location is Not Specified	Before 4/1/1985	0 – 10	20%
		10 – 20	16%
		20 – 30	60%
		30 – 40	40%
		40 – 50	20%
		50 or more	0%
National Park Service Property	Before 6/1/2010	0 – 10	100%
		10 – 20	80%
		20 – 30	60%
		30 – 40	40%
		40 or more	20%

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this tax in the period from 2019 through 2024.

2018 LAWS

Laws 2018, Chapter 231 provides the following changes to the tax abatement program for government property improvements located in a central business district:

- Adjusts the maximum size of a central business district to the greatest of: (1) the total land area of an existing central business district as of January 1, 2018, (2) 2.5% of the total land area within the exterior boundaries of the city or town, or (3) 960 acres.
- Defines a "geographically compact" central business district as having a length that is no more than twice its width. Any central business district existing prior to January 1, 2018 is deemed "geographically compact."
- Specifies that a slum or blighted area designation made after September 30, 2018 automatically terminates after 10 years, unless after a review by the city or town, the designation is formally renewed, modified, or terminated in whole or in part.
- Directs each municipality, by October 1, 2020, to review each slum or blighted area in which a central business district is located that was designated before September 30, 2018 and renew, modify, or terminate it.

2017 LAWS

Laws 2017, Chapter 120 limits the length of a lease for a property with an abated GPLET approved by the governing body of the government lessor through a development agreement, ordinance or resolution after December 31, 2016 to 8 years. Additionally, Chapter 120 requires the government lessor to calculate the GPLET liability for each prime lessee. (Prior to Chapter 120, the prime lessee was required to make this calculation.) Moreover, Chapter 120 requires the government lessor to either maintain a public database by county or municipality, as applicable, of all leases subject to GPLET, or alternatively, post its lease agreements on a county or municipal website where the government property improvement is located.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

HIGHWAY USER TAXES/FEES

HIGHWAY USER REVENUE FUND OVERVIEW

DESCRIPTION

The State of Arizona taxes motor fuels and imposes various other fees related to the registration and operation of motor vehicles. Included are motor vehicle fuel taxes, use fuel taxes, vehicle license taxes, motor carrier fees, vehicle registration fees, and various other miscellaneous fees. Depending on the category, all, or a portion of these taxes and fees are distributed to the Arizona Highway User Revenue Fund (HURF). This ***2024 Tax Handbook*** contains individual sections on the major tax components of HURF, including Motor Vehicle Fuel Tax, Use Fuel Tax, Vehicle License Tax (VLT), and the Motor Carrier Fee (which replaced the Motor Carrier Tax in FY 1998), as well as distributions from the 16% Marijuana Excise Tax approved by voters in the November 2020 General Election. Vehicle registration fees and various other fees that are part of HURF are not included in the handbook.

HURF revenues are a major source of funding to the state for highway construction, highway maintenance and improvements, and other highway-related expenditures. A portion of HURF revenue is also distributed to Arizona cities, towns, and counties for highway-related purposes.

DISTRIBUTION

HURF collections totaled approximately $1.8 billion in FY 2024. This was an increase of 3.0% from FY 2023 collections. The largest source of HURF revenue comes from VLT. The next biggest category is motor fuel or gas taxes, followed by Use Fuel Tax, registration, motor carrier fee, other fees, and the marijuana excise tax. As noted above, more detailed discussion of the tax categories is provided in subsequent sections of the handbook.

The following chart provides a graphic representation of the relative importance of each of the HURF revenue categories for FY 2024:

Highway User Revenue Fund
FY 2024 Collections by Major Category

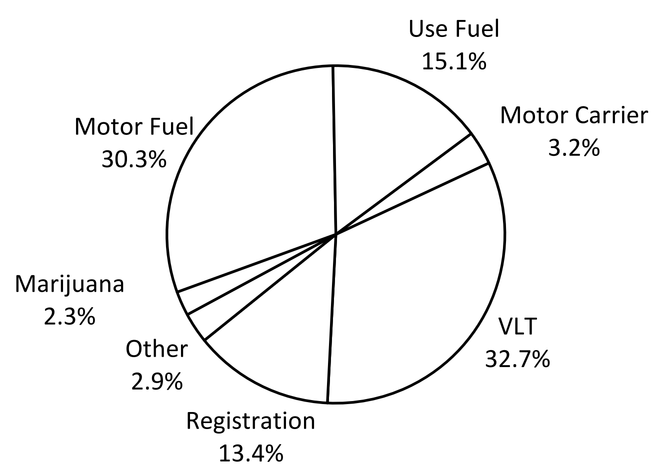


Table 1 summarizes HURF collections by major category over the last 10 years.

Table 1

HURF COLLECTIONS
($ in Thousands)

Fiscal Year	Motor Vehicle Fuel Tax	Use Fuel Tax	Vehicle License Tax 1/	Motor Carrier Fee	Registration Fees 2/	Other Fees 2/	Marijuana Excise Tax	Total
2024	$545,352	$271,711	$589,861	$58,405	$241,394	$52,475	$41,934	$1,801,132
2023	$532,834	$251,864	$567,304	$58,486	$242,960	$54,234	$41,613	$1,749,295
2022	$537,859	$256,878	$542,835	$56,698	$236,122	$55,578	$43,168	$1,729,138
2021	$505,225	$249,838	$551,141	$52,129	$220,075	$48,762	$0	$1,627,170
2020	$515,447	$217,958	$473,259	$45,472	$191,464	$37,236	$0	$1,480,836
2019	$531,068	$218,818	$469,470	$45,812	$192,926	$62,128	$0	$1,520,221
2018	$527,355	$202,114	$444,757	$42,823	$181,227	$57,503	$0	$1,455,779
2017	$515,116	$201,697	$421,939	$42,091	$177,818	$57,863	$0	$1,416,524
2016	$505,687	$193,291	$395,952	$41,058	$173,647	$57,989	$0	$1,367,624
2015	$481,250	$184,500	$369,719	$40,227	$168,541	$56,549	$0	$1,300,787

1/ The amounts indicated reflect only the portion of VLT that is distributed to HURF.
2/ The amounts indicated reflect a minor change in revenue categorization. In prior years, authorized third-party retainage of revenues was recorded in Other Fees. ADOT is now recording that amount in Registration Fees.

SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning.

HURF 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.

HURF is distributed each fiscal year in the following manner [A.R.S. § 28-6533]:

Direct Allocations
First, certain distributions are made before applying the statutory formula.

- According to statute, 1.6% of the motor vehicle fuel tax collections portion of HURF is deposited in the State Lake Improvement Fund (SLIF), except that 1% of such collections is retained in the Watercraft Fuel Tax Administration (Administration) Fund by the Arizona Department of Transportation (ADOT) to defray administrative expenses [A.R.S. § 28-5926].
- According to statute, 0.55% of the motor vehicle fuel tax collections portion of HURF is transferred to the Off-Highway Vehicle Recreation (OHV) Fund on a monthly basis [A.R.S. § 28-5927].
- According to statute, $1.0 million is allocated to the Economic Strength Project Fund [A.R.S. § 28-6534].
- The Legislature appropriates an amount to ADOT for funding vehicle registration compliance operations, included in the "Other" column in *Table 3* below.
- Beginning in FY 2015, the Legislature has directly allocated $30.0 million to local governments. If this amount were not directly allocated, it would flow through the formula and be distributed to both the State Highway Fund and to local governments. By directly allocating the $30.0 million, local governments receive that full amount rather than splitting it with the State Highway Fund.

- In FY 2021, the Legislature discontinued the $30 million direct allocation to local governments, resulting in an effective increase to the State Highway Fund of about $12.8 million.

Statutory Formula Distribution
After making the above distributions, the balance of collections is distributed by statutory formula as follows [A.R.S. § 28-6538]:

- 50.5% State Highway Fund (SHF).
  Of the monies distributed to SHF, 15.2% (12.6% by statute and 2.6% per State Transportation Board policy) are further distributed as follows [A.R.S. § 28-6538B]:
  - 75% to counties with a population of 1.5 million 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% to counties with a population of more than 800,000 but less than 1.5 million 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.

  These amounts (6.4% of all HURF for the statutory portion and 1.3% for the Board policy portion) are displayed in the "County Controlled Access" column in *Table 3* and are in practice distributed to Maricopa Association of Governments and Pima Association of Governments, respectively, which are regional planning agencies for their respective areas.
  The remaining 84.8% (or 42.8% of all HURF) is retained by the State Highway Fund, as displayed in the "State Highway Fund" column in *Table 3*, which is primarily used to fund ADOT's operating budget and capital projects.
- 19% Counties - Each county receives 72% of its HURF distribution based on 2 criteria: the portion of gasoline distributed by fuel suppliers to gasoline stations in the county and an estimation of diesel consumed in the county. The other 28% of the county distribution is based on unincorporated population.
- 27.5% Incorporated cities and towns - Cities and towns receive half of their HURF distribution based on their share of statewide incorporated population. The other half is based on the portion of gasoline supplied at the county level. Once a county's pro-rata share of gasoline supplies is determined, those monies are distributed based on a city's or town's total population in relation to the county's incorporated population.
- 3% Incorporated cities with population greater than 300,000 persons - This distribution to Phoenix, Tucson, and Mesa is based on population.

Table 2 below summarizes HURF actual distribution percentages for FY 2023 after the Economic Strength Project and other distributions noted above.

Table 3 below summarizes HURF distributions by major category. Please refer to the table in the Summary of Highway Construction section of the Capital Outlay section in the *FY 2024 Appropriations Report* for a more detailed explanation of the distribution of HURF revenues. It should be noted that the FY 2023 amounts in *Table 3* vary slightly from those presented in the *Appropriations Report*. The numbers in *Table 3* reflect actual collections, while the numbers in the *FY 2024 Appropriations Report* were based on estimated collections.

Table 2

PERCENTAGE DISTRIBUTION OF STATUTORY FORMULA HURF MONIES

Cities	30.5%
Counties	19.0%
Controlled Access	7.7% 1/
State Highway Fund	42.8%
Total	**100.0%**

1/ Includes 1.3% (2.6% of 50.5% SHF share) distributed for Controlled Access per State Transportation Board policy.

The tax base and tax rates, payment schedules, and the impact of tax law changes for the Motor Vehicle Fuel Tax, Use Fuel Tax, VLT, Motor Carrier Fee are provided in the individual write-ups for each of the HURF revenue categories in the following section of the handbook. As discussed in more detail in the *Marijuana Excise Tax* section of the Tax Handbook, a certain percentage of the revenue collected from the 16% excise tax is deposited in HURF to fund state and local transportation programs.

Table 3

HURF DISTRIBUTION
($ in Thousands)

Fiscal Year	State Highway Fund	County Controlled Access	Cities and Towns	Counties	DPS	Economic Strength Project	Other	Total
2024	$754,560	$135,252	$545,226	$339,649	$4,393	$1,000	$21,052 1/	$1,801,132
2023	$733,057	$131,397	$529,468	$329,833	$4,187	$1,000	$20,353 1/	$1,749,295
2022	$724,391	$129,844	$523,341	$326,106	$4,020	$1,000	$20,526 2/	$1,729,138
2021	$656,178	$121,801	$492,461	$306,779	$4,126	$1,000	$44,824 3/	$1,627,170
2020	$582,270	$112,580	$454,683	$283,245	$3,344	$1,000	$43,714 4/	$1,480,836
2019	$580,459	$108,072	$461,903	$287,743	$18,714	$1,000	$62,330 5/	$1,520,221
2018	$552,829	$103,120	$416,621	$259,534	$102,623	$1,000	$20,052 6/	$1,455,779
2017	$539,324	$100,699	$406,348	$253,135	$97,142	$1,000	$18,876 7/	$1,416,523
2016	$518,948	$97,047	$391,173	$243,682	$98,008	$1,000	$17,768 8/	$1,367,624
2015	$496,230	$92,975	$374,413	$233,241	$86,445	$1,000	$16,483 9/	$1,300,786

1/ A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled $3.6 million in FY 2024. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled $4.9 million in FY 2024. Other distributions included $898,600 for the Registration Compliance program, $8.6 million for SLIF, $87,300 for the Administration Fund, and $3.0 million for the OHV Fund.

2/ A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled $3.5 million in FY 2023. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled $4.5 million in FY 2023. Other distributions included $906,500 for the Registration Compliance program, $8.4 million for SLIF, $85,300 for the Administration Fund, and $2.9 million for the OHV Fund.

3/ A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled $3.4 million in FY 2022. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled $4.9 million in FY 2022. Other distributions included $701,600 for the Registration Compliance program, $8.5 million for SLIF, $86,100 for the Administration Fund, and $3.0 million for the OHV Fund.

4/ A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled $3.9 million in FY 2021. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled $6.0 million in FY 2021. Other distributions included $679,900 for the Registration Compliance program, $8.0 million for SLIF, $80,800 for the Administration Fund, and $2.8 million for the OHV Fund.

5/ A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled $2.5 million in FY 2020. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled $6.2 million in FY 2020. Other distributions included $658,000 for the Registration Compliance program, $8.2 million for SLIF, $82,500 for the Administration Fund, and $2.8 million for the OHV Fund.

6/ A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled $1.7 million in FY 2019. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled $6.2 million in FY 2019. Other distributions included $654,400 for the Registration Compliance program, $8.4 million for SLIF, $85,000 for the Administration Fund, and $2.9 million for the OHV Fund.

7/ A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled $1.8 million in FY 2018. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled $6.3 million in FY 2018. Other distributions included $656,100 for the Registration Compliance program, $8.4 million for SLIF, $84,400 for the Administration Fund, and $2.9 million for the OHV Fund.

8/ A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled $1.7 million in FY 2017. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled $5.5 million in FY 2017. Other distributions included $649,700 for the Registration Compliance program, $8.2 million for SLIF, $82,400 for the Administration Fund, and $2.8 million for the OHV Fund.

9/ A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled $1.5 million in FY 2016. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled $4.8 million in FY 2016. Other distributions included $652,700 for the Registration Compliance program, $8.0 million for SLIF, $80,900 for the Administration Fund, and $2.8 million for the OHV Fund.

10/ A.R.S. § 28-5808E transfers the SHF share of HURF VLT that was generated from the difference between the 2-year registration and the 5-year registration to the General Fund. The transfer totaled $1.2 million in FY 2015. A.R.S. § 28-5808D provides that an amount equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B concerning abandoned vehicles shall be transferred from the SHF share of HURF VLT to the General Fund. The transfer totaled $4.3 million in FY 2015. Other distributions included $651,800 for the Registration Compliance program, $7.6 million for SLIF, $77,000 for the Administration Fund, and $2.7 million for the OHV Fund.

SOURCE: ADOT, Office of Financial Planning.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this tax from 2021 through 2024.

2020 LAWS

Laws 2020, Chapter 52 (FY 2021 Revenue Budget Reconciliation Bill) modifies the $30 million direct allocation to local governments. Since HURF revenues are no longer used for DPS operating expenses, the FY 2021 budget did not continue the $30 million allocation and those monies will now go through the normal distribution process. This will result in an effective increase to the State Highway Fund of about $12.8 million.

2019 LAWS

Laws 2019, Chapter 263 (FY 2020 General Appropriations Act) eliminates the use of HURF in the Department of Public Safety (DPS) budget for FY 2020. Previously, the Legislature had appropriated an amount to DPS for funding a portion of highway patrol costs. Statute still permits, however, the use of up to $10.0 million of HURF annually for the DPS budget [A.R.S. § 28-6537]. The FY 2020 budget did not allocate any monies from HURF to DPS.

2018 LAWS

Laws 2018, Chapter 278 suspends, as session law, the statutory cap of $10.0 million established by A.R.S. § 28-6537 governing HURF revenues available to fund DPS' Highway Patrol costs.

Laws 2018, Chapter 283 amends Laws 2017, Chapter 312 to reduce the special HURF distribution from $60.0 million to $30.0 million in FY 2020. *(See section 7.)* In addition to that modification of the special HURF distribution, the legislation eliminates the $30.0 million allocation from the Highway Expansion and Extension Loan Program Fund in FY 2019. *(See section 6.)* These measures were taken due to the creation of the Highway Safety Fee established in Laws 2018, Chapter 265. For more information, please see the Department of Public Safety section in the *FY 2019 Appropriations Report.*

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

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 (HURF) to pay for highway construction and maintenance. The rate was last adjusted in 1990. In addition to the 18¢ per gallon motor vehicle fuel tax, there is also a 1¢ per gallon tax on gasoline and other petroleum products placed in underground storage tanks (see the *Underground Storage Tank Tax* section for more information.)

DISTRIBUTION

Table 1 shows a 20-year revenue history for this tax. Almost all of the tax on motor vehicle fuel consumed in vehicles operated on Arizona roads and highways is deposited in HURF [A.R.S. § 28-6533].

NOTE: Prior years' tax handbooks displayed statutory distributions to the State Lake Improvement Fund, Watercraft Fuel Tax Administration Fund, and Off Highway Vehicle Recreation Fund as coming directly from motor vehicle tax collections. In 2017, ADOT reported that, as a technical matter, those distributions instead come from the motor vehicle fuel tax portion of the Highway User Revenue Fund and revised its reporting accordingly. The Tax Handbook issued in 2018 and subsequent years conform with the revised reporting and displays those distributions in the *Highway User Revenue Fund Overview* section rather than in this section.

Tax collections are distributed on the following basis (see *Table 2* on following page):

- *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 HURF [A.R.S. § 28-5925]. (See *HURF Overview* at the beginning of this section for distribution of HURF monies.)

Table 1

COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
2024	$552,446,267	2014	$476,475,676
2023	$540,365,097	2013	$470,658,374
2022	$560,676,896	2012	$471,264,772
2021	$512,699,298	2011	$471,346,375
2020	$523,499,259	2010	$471,232,029
2019	$541,214,864	2009	$474,008,922
2018	$536,651,832	2008	$512,094,400
2017	$527,157,899	2007	$516,208,893
2016	$518,458,963	2006	$503,210,580
2015	$492,554,392	2005	$496,340,649

SOURCE: ADOT, Office of Financial Planning.

WHO PAYS

The motor vehicle fuel tax is presumed to be a direct tax on the consumer but is still collected and remitted to ADOT by suppliers for the purpose of convenience. In other words, the tax is collected and paid to ADOT 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 COLLECTIONS

Fiscal Year	Highway User Revenue Fund 1/	State Aviation Fund	Refunds to Taxpayers	Net Collections
2024	$545,352,478	$422,060	$6,671,729	$552,446,267
2023	$532,833,851	$330,926	$7,200,320	$540,365,097
2022	$537,858,884	$333,524	$22,484,488	$560,676,896
2021	$505,224,900	$327,649	$7,146,749	$505,224,900
2020	$515,447,923	$360,942	$7,690,394	$523,499,259
2019	$531,067,688	$316,959	$9,830,217	$541,214,864
2018	$527,355,093	$341,400	$8,955,340	$536,651,832
2017	$515,115,783	$306,780	$11,735,335	$527,157,899
2016	$505,686,632	$325,479	$12,446,852	$518,458,963
2015	$481,249,488	$329,326	$10,975,578	$492,554,392
2014	$467,004,158	$313,075	$9,158,443	$476,475,676
2013	$461,046,068	$358,677	$9,253,630	$470,658,374
2012	$461,978,721	$312,914	$8,973,138	$471,264,772
2011	$463,532,008	$383,655	$7,430,713	$471,346,375
2010	$464,016,951	$339,980	$6,875,098	$471,232,029
2009	$467,401,612	$380,429	$6,226,880	$474,008,922
2008	$503,954,401	$420,915	$7,719,084	$512,094,400
2007	$509,239,936	$460,470	$6,508,486	$516,208,893
2006	$499,069,011	$462,598	$3,678,970	$503,210,580
2005	$491,113,158	$499,136	$4,728,355	$496,340,649

1/ Use Fuel Tax collections excluded.

REVENUE BASE AND RATE

The revenue 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 on 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 operating a motor vehicle on a highway, a motor vehicle on a transportation facility or toll road (public-private partnerships), or a watercraft on a waterway 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 succeeding calendar month to ADOT [A.R.S. § 28-5925].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this tax from 2018 through 2024.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf.

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 the motor vehicle fuel tax rate, or 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 (HURF).

DISTRIBUTION

The use fuel tax is deposited in HURF [A.R.S. § 28-5730]. (See *HURF Overview* at the beginning of this section for distribution of HURF monies.)

Table 1

COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
2024	$271,711,283	2014	$176,367,953
2023	$251,863,885	2013	$177,240,384
2022	$256,878,389	2012	$180,242,229
2021	$249,838,316	2011	$178,684,336
2020	$217,957,656	2010	$171,308,245
2019	$218,817,526	2009	$173,930,895
2018	$202,113,866	2008	$207,859,050
2017	$201,696,623	2007	$210,281,755
2016	$193,290,854	2006	$213,460,036
2015	$184,499,917	2005	$194,368,181

SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning.

WHO PAYS

The use fuel tax is presumed to be a direct tax on the consumer but is still collected and remitted to the Arizona Department of Transportation (ADOT) by suppliers for the purpose of convenience. In other words, the tax is collected and paid to ADOT 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].

REVENUE BASE AND RATE

The revenue 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 ADOT [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 on 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]. There is an exception to both of these rates for healthy forest enterprises, which pay 9¢ per gallon through December 31, 2024.

PAYMENT SCHEDULE

Tax that is accrued in any calendar month shall be paid on or before the 27th day of the succeeding calendar month to ADOT [A.R.S. § 28-5925].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this tax in the period from 2018 through 2023.

2024 LAWS

Laws 2024, Chapter 208 modifies the procedures for a vendor to receive a refund on use fuel tax payments. Chapter 208 removes the option for a use fuel vendor to apply for an eligible refund once a week if the amount of the requested refund totals at least $750. A vendor must instead apply for an eligible refund on a monthly basis.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

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.

Table 1

COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
2024	$1,315,566,245	2014	$776,650,468
2023	$1,268,127,016	2013	$728,290,689
2022	$1,209,493,565	2012	$716,086,941
2021	$1,226,266,999	2011	$719,280,662
2020	$1,053,745,450	2010	$735,972,889
2019	$1,045,019,207	2009	$796,683,787
2018	$990,139,421	2008	$858,975,998
2017	$939,766,758	2007	$875,746,210
2016	$881,841,424	2006	$831,950,743
2015	$823,916,863	2005	$747,013,406

SOURCE: ADOT, Office of Financial Planning.

DISTRIBUTION

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

For monies collected from most vehicles:

- 45% to the Highway User Revenue Fund (HURF)
- 24.6% to county general funds
- 5.8% to counties for transportation-related purposes
- 24.6% to incorporated cities and towns

Once the 45% of HURF is distributed, the VLT distribution appears as follows:

<u>Counties - 38.7%</u>
- 24.6% to county general funds
- 14.1% to county highway and transportation purposes

<u>Cities and Towns - 38.0%</u>
- 24.6% to incorporated city and town general funds
- 13.4% to incorporated city and town highway and transportation purposes

<u>State - 23.3%</u>
- 19.0% to the State Highway Fund
- 3.1% to Motor Vehicle Department (MVD) third parties
- 0.9% to the state General Fund
- 0.3% to the Department of Public Safety Parity Compensation (DPS) Fund

Table 2

DISTRIBUTION

Fiscal Year	State General Fund	State Highway Fund	MVD Third Parties [1/]	Local Governments [2/]	DPS Parity Comp Fund	Net Collections
2024 [3/]	$11,442,709	$249,349,274	$41,342,984	$1,009,038,737	$4,392,541	$1,315,566,245
2023 [4/]	$12,695,697	$243,520,720	$37,195,913	$970,527,937	$4,186,748	$1,268,127,016
2022 [5/]	$11,162,230	$231,875,393	$35,547,112	$926,888,627	$4,020,203	$1,209,493,565
2021 [6/]	$34,031,974	$213,907,193	$43,873,374	$930,328,254	$4,126,204	$1,226,266,999
2020 [7/]	$33,124,601	$191,273,551	$28,632,555	$797,171,355	$3,543,388	$1,053,745,450
2019 [8/]	$51,213,367	$176,389,479	$32,271,808	$781,612,168	$3,532,385	$1,045,019,207
2018 [9/]	$9,047,112	$186,164,005	$31,547,056	$760,041,747	$3,339,501	$990,139,421
2017 [10/]	$8,378,583	$177,280,870	$29,658,748	$721,286,730	$3,161,827	$939,766,758
2016 [11/]	$7,447,186	$167,311,596	$27,010,326	$677,099,368	$2,972,948	$881,841,424
2015 [12/]	$6,956,810	$158,315,406	$23,469,044	$632,404,919	$2,770,684	$823,916,863

1/ A.R.S. § 28-5101 provides for the reimbursement of authorized MVD third parties for their services performed. The majority of reimbursement monies come from the State Highway Fund.

2/ Includes the following VLT distributions equaling 76.7% of all VLT: 24.6% for incorporated city and town general funds, 24.6% for county general funds, 14.1% for county highway and transportation purposes and 13.4% for incorporated city and town highway purposes.

3/ In FY 2024, there was a distribution in the amount of $8.5 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of $2,879,700 for school financial assistance and $17,400 from the MVD Registration Compliance program per Laws 2002, Chapter 328, which requires ADOT to deposit 50% of any increase in VLT collections due to vehicle registration enforcement in the General Fund.

4/ In FY 2023, there was a distribution in the amount of $8.0 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of $4,667,900 for school financial assistance and $7,500 from the MVD Registration Compliance program per Laws 2002, Chapter 328, which requires ADOT to deposit 50% of any increase in VLT collections due to vehicle registration enforcement in the General Fund.

5/ In FY 2022, there was a distribution in the amount of $8.3 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of $2,807,700 for school financial assistance and $93,700 from the MVD Registration Compliance program per Laws 2002, Chapter 328, which requires ADOT to deposit 50% of any increase in VLT collections due to vehicle registration enforcement in the General Fund.

6/ In FY 2021, there was a distribution in the amount of $9.9 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of $734,400 for school financial assistance and $15,700 from the MVD Registration Compliance program per Laws 2002, Chapter 328, which requires ADOT to deposit 50% of any increase in VLT collections due to vehicle registration enforcement in the General Fund.

7/ In FY 2020, there was a distribution in the amount of $8.6 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Per Laws 2019, Chapter 263, there was another distribution in the amount of $23.4 million to the General Fund from the $15.5 million transfer of the "excess" highway safety fee revenues and the $7.9 million suspension of State Highway Fund appropriated funding in the DPS budget. Additionally, there were allocations to the General Fund of $1,137,000 for school financial assistance and $14,000 from the MVD Registration Compliance program per Laws 2002, Chapter 328, which requires ADOT to deposit 50% of any increase in VLT collections due to vehicle registration enforcement in the General Fund.

8/ In FY 2019, there was a distribution in the amount of $7.9 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Per Laws 2018, Chapter 276, there was another distribution in the amount of $42 million to the General Fund from the elimination of HURF in the DPS budget. Additionally, there were allocations to the General Fund of $930,300 for school financial assistance and $25,400 from the MVD Registration Compliance program per Laws 2002, Chapter 328, which requires ADOT to deposit 50% of any increase in VLT collections due to vehicle registration enforcement in the General Fund.

9/ In FY 2018, there was a distribution in the amount of $8.1 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of $1.0 million for school financial assistance and $9,800 from the MVD Registration Compliance program.

10/ In FY 2017, there was a distribution in the amount of $7.2 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of $1.2 million for school financial assistance and $27,200 from the MVD Registration Compliance program.

11/ In FY 2016, there was a distribution in the amount of $6.2 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of $930,600 for school financial assistance and $274,000 from the MVD Registration Compliance program.

12/ In FY 2015, there was a distribution in the amount of $5.5 million of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there were allocations to the General Fund of $1.2 million for school financial assistance and $305,400 from the MVD Registration Compliance program.

SOURCE: ADOT, Office of Financial Planning.

For monies collected from alternative fuel vehicles (except those purchased on or after January 1, 2020 that exceed 10,000 pounds), car rental surcharges, and private ambulances, fire fighting vehicles, and school buses:

- 37.61% to HURF
- 20.45% to county general funds
- 4.91% to counties for transportation-related purposes
- 20.45% to incorporated cities and towns
- 5.73% to the State Highway Fund
- 10.85% to the General Fund for school financial assistance

In addition to these statutory distributions, session law may distribute VLT for other purposes, as shown in the footnotes of *Table 2.*

(See *HURF Overview* at the beginning of this section for distribution of HURF monies.)

Of the VLT distributed to the State Highway Fund, 1.51% is dedicated to the Parity Compensation Fund.

WHO PAYS

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

REVENUE 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
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 period [A.R.S. § 28-5804].

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 through 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].

Alternative Fuel Vehicles (Class 10)
- During the first 12 months of the life of a vehicle (as determined by its initial registration) purchased before January 1, 2020, the assessed value of the vehicle is a percentage set by the ADOT Director of the manufacturer's base retail price, not to exceed 10% per legislative intent. After the first 12 months of the vehicle's life, the assessed value of the vehicle is 15% less for each 12-month period than the manufacturer's base retail price.
- For vehicles purchased on or after January 1, 2020, there are 2 classifications based on weight:
  - During the first 12 months of life of a vehicle that is 10,000 pounds or less, the assessed value of the vehicle is 30% 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.

- For vehicles that exceed 10,000 pounds, the assessed value is determined in the same manner as Class 1 through 8 vehicles [A.R.S. § 28-5805].

RATE

For Classes 1 through 8, the VLT rate is $2.80 per $100 of assessed value for the first 12 months of the vehicle's life, and $2.89 per $100 of value thereafter. Exception: for noncommercial trailers that are not travel trailers and have a gross vehicle weight of less than 10,000 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 that are not travel trailers 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 6 years old which have been previously registered in another state, and $100 for trailers 6 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]. For new Class 10 vehicles initially registered from and after December 31, 2022, the minimum VLT is $10 per year [A.R.S. § 28-5805].

EXEMPTIONS

A veteran who is a resident of Arizona and whose vehicle, or replacement of such vehicle, is acquired by financial aid from the U.S. Department of Veterans Affairs 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, a veteran and another party, or the surviving spouse of a veteran, if such veteran is certified by the U.S. Department of Veterans Affairs as 100% disabled and drawing compensation. Only 1 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 1 vehicle may be claimed by a resident with a disability.

An Arizona resident who is a member of the U.S. Armed Forces, including a member of a National Guard or Reserve unit, who is deployed in support of a worldwide contingency operation of the U.S. Armed Forces may register or renew the registration of a motor vehicle for 1 year without payment of registration fees and VLT. No more than 2 motor vehicles owned or leased by the member of the U.S. Armed Forces may be claimed. This exemption may only be taken 1 time by the member of the U.S. Armed Forces, the member's spouse or the member's legally-designated representative [A.R.S. § 28-5811].

A spouse or dependent of a first responder or U.S. military member killed in the line of duty is exempted from VLT and the registration fee. The exemption ends when the spouse remarries or dies, or when the dependent turns 18 (or 23 if a full-time student), and is limited to 1 vehicle per claimant [A.R.S. § 28-5803.01].

An enrolled member of an Arizona tribe who resides within the boundaries of a reservation may claim an exemption from the VLT [Arizona Constitution, Article 20, Section 5].

PAYMENT SCHEDULE

The VLT is due and collected annually at the time of vehicle registration [A.R.S. § 28-5801]. Exception: depending on eligibility, owners of vehicles may participate in a 2-year or 5-year vehicle registration program and prepay the VLT for the subsequent year or years [A.R.S. § 28-2159].
ADOT collects tax payments and fees.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this tax in 2020, 2021, and 2023.

2024 LAWS

Laws 2024, Chapter 208 modifies the notification requirements for registering officers of motor vehicles. Chapter 208 removes the requirement that a registering officer notify the taxpayer the amount they would pay in vehicle license tax if the taxpayer's vehicle was powered by alternative fuel.

2022 LAWS

Laws 2022, Chapter 264 alters the maximum weight limit for an all-terrain vehicle or off-highway vehicle to qualify for a $3 VLT payment from 1,800 pounds to 2,500 pounds. Chapter 264 further states that the minimum VLT payment for new alternative fuel vehicles initially registered from and after December 31, 2022 is $10.

2019 LAWS

Laws 2019, Chapter 206 clarifies that a vehicle owned by a government entity is exempted from the requirement to collect a rental vehicle surcharge. Such rental vehicle surcharges levied on persons other than government entities must be used for reimbursement of the VLT imposed on the rental vehicles.

Laws 2019, Chapter 313 alters the formula for calculating the VLT due for an alternative fuel vehicle. The bill makes the following changes:

- For vehicles initially registered or transferred in 2022, the initial value of the vehicle will be 20% of the manufacturer's base retail price rather than 1%.
- For vehicles initially registered or transferred in 2023, the initial value of the vehicle will be 60% of the manufacturer's base retail price as it is with gas powered vehicles.
- The initial value of vehicles purchased before 2022 will continue to be calculated based on 1% of the manufacturer's base retail price until the vehicle is transferred to a new owner.

2018 LAWS

Laws 2018, Chapter 265 modifies the alternative fuel vehicle VLT rate as follows:

1. For alternative fuel vehicles purchased before January 1, 2020, the taxable value of the vehicle is a percentage set by the ADOT Director of the manufacturer's base retail price, not to exceed 10%, per legislative intent. For each successive 12-month period, the vehicle's assessed value is 15% less for each 12-month period than the manufacturer's base retail price.
2. For alternative fuel vehicles purchased after January 1, 2020 that are 10,000 pounds or less, the value of the vehicle is 30% of the manufacturer's base retail price. For each successive 12-month period, the vehicle's assessed value is 15% less than the assessed value for the preceding 12-month period.
3. For alternative fuel vehicles purchased after January 1, 2020 that are over 10,000 pounds, the standard VLT rate will apply.

Prior to Chapter 265, the assessed value for motor vehicles powered by alternative fuel was determined in the same manner as Class 9 vehicles.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

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 (HURF).

DISTRIBUTION

Table 1 shows a 20-year revenue history for this fee.

Table 1

COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
2024	$58,404,860	2014	$38,841,688
2023	$58,485,676	2013	$37,310,404
2022	$56,698,432	2012	$37,349,582
2021	$52,128,892	2011	$36,299,755
2020	$45,472,271	2010	$35,807,490
2019	$45,812,078	2009	$40,483,421
2018	$42,822,555	2008	$40,177,453
2017	$42,090,754	2007	$45,226,185
2016	$41,058,142	2006	$40,504,406
2015	$40,226,982	2005	$37,980,023

SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning.

All collections from the motor carrier fee are deposited in HURF [A.R.S. § 28-6501]. (See *HURF Overview* at the beginning of this section for distribution of HURF.)

WHO PAYS

A person who operates or causes to be operated a motor vehicle on a public highway [A.R.S. § 28-5851].

REVENUE 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	32,001 - 36,000 lbs.	$155
14,001 - 16,000 lbs.	$73	36,001 - 40,000 lbs.	$173
16,001 - 18,000 lbs.	$82	40,001 - 45,000 lbs.	$336
18,001 - 20,000 lbs.	$91	45,001 - 50,000 lbs.	$374
20,001 - 22,000 lbs.	$101	50,001 - 55,000 lbs.	$412
22,001 - 24,000 lbs.	$110	55,001 - 60,000 lbs.	$450
24,001 - 26,000 lbs.	$119	60,001 - 65,000 lbs.	$627
26,001 - 28,000 lbs.	$128	65,001 - 70,000 lbs.	$693
28,001 - 30,000 lbs.	$137	70,001 - 75,000 lbs.	$750
30,001 - 32,000 lbs.	$146	75,001 - 80,000 lbs.	$800

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 of ADOT shall compute a reduced fee that is seven-tenths of the original fee if the 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].

In addition to a commercial registration fee of $4 and a gross weight fee, each light motor vehicle pays an annual fee of $64. A light motor vehicle is a self-propelled motor driven vehicle that has a declared gross weight of 12,000 or fewer pounds and used to transport for hire persons, freight or property. The light motor vehicle fee exempts the vehicle from transaction privilege tax or similar taxes related to transporting for hire [A.R.S. § 28-5492]. Vehicle for hire companies (i.e., taxis, livery vehicles or limousines) and transportation network companies (such as Uber and Lyft) are exempt from the light motor vehicle fee [A.R.S. § 42-5062].

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].

ADOT 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 [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. § 28-5854B].

The collecting agency is ADOT [A.R.S. § 28-5854B].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this fee from 2018 through 2024.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf.

OTHER FUND REVENUE SOURCES

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

COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
2024	$422,061	2014	$313,075
2023	$330,926	2013	$358,677
2022	$333,524	2012	$312,914
2021	$327,649	2011	$383,655
2020	$360,942	2010	$339,980
2019	$316,959	2009	$380,429
2018	$341,400	2008	$420,915
2017	$306,780	2007	$460,470
2016	$325,479	2006	$462,598
2015	$329,326	2005	$499,136

SOURCE: Arizona Department of Transportation (ADOT), Office of Financial Planning.

WHO PAYS

The aviation fuel tax is presumed to be a direct tax on the consumer but is still collected and remitted to the Arizona Department of Transportation (ADOT) by suppliers for the purpose of convenience. In other words, the tax is collected and paid to ADOT by a supplier, who then adds the tax to the price of aviation fuel to recover it from the consumer [A.R.S. § 28-5606].

REVENUE BASE AND RATE

The revenue base is aviation fuel, which means all flammable liquids composed of a mixture of selected hydrocarbons manufactured and blended for the purpose of 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 on which the tax has previously been paid and that 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 ADOT [A.R.S. § 28-5925].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this tax in the period from 2018 through 2024.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

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 from the Nuclear Emergency Management Fund for nuclear emergency response.

DISTRIBUTION

Through 2017, monies collected from the commercial nuclear generating station assessment were deposited in the General Fund. Laws 2017, Chapter 43 redirected these monies to be deposited directly into the Nuclear Emergency Management Fund (NEMF) [A.R.S. § 26-306.01D], beginning in FY 2018.

Table 1

COLLECTIONS

Fiscal Year	General Fund	NEMF
2025	$0	$2,484,600
2023	$0	$2,434,868
2022	$0	$2,267,935
2021	$0	$2,210,929
2020	$0	$2,576,291
2019	$0	$2,549,792
2018	$0	$2,526,277
2017	$2,503,140	$0
2016	$2,412,474	$0
2015	$2,404,010	$0
2014	$2,269,086	$0
2013	$2,153,517	$0
2012	$1,782,028	$0
2011	$1,812,420	$0
2010	$1,569,091	$0
2009	$1,523,108	$0
2008	$1,440,492	$0
2007	$1,367,248	$0
2006	$1,198,087	$0
2005	$1,168,550	$0

SOURCE: Department of Revenue, Annual Reports

WHO PAYS

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. § 26-306.01D]. In practice, the assessment is only paid by the Palo Verde nuclear plant.

REVENUE BASE AND RATE

Pursuant to Laws 2021, Chapter 71, the amount of the assessment is equal to the biennial legislative appropriation from the Nuclear Emergency Management Fund, plus an additional 10% per year for interest [A.R.S. § 26-306.01D]. However, any unexpended monies in the Nuclear Emergency Management Fund at the end of each fiscal year are used to offset the assessment in future years [A.R.S. § 26-306.02B]. 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. § 26-306.01A].

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 1 year, the Legislature may require the Director of Emergency Management to notify the United States Nuclear Regulatory Commission [A.R.S. § 26-306.01D&E].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to the assessment in 2018, 2020, 2022, and 2024.

2023 LAWS

Laws 2023, Chapter 114 levies an assessment of $2,434,868 in FY 2024 and $2,484,600 in FY 2025. Under FY 2024 appropriations, the monies will be used for the Division of Emergency Management under the Department of Military and Emergency Affairs (DEMA) for the sum of $2,113,549 with 8.5 FTE and for the Arizona Department of Agriculture (AZDA) for $321,319 with 2.88 FTE. Under FY 2025 appropriations, the monies will be used for the Division of Emergency Management under DEMA for $2,176,031 with 8.5 FTE and AZDA for $308,569 with 2.88 FTE (Effective May 8, 2023).

2021 LAWS

Laws 2021, Chapter 74 levies an assessment of $2,210,929 in FY 2022 and $2,267,935 in FY 2023. Chapter 74 also makes technical changes and removes the Arizona Department of Health Services from receiving a portion of the assessment. (Effective March 23, 2021)

2019 LAWS

Laws 2019, Chapter 24 levies an assessment of $2,549,792 in FY 2020 and $2,576,291 in FY 2021. (Effective March 22, 2019)

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

INSURANCE GUARANTY FUND ASSESSMENTS

DESCRIPTION

The Department of Insurance and Financial Institutions (DIFI) manages 2 Guaranty Funds - the Arizona Property and Casualty Insurance Guaranty Fund, and the Life and Disability Insurance Guaranty Fund [A.R.S. § 20-662 and § 20-683]. These 2 funds serve as a safeguard in the event that a certified insurance provider becomes insolvent or is placed under a court order of rehabilitation. The Property and Casualty Insurance Guaranty Fund covers policies on property insurance, casualty insurance and workers' compensation insurance. The Life and Disability Insurance Guaranty Fund covers policies on life insurance, disability insurance and annuities. Each Guaranty Fund is administered by a separate Board of Directors with members appointed by the Governor [A.R.S. § 20-662, A.R.S. § 20-664, A.R.S. § 20-684, and A.R.S. § 20-685].

DISTRIBUTION

Each Guaranty Fund is broken into 3 accounts.

Arizona Property and Casualty Insurance Guaranty Fund [A.R.S. § 20-662]

- Automobile insurance account
- Workers' compensation insurance account
- Account for all other insurance covered by the fund

The Board of Directors levies assessments for each account and spends money only for the purposes of that account. The Board of Directors can levy an additional assessment for administrative costs [A.R.S. § 20-664 and A.R.S. § 20-666F].

Life and Disability Insurance Guaranty Fund [A.R.S. § 20-683]

- Life insurance account
- Disability account
- Annuity account

The obligations of the fund are not allowed to exceed the amount to which the impaired or insolvent member insurer is contractually liable. However, there are caps on the amount of obligations that the fund can pay, even if the insolvent or impaired insurer is contractually liable for an amount above the cap. The cap on obligations is $300,000 for life insurance death benefits, or $100,000 for net cash withdrawal or net cash surrender for life insurance. The cap on obligations is $300,000 for disability income and long-term care insurance; $500,000 for health benefit plans; and $100,000 for coverages not defined as disability income, long term care, or health benefit plans. The cap on obligations to the annuity account is $250,000 in present value annuity benefits. [A.R.S. § 20-682E]

If an individual, firm or corporation owns multiple policies, the fund's obligation cannot exceed $5 million. [A.R.S. § 20-682F]

Table 1

COLLECTIONS – ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND 1/

Fiscal Year	Automobile Account	Worker's Compensation Account 2/	Other Account	Total Net Collections
1998	$3,949,018	$0	$1,446,788	$5,395,806

1/ Since FY 1996, assessments were only levied in FY 1998.
2/ Laws 2014, Chapter 186 moved the workers' compensation account from the Industrial Commission Special Fund to the Arizona Property and Casualty Insurance Guaranty Fund.

SOURCE: Department of Insurance and Financial Institutions

Table 2

COLLECTIONS – LIFE AND DISABILITY INSURANCE GUARANTY FUND 1/

Fiscal Year	Life Account	Disability Account	Annuity Account	Total Net Collections 2/ 3/
2024	$0	$5,566,900	$0	$5,566,900
2023	$0	$6,389,000	$0	$6,389,300
2022 6/	$0	$4,735,000	$0	$5,435,000
2021 4/5/	$0	$7,006,021	$0	$7,006,257
2020	$0	$15,789,400	$0	$15,789,400
2019	$0	$9,159,400	$0	$9,159,400
2018	$0	$6,980,900	$0	$6,980,900
1997	$13,542,000	$0	$10,089,000	$23,631,000

1/ No assessment was levied from FY 1998 through FY 2017.
2/ The FY 2018 collections shown in the table include a $3,000,000 administrative assessment pursuant to A.R.S. §20-686A.
3/ The FY 2020 collections shown in the table include a $1,968,100 administrative assessment pursuant to A.R.S. §20-686A.
4/ The FY 2021 collections shown in the table include a $4,349 disability account assessment pursuant to A.R.S. §20-686A
5/ The FY 2021 collections shown in the table include a $236 administrative account assessment pursuant to A.R.S §20-686A
6/ The FY 2022 collections shown in the table include a $700,000 administrative account assessment pursuant to A.R.S §20-686A.

SOURCE: Department of Insurance and Financial Institutions

WHO PAYS

Arizona Property and Casualty Insurance Guaranty Fund: Member insurers pay the assessment. A member insurer under the Arizona Property and Casualty Insurance Guaranty Fund is a person who is licensed to write any kind of insurance, unless that person only writes life, title, surety, disability, credit, mortgage guaranty or ocean-marine insurance [A.R.S. § 20-661 and A.R.S. § 20-666A].

Life and Disability Insurance Guaranty Fund: Member insurers pay the assessment. A member insurer is any insurer or health care services organization that holds a certificate of authority and transacts life, disability or annuity insurance in the state and may include member insurers who may have had the certificate of authority suspended, revoked, not renewed or voluntarily withdrawn [A.R.S. § 20-681 and A.R.S. § 20-686A].

As shown in *Table 1*, prior to FY 2018 the guaranty fund assessments have not been levied since 1998. However, an assessment of $7.0 million was levied for the Life and Disability Insurance Guaranty Fund (LDIGF) in FY 2018. The assessment is the result of the failure of 2 national insurance companies that sold policies in Arizona. The affected policies are primarily long-term care policies and are covered by the disability insurance account of the LDIGF. While the exact amount of liabilities to the fund is not yet known, estimates exceed $150 million. The department and the board intend to levy assessments over multiple years to cover the expected liabilities to match actual fund payouts, rather than making larger assessments up front.

REVENUE BASE

The assessments for each Guaranty Fund are determined by each fund's respective Board of Directors. The amount owed by member insurers is based on the proportion of premiums written by a member insurer to total premiums written for all member insurers by insurance type for each subaccount. For example, if a member insurer receives 25% of all life insurance premiums in the state, then that member insurer will be responsible for 25% of the life insurance account assessment under the Life and Disability Insurance Guaranty Fund [A.R.S. § 20-666 and A.R.S. § 20-686].

The Arizona Property and Casualty Insurance Guaranty Fund assessment cannot exceed 1% of a member insurer's net direct premiums from the preceding calendar year on the type of insurance in the subaccount. In addition to the assessments for each subaccount, the board of directors may levy an additional assessment on each member insurer for operating expenses not to exceed $200 annually [A.R.S. § 20-666B and A.R.S. § 20-666F].

The Life and Disability Insurance Guaranty Fund is made up of 2 types of assessments, Class A and Class B. Class A assessments are set at a level by fund administrators to pay for administration expenses. Class B assessments are divided into the 3 accounts. The amount of a Class B assessment that goes to a particular account is proportional to the share of an insolvent or impaired insurer's total premiums that are covered under that particular account, except for long term care policies. For example, if 10% of an impaired insurer's premiums are covered by the disability insurance account, then 10% of the assessment levied to member insurers as a result of the impaired insurer will go to the disability insurance account under the Life and Disability Insurance Guaranty Fund, except for assessments for long term care policies which are split - 50% allocated to disability insurers and 50% allocated to life and annuity insurers. The total from both Class A and Class B assessments imposed on a member insurer in 1 calendar year cannot exceed 2% of the average of total premiums collected during the 3 years before the offending member insurer became insolvent [A.R.S. § 20-686].

PREMIUM TAX OFFSET

Under both guaranty funds, member insurers who pay the assessment offset their premium tax liability by 20% of the assessment in the year of the assessment and by 20% in each of the succeeding 4 years. However, the total amount of the premium tax offset cannot exceed 100% of the assessment [A.R.S. § 20-674 and A.R.S. § 20-692].

RECENT HISTORY

Recent assessments to the ALDIGF levied since FY 2018 are due to the failure of 2 national insurance companies with business in Arizona, Penn Treaty Network American Insurance Company and its subsidiary, American Network Insurance Company. Unlike other large multi-state insurance companies that sell multiple lines of insurance, Penn Treaty and American Network almost exclusively issued long-term care insurance policies. These types of policies increased in the 1990's as the Baby Boom generation began to plan for retirement. However, many of the actuarial assumptions that went into the pricing decisions were wrong, causing the costs of the policies to outweigh the premiums collected.

Due to these miscalculations combined with the economic and financial conditions of the Great Recession, the Pennsylvania Department of Insurance determined that Penn Treaty and American Network would not have the ability to cover future claims without an average premium increase of 300%. In 2009, the Pennsylvania Department of Insurance deemed such premium increases to be unfair to policyholders and instead requested an order of liquidation. After years of litigation, a Pennsylvania court ordered the liquidation in March 2017, requiring state guaranty funds to cover claims issued in the respective states.

As a result of the liquidation order, the ALDIGF board issued an assessment in November 2017 (its first since FY 1997) to ensure the ALDIGF is adequately funded *(See table 2, above)*. Similar assessments will continue over many years, likely decreasing over time, to match the annual fund payouts. While the exact amount of the total assessments is not yet known, the department estimates that total assessments could exceed $150 million through CY 2051.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to these assessments from 2019 through 2024.

2018 LAWS

Laws 2018, Chapter 64 expands the Life and Disability Insurance Guaranty Fund board from 9 to 11 members and adds health care service organizations as assessment-paying member insurers. Chapter 64 also redefines how Class B assessments for long term care policies are paid, allocating 50% of the assessment to disability insurers and 50% to life and annuity insurers. (Effective December 31, 2018)

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

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

Effective August 9, 2017, Laws 2017, Chapter 312 provides that 100% of jet fuel excise and jet fuel use tax collections be 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* shows total jet fuel excise and use tax collections deposited into the State Aviation Fund pursuant to Laws 2017, Chapter 312, beginning in FY 2018.

Table 1

JET FUEL EXCISE AND USE TAX COLLECTIONS

Fiscal Year	Net Collections
2024	$5,294,946
2023	$5,682,556
2022	$4,774,822
2021	$5,054,642
2020	$4,850,825
2019	$4,956,396
2018	$4,151,398

SOURCE: Arizona Department of Revenue (ADOR), Annual Report

Through FY 2017, 40% of the excise tax revenue collected was designated as distribution base and was distributed as described in the Transaction Privilege Tax (TPT) section of this book. Sixty percent of the excise tax revenue, and 100% of the use tax revenue, was credited directly to the state General Fund [A.R.S. § 42-5353]. The history of jet fuel excise tax and use tax distributions can be found in the *Jet Fuel Excise and Use Tax* section of the 2021 Tax Handbook.

As noted above, Laws 2017, Chapter 312 provides that 100% of jet fuel excise and jet fuel use tax collections be deposited in the State Aviation Fund, beginning in FY 2018. To hold the General Fund, cities, and counties harmless, Chapter 312 provides that monies received from the aircraft license tax (pursuant to A.R.S. § 28-8345) be distributed as follows:

- 50% to the state General Fund
- 9.5% to counties based on proportion of total state population
- 5.5% to incorporated cities and towns based on proportion of total state population

Chapter 312 provides that the remaining 35% to the aircraft license tax be deposited in the State Aviation Fund. (For more details, see the *Aircraft License Tax* section.)

WHO PAYS

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].

REVENUE BASE AND RATE

The tax rate is 3.05¢ per gallon on the first 10 million gallons of jet fuel per filer. 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 the Transaction Privilege Tax (TPT) [A.R.S. § 42-5353]. Electronic filing and payment requirements are the same as for TPT [A.R.S. § 42-5014].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this tax in the period from 2018 to 2024.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf.

HOSPITAL ASSESSMENT

DESCRIPTION

The Arizona Health Care Cost Containment System (AHCCCS) is required to establish, administer, and collect a hospital assessment for state costs that are not otherwise covered by voter-approved tobacco revenues and other state funds for the Proposition 204 and Adult Expansion populations, on and after January 1, 2014. [A.R.S. § 36-2901.08]

Proposition 204, also known as the "Healthy Arizona Initiative," was a voter-approved ballot initiative in year 2000 that expanded AHCCCS eligibility for childless adults, parents, and other Proposition 204 populations (i.e., aged, blind and disabled individuals) with incomes that exceed the limits for the Traditional population but are not above 100% of the federal poverty level (FPL). However, in July 2011, enrollment for Proposition 204 childless adults was suspended to address the FY 2012 budgetary shortfall. Other Proposition 204 populations retained coverage and their enrollment continued unaffected.

Beginning January 1, 2014, the federal Affordable Care Act (ACA) required mandatory expansion of Medicaid eligibility to children up to 133% FPL, while making expansion of adult eligibility up to 133% FPL an option of the state. Arizona opted to restore its prior Proposition 204 childless adult coverage along with expanding participation to all adults with incomes up to 133% FPL. *(See the JLBC Staff's January 1, 2014 Expansion of Medicaid Eligibility and the Affordable Care Act Program Summary for more information.)* [A.R.S. § 36-2901.01, A.R.S. § 36-2901.07]

A hospital assessment was enacted to pay for the state's share of physical health costs of Proposition 204 Childless Adult Restoration (0-100% FPL), other Proposition 204 populations, and Adult Expansion (100-133% FPL). AHCCCS is normally prohibited from using the assessment toward the behavioral health costs of these populations. Laws 2024, Chapter 215, however, permits AHCCCS to use hospital assessment funds to cover a portion of these behavioral health costs in FY 2025 and FY 2026. Hospital assessment monies are matched with enhanced Federal Medical Assistance Percentages (FMAP) to cover AHCCCS costs incurred by the Proposition 204 Childless Adult Restoration and the Adult Expansion populations. Hospital assessment monies that fund state costs of other Proposition 204 populations in AHCCCS receive the regular 2-to-1 federal match rate.

The enactment of HB 2668 (Laws 2020, Chapter 46) further expands the assessment beginning October 1, 2020. In contrast to the original assessment, the Health Care Investment Fund assessment is levied to increase base reimbursement rates for services on AHCCCS' dental and physician fee schedules. The assessment also makes directed payments to hospitals to supplement the base reimbursement level for services provided to AHCCCS members. Monies flow through the Health Care Investment Fund, also established by Laws 2020, Chapter 46.

COLLECTIONS

Combined, the hospital assessment and the Health Care Investment Fund Assessment generated an estimated $1.12 billion in collections in FY 2024. *Table 1* below provides historical assessment collections since the assessment's initial implementation in FY 2014.

Table 1

COLLECTIONS

State Fiscal Year	Total Collections	Hospital Assessment Fund	Health Care Investment Fund
2024*	$1,122,614,651	$628,227,365	$494,387,286
2023	$1,020,541,742	$574,038,155	$446,503,587
2022	$941,674,065	$533,591,850	$408,082,215
2021	$746,539,015	$507,448,870	$239,090,145 1/
2020	$329,326,003	$329,326,003	-
2019	$286,187,021	$286,187,021	-
2018	$287,956,535	$287,956,535	-
2017	$265,500,280	$265,500,280	-
2016	$250,204,956	$250,204,956	-
2015	$270,538,669	$270,538,669	-
2014	$75,193,195	$75,193,195	-

*AHCCCS' preliminary assessment estimate
1/ The Health Care Investment Fund assessment was only levied for 9 months in State Fiscal Year (SFY) 2021.

SOURCE: Arizona Health Care Cost Containment System, Hospital Assessment Reports.

DISTRIBUTION

In FY 2024, AHCCCS levied an estimated $1.12 billion in aggregate hospital assessment revenues.

Assessment amounts collected under the original hospital assessment may be used to fund the acute care costs of Proposition 204 Childless Adult Restoration (0-100% FPL), other Proposition 204 populations and Adult Expansion (100-133% FPL). These costs are included within the AHCCCS budget. Of the $1.12 billion in total assessment collections, an estimated $628.2 million funds the acute care costs of these populations via the Hospital Assessment Fund.

Under the ACA, the federal government provides an 90% federal match rate for Proposition 204 childless adults and Adult Expansion. Hospital assessment funding for other Proposition 204 populations receives a regular 2-to-1 match rate.

Beyond the original hospital assessment, assessment collections deposited into the Health Care Investment Fund may be used to increase reimbursement rates in AHCCCS' dental and physician fee schedules, as well as to increase base reimbursement payments to hospitals serving AHCCCS members. Each hospital reimbursement class is placed in a payment pool with its own target pay-to-cost ratio. An estimated $494.4 million of hospital assessment collections were distributed through the Health Care Investment Fund in FY 2024. Of this amount, $433.8 million would be used to fund the state share of directed hospital payments.

Assessment funds distributed to AHCCCS are not remitted to the General Fund, do not lapse and are continuously appropriated. [A.R.S. § 36-2901.09]

WHO PAYS

A.R.S. § 36-2901.08A and A.R.S. § 36-2999.73 allow AHCCCS the option to levy the assessments on a participating hospital's revenues, discharges or bed days to fund the state share of costs incurred for Affordable Care Act expansion and to fund the cost of making directed payments to hospitals and increasing base reimbursement rates in AHCCCS' dental and physician fee schedules. [A.R.S. § 36-2901.01, A.R.S. § 36-2901.07] Statute also permits AHCCCS to establish the amount, method, modifications or exemptions to the assessment, such as the size of the hospital, the specialty services available to patients and the geographic location of the hospital. [A.R.S. § 36-2901.08C] Federal regulations require that assessments be broad-based and uniformly applied to all providers within a specified class of providers. *Table 2* lists the hospital providers (by peer hospital classification) that contributed to the FFY 2024 assessment and the respective percentage amounts to the total funds AHCCCS collected in FFY 2024.

Table 2

Hospital Provider Peer Group (# of hospitals) 1/	FFY 2024 Subtotals 2/	% of total
Urban Acute Providers (29)	$713,166,975	62.0%
Critical Access Hospital (CAH) Providers (12)	18,396,142	1.6%
Non-CAH Rural Acute Providers (12)	151,302,974	13.1%
Long-Term Care Provider (5)	648,364	0.1%
Large Psychiatric Provider (12)	15,266,432	1.3%
Pediatric-Intensive General Acute Hospitals (1)	39,580,831	3.4%
Medium Pediatric Intensive General Acute Hospitals (5)	202,956,063	17.6%
Freestanding Children's Hospitals (1)	9,875,755	0.9%
Total	**$1,151,193,536**	**100.0%**

*AHCCCS' preliminary assessment estimate
1/ In FFY 2024, 77 hospitals participated in the hospital assessment.
2/ The revenue estimates included in this table reflect that AHCCCS levies its assessment on a federal fiscal year (FFY) basis. This differs from how AHCCCS reports actual collections on a state fiscal year (SFY) basis in *Table 1*.

REVENUE BASE AND RATE

AHCCCS determines the amount to collect based on the estimated state funding needed to cover ACA expansion (original hospital assessment), directed payments to hospitals (Health Care Investment Fund assessment), and base reimbursement rates to AHCCCS' dental and physician fee schedules (Health Care Investment Fund assessment). Each hospital's share of the inpatient assessment is calculated by multiplying discharges reported on the hospital's Medicare Cost Report by the hospital's per-inpatient discharge rate. Although rates differ among hospital peer groups, each hospital must agree to the discharge rate before it can be imposed. *Table 3* outlines each peer hospital group's discharge rate on a per-inpatient basis for FFY 2024.

Table 3

Hospital Provider Peer Group (# of hospitals) 1/	FFY 2024 Inpatient Discharge Rate 2/	FFY 2024 Outpatient % of Net Revenue 3/
Urban Acute Providers (29)	$1,173.25	8.2983%
Critical Access Hospitals (CAH) (12)	$1,173.25	2.0746%
Non-CAH Rural Acute Providers (12)	$1,173.25	4.9789%
Long-Term Care Provider (5)	$293.50	2.0746%
Large Psychiatric Provider (12) 4/	$293.50	2.0746%
Pediatric-Intensive General Acute Hospitals (1)	$938.75	5.3938%
Medium Pediatric Intensive General Acute Hospitals (5)	$1,056.00	6.2237%
Freestanding Children's Hospitals (1)	$235.00	1.6597%
WEIGHTED AVERAGE	**$970.19**	**6.6196%**

1/ The assessment rate estimates included in this table reflect that AHCCCS levies its assessment on a federal fiscal year (FFY) basis. This differs from how AHCCCS reports actual collections on a state fiscal year (SFY) basis in *Table 1*.
2/ For FFY 2024, AHCCCS used discharge data from FYE 2021 Medicare Cost reports to calculate the inpatient assessment rate. The original hospital assessment would be allocated $481.4 million of inpatient revenue while the Health Care Investment Fund would be allocated $127.4 million.
3/ For FFY 2024, AHCCCS used FYE 2021 net patient revenues and gross patient revenues as reported in FYE 2021 Uniform Accounting Reports. The original hospital assessment would be allocated $160.4 million of outpatient revenue while the Health Care Investment Fund would be allocated $382.0 million.
4/ For discharges from a psychiatric sub-provider within an acute care hospital, the assessment rate is equal to the rate paid by Large Psychiatric Providers, or $293.50 in FFY 2024.

Since its January 1, 2014 implementation, the total hospital assessment liability has been split among hospitals according to their number of reported discharges and the per-inpatient discharge rate. In FFY 2021, AHCCCS added an assessment on outpatient services to keep pace with expected population growth and to meet 42 CFR § 433.68, a federal requirement that prevents health care assessments from exceeding 6% of net revenues (AHCCCS estimated levying an overall inpatient assessment of 5.21% and an outpatient assessment of 5.85% in FFY 2024). The outpatient assessment is calculated by multiplying net outpatient revenues by the provider type assessment rate percentage. *Table 3* outlines the percentage of each peer hospital group's outpatient net revenue for FFY 2024.

Table 4 provides overall inpatient and outpatient assessment rates since the assessment was established.

Table 4

Fiscal Year [1/]	Inpatient Assessment Rate	Outpatient Assessment Rate
2024	5.21%	5.85%
2023	5.48%	5.46%
2022	5.10%	5.26%
2021	5.78%	5.33%
2020	4.97%	-
2019	4.30%	-
2018	4.37%	-
2017	3.99%	-
2016	3.76%	-
2015	3.50%	-
2014	1.13%	-

1/ Beginning in 2021, assessment rates are reported on a federal fiscal year (FFY) basis. Prior to 2021, assessment rates were reported on a state fiscal year (SFY) basis.

Before any assessment can be imposed, federal Centers for Medicare & Medicaid Services (CMS) approval is required. Each hospital's inpatient discharge rate and assessment on net outpatient revenue (in FFY 2024) is verified to comply with federal regulations for permissible health care-related taxes outlined in federal regulations 42 CFR 433.68.

PAYMENT SCHEDULE

Payments for the original hospital assessment are made on a quarterly basis and are collected by AHCCCS. The funds are then held within the Hospital Assessment Fund before Federal Funds are drawn into the state for deposit at the time of payment. Total payments are based on state matching monies and various federal match rates before the total fund amount is distributed to managed care organizations and service providers.

Hospital payments from the Health Care Investment Fund are made on a quarterly basis to participating hospitals. AHCCCS implemented physician and dental fee schedule increases of 15% via a higher monthly capitation rate effective October 1, 2020.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of all statutory changes that have been enacted by the Legislature. The first legislation was in 2013, and in 2020, the legislature expanded the hospital assessment. There were no statutory changes to the Hospital Assessment in 2014 through 2019 or in 2021 through 2023.

2024 LAWS

Laws 2024, Chapter 215 permits AHCCCS to use hospital assessment funds to cover a portion of the behavioral health costs of Proposition 204 Childless Adult Restoration (0-100% FPL), other Proposition 204 populations, and the Adult Expansion (100-133% FPL) population in FY 2025 and FY 2026. The hospital assessment is normally limited to funding only the physical health costs of these populations.

2020 LAWS

Laws 2020, Chapter 46 requires AHCCCS to establish an assessment on hospital revenue, discharges, or bed days for the purpose of funding fee schedule increases for providers as well as increased payments to hospitals. The AHCCCS director is required to present the methodology to the JLBC before the implementation of the assessment and thereafter, if the methodology is modified.

2013 LAWS

Laws 2013, 1st Special Session, Chapter 10 requires AHCCCS to establish an assessment on hospital revenue, discharges, or bed days for the purpose of funding the state match portion of the Medicaid expansion (adults from 100%-133% of FPL) and the entire Proposition 204 population beginning January 1, 2014. In addition, Chapter 10 allows AHCCCS to establish modifications or exemptions to the assessment, such as the size of the hospital, the specialty services available to patients and the geographic location of the hospital. The AHCCCS director is required to present the methodology to the JLBC before the implementation of the assessment and thereafter if the methodology is modified.

The legislation additionally repeals the hospital assessment if: 1) the federal matching rate for adults from 100%-133% FPL or childless adults is less than 80%; 2) the federal ACA is repealed; or 3) the maximum amount that can be assessed and still retain a federal match, along with any other appropriated monies, is insufficient to pay for the Childless Adult Restoration to 100% of FPL and the Adult Expansion between 100% and 133% of FPL. (Effective September 12, 2013)

MARIJUANA EXCISE TAX

DESCRIPTION

The marijuana excise tax, which was approved by voters in November 2020 and commonly referred to as Proposition 207, is a tax on the sale and use of recreational marijuana for persons 21 years of age and older. Proposition 207 established a 16.0% tax on the sale of recreational marijuana and marijuana products [A.R.S. § 42-5452]. Marijuana establishments are also required to pay licensing fees. The monies collected from the excise tax and licensing fees are deposited into the Smart and Safe Arizona Fund.

DISTRIBUTION

Monies collected from the 16% excise tax levied on the sale of recreational marijuana and marijuana products are deposited into the Smart and Safe Arizona Fund (SSAF). SSAF monies are first used to pay administrative costs for certain agencies. The remainder of these monies are distributed on or before June 30 and December 31 of each calendar year as follows [A.R.S. § 36-2856]:

- 33.0% to community college districts, including:
  - 15.0% divided equally among each district.
  - 0.5% divided equally among each provisional district.
  - 17.5% divided among the districts according to enrollment.
- 31.4% to municipal police departments, municipal fire departments, fire districts, and joint powers authorities divided according to the number of individuals from each department enrolled in the Public Safety Personnel Retirement System.
- 25.4% to the Highway User Revenue Fund (HURF) for state and local transportation programs.
- 10.0% to the Justice Reinvestment Fund, including:
  - 3.5% to county health departments.
  - 3.5% to the Department of Health Services (DHS) for grants to qualified non-profit organizations that provide justice reinvestment programs.
  - 3.0% to DHS to address public health issues affecting the state.
- 0.2% to the Attorney General for enforcement.

Total collections and distributions from the marijuana excise tax by fiscal year are shown in *Table 1* below.

Table 1

COLLECTIONS AND DISTRIBUTION

Fiscal Year	Community Colleges	Local Law Enforcement and Fire Departments	State and Local Transportation Programs	Public Health and Criminal Justice Programs	Attorney General	Total Collections
2024	$58,280,719	$55,454,987	$44,858,492	$17,660,824	$353,216	$176,608,238
2023	$55,736,337	$53,033,969	$42,900,090	$16,889,799	$337,796	$168,897,991
2022	$43,830,739	$41,705,613	$33,736,387	$13,282,042	$265,641	$132,820,422
2021 1/	$12,264,684	$11,670,032	$9,440,090	$3,716,571	$74,331	$37,165,708

1/ Collections for FY 2021 only include the months of February through June.

SOURCE: State Treasurer

WHO PAYS

The 16.0% marijuana excise tax is levied on the sale and use of recreational marijuana and marijuana products and paid by the marijuana establishment [A.R.S. § 42-5452]. In addition to the excise tax, the Department of Revenue (DOR) is also collecting regular Transaction and Privilege Tax (TPT) and Use Tax from the sale of recreational marijuana. The monies collected under TPT and Use Tax are distributed to the General Fund and local governments.

REVENUE BASE AND RATE

Establishments that want to sell recreational marijuana may apply for a license at a rate of $25,000 for an initial license and a fee of $5,000 for a renewal of the recreational marijuana license, according to the Arizona Administrative Code Title 9, Chapter 18. Pursuant to A.R.S. § 36-2854, licenses must be renewed every two years. The licenses are available at a rate of 1 license for every 10 registered pharmacies in the state. An additional 26 licenses are available as part of the Social Equity program [A.R.S. § 36-2854]. According to the Arizona Department of Health Services, there were 169 licensees as of July 25, 2023. Establishments that obtain a recreational marijuana license will then pay a 16% excise tax on the sale of recreational marijuana and marijuana products. If the establishment also holds a medical marijuana license, the 16% tax will not be levied on the sale of marijuana purchased by individuals with a medical marijuana card.

PAYMENT SCHEDULE

The fees for licenses are due with the applications. The excise tax levied on the sale of recreational marijuana and marijuana products is due by the 20^{th} of each month.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2020. There were no statutory changes in 2022.

LAWS 2024

Laws 2024, Chapter 238 added two restrictions to the scope of DHS' rulemaking for marijuana delivery licenses. Chapter 238 provides that DHS may not impose a limit on either 1) the distance between a marijuana delivery licensee and the location of a delivery or 2) the number of vehicles a licensed establishment may use to deliver marijuana.

LAWS 2023

Laws 2023, Chapter 35 adds joint powers authorities to the list of statutory recipients of the 31.4% distribution for municipal police departments, municipal fire departments, and fire districts retroactively from January 1, 2021.

LAWS 2021

Laws 2021, Chapter 196 adds the marijuana excise tax to the state's confidentiality statutes.

LAWS 2020

Proposition 207 allows the sale of recreational marijuana by licensed marijuana establishments to individuals 21 years of age and older. The proposition requires that revenues from the sale of the newly created 16% excise tax on recreational marijuana and marijuana products be distributed as follows:

- 33.0% to community colleges
- 31.4% to local law enforcement and fire departments

- 25.4% to the state and local transportation programs
- 10.0% to public health and criminal justice programs
- 0.2% to the Attorney General

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. Live dog racing was prohibited in Arizona as of January 2017. Betting on simulcasts of foreign dog races was prohibited beginning July 1, 2024. Beginning January 1, 2029, all betting on simulcasts of dog races, both foreign and domestic, will be prohibited.

In July 2015, the Department of Racing was consolidated into the Department of Gaming under the title of the Division of Racing [A.R.S. § 5-101.01A]. The Division of Racing collects fees for licenses issued to facilities and personnel involved in the racing industry and regulatory assessments. The distribution has varied in the past several years. (See *Distribution* discussion below.)

The state's pari-mutuel tax does not apply to any Tribal gaming activities. Instead, on-reservation pari-mutuel wagering activity pursuant to the Tribal-State gaming compact is included as part of a tribe's calculation of Class III net gaming win. This Class III net win is subject to the tribal gaming contribution rates under the 2021 Gaming Compacts.

DISTRIBUTION

Table 1 below provides pari-mutuel tax and license fee collections for the past 20 years. Prior to FY 2010, pari-mutuel taxes, license fees, and unclaimed property monies collected by the Department of Revenue (DOR) were distributed among several different racing funds. In FY 2010 and FY 2011 these proceeds were all distributed to the General Fund. In FY 2012, licenses and assessments were deposited into the Racing Regulation Fund, while the pari-mutuel taxes continued to be deposited into the General Fund. Since FY 2013, all proceeds are distributed to the Racing Regulation Fund.

Table 1

COLLECTIONS

Fiscal Year	Pari-Mutuel Taxes	Licenses	Total Collections
2024	$62,309	$113,000	$175,309
2023	$161,958	$201,155	$363,113
2022	$154,271	$294,163	$448,434
2021	$120,646	$294,200	$414,846
2020	$175,303	$133,275	$308,578
2019	$242,683	$240,386	$483,069
2018	$236,678	$152,379	$389,057
2017	$225,334	$254,905	$480,239
2016	$158,085	$165,641	$323,726
2015	$185,892	$324,945	$510,837
2014	$215,525	$177,906	$393,431
2013	$234,628	$361,513	$596,141
2012	$254,801	$182,088	$436,889
2011	$284,807	$130,200	$415,007
2010	$314,021	$73,600	$387,621
2009	$326,590	$80,356	$406,946
2008	$429,592	$168,600	$598,200
2007	$431,437	$53,500	$484,900
2006	$527,860	$61,426	$589,286
2005	$483,901	$194,954	$655,914

SOURCE: Arizona Department of Gaming.

WHO PAYS

The taxpayer is the person, firm, partnership, corporation, or association that holds a pari-mutuel permit. No single permittee may simultaneously own more than 4 racetracks within the state. No permittee that holds a permit in a county of over 700,000 persons may simultaneously hold a permit for the same kind of racing in another county having a population of over 700,000 [A.R.S. § 5-108.03].

REVENUE BASE AND RATE

The revenue 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].

Laws 2016, Chapter 246 prohibits live dog racing in Arizona as of January 1, 2017. Prior to Chapter 246, the state received 5.5% of the total handle for dog racing. Laws 2024, Chapter 235 prohibits betting on simulcasts of foreign dog races beginning July 1, 2024 and domestic dog races beginning January 1, 2029.

For horse racing, the state receives 2% of the first $1.0 million of the daily pari-mutuel pool, and 5% of the amount exceeding $1.0 million of the daily pari-mutuel pool [A.R.S. § 5-111C].

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 associations with the permission of the Racing Commission. This exemption is limited to one racing meeting each year.
- Monies received from 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 that benefit the public.

Licenses and assessments. The Division of Racing issues annual licenses and assessments to facilities and personnel involved in the racing industry. The Division of Racing establishes and collects fees for the licenses it issues [A.R.S. § 5-104].

The licenses and assessments include:

- Racing licenses.
- A regulatory assessment from the purse accounts to pay for racing animal medication testing, and animal safety and welfare.
- A regulatory assessment from each permittee for each day of dark day simulcasting conducted in excess of the number of live racing days conducted by the permittee.
- A regulatory assessment from each commercial racing permittee equal to 0.5% of the handle, payable from amounts deducted from pari-mutuel pools by the permittee, in addition to the amounts the permittee is authorized to deduct from amounts wagered on live and simulcast races from in-state and out-of-state wagering handled by the permittee. Laws 2023, Chapter 134 continues to set the assessment ratio at 0.5% of the handle in FY 2024.

Note that these fees and assessments shall not be reduced for hardship tax credits or capital improvements.

Persons, firms, partnerships, corporations, or associations applying for a pari-mutuel permit are not charged a permit fee. Instead, the Division of Racing charges an annual licensing fee of $150 to the following individuals representing permit applicants, where appropriate: racetrack owners with a stake of 10% or greater, corporate officers, and racetrack general managers. However, prior to the issuance of a permit, each applicant must post a bond document of up to $300,000 for horse racing payable to the Division of Racing and the state [A.R.S. § 5-107D]. Each pari-mutuel permit holder must also make a refundable $5,000 deposit with the Division of Racing 10 days prior to a racing meeting to ensure payment of the amount of pari-mutuel tax due to the state [A.R.S. § 5-107C].

TAX REFUNDS AND/OR TAX CREDITS

Hardship Credit. Under prior law, a permittee was 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 through FY 1994.
- Multiply the total pari-mutuel tax liability for the current year by the percentage decrease determined above and multiply the result by 3.
- Reduce the permittee's pari-mutuel tax due for the current period, and all future periods, by the result. The hardship tax credit can be used in addition to any other tax exemptions, rebates, and credits.

The credits do not apply to licenses and assessments.

Laws 2016, Chapter 247 eliminated the Hardship Credit effective May 13, 2016. Hardship credits earned prior to May 13, 2016 may still be used to offset pari-mutuel tax owed after the effective date. The formula for determining the amount of pari-mutuel tax owed and the amount of hardship credits that can be applied to the pari-mutuel tax is displayed in *Table 2* on the following page. Prior to the elimination of the hardship credit, determination of the amount of hardship credits awarded was based on statutorily set base levels, industry trends and state pari-mutuel taxes from dollars wagered during the most recent fiscal year. *Table 2* assumes the continued operation of each of Arizona's commercial race tracks. Yavapai Downs was not in operation in FY 2017. However, J&J Equine Enterprises purchased the property in January 2018 and changed the track name from Yavapai Downs to Arizona Downs. The Arizona Downs track was granted a temporary permit to conduct live racing between FY 2019 and FY 2021 and reopened for horse racing at the start of FY 2020. The Apache Greyhound Park currently takes wagers on simulcast races but does not conduct any live racing.

Capital Improvements. The permittee's pari-mutuel annual tax liability may be reduced 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. [A.R.S. § 5-111.02 and A.R.S. § 5-111.03].

The capital improvements provision expired on June 30, 1992 for counties with populations of 500,000 or more, and on June 30, 1999 for all other counties. Projects approved prior to these dates may continue with the tax reduction until sufficient funds have been obtained for completion of the capital improvement.

The capital improvement reduction does not apply to licenses and assessments.

PAYMENT SCHEDULE

Pari-mutuel taxes are paid daily during the racing season. The tax is collected by the Division of Racing.

FY 2024 Hardship Tax Credit Usage Based on the FY 2023 Dollars Wagered [1/]

Table 2		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k) [1/]
Track	**Base Year**	**Base Year Amount**	**Tax Rate**	**FY 23 Actual Amount Wagered**	**FY 23 Amount Wagered Subject to Pari-Mutuel Tax**	**FY 23 Pari-Mutuel Tax owed before Hardship Credit**	**FY 23 Amount Wagered on Charity Days**	**FY 23 Allowable Hardship Credits**	**FY 23 Pari-Mutuel Tax paid after Hardship Credit**	**Carryover from FY 23 Hardship Credit**	**FY 23 Percent Change**	**FY 24 Tax due based on Percent Decrease**
						=b*d			**=e-f-g**	**=g-e**	**=(c-a)/a**	**=e*|j|**
AZ Downs	FY 1994	$17,490,826	2.0% [2/]	$9,235,641	$783,697	$15,674	$0	$0	$15,674	$0	-47.20%	$7,398
Turf	FY 1994	$101,467,993	2.0% [2/]	$78,706,920	$6,001,803	$120,036	$4,543 [4/]	$0	$115,493 [6/]	$14,564 [6/]	-22.43%	$26,924
Rillito	FY 1990	$3,887,981	2.0% [2/]	$1,129,278	$923,617	$18,472	$0	$18,472	$0 [7/]	$228,427	-70.95%	$13,106
Apache	FY 1990	$12,262,396	5.5%	$9,877,686	$0 [3/]	$0	$0	$0 [5/]	$0 [7/]	$0 [5/]	-16.90%	$0
Tucson	FY 1990	$38,110,346	5.5%	$0	$0 [3/]	$0	$0	$0 [5/]	$0 [7/]	$0 [5/]	-89.55%	$0

1/ Laws 2016, Chapter 247 eliminated the hardship credit effective May 13, 2016, no additional Hardship credits will be awarded after the effective date. Hardship credits earned prior to May 13, 2016 may still be used by racing tracks to offset pari-mutuel tax owed after this date.

2/ For horse racing, the state receives 2% of the first $1.0 million of the daily pari-mutuel pool, and 5% of the amount exceeding $1.0 million of the daily pari-mutuel pool [A.R.S. § 5-111C].

3/ Laws 2016, Chapter 246 prohibited live dog racing in Arizona effective January 2017. The Apache Greyhound track and the Tucson Greyhound track conduct only simulcast races; no live races are held at the Apache or Tucson racetrack. Wagering on simulcasts of out-of-state races is not subject to pari-mutuel tax [A.R.S. § 5-111].

4/ Charity days are defined as days on which the net proceeds of the pari-mutuel pool are donated to non-profit organizations and corporations that benefit the public. Monies received from races held on charity days are exempt from pari-mutuel tax [A.R.S. § 5-111].

5/ Laws 2016, Chapter 247 eliminated the hardship credit effective May 13, 2016. Although Chapter 247 allows credits earned before May 13, 2016 to still be used by racing tracks to offset pari-mutuel tax owed after this date, greyhound tracks are unable to use previously-accrued credits due to the elimination of live dog racing by Chapter 246.

6/ The Turf racetrack elected not to use the remaining balance of Hardship Credits.

7/ If the resulting amount in column (h) is negative, the track does not pay the pari-mutuel tax but rather that amount is subtracted from the Allowable Hardship Credit in column (g).

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018. There were no changes enacted to this tax in 2018.

2024 LAWS

Laws 2024, Chapter 210 continues the regulatory assessment levied on commercial racing permittees in FY 2025, which is equal to 0.5% of the permittees' handle.

As session law, changes the requirement that racehorses need to receive "gate approval" every 30 days to every 60 days in 2024 and 2025. "Gate approval" means a demonstration to confirm a racehorse has been trained on how to safely enter and exit the starting gate prior to racing at a commercial racetrack.

Laws 2024 Chapter 235 prohibits pari-mutuel wagering on simulcasts of foreign dog races beginning July 1, 2024 and domestic dog races beginning January 1, 2029.

2023 LAWS

Laws 2023, Chapter 134 continues the regulatory assessment levied on commercial racing permittees in FY 2024, which is equal to 0.5% of the permittees' handle.

2022 LAWS

Laws 2022 Chapter 306 continues the regulatory assessment levied on commercial racing permittees in FY 2023, which is equal to 0.5% of the permittees' handle.

2021 LAWS

Laws 2021, Chapter 6 classifies knowingly holding an unauthorized racing meeting as a class 6 felony and expands the definition of "racketeering" to include acts that involve holding and unauthorized racing meeting for financial gain [A.R.S. § 5-107.01H, A.R.S. § 13-2301D].

Laws 2021, Chapter 171 removes the limit on a live-racing permittee in a county with a population between 700,000 and 1,500,000 persons of owning or leasing 6 additional wagering facilities between August 27, 2019, and June 30, 2022. A live-racing permittee in such a county does need the written consent of a racetrack enclosure to own or lease an additional wagering facility withing 60 miles of the racetrack in a county:

- With a population between 200,000 and 500,000 persons, or
- With a population greater than 3,000,000 persons [A.R.S. § 5-118].

Laws 2021, Chapter 234 allows for wagering on live and simulcast races through the same means as the state's newly authorized event wagering activities, which includes online and mobile applications. Previously, state law authorized a process of "advance deposit wagering" for races that was conducted only by telephone. This change to allow for online and mobile race wagering is subject to any restrictions in federal law [A.R.S. § 5-1314B].

Laws 2021, Chapter 405 requires the Department of Gaming, by January 1, 2023, to convert a dog racing permittee's permit to a harness racing permit if the permittee meets the qualifications for a harness racing permit [A.R.S. § 5-110H]. Harness racing is a form of horse racing in which the horses race with a specific gait and typically pull along the jockey in a harness.

2020 LAWS

Laws 2020, Chapter 36 continues the Department of Gaming through July 1, 2026.

2019 LAWS

Laws 2019, Chapter 197 requires the Department of Gaming to allocate 1% of the horse racing handle to the Arizona Thoroughbred Breeders Association (ATBA) on a monthly basis. Chapter 197 creates the Arizona Horse Breeders' Fund to receive monies from the 1% handle allocation. The 1% allocation will be phased in according to the following schedule:

- 34% of the 1% handle allocation in FY 2020
- 67% of the 1% handle allocation in FY 2021
- 100% of the 1% handle allocation in FY 2022 and subsequent years

Additionally, Chapter 197 creates the Retired Racehorse Adoption Fund and requires the ATBA to contribute up to $25,000 annually to the Retired Racehorse Adoption Fund.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf.

TELECOMMUNICATIONS SERVICES EXCISE TAX

DESCRIPTION

The state is levying 3 separate taxes on telecommunications services. The *Emergency Telecommunication Services Tax* and the *Prepaid Wireless Telecommunications E911 Excise Tax* are levied for the purpose of financing 911 emergency telephone services for political subdivisions of the state and are both deposited into the *Emergency Telecommunication Services Revolving Fund.* The *Telecommunications Provider Proceeds Tax* is levied to finance telecommunication devices for deaf, severely hearing impaired, and severely speech impaired residents of the state and is deposited into the *Telecommunication Fund for the Deaf.*

DISTRIBUTION

Table 1 below provides a 20-year history of the distribution of the taxes levied on telecommunications services. As noted above, the current taxes levied on telecommunications services are deposited in either the *Emergency Telecommunication Services Revolving Fund* or the *Telecommunication Fund for the Deaf.* Prior to Laws 2006, Chapter 351, collections from the *Telecommunications Provider Proceeds Tax* were shared with the Poison Control System within the Department of Health Services (DHS), the Arizona State Schools for the Deaf and the Blind (ASDB), and the Teratogen Information Program administered by the University of Arizona Health Sciences Center.

Table 1

COLLECTIONS AND DISTRIBUTION

Fiscal Year	Emergency Telecomm. Svcs. Revolving Fund	Telecomm. Fund for the Deaf	Poison Control Fund 1/	AZ State Schools for the Deaf & the Blind 1/	Teratogen Information Program 1/
2024	$19,920,278	$2,263,168	-	-	-
2023	$19,754,480	$2,507,495	-	-	-
2022	$19,248,923	$2,900,471	-	-	-
2021	$18,912,788	$3,313,360	-	-	-
2020	$18,461,122	$3,597,537	-	-	-
2019	$17,717,433	$3,939,596	-	-	-
2018	$15,713,205	$4,386,029	-	-	-
2017	$17,810,659	$4,405,381	-	-	-
2016	$17,695,124	$4,641,805	-	-	-
2015	$17,850,677	$4,852,778	-	-	-
2014	$17,109,403	$4,865,666	-	-	-
2013	$16,425,768	$4,587,729	-	-	-
2012	$16,481,762	$4,857,379	-	-	-
2011	$16,606,135	$6,452,762	-	-	-
2010	$16,453,500	$6,086,692	-	-	-
2009	$17,774,128	$6,274,404	-	-	-
2008	$17,332,349	$6,581,940	-	-	-
2007	$23,074,167	$6,744,231	-	-	-
2006	$28,736,951	$3,860,508	$1,128,620	$ 867,140	$48,678
2005	$27,245,559	$4,035,765	$1,066,833	$1,363,179	$53,771

1/ Prior to Laws 2006, Chapter 351, 1.1% of the public service corporations' gross proceeds of sales or gross income from wired telephone lines (i.e., Telecommunications Provider Proceeds Tax) were distributed as follows: 0.68% to the Telecommunication Fund for the Deaf, 0.25% to the Poison Control Fund, 0.16% to the Arizona State Schools for the Deaf and the Blind Telecommunications Fund, and 0.01% to the Teratogen Information Program Fund.

SOURCE: Department of Revenue, Annual Reports

WHO PAYS

The *Emergency Telecommunication Services Tax* and *Telecommunications Provider Proceeds Tax* are both levied on the "provider." A "provider" is either of the following: (1) a public service corporation that provides exchange access services to a local telecommunications network, (2) a supplier of wireless services, or (3) a supplier of any combination of wire and wireless services [A.R.S. § 42-5251].

The *Prepaid Wireless Telecommunications E911 Excise Tax* is levied on the "seller." A "seller" is any business or person that sells prepaid wireless telecommunications service to a consumer. Prepaid wireless telecommunications service is a commercial mobile radio service that is paid in advance and sold in a predetermined amount, and which allows the caller to dial 911 to access the emergency system [A.R.S. § 42-5401].

REVENUE BASE AND RATE

BASE

The *Emergency Telecommunication Services Tax* is imposed on each activated wire and wireless service account, including Voice Over Internet Protocol (VoIP) [A.R.S. § 42-5252A].

The *Telecommunications Provider Proceeds Tax* is imposed on the public service corporations' gross proceeds of sales or gross income from the business of providing exchange access services [A.R.S. § 42-5252B]. Exchange services are essentially wired telephone or telecommunication exchange lines that provide access from the customer to the local telecommunications network. This tax does not apply to wireless and VoIP.

The *Prepaid Wireless Telecommunications E911 Excise Tax* is imposed on the seller's gross proceeds of sales or gross income derived from the retail sale of prepaid wireless telecommunications services [A.R.S. § 42-5402A].

RATE

Emergency Telecommunication Services. Beginning in FY 2008, the monthly rate is 20¢ per activated wire and wireless service account. The corresponding rate was 28¢ in FY 2007, and 37¢ in the period from FY 2001 through FY 2006 [A.R.S. § 42-5252A].

Telecommunications Provider Proceeds. An amount equal to 1.1% of the public service corporations' monthly gross proceeds of sales or gross income from wired telephone lines [A.R.S. § 42-5252B].

Prepaid Wireless Telecommunications E911. Beginning January 1, 2014, an amount of 0.8% of the monthly gross proceeds of sales or gross income derived from the retail sale of prepaid wireless telecommunications services [A.R.S. § 42-5402A].

PAYMENT SCHEDULE

Each provider remits the tax monthly to the Department of Revenue in the same manner and time as the Transaction Privilege Tax (TPT). Electronic filing and payment requirements are the same as for TPT. The seller of prepaid wireless telecommunications services is allowed to retain 3% of the amount of tax collected before remitting the tax to the department [A.R.S. § 42-5402B].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018. There were no changes enacted to this revenue category in the period from 2018 through 2024.

A listing of tax law changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf.

TRIBAL GAMING CONTRIBUTIONS

DESCRIPTION

Pursuant to the Indian Gaming Regulatory Act of 1988, Indian tribes are permitted to enter a gaming compact with the state to allow Class III ("casino-style") gaming to take place on tribal lands. Indian tribes that have entered a Tribal-State gaming compact are required to pay a share of their net win, which is the difference between gaming wins and losses before deducting casino operating costs, to the Arizona Department of Gaming (ADG).

The first Tribal-State gaming compacts in Arizona were signed and implemented in 1992. In 2002, voters passed Proposition 202, which continued tribal gaming and corresponded with the signing of new "standard form" Tribal-State compacts as specified in the ballot measure that were to last for 20 years. In 2021, amended and restated gaming compacts were entered into between the state and most Arizona Indian tribes for another 20 years.

The 2021 compacts stipulate that certain specified tribes contribute 1.0% to 8.0% of their net win to the state, depending on the annual level of the tribe's net winnings. All other tribes not specifically listed are required to contribute 0.75% of their net win to the state.

The 2021 compacts also require certain tribes to contribute to the 2021 Compact Trust Fund, with those funds then distributed to various tribes based on the allocation and priority system outlined in the compacts.

DISTRIBUTION

Of the total tribal contributions, the 2021 compacts require that 12.0% goes directly to either 2 types of allocations: 1) Cities, towns, and counties for government services; or 2) Deposited into the Commerce and Economic Development Commission Local Communities Fund, which provides grants to cities, towns, and counties for government services that benefit the general public [A.R.S. § 41-1505.12]. Tribes generally notify the State of their planned allocation on or before the first day of the Tribe's fiscal year.

The remaining 88.0% of tribal contributions is deposited into the Arizona Benefits Fund. $8.0 million or 9.0% of the fund (whichever is greater) is subject to legislative appropriation to ADG for administrative expenses. In addition, 2.0% is allocated to ADG to fund state and local programs for the prevention, education, and treatment of problem gambling. The remaining funds are to be distributed as follows [A.R.S. § 5-601.02]:

- 56.0% to the Instructional Improvement Fund to be used by school districts
- 28.0% to the Trauma and Emergency Service Fund to reimburse hospitals for unrecovered costs
- 8.0% to the Wildlife Conservation Fund to conserve, enhance, and restore Arizona's wildlife resources
- 8.0% to the Tourism Fund to promote tourism in the state.

Table 3, located at the end of this section, provides historical tribal gaming contributions and distributions since FY 2004.

WHO PAYS

Any Indian tribe that signs the Tribal-State gaming Compact is required to contribute a portion of its Class III net win for each fiscal year to the state for the privilege of operating casino-style gaming.

The 2021 compacts require the following tribes to contribute to the 2021 Compact Trust Fund:

- The Gila River Indian Community shall contribute $1.0 million per year for the first 3 years, $3.9 million for each of the next two years, then $4.8 million per year for years 5 through 10.
- The Salt River Pima-Maricopa Indian Community shall contribute $2.8 million per year for the first 3 years and $4.8 million each year for years 3-10.

- The Tohono O'odham Nation shall contribute $2.8 million per year for the first 3 years and $4.8 million each year for years 3 through 10.

REVENUE BASE AND RATE

The revenue base for tribal contributions is the net win on Class III games, which is the difference between gaming wins and losses before deducting casino operating costs. Under federal law, Class III games include all gaming activity permitted by a Tribal-State compact beyond certain specific games such as bingo. In practice, Class III games are typically thought of as "casino-style" or "Las Vegas-style" games. *Table 1* outlines the Class III games authorized under the Proposition 202 standard form compact, along with the expanded list of games authorized under the 2021 Gaming Compacts.

Table 1

Games Authorized Under 2003 Compact	Games Authorized Under 2021 Compact
Slot Machines	Slot Machines
Blackjack	Blackjack
Poker	Poker
Jackpot Poker	Jackpot Poker
Keno	Keno
Lottery	Lottery
Pari-Mutuel Wagering on Horse Races	Pari-Mutuel Wagering on Horse Races
Pari-Mutuel Wagering on Dog Races [1/]	Off-Track Pari-Mutuel Wagering
Off-Track Pari-Mutuel Wagering	Baccarat
	Roulette
	Craps
	Sic Bo
	Pai Gow
	Dealer Controlled Electronic Table Games
	Event Wagering (On-Reservation)
	Fantasy Sports Contests (On-Reservation)

1/ Live dog racing was prohibited in Arizona as of January 2017

Under the 2003 compacts, each tribe's gaming contribution was determined on a sliding scale based on the tribe's annual Class III net win, as shown in *Table 2* below.

Table 2

Tribal Contribution Rates – 2003 Compacts

Rate	Annual Class III Net Win
1.0%	First $25 million
3.0%	Next $50 million
6.0%	Next $25 million
8.0%	Above $100 million

Under the Amended 2021 compacts, only the following tribes are subject to the rates in *Table 2*: Gila River Indian Community, Salt River Indian Community, Ak Chin Indian Community, Tohono O'odham Nation, and Pascua Yaqui Tribe. The tribes which continue to be subject to the 1% to 8% contribution schedule may reduce their contribution rate to a 0.75% flat rate if certain 2021 compact provisions are violated (sometimes referred to as "poison pill" provisions) – these include: 1) Inter-tribal parity provisions (not allowing a specific tribe to exceed their gaming facility/device limits); and 2) Gaming exclusivity provisions (not authorizing additional off-reservation gaming changes under state law).

If a tribe is not included among the above listed tribes, then it is subject to a flat rate of 0.75% of Class III net win. Under the 2021 compact, a tribe subject to the 0.75% flat rate is required to revert to the rates describe in *Table 3* if ADG determines that the tribe has exceeded the gaming facility or gaming device limitations contained in the compact.

PAYMENT SCHEDULE

Tribal contributions to the Arizona Benefits Fund are paid quarterly to ADG and are to be made no later than 25 days after the last day of each fiscal quarter (relative to the tribe's fiscal year or the fiscal year of the tribe's gaming enterprise).

Contributions made to local cities, towns, and counties are to be made annually within 60 days of the last day of the tribe's fiscal year (or the fiscal year of the tribe's gaming enterprise). Any contributions not sent to a recipient by this time will be deposited into the Commerce and Economic Development Commission Local Communities Fund.

Payments into the 2021 Compact Trust Fund are due quarterly within 30 days after the last day of the fiscal quarter. Quarterly contributions are to be one-fourth of the yearly total required by the 2021 Amended Tribal-State Compact.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2021. There were no changes enacted to this revenue category in 2022, 2023, or 2024.

2021 LAWS

Laws 2021, Chapter 234 created the 2021 Compact Trust Fund for the purpose of mitigating the impacts to Indian tribes from gaming authorized by the 2021 Amended Tribal-State Gaming Compacts and for providing economic benefits to beneficiary Indian tribes.

Table 3

TRIBAL GAMING CONTRIBUTIONS AND DISTRIBUTIONS [1/]

Fiscal Year	ADG Regulation	Problem Gambling	Instructional Improvement Fund	Trauma and Energy Services Fund	Wildlife Conservation Fund	Tourism Fund	State Government Distribution	Local Government Distribution [2/]	Total
2024	$13,590,000	$3,020,000	$79,561,277	$39,391,654	$11,254,758	$11,254,758	$158,072,447	$21,019,081	179,091,528
2023	13,439,900	3,020,000	77,146,025	38,340,888	10,954,539	10,954,539	153,855,891	18,963,296	172,819,187
2022	9,828,100	2,184,000	63,213,760	30,812,434	8,803,552	8,803,552	123,645,398	15,082,122	138,727,520
2021	8,738,891	1,941,977	48,394,036	24,197,018	6,913,433	6,913,433	97,098,788	13,291,219	110,390,007
2020	9,161,100	2,040,749	50,877,738	25,427,734	7,265,066	7,265,066	102,037,453	13,970,025	116,007,478
2019	8,835,085	1,963,042	48,918,218	24,459,109	6,988,317	6,988,317	98,152,088	13,149,406	111,301,494
2018	8,484,380	1,885,417	46,984,612	23,492,306	6,712,087	6,712,087	94,270,890	12,521,209	106,791,099
2017	8,083,781	1,796,785	44,776,871	22,388,436	6,396,696	6,396,696	89,839,265	12,171,877	102,011,142
2016	8,167,732	1,815,051	45,231,085	22,615,543	6,461,584	6,461,584	90,752,579	12,252,168	103,004,747
2015	8,000,000	1,768,497	44,047,559	22,023,780	6,292,509	6,292,509	88,424,854	11,073,942	99,498,796
2014	8,000,000	1,734,570	43,116,596	43,116,596	6,159,514	6,159,514	86,728,492	11,110,954	97,839,446
2013	8,000,000	1,730,552	43,006,351	21,503,176	6,143,764	6,143,764	86,527,607	11,054,208	97,581,815
2012	8,000,000	1,698,738	42,133,367	21,066,684	6,019,052	6,019,052	84,936,893	12,406,538	97,343,431
2011	8,000,000	1,576,805	38,787,522	199,393,761	5,541,074	5,541,074	78,840,236	11,695,194	90,535,430
2010	8,000,000	1,557,862	38,267,751	19,133,875	5,466,822	5,466,722	77,893,132	11,120,883	89,014,015
2009	8,000,000	1,729,935	42,989,427	21,494,714	6,141,347	6,141,347	86,496,770	11,037,954	97,534,724
2008	8,642,304	1,920,512	47,859,160	23,929,580	6,837,023	6,837,023	96,025,602	15,152,219	111,177,821
2007	8,000,000	1,844,483	46,132,602	23,066,301	6,590,372	6,590,372	92,224,129	11,375,744	103,599,873
2006	8,000,000	1,621,758	40,021,045	20,010,522	5,717,292	5,717,292	81,087,909	10,620,530	91,708,439
2005	8,000,000	1,307,707	31,403,471	15,701,735	4,486,210	4,476,210	65,385,333	7,589,825	72,975,158
2004	8,000,000	759,140	16,350,809	8,175,404	2,335,830	2,335,830	37,957,013	2,590,530	40,547,543

1/ The numbers displayed represent monies distributed to agencies and may not correspond with agencies' actual expenditures or appropriation amounts.

2/ Local distributions may not proportionally match state distributions due to timing issues associated with different fiscal years.

UNDERGROUND STORAGE TANK TAX

DESCRIPTION

The tax applies to gasoline, diesel fuel, and aviation fuel. The tax finances the Underground Storage Tank (UST) Revolving Fund to provide partial coverage for corrective action costs incurred by the Department of Environmental Quality (DEQ), owners, operators, or political subdivisions. This 1¢ excise tax on petroleum products and hazardous substances became effective July 1, 1990. The tax is deposited in the UST Revolving Fund, which finances leak prevention programs and corrective action costs related to leaking USTs incurred by the department, owners, operators, or political subdivisions.

DISTRIBUTION

The Director of the Arizona Department of Transportation (ADOT) acts as the collecting agent for the Director of DEQ and is required, by the 20th day of each month, to distribute the UST Tax monies, net of administrative costs received during the preceding calendar month, to the Director of DEQ [A.R.S. § 28-6008]. The tax monies are then credited into the UST Revolving Fund [A.R.S. § 49-1036] and can be used in the following manner [A.R.S. § 49-1015]:

- Reimbursement for corrective action costs incurred by a political subdivision or an owner or an operator of an UST which is subject to the tax [A.R.S. § 49-1053].
- Provide grant monies. [A.R.S. § 49-1071].
- Reimburse DEQ for costs in taking corrective actions [A.R.S. § 49-1017].
- Reimburse DEQ for "reasonable" administration costs [A.R.S. § 49-1015].

Reimbursable Costs. The UST Revolving Fund may be used to reimburse costs of corrective actions incurred in soil and groundwater remediation. Corrective action cost reimbursements are limited to releases reported prior to January 1, 2023. Applications for preapproval must be submitted no later than December 31, 2029 and reimbursement of eligible costs must be submitted by no later than December 31, 2030. Pursuant to Laws 2021, Chapter 440, after December 31, 2032, reimbursements for corrective action costs will be limited to releases reported prior to January 1, 2033. Chapter 440 provides that applications for preapproval must be submitted by no later than December 31, 2039, and reimbursement of eligible costs must be submitted by no later than December 31, 2040.

Table 1

COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
2024	$37,222,600	2014	$28,579,676
2023	$37,277,004	2013	$29,023,072
2022	$35,448,412	2012	$28,233,058
2021	$32,875,717	2011	$28,644,426
2020	$31,999,200	2010	$28,703,900
2019	$32,804,131	2009	$28,652,200
2018	$33,037,711	2008	$31,581,700
2017	$30,302,036	2007	$32,092,000
2016	$31,796,946	2006	$36,174,100
2015	$29,853,233	2005	$30,759,200

SOURCE: Department of Environmental Quality

WHO PAYS

The operator and owner of an UST, which serves as the final dispenser of motor vehicle fuel, aviation fuel, and diesel, is responsible for payment of this tax. UST means tank(s) used to contain vehicle fuel, aviation fuel, and diesel with at least 10% of its volume underground [A.R.S. § 49-1001 and 49-1031B].

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. § 28-6003B].

REVENUE 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 (CERCLA) 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) USTs operated by the Federal or State Government or (2) USTs used for jet fuel [A.R.S. § 49-1031C]. Indian tribes are also exempt but through an intergovernmental agreement may participate in the new programs by paying the UST Tax [A.R.S. § 49-1057].

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].

Most taxpayers 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. The Director of DEQ may extend the filing time for "good cause" provided that at least 90% of the tax liability is paid upon the extension request [A.R.S. § 49-1033].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018. There were no changes enacted from 2022 to 2024.

2021 LAWS

Laws 2021, Chapter 407 suspends the administrative cap established in A.R.S. § 49-1015 for FY 2021 and authorizes DEQ to transfer up to $6.5 million from the UST Revolving Fund for administrative expenses and for sewage remediation.

Laws 2021, Chapter 440 includes the following provisions:

- Repeals the January 1, 2024 sunset date for the UST excise tax.
- Modifies UST performance standards.
- Allows monies in the UST Revolving Fund to be used to reimburse DEQ for reasonable and necessary costs that it incurs in administering the UST Site Improvement Program, rather than UST grant programs.
- Requires the UST excise tax and supported programs to be reviewed during the legislative sunset review of DEQ.
- Modifies preapproval process and eligibility requirements for reimbursement of corrective action.
- Modifies actions that can be taken by DEQ in placing liens against properties for unrecovered corrective action costs.
- Lengthens the period for conducting baseline assessments of USTs to January 1, 2033.
- Modifies standards for reimbursement of noncorrective actions.
- Applies new stipulations for UST owners and operators and those with previously ineligible claims to apply for and receive reimbursement of corrective action costs.
- Allows DEQ to determine the amount of monies in the UST Revolving Fund available to pay previously ineligible claims and pay claims at least once annually.
- Requires DEQ to develop criteria to prioritize payments that include reimbursing small UST owners and operators.
- Makes technical and conforming changes.

2020 LAWS

Laws 2020, Chapter 55 suspends the administrative cap established in A.R.S. § 49-1015 for FY 2021 and authorizes DEQ to transfer up to $6.5 million from the UST Revolving Fund for administrative expenses and for sewage remediation.

2019 LAWS

Laws 2019, Chapter 269 includes the following provisions:

- Suspends the administrative cap established in A.R.S. § 49-1015 for FY 2020 and authorizes DEQ to transfer up to $6.5 million from the UST Revolving Fund for administrative expenses and for sewage remediation.
- Appropriates and transfers $5.0 million from the UST Revolving Fund to the Water Quality Assurance Revolving Fund.

Laws 2019, Chapter 114 includes the following provisions:

- Modifies corrective action eligibility requirements.
- Requires DEQ's lien against a party responsible for a UST release for unrecovered corrective actions costs to be in the amount of the estimated increase in the property's appraised market value after the completed corrective action.
- Increases the maximum allowable grant amounts for a UST owner or operator:
  - From $100,000 to $200,000 for actions necessary to ensure the UST, the UST piping and the UST under-dispenser containment comply with new installation standards and other federal requirements;
  - From $10,000 to $20,000 for the confirmation of a suspected release at a UST or site;
  - From $30,000 to $40,000 for a baseline assessment of a site; and
  - From $100,000 to $300,000 total per site.
- Adds a reimbursement of up to $15,000 if petroleum is encountered during the UST removal and additional excavation is needed.
- Makes technical and conforming changes.

2018 LAWS

Laws 2018, Chapter 276 transfers $1.4 million from the UST Revolving Fund to the Arizona Department of Administration for Phase 5 of the DEQ web portal, myDEQ, which will automate additional permitting and compliance processes that are currently conducted with paper.

Laws 2018, Chapter 280 suspends the administrative cap established in A.R.S. § 49-1015 for FY 2019 and authorizes DEQ to transfer up to $6.5 million from the UST Revolving Fund for administrative expenses and for sewage remediation.

Laws 2018, Chapter 299 includes the following provisions:

- Amends Laws 2015, Chapter 247 to permit reimbursement up to $1.0 million per facility for corrective actions conducted between July 1, 2010 and December 31, 2016 for releases that were properly reported and confirmed before federal responsibility requirements went into effect in 1988. The reimbursement amount is reduced by the amount of previously paid claims. A facility is prohibited from obtaining additional reimbursement if previous reimbursement exceeded $1.0 million. Requests for reimbursement from the UST Revolving Fund must be made by the owner or operator by December 31, 2018.
- Amends Laws 2015, Chapter 247 to permit an owner or operator that satisfies the federal reporting requirements through insurance to receive additional corrective action reimbursement for work conducted on or after January 1, 2016 without filing a timely claim against its insurance carrier if the release was reported between July 1, 2006 and December 31, 2015. Reimbursement is limited to $500,000 per facility after meeting a cost sharing obligation payment of $50,000. No reductions are made for payments previously made under the corrective action program. In effect, this allows these facilities to receive up to $1.0 million in reimbursement payments like other facilities that maintained insurance and holds them harmless for not filing a timely release against their insurance carrier.
- Makes technical and conforming changes.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

UNEMPLOYMENT INSURANCE TAX

DESCRIPTION

Employers are required to pay both federal and state unemployment insurance taxes. Each employer is required to make contributions based on wages paid for employment, the employer's history of benefit charges, and the solvency of the statewide unemployment insurance (UI) system. These contributions are used to pay benefits to unemployed persons.

In summary, an employer is paying the following taxes and assessment on the first $8,000 of each employee's wages for calendar year (CY) 2024:

- A base state unemployment tax of between 0.05% and 14.03% (with an average of 1.31%).
- A net Federal Unemployment Tax Act (FUTA) rate of 0.6%.

The base state unemployment insurance rate is between 0.02% and 5.4% of the first $8,000 of each employee's wages in CY 2023 and each year thereafter pursuant to Laws 2021, Chapter 412. An individual employer's rate varies depending on the solvency of an employer's unemployment insurance account. These rates may be further adjusted depending on the solvency of the state's overall unemployment insurance system. The average state unemployment insurance rate is 1.31% in CY 2024, resulting in an effective average per-employee tax of approximately $105.

The state unemployment insurance taxes fund 26 weeks of benefits at a maximum of $320 per week beginning in FY 2023. The maximum duration of benefits declines to 24 weeks if the state's unemployment rate in the prior calendar quarter is less than 5% pursuant to Laws 2021, Chapter 412. During periods of high unemployment, the state tax may not generate sufficient revenue to fund all 26 weeks of benefits. The state can then borrow funds from the federal government to cover its cost, as Arizona did in 2010.

In addition, an employer pays a net federal unemployment tax of 0.6% of the first $8,000 of wages in CY 2023 and each year thereafter. Arizona employers who pay their state taxes on time receive a tax credit equal to 5.4% on the FUTA rate of 6.0% for a net rate of 0.6%. The FUTA rate may increase above 0.6% if the Unemployment Insurance Trust Fund has unpaid loan balances from the federal government for at least 2 years. Arizona's FUTA rate last rose above 0.6% in CY 2013. *(See 2020 Tax Handbook for Additional information.)*

FUTA funds are deposited into 3 federal accounts. The first, the Employment Security Administration Account (ESAA), which supports state program administration for the Unemployment Insurance program and the Employment Service program. The second, the Extended Unemployment Compensation Account (EUCA), provides the funds for the 50% share of the Extended Benefits program; the other 50% share is from the state's Unemployment Compensation Fund. The third, the Federal Unemployment Account (FUA), provides a loan fund for state unemployment programs in distress to ensure a continued flow of benefits.

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

			COLLECTIONS		
Fiscal Year	Average State Contribution Rate 1/	Total Collections	Unemployment Tax Contributions	Reimbursement Payments in Lieu of Tax 2/	Federal Reimbursements
2024	1.31%	$408,205,780	$395,104,287	$10,812,869	$2,288,623
2023	1.32%	$406,446,829	$397,471,951	$6,522,896	$2,451,982
2022	1.48%	$606,579,448	$462,618,519	$3,818,728	$140,142,201
2021	2.28%	$1,188,400,861	$495,975,868	$49,934,044	$642,490,948
2020	1.60%	$5,132,200,910	$382,554,712	$9,778,325	$4,739,867,873
2019	1.73%	$444,743,565	$430,695,116	$11,547,371	$2,501,078
2018	2.36%	$513,382,500	$496,845,436	$13,651,773	$2,885,291
2017	2.38%	$497,209,125	$479,203,084	$15,020,981	$2,985,059
2016	2.40%	$483,885,156 3/	$463,819,390	$15,826,137	$4,239,629 3/
2015	2.40%	$711,205,617	$440,950,664	$18,962,246	$251,292,706
2014	2.40%	$918,177,420	$431,452,278	$22,607,013	$464,118,129
2013	2.40%	$1,101,706,097 5/	$415,808,516	$26,457,982	$659,439,599 7/
2012	2.90% 4/	$1,485,462,876 5/	$391,350,470	$37,569,725	$1,056,542,680 7/
2011	2.64% 4/	$2,257,212,580 6/	$354,688,388	$50,022,678	$1,852,501,515 8/
2010	2.08%	$1,755,552,142	$277,863,738	$52,537,283	$1,425,151,121 8/
2009	1.36%	$587,359,403	$246,091,332	$21,889,172	$319,378,899 8/
2008	1.39%	$301,561,384	$282,038,804	$14,111,465	$5,411,115
2007	1.52%	$324,836,608	$304,835,124	$13,736,790	$6,264,694
2006	1.48%	$311,615,055	$288,389,906	$16,099,858	$7,125,290
2005	1.43%	$254,702,773	$228,222,848	$18,269,674	$8,210,251

1/ Contribution rates are based on calendar years. Represents effective average contribution rate after accounting for all adjustments.
2/ Certain non-profit organizations, the state government and its 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].
3/ The Unemployment Insurance Title XII Loan was paid off on 05/01/2015.
4/ Rate includes a special assessment of 0.4% in CY 2011 and 0.5% in CY 2012 according to Laws 2011, Chapter 218 to pay down the state's federal loan balance.
5/ Includes funds received from the federal government for borrowing and emergency unemployment.
6/ Includes funds received from the federal government for borrowing, emergency unemployment, extended benefits, and the Reed Act.
7/ In FY 2012 - FY 2013, Federal Reimbursements include extensions of benefits authorized by the Emergency Unemployment Compensation program enacted in the federal Supplemental Appropriations Act of 2008, as well as additional extensions authorized by the Unemployment Compensation Extension Act of 2008, by the American Recovery and Reinvestment Act of 2009 (ARRA), and most recently by the American Taxpayer Relief Act of 2012. All of these benefit extensions and increases are federally funded. In addition, these funds include monies received from the federal loan.
8/ In FY 2009 - FY 2011, the Federal Reimbursements include extensions of benefits authorized by the Emergency Unemployment Compensation program enacted in the federal Supplemental Appropriations Act of 2008, as well as additional extensions authorized by both the Unemployment Compensation Extension Act of 2008 and the American Recovery and Reinvestment Act of 2009 (ARRA) and a benefit increase also authorized by ARRA. All of these benefits extensions and increases are federally funded. In addition, these funds include monies received from the federal loan and the Reed Act.

SOURCE: Department of Economic Security

WHO PAYS

The unemployment insurance tax is paid by Arizona employers [A.R.S. § 23-726].

The following employing units are excluded from the definition of employer and are, therefore, not subject to the unemployment insurance tax (for definition of employer and employing unit, see A.R.S. § 23-613):

(1) Any employing unit that has not employed at least 1 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 volunteer 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.
(4) An employer that has a combined Unemployment Compensation Fund contribution, Unemployment Special Assessment Fund contribution, and Arizona Job Training Fund contribution amount of less than $10 due in a quarter.

    NOTE: Employers, once covered by unemployment insurance, are not permitted to terminate coverage simply by virtue of this exemption [A.R.S. § 23-725].

REVENUE BASE

The revenue base is the wages from employment. The unemployment insurance tax is levied on the first $8,000 of wages in CY 2023 and each year thereafter. Wages mean 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. § 23-622B.)

A.R.S. § 23-615 and § 23-617 list the services not included in the definition of employment.

RATE

<u>State Base Rate</u>
The maximum base 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 2.0% [A.R.S. § 23-729].

If the employer's account has been subject to charges for benefits, the maximum rate is adjusted downward depending on the employer's reserve, which is the contributions received from the employer minus 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 equals or exceeds the total benefits chargeable to the employer's account prior to July 1 of the preceding calendar year, 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 employer’s reserve surplus (the excess of contributions paid to the Unemployment Compensation 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 in *Table 2* on the next page:

Table 2

EMPLOYER CONTRIBUTION RATES
POSITIVE RESERVE RATIO

Positive Reserve Ratio	Base Statutory Rate	2024 Adjusted Rate [1/]
less than 3% [2/]	2.60%	6.76%
3% to 4%	2.40%	6.24%
4% to 5%	2.15%	5.59%
5% to 6%	1.90%	4.94%
6% to 7%	1.65%	4.29%
7% to 8%	1.40%	3.64%
8% to 9%	1.15%	2.99%
9% to 10%	0.90%	2.34%
10% to 11%	0.65%	1.69%
11% to 12%	0.40%	1.04%
12% to 13%	0.15%	0.39%
13% or more	0.02%	0.05%

1/ Base rate adjusted to account for overall system solvency.
2/ At 0%, the Base Statutory Rate is 2.7%.

(2) If an employer's reserve equals zero, the adjusted contribution rate for the ensuing calendar year shall be 7.02%. If an employer has a negative reserve ratio, the contribution rate is displayed in Table 3.

Table 3

EMPLOYER CONTRIBUTION RATES
NEGATIVE RESERVE RATIO

Negative Reserve Ratio	Base Statutory Rate	2024 Adjusted Rate [1/]
less than (3)%	2.85%	7.41%
(3)% to (4)%	3.05%	7.93%
(4)% to (5)%	3.30%	8.58%
(5)% to (6)%	3.55%	9.23%
(6)% to (7)%	3.80%	9.88%
(7)% to (8)%	4.05%	10.53%
(8)% to (9)%	4.30%	11.17%
(9)% to (10)%	4.55%	11.82%
(10)% to (11)%	4.80%	12.47%
(11)% to (12)%	5.05%	13.12%
(12)% to (13)%	5.30%	13.77%
(13)% or more	5.40%	14.03%

1/ Base rate adjusted to account for overall system solvency.

State Adjusted Rate

Employer contribution rates may be further adjusted depending on the level of overall 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 systemwide Required Income Rate in accordance with *Table 4*. The required income rate will be used in a calculation to determine whether the employer contribution rates need to be adjusted.

Table 4

Fund Ratio	Required Income Rate
12.0% or more	0.40%
10.0% to 12.0%	0.50%
9.5% to 10.0%	0.60%
9.0% to 9.5%	0.70%
8.5% to 9.0%	0.80%
8.0% to 8.5%	0.90%
7.5% to 8.0%	1.00%
7.0% to 7.5%	1.10%
6.5% to 7.0%	1.20%
6.0% to 6.5%	1.30%
5.5% to 6.0%	1.40%
5.0% to 5.5%	1.50%
4.5% to 5.0%	1.70%
4.0% to 4.5%	1.80%
3.5% to 4.0%	2.00%
3.0% to 3.5%	2.00%
less than 3.0%	2.40%

At the beginning of 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 0.02% [A.R.S. § 23-730].

Sample State Rate Calculation
An employer who has benefit charges in the past year with total contributions in excess of total benefits charged and a positive reserve ratio of less than 3% would have a base statutory rate of 2.6% as identified in Positive Reserve Ratio in *Table 2*. This rate is then adjusted further based upon a series of calculations beginning with the determination of the fund ratio. Assuming a hypothetical Unemployment Compensation Fund balance of $1.67 billion and state taxable payroll of $28.5 billion, the fund ratio would be 5.87%. In accordance with *Table 4*, the Required Income Rate would be 1.40%. When applied against the state taxable payroll, the estimated required tax yield would be $399.6 million, which is then adjusted down by any interest. Assuming $26.7 million of interest, the adjusted required tax yield would be $372.8 million.

The next calculation determines whether the actual tax rates will generate the required tax yield (of $372.8 million). If not, then the base rate needs to be adjusted. As part of the calculation, the aggregate taxable payroll within each ratio group is multiplied by its unadjusted tax rate to arrive at the unadjusted yield for each ratio group; then all the unadjusted yields for each ratio group are added together to arrive at the total unadjusted yield. The unadjusted yield is then adjusted downward for non-adjustable yield, which consists of taxes collected from employers with no benefit charges in the prior year pursuant to A.R.S. § 23-729. Assuming a $155.4 million unadjusted yield and $19.3 million of non-adjustable yield, the net adjusted yield would be $136.0 million ($155.4 million - $19.3 million), and the net adjusted required tax yield would be $353.5 million ($372.8 million - $19.3 million). The $353.4 million required yield is divided by the $136.0 million net adjusted yield to derive an adjustment factor of 2.5988.

The contribution rate within each reserve ratio group is multiplied by the adjustment factor to arrive at the adjusted contribution rate for the year. In this example, the final adjusted contribution rate for the year would be 6.76% (2.6% X 2.5988) for employers within that reserve ratio group as shown in *Table 2*. However, this rate may be further adjusted if the state has an outstanding loan balance and the legislature has authorized an additional assessment.

Special Assessment
The weak labor market that followed the Great Recession increased the amount of claims against Arizona's Unemployment Compensation Fund. Arizona was one of 33 states that borrowed from the U.S. Department of Labor to fund unemployment benefits. To pay off the federal loan and moderate the loss of the FUTA credit, the state established a special assessment for CY 2011 and CY 2012 only. The maximum allowable assessment was 0.8% (*see Laws 2011, Chapter 218*). The assessment was set at 0.5% in CY 2012, which was the final year of the assessment.

Statewide Effective Rate
After adjusting for all these factors, the average effective state rate is approximately 1.31% in CY 2024.

Federal Rate
In FY 2011, FUTA was 6.2% on the first $7,000 of wages, but was offset by a 5.4% credit for a net tax rate of 0.8% in states with programs that conform to federal standards. Beginning July 1, 2011, the FUTA rate declined to 6.0% for a net tax rate of 0.6%. FUTA funds are deposited into 3 federal accounts which support state program administration, the Extended Benefits program, and the loan fund for state unemployment programs in distress.

Arizona had to borrow money to pay its share of the 26 weeks of benefits. The state was unable to repay its loan and had a negative federal account balance in January 2011 and January 2012. Under federal law, it was required to repay the federal loan by no later than November 10, 2012, or have its FUTA credit reduced. Since the state was unable to repay the federal UI loan before November 10, 2012, the FUTA tax rate credit was reduced by 0.3% in CY 2012 and CY 2013. This reduction effectively increased employers' net federal tax rate from 0.6% to 0.9%. The state did not have a federal UI loan balance on January 1, 2014, so the net federal tax rate returned to 0.6% in CY 2014.

Relationship with Job Training Employer Tax
Pursuant to Laws 2000, Chapter 383, the state began levying a new tax referred to as the Job Training Employer Tax as of January 1, 2001. This tax is imposed on each employer in the state at 0.1% of taxable wages. However, through a variety of exemptions, several categories of employers are excluded. Four of these exemptions are tied to the level of FUTA taxes. Effective January 1, 2001, through June 30, 2012, if the FUTA rate declined to 6.0% or less, as occurred on July 1, 2011, when the FUTA rate declined to 6.0%, the law provided for these exemptions to be eliminated and the exempted employers would have to start paying the tax. However, effective August 2, 2012, Laws 2012, Chapter 162 amended A.R.S. § 23-730.02 to change the exemptions elimination trigger to a FUTA rate that is less than 6.0%. Because contributions are paid by employers on a quarterly basis, the exemptions were restored administratively as of the beginning of the third quarter of 2012 (July 1, 2012). The tax was collected by DES and deposited in the Arizona Job Training Fund.

Laws 2015, Chapter 10 repealed the Job Training Employer Tax effective January 1, 2016. Laws 2017, Chapter 307, however, extended the Job Training Fund until June 30, 2022, to spend down the fund balance.

Combined State and Federal Rate
The average combined state and federal rate is 1.91%, consisting of an average base state unemployment tax of 1.31%, and a typical net FUTA rate of 0.6%.

PAYMENT SCHEDULE

Contributions are paid by employers on a quarterly basis with due dates determined by DES [A.R.S. § 23-723]. The department serves as the collecting agency for state unemployment taxes and special assessments [A.R.S. § 23-726A].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this tax in 2019 and in 2022 through 2024.

2021 LAWS

Laws 2021, Chapter 412 increases the maximum weekly unemployment insurance benefits from $240 to $320, effective July 1, 2022. It also decreases the number of weekly of unemployment benefits from 26 weeks to 24 weeks if the state unemployment rate is less than 5% in the prior calendar quarter, effective July 1, 2022. Chapter 412 increases the taxable payroll base from $7,000 to $8,000 beginning January 1, 2023. It requires DES to obtain current and actual employment and earned income information from third-party sources when it determines eligibility for unemployment benefits. The identity verification process may include digital and/or physical identity authentication factors. It requires DES to report by December 31 annually on unemployment insurance fraud for the previous fiscal year.

2020 LAWS

Laws 2020, Chapter 48 allows the Department of Economic Security (DES) to implement alternative unemployment insurance benefit eligibility and employer contribution requirements consistent with federal guidance for individuals and employers affected by a declaration of emergency related to the coronavirus disease 2019 (COVID-19).

2018 LAWS

Laws 2018, Chapter 171 makes several changes to employment security law including exempting certain medical professionals from unemployment insurance taxes and the type of evidence an independent contractor must present to the Department of Economic Security (DES) to be exempt from unemployment tax.

Laws 2018, Chapter 340 requires the DES to establish a voluntary worker training program and defines suitable work as any employment offer that pays 120% of the individual's weekly unemployment benefit amount. If, after 4 weeks, a beneficiary is offered a job that is defined as suitable work, they must accept the offer and if they do not, their benefits will expire.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

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 (RUCO).

Public service corporations essentially refer to electric, gas, sewer, water, and telephone utilities not operated by municipalities. (Arizona Constitution, Article 15, Section 2)

DISTRIBUTION

Utilities Division. Proceeds from the Utilities Division assessment are dedicated to the Utility Regulation Revolving Fund (URRF) to pay representing attorneys and the expenses of the Utilities Division of the Corporation Commission, including related expenses of the Corporation Commission's Legal, Administration, and Hearing Divisions [A.R.S. § 40-408B-C].

Residential Utility Consumer Office. Proceeds from the RUCO assessment are dedicated to the RUCO Revolving Fund for the operation of RUCO [A.R.S. § 40-409B-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. § 40-408D-F and § 40-409D-F].

Table 1 on the following page provides tax collections for the past 20 years. As noted above, the Utilities Division assessment is distributed to URRF, and the RUCO assessment is distributed to the RUCO Revolving Fund.

WHO PAYS

Public service corporations with gross operating revenues exceeding $500,000 from intrastate operations during the preceding calendar year must pay the assessment [A.R.S. § 40-401 and § 40-401.01]. (Prior to Laws 2005, Chapter 79, the qualifying level of revenues was $250,000.)

Exceptions. Corporations that are not required to hold certificates of convenience and necessity are exempted from this assessment [A.R.S. § 40-401A and § 40-401.01A]. In effect, this exception applies mainly to railroads [A.R.S. § 40-281A]. The RUCO assessment also does not apply to member-owned nonprofit cooperative corporations [A.R.S. § 40-461].

REVENUE 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 B].

Residential Utility Consumer Office. The assessment for RUCO 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. § 40-401.01B].

Table 1

COLLECTIONS AND DISTRIBUTION

Fiscal Year	Utilities Division Net Collections	RUCO Net Collections	Total Collections
2024	$21,456,700	$1,592,200	$23,048,900
2023	$17,183,800	$1,578,900	$18,762,700
2022	$12,438,700	$1,107,400	$13,546,100
2021	$13,985,900	$1,349,600	$15,335,500
2020	$13,237,000	$957,200	$14,194,200
2019 1/	$22,403,900	$1,342,300	$23,746,200
2018 1/	$3,621,300	$1,141,400	$4,762,700
2017	$23,936,200	$1,230,500	$25,166,700
2016	$10,268,400	$1,158,400	$11,426,800
2015	$15,280,100	$1,161,100	$16,441,200
2014 2/	$22,886,000	$1,132,100	$24,018,100
2013	$12,997,700	$1,375,100	$14,372,800
2012	$13,655,900	$1,319,200	$14,975,100
2011	$13,226,800	$1,325,200	$14,552,000
2010	$17,548,800	$1,308,700	$18,857,500
2009	$14,702,300	$1,313,100	$16,015,400
2008	$14,702,300	$1,313,100	$16,015,400
2007	$13,787,200	$1,313,300	$15,100,500
2006	$12,225,000	$1,184,000	$13,409,000
2005	$11,100,900	$1,110,200	$12,211,100

1/ The assessment is levied on June 15 of each year for the upcoming fiscal year. Generally, most assessment payments are received after June 30. However, in 2018, a timing issue caused all the 2018 assessment collections to occur after the close of FY 2018 after July 1.

2/ In 2014, a higher than usual percentage of the assessment collections were received prior to July 1, which resulted in higher collections in FY 2014.

SOURCE: Corporation Commission, Annual Reports.

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. § 40-401B]:

(1) Determine the amount appropriated by the Legislature to operate the Utilities Division, including related appropriations for the Corporation Commission's Legal, Administration, and Hearing Divisions, for the following fiscal year.
(2) Multiply the amount determined in (1) by 1.2.
(3) Subtract the monies estimated to remain unexpended in URRF at the end of the current fiscal year. The difference computed is the amount to be raised by the assessment.

The assessment is allocated to each public service corporation with gross operating revenues exceeding $500,000 from intrastate operations during the preceding calendar year proportionate to each public service corporation's share of the total amount of gross operating revenues earned by all such public service corporations.

Residential Utility Consumer Office. The assessment for RUCO is set at a rate that will raise monies equal to the amount determined as follows [A.R.S. § 40-401.01B]:

(1) Determine the amount appropriated by the Legislature for operating RUCO for the following fiscal year.
(2) Subtract the monies estimated to remain in the RUCO Revolving Fund at the end of the current fiscal year. The difference computed is the amount to be raised by the assessment.

The assessment is allocated to each public service corporation with gross operating revenues exceeding $500,000 from intrastate operations during the preceding calendar year proportionate to each public service corporation's share of the total amount of gross operating revenues derived from serving residential consumers earned by all such public service corporations.

Maximum Combined Rate. Notwithstanding the assessment formulas, the combined assessment rates may not exceed 0.25% of any corporation's gross operating revenues from intrastate operations during the preceding calendar year [A.R.S. § 40-401C and § 40-401.01C]. (Prior to Laws 2005, Chapter 79, the combined assessment rates could not exceed 0.20%.)

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. § 40-401D and § 40-401.01D].

Collecting Agencies. The Corporation Commission [A.R.S. § 40-408B and § 40-409B]. In the event a corporation fails or refuses to pay the amount assessed within 15 days without filing objections to the assessment statement with the Corporation Commission, the Corporation Commission shall transmit a certified copy of the statement of the assessment to the Department of Public Safety (DPS). Within 10 days after receipt of the copy of the statement, DPS shall proceed to collect the amount stated due, with legal interest, by seizure and sale of any goods or property in the state belonging to the public service corporation [A.R.S. § 40-407].

Filing Dates. Public service corporations with gross operating revenues exceeding $500,000 must file an estimate of their gross operating revenues from intrastate operations during the previous calendar year on or before January 10. All public service corporations must file a statement showing the amount of such revenues received during the prior calendar year by May 1, as well as a statement showing the gross operating revenues derived from intrastate operations during the preceding calendar year that were received from residential consumers. [A.R.S. § 40-401E-F, and § 40-401.01E]. (Prior to Laws 2005, Chapter 79, the threshold for the January 10 filing was $250,000.)

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to the assessments in the period from 2018 through 2024.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

WATER USE TAX

DESCRIPTION

The tax is applied on water use by a municipal water delivery system. Beginning in FY 2018, the first $1.8 million of this tax's annual revenues are directed to the appropriated Safe Drinking Water Program Fund to be used for the Safe Drinking Water Program and the remaining monies are deposited into the Water Quality Assurance Revolving Fund (WQARF). Prior to this change, all these tax monies were deposited into WQARF.

Through the Safe Drinking Water Program, the Department of Environmental Quality (DEQ) regulates over 1,500 water systems with the help of local counties. Through the WQARF Program, DEQ identifies, assesses, and cleans up soil and groundwater that is contaminated with hazardous substances.

DISTRIBUTION

Table 1 below provides historical water use tax collections since FY 2005. Prior to FY 2018, net tax collections (gross collections less collection fees) were deposited in WQARF by the State Treasurer [A.R.S. § 42-5304]. Allowable uses of WQARF-monies are detailed in A.R.S. § 49-282E. Beginning in FY 2018, the first $1.8 million of this tax's annual revenues are directed to the appropriated Safe Drinking Water Program Fund to be used for the Safe Drinking Water Program and the remaining monies are deposited into WQARF.

Table 1

COLLECTIONS

Fiscal Year	Net Collections	Fiscal Year	Net Collections
2024	$2,553,031	2014	$2,428,062
2023	$2,407,315	2013	$2,427,127
2022	$2,550,228	2012	$2,545,748
2021	$2,646,927	2011	$2,377,136
2020	$2,442,336	2010	$2,392,765
2019	$2,418,656	2009	$2,375,423
2018	$2,689,420	2008	$2,550,646
2017	$2,446,164	2007	$2,449,270
2016	$2,197,353	2006	$2,403,644
2015	$2,455,869	2005	$2,156,683

SOURCE: Department of Revenue, Annual Report.

WHO PAYS

The tax is paid by the owners or operators of municipal water delivery systems [A.R.S. § 42-5302B].

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 DEQ.

REVENUE BASE AND RATE

The revenue 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¢ per 1,000 gallons of water delivered to customers [A.R.S. § 42-5302A].

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. § 42-5302B and A.R.S. § 42-5014]. Electronic filing and payment requirements are the same as for the transaction privilege tax.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018. There were no changes enacted to this tax in the period from 2018 through 2024.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf

WORKERS' COMPENSATION INSURANCE PREMIUM TAX

DESCRIPTION

Both a tax and an assessment are levied on workers' compensation insurance premiums. These levies are in lieu of all other taxes on workers' compensation insurance [A.R.S. § 23-961].

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 may be a maximum of 3% of net premiums, and revenues are used for the administrative expenses of the Industrial Commission of Arizona [A.R.S. § 23-961].

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 unless the Special Fund [*see description below*] is not on an actuarially sound basis, 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. 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 levy on workers' compensation insurance premiums is paid by insurance carriers issuing workers' compensation insurance, and employers providing workers' compensation insurance through the self-insurance method [A.R.S. § 23-961].

REVENUE BASE

The levy on workers' compensation insurance premiums is based 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. For self-insured employers, the levy is based on the premiums that would have been paid by the employer if fully insured under a plan available from an insurance carrier issuing workers' compensation insurance, during the preceding calendar year. Employers of domestic servants are not subject to the "workmen's compensation" statutes [A.R.S. § 23-902].

RATE

There are 2 separate rates:

(1) *Tax Rate for Administrative Fund*. No more than 3% of net premiums, but for self-insured employers, not less than $250 annually [A.R.S. § 23-961]. The Industrial Commission set an Administrative Fund rate of 2% for CY 2023.

(2) *Special Fund Assessment*. Effective July 1, 2015, the Special Fund assessment rate is not to exceed 1% and is to be set at a rate no more than necessary to keep the Special Fund actuarially sound, but for self-insured employers, the minimum annual payment is $250 [A.R.S. § 23-1065]. Up to an additional 0.5% may be levied to cover Special Fund liabilities in excess of $6.0 million [A.R.S. § 23-1065F]. The Industrial Commission set a Special Fund total rate of 0% in CY 2023.

Table 1

COLLECTIONS

Calendar Year	Net Collections Administrative Fund [1/]	Net Collections Special Fund [2/]	Special Fund Rate [2/]	Total Net Collections
2023	$22,506,600	$0	0%	$22,506,600
2022	$18,944,890	$0	0%	$18,944,890
2021	$18,556,978	$0	0%	$18,556,978
2020	$18,158,634	$0	0%	$18,158,634
2019	$19,011,703	$0	0%	$19,011,703
2018	$19,582,000	$0	0%	$19,582,000
2017	$26,316,000	$0	0%	$26,316,000
2016	$17,561,500	$0	0%	$17,561,500
2015	$16,917,500	$8,459,200	0.75%	$25,376,700
2014	$19,752,400	$19,753,500	1.75%	$39,506,000
2013	$29,080,400	$23,783,100	2.25%	$52,863,500
2012	$27,721,800	$23,103,100	2.5%	$50,824,900
2011	$24,166,300	$20,140,000	2.5%	$44,306,300
2010	$20,486,000	$19,328,000	2.5%	$39,814,000
2009	$25,950,000	$12,975,000	1.5%	$38,925,000
2008	$30,558,100	$15,279,100	1.5%	$45,837,200
2007	$31,786,900	$26,490,900	2.5%	$58,277,800
2006	$28,382,700	$23,653,400	2.5%	$52,036,100
2005	$24,647,200	$20,540,600	2.5%	$45,187,800
2004	$21,758,100	$10,888,700	1.5%	$32,646,800

1/ Laws 1993, 2nd Special Session, Chapter 9, provides that collections for the Administrative Fund will be no more than necessary to cover actual expenses.

2/ Effective July 1, 2015, the Special Fund assessment is not to exceed 1% and is set at a rate no more than necessary to keep it actuarially sound. Up to an additional 0.5% may be levied to cover Special Fund liabilities in excess of $6.0 million.

SOURCE: Industrial Commission.

PAYMENT SCHEDULE

The revenue is due annually, on or before March 31 for self-insured employers, and on or before March 1 for all other covered insurance carriers [A.R.S. § 23-961].

Since the 1983 tax year, insurance carriers are required to make quarterly payments on the Administrative Fund tax and Special Fund assessment 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 levy that is payable on the regular March due date [A.R.S. § 23-961]. The quarterly payments are to equal one of the following methods, applied to all 4 quarters in a tax year:

(1) The levy due on net premiums collected or contracted for during the preceding calendar quarter, or
(2) 25% of the levy paid or required to be paid for the preceding calendar year.

Any overpayment of levies resulting from the quarterly payments may be refunded by the Industrial Commission without interest [A.R.S. § 23-961].

The revenue for the Administrative and Special Fund is paid to the State Treasurer through the Industrial Commission [A.R.S. § 23-961].

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2018.

There were no changes enacted to this revenue category in the period from 2018 through 2023.

2024 LAWS

Laws 2024, Chapter 139 establishes that an insurance carrier may reduce the amount of workers' compensation insurance premiums paid by an employer by up to 5% if the insured employer is part of a qualifying membership organization.

A listing of statutory changes prior to the 2018 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/24taxbk.pdf.

APPENDIX D

APPENDIX D

FISCAL IMPACT OF STATUTORY CHANGES

This report details the estimated dollar value of individual historical tax law changes enacted by the Legislature since FY 1989. The report is limited to statutory changes with a General Fund revenue impact.

The report includes individual tables for calendar years 1988 through 2024. The tables provide a listing of statutory changes for each calendar year, and the estimated dollar revenue impact of these changes for ensuing fiscal years. The dollar change reflects the estimated impact at the time of enactment. Unless otherwise noted, the dollar estimate has not been subsequently revised to reflect the actual result. Also included is a one-page summary of the estimated impact of statutory changes for each fiscal year, which provides the estimated marginal dollar value of statutory changes relative to the prior year.

Since the repeal of the state property tax in 1996, the General Fund revenue impact of property tax legislation is often negligible. Instead, property tax law changes typically affect the General Fund by increasing Arizona Department of Education (ADE) expenditures. Generally, any legislation that reduces the local property tax base results in higher General Fund expenditures. Under the statutory K-12 funding formula, the state share of education funding increases whenever local property values decrease. This higher level of K-12 spending is not reflected in the following tables. However, property tax legislation that reduced tax levies deposited into the General Fund was included in the tables. (Tax levied on property located in unorganized districts and certain districts ineligible for state aid, known as minimum qualifying tax rate (MQTR) districts, are deposited in the General Fund.)

There are several caveats related to the estimated dollar impact of tax law changes included in this report. The impacts of the 0.6% sales tax authorized by Proposition 301 in 2000 and the extension of that tax under Laws 2018, Chapter 74 have not been included in the following tables. In addition, the tobacco tax increases authorized by Proposition 303 in 2002 and Propositions 201 and 203 in 2006 have not been included. The revenues generated by these tax law changes were deposited into dedicated funds; therefore, they did not have a General Fund impact.

Additionally, no inflation factors have been applied to the "out year" estimates, which may understate their impact. Also, the estimates do not include a "dynamic" component. The potential behavioral impact of taxpayers of tax reductions or tax increases has not been incorporated into the numbers. It is very difficult to estimate how inflationary changes, as well as changes in taxpayer behavior over time, would have affected the estimated dollar value of statutory changes enacted in prior years. As a result, cumulative totals for the marginal annual values of the statutory changes are not provided.

The estimated incremental value of statutory changes for FY 2025 is a net General Fund revenue increase of $25.7 million, which is mostly attributable to the reduction of the Corporate STO credit cap to $135 million, beginning in FY 2025.

JLBC Staff
November 2024

Estimated Incremental Dollar Value of General Fund Tax Changes [1/]
($ in Thousands)

Fiscal Year	Sales Tax	Individual Income Tax	Corporate Income Tax	Property Tax	Other Taxes	Total [2/] Annual Changes
1989	23,100.0	35,400.0	29,000.0	28,200.0	6,000.0	121,700.0
1990	7,000.0	63,900.0	-	22,600.0	15,800.0	109,300.0
1991	(4,404.0)	118,680.0	30,900.0	49,640.0	13,560.0	208,376.0
1992	(377.5)	9,200.0	400.0	-	485.0	9,707.5
1993	(7,972.1)	(13,500.0)	-	(1,343.0)	3,472.0	(19,343.1)
1994	(12,243.5)	(10,776.0)	-	(1,200.0)	(1,233.0)	(25,452.5)
1995	(21,217.0)	(102,826.0)	4,200.0	(850.0)	-	(120,693.0)
1996	(46,151.9)	(202,260.5)	(18,000.0)	(18,256.0)	-	(284,668.4)
1997	(23,494.3)	(950.0)	(60.0)	(150,095.3)	-	(174,599.6)
1998	(59,862.9)	(114,969.0)	2,601.9	17.3	(105.0)	(172,317.7)
1999	(3,684.2)	(51,091.5)	(7,015.2)	-	(80,000.0)	(141,790.9)
2000	(8,402.3)	(27,177.9)	(13,982.3)	(51.6)	(55,000.0)	(104,614.1)
2001	(3,392.0)	(82,895.0)	(46,486.1)	(30.0)	(25,000.0)	(157,803.1)
2002	(2.1)	9,825.3	(40,759.6)	(2,234.9)	-	(33,171.3)
2003	(2.2)	11,384.5	21,567.0	(1,738.3)	(18,830.0)	12,381.0
2004	-	-	-	-	50,418.1	50,418.1
2005	-	(1,834.0)	-	-	3,892.0	2,058.0
2006	(600.0)	(14,200.0)	(3,250.0)	-	-	(18,050.0)
2007	(1,678.6)	(176,090.0)	(10,990.0)	-	(5,000.0)	(193,758.6)
2008	(100.0)	(185,510.0)	(31,900.0)	-	-	(217,510.0)
2009	-	(4,150.0)	(29,720.0)	-	-	(33,870.0)
2010	-	(8,030.0)	(33,330.0)	-	-	(41,360.0)
2011	918,000.0	16,120.0	(35,390.0)	-	-	898,730.0
2012	-	(900.0)	(12,100.0)	-	-	(13,000.0)
2013	-	4,590.0	(16,100.0)	-	-	(11,510.0)
2014	(922,800.0)	(56,850.0)	(21,900.0)	-	-	(1,001,550.0)
2015	(16,780.0)	(44,900.0)	(102,282.0)	-	-	(163,962.0)
2016	(4,200.0)	(12,000.0)	(108,500.0)	-	(983.4)	(125,683.4)
2017	(13,170.0)	(35,500.0)	(93,400.0)	-	(4,300.0)	(146,370.0)
2018	(14,500.0)	(29,833.3)	(104,000.0)	-	(4,300.0)	(152,633.3)
2019	10,000.0	156,466.6	(27,000.0)	-	(4,300.0)	135,166.6
2020	54,700.0	(290,733.3)	18,900.0	-	(4,700.0)	(221,833.3)
2021	20,600.0	300.0	2,600.0	-	(2,500.0)	21,000.0
2022	-	(47,400.0)	4,304.2	-	15,900.0	(27,195.8)
2023	(50,583.0)	(1,266,300.0)	-	-	(1,900.0)	(1,318,783.0)
2024	-	(765,378.5)	(4,000.0)	-	950.0	(768,428.5)
2025	-	(2,000.0)	27,700.0	-	-	25,700.0

1/ The estimates exclude one-time increases or decreases in revenue collections. The tax changes also exclude General Fund distribution formula changes and additional K-12 expenditures that were the direct result of property tax legislation. The estimates also reflect the projected fiscal impact at the time of enactment and have not been adjusted for the actual dollar value of a tax change.

2/ Each yearly amount represents the incremental dollar value of tax law changes relative to the prior year. For example, the total net tax reduction in FY 2008 relative to FY 2007 was $(217.5) million.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1988
($ in Thousands)

	FY 1988	FY 1989
INDIVIDUAL INCOME		
Elimination of Gasoline Deduction Ch. 271		10,000.0
Federal Income Tax Windfall Cap Ch. 271		25,400.0
TOTAL INDIVIDUAL INCOME		**35,400.0**
CORPORATE INCOME		
Elimin. of Lower Cap. Gains Rate Ch. 271		14,000.0
Controlled Corp. Dividends Conformed Ch. 271		13,000.0
Depletion Deduction Conformed Ch. 271		1,000.0
Elimination of Gasoline Deduction Ch. 271		1,000.0
TOTAL CORPORATE INCOME		**29,000.0**
SALES AND USE		
Accounting Allowance Cap. - $500 Ch. 271		3,000.0
No Exemption for Semi-conductors Ch. 271		1,700.0
Taxation of Casual Commercial Rents Ch. 271		3,300.0
Hotel/Motel Tax Increase to 5.5% Ch. 271		4,200.0
Rental Real Property Increase to 5% Ch. 271		10,900.0
TOTAL SALES AND USE		**23,100.0**
PROPERTY		
Assessment Ratio Freeze to 1987 Ch. 271		1,600.0
QTR for Homeowners Capped Ch. 271		9,300.0
State Education Rate Set at $0.09 Ch. 271		17,300.0
TOTAL PROPERTY		**28,200.0**
OTHER		
Increase Ins. Prem. Tax to 2.0% Ch. 4		6,000.0
TOTAL OTHER		**6,000.0**
TOTAL		**121,700.0**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1989

($ in Thousands)

	FY 1989	FY 1990
INDIVIDUAL INCOME		
Federal Conformity Ch. 211		1,900.0
Eliminate Deduction of Fed. Excise Tax Ch. 211		4,000.0
Federal Windfall Retention Ch. 312		16,800.0
Reduce Consumer Interest Deduction to 50% Ch. 312		39,000.0
Taxation of Previous Exempt Pensions		2,200.0
TOTAL INDIVIDUAL INCOME		**63,900.0**
CORPORATE INCOME		
None		
TOTAL CORPORATE INCOME		
SALES AND USE		
Taxation of Catalog Sales Ch. 312		7,000.0
TOTAL SALES AND USE		**7,000.0**
PROPERTY		
Minimum QTR School District Tax Ch. 312		26,000.0
Tax Reduction for Unorg. Districts Ch. 312		(3,400.0)
TOTAL PROPERTY		**22,600.0**
OTHER		
Minimum VLT to $30 Ch. 4		15,800.0
TOTAL OTHER		**15,800.0**
TOTAL		**109,300.0**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1990

($ in Thousands)

	FY 1990	FY 1991
INDIVIDUAL INCOME		
Federal Conformity Ch. 63		4,880.0
Tax Simplification - Widened Tax Base, Increased Tax Rates Ch. 3		110,000.0
Limitation of Renters Credit Ch. 3		3,800.0
TOTAL INDIVIDUAL INCOME		**118,680.0**
CORPORATE INCOME		
Federal Conformity Ch. 63		5,300.0
Tax Simplification - Widened Tax Base Ch. 3		25,600.0
TOTAL CORPORATE INCOME		**30,900.0**
SALES AND USE		
Elimination of Account Allowance Ch. 3		8,000.0
Tax Reduction - Rental Real Property Ch. 3		(1,800.0)
County Property Tax Relief Ch. 3		(10,000.0)
Rodeo Sales Exemption Ch. 239		(47.0)
Tax Suspension - Federal Bldgs. Ch. 251		(94.0)
Bed Tax to Tourism Ch. 391		(463.0)
TOTAL SALES AND USE		**4,404.0**
PROPERTY		
Minimum QTR School Dist. Tax Ch. 3		40,700.0
Assessment Ratio Changes Ch. 3		8,940.0
TOTAL PROPERTY		**49,640.0**
OTHER		
Minimum QTR School Dist. Tax = Salt River Ch. 3		7,000.0
Assessment Ratio Changes = Salt River Ch. 3		660.0
Minimum VLT Reduction Ch. 3		(3,600.0)
Cigarette Tax Increase Ch. 3		9,500.0
TOTAL OTHER		**13,560.0**
TOTAL		**208,376.0**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1991

($ in Thousands)

	FY 1991	FY 1992	FY 1993	FY 1994
INDIVIDUAL INCOME				
Federal Conformity Ch. 146		7,600.0	7,600.0	7,600.0
Eliminate Ret. Contrib. Subtraction Ch. 155		1,600.0	1,600.0	1,600.0
TOTAL INDIVIDUAL INCOME		**9,200.0**	**9,200.0**	**9,200.0**
CORPORATE INCOME				
Federal Conformity Ch. 146		400.0	400.0	400.0
TOTAL CORPORATE INCOME		**400.0**	**400.0**	**400.0**
SALES AND USE				
Membership Camping Tax Ch. 31		122.5	122.5	122.5
Medical Equipment Exemption Ch. 200		(500.0)	(500.0)	(500.0)
TOTAL SALES AND USE		**(377.5)**	**(377.5)**	**(377.5)**
PROPERTY				
Rental property; Assess. Reduction Ch. 134			(1,200.0)	(2,400.0)
TOTAL PROPERTY			**(1,200.0)**	**(2,400.0)**
OTHER				
Drano Tax Repeal Ch. 184		320.0	320.0	320.0
Groundwater Fees Ch. 211		165.0	165.0	165.0
TOTAL OTHER		**485.0**	**485.0**	**485.0**
TOTAL		**9,707.5**	**8,507.5**	**7,307.5**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1992

($ in Thousands)

	FY 1992	FY 1993
INDIVIDUAL INCOME		
Increased Exemptions Phase-in Ch. 290		(12,000.0)
Withhold Penalty Forgiveness Ch. 220		(1,500.0)
TOTAL INDIVIDUAL INCOME		**(13,500.0)**
CORPORATE INCOME		
None		
TOTAL CORPORATE INCOME		
SALES AND USE		
Church Leases Exemption Ch. 29		(50.0)
Restaurant Food: Use Tax Exemp. Ch. 32		(100.0)
Motion Picture Sales Tax Refund Ch. 96		(67.1)
Semi-Trailers, Bowl Games Exemption Ch. 135		(600.0)
Feed and Seed Exemption Ch. 162		(1,600.0)
Lessor Utility Exemptions Ch. 215		(1,921.0)
Manufactured Bldgs. Exemptions Ch. 217		(100.0)
Aircraft Sales Tax Exemptions Ch. 222		(300.0)
Microwave Systems Exemptions Ch. 237		(84.0)
R & D Equipment Exemptions Ch. 238		(250.0)
Repeal Aircraft Exemptions Ch. 290		(2,900.0)
TOTAL SALES AND USE		**(7,972.1)**
PROPERTY		
Widow/Widower Exemption Ch. 5		(50.0)
Local Telecom. Property Ch. 41		(70.0)
Pipeline Valuations Ch. 51		(50.0)
Sewer/Wastewater Prop. Cent. Valued Ch. 347		27.0
TOTAL PROPERTY		**(143.0)**
OTHER		
VLT: Rental Car Surcharge Ch. 219		600.0
Cigarette Luxury Stamps Ch. 55		(100.0)
Jet Fuel Reduction Ch. 221		(1,028.0)
Insurance Premium Tax Offset Ch. 290		4,000.0
TOTAL OTHER		**3,472.0**
TOTAL		**(18,143.1)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1993

($ in Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
INDIVIDUAL INCOME						
Increased Dependent Exemption Ch. 9		(5,600.0)	(5,600.0)	(5,600.0)	(5,600.0)	(5,600.0)
Increased Exemption - Elderly Ch. 9		(2,700.0)	(2,700.0)	(2,700.0)	(2,700.0)	(2,700.0)
Accelerate Medical Deductions Ch. 9		(2,300.0)	(2,300.0)	(2,300.0)	(2,300.0)	(2,300.0)
Alternative Fuel Vehicles Credit Ch. 160		(176.0)	(176.0)	(176.0)	(176.0)	(176.0)
TOTAL INDIVIDUAL INCOME		**(10,776.0)**	**(10,776.0)**	**(10,776.0)**	**(10,776.0)**	**(10,776.0)**
CORPORATE INCOME						
None						
TOTAL CORPORATE INCOME						
SALES AND USE						
Phase-out of Commercial Lease Tax Ch. 9		(8,100.0)	(26,300.0)	(47,300.0)	(70,600.0)	(96,300.0)
Feed Lots Exemption Ch. 64		(331.8)	(331.8)	(331.8)	(331.8)	(331.8)
Residential Care Homes - Use Exemp. Ch. 103		(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)
Motion Picture Tax Refund Ch. 104		(20.4)	(20.4)	(20.4)	(20.4)	(20.4)
Retail Classifications Changes Ch. 132		(138.3)	(138.3)	(138.3)	(138.3)	(138.3)
Health Care Centers - Exemptions Ch. 199		(227.0)	(227.0)	(227.0)	(227.0)	(227.0)
Alternative Use Fuel - Exemption Ch. 206		(50.0)	(50.0)	(50.0)	(50.0)	(50.0)
Nursing Care Leases Ch. 212		(976.0)	(976.0)	(976.0)	(976.0)	(976.0)
Sales Deductions - Telecomm. Charges Ch. 240		(1,100.0)	(1,100.0)	(1,100.0)	(1,100.0)	(1,100.0)
TOTAL SALES AND USE		**(12,243.5)**	**(30,443.5)**	**(51,443.5)**	**(74,743.5)**	**(100,443.5)**
PROPERTY						
None						
TOTAL PROPERTY						
OTHER						
Wine Commission Fees Ch. 40		(33.0)	(33.0)	(33.0)	(33.0)	(33.0)
Liquor License Fees Ch. 133		(1,200.0)	(1,200.0)	(1,200.0)	(1,200.0)	(1,200.0)
TOTAL OTHER		**(1,233.0)**	**(1,233.0)**	**(1,233.0)**	**(1,233.0)**	**(1,233.0)**
TOTAL		**(24,252.5)**	**(42,452.5)**	**(63,452.5)**	**(86,752.5)**	**(112,452.5)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1994

($ in Thousands)

	FY 1994	FY 1995	FY 1996
INDIVIDUAL INCOME			
IRS Conformity Ch. 41		6,200.0	6,200.0
Personal Income Tax Cut Ch. 41		(106,900.0)	(106,900.0)
Medical Savings Account Ch. 45			(175.0)
Water Conservation Inc. Tax Credit Ch. 90		(1,626.0)	(1,874.0)
Income Tax Benefit Rule Ch. 354		(500.0)	(500.0)
Pollution Control Credits Ch. 117			(1,500.0)
TOTAL INDIVIDUAL INCOME		**(102,826.0)**	**(104,749.0)**
CORPORATE INCOME			
IRS Conformity Ch. 41		10,000.0	10,000.0
Lower Corporate Rate Ch. 41		(5,800.0)	(5,800.0)
Consolidated Returns 1/ Ch. 41			(13,400.0)
Pollution Control Credits Ch. 117			(1,000.0)
TOTAL CORPORATE INCOME		**4,200.0**	**(10,200.0)**
SALES AND USE			
MITRA; Chemicals Ch. 41			(4,000.0)
Super Bowl Exemption Ch. 145			(481.9)
Personal Property Liquidators Ch. 174		(1,000.0)	(1,000.0)
Prison Food TPT Exemption Ch. 240		(80.0)	(80.0)
University Cars Exemption Ch. 305		(57.0)	(57.0)
Feed Exemption Ch. 307		(655.0)	(655.0)
Amusement/Instruc. Exemption Ch. 312		(825.0)	(825.0)
Tax Accounting Ch. 346			(11,870.0)
Omnibus Alternative Fuels Ch. 353		(400.0)	(400.0)
Government Contract Overhead Ch. 377			(8,000.0)
TOTAL SALES AND USE		**(3,017.0)**	**(27,368.9)**
PROPERTY			
MITRA; 1% Personal Prop./Phasedown Ch. 41			(16,496.0)
Livestock Ch. 102			(660.0)
Homeowners' Rebate Freeze Ch. 41 Not Included-Tax Cut as Spending Increase		0.0	0.0
Telecommunications Cos. Valuations Ch. 271		(850.0)	(850.0)
TOTAL PROPERTY		**(850.0)**	**(18,006.0)**
OTHER			
None			
TOTAL OTHER			
TOTAL		**(102,493.0)**	**(160,323.9)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Chapter 41 provided a tax credit totalling $115 million for certain consolidated returns, which was to be spread over 10 years. In the 11th year, DOR is required to refund any unused credit (refer to Calendar Year 2006 tax law changes page at the end of this section).

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1995

($ in Thousands)

	FY 1995	FY 1996	FY 1997
INDIVIDUAL INCOME			
Income Tax Reduction Ch. 9		(200,000.0)	(200,000.0)
Summer Schools and Jobs Ch. 236		(337.5)	(337.5)
TOTAL INDIVIDUAL INCOME		**(200,337.5)**	**(200,337.5)**
CORPORATE INCOME			
Consolidated Tax Returns Ch. 31		(400.0)	(400.0)
Lower Corporate Rate Ch. 41		(2,200.0)	(2,200.0)
Pollution Control Credits Ch. 117		(1,000.0)	(1,000.0)
TOTAL CORPORATE INCOME		**(3,600.0)**	**(3,600.0)**
SALES AND USE			
Motion Picture Tax Refund Ch. 98		(100.0)	(100.0)
Sales Tax Amenities Ch. 267		(700.0)	(700.0)
TOTAL SALES AND USE		**(800.0)**	**(800.0)**
PROPERTY			
Personal Property Tax Reductions Ch. 9			(17.3)
Property Tax Reduc. Min. Value Ch. 137			(78.0)
Possessory Interest; Repeal Ch. 294		(1,100.0)	(1,100.0)
TOTAL PROPERTY		**(1,100.0)**	**(1,178.0)**
OTHER			
None			
TOTAL OTHER			
TOTAL		**(205,837.5)**	**(205,915.5)**

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1996

($ in Thousands)

	FY 1996	FY 1997	FY 1998
INDIVIDUAL INCOME			
Income Tax Definitions Ch. 49		(860.0)	(860.0)
Neighborhood Protection Deductions Ch. 309		(90.0)	(90.0)
TOTAL INDIVIDUAL INCOME		**(950.0)**	**(950.0)**
CORPORATE INCOME			
Neighborhood Protection Act Ch. 309		(60.0)	(60.0)
Enterprise Zones: Tax Credits Ch. 344			(1,575.1)
TOTAL CORPORATE INCOME		**(60.0)**	**(1,635.1)**
SALES AND USE			
Arts Fund; Partnership Ch. 186			(1,475.9)
Prime Contracting Sales Tax Ch. 319			(30,000.0)
Movie Studios Incentives Ch. 322		(49.3)	(49.3)
Homeowners Organizations Ch. 326		(100.0)	(100.0)
TOTAL SALES AND USE		**(194.3)**	**(31,625.2)**
PROPERTY			
Property Tax Reductions Ch. 2 - Does not include $50M in spending		(150,000.0)	(150,000.0)
TOTAL PROPERTY		**(150,000.0)**	**(150,000.0)**
OTHER			
TOTAL OTHER			
TOTAL		**(151,159.3)**	**(184,210.3)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1997

($ in Thousands)

	FY 1997	FY 1998	FY 1999
INDIVIDUAL INCOME			
Tax Credit; School Tuition Organizations Ch. 48			(8,443.2)
Welfare Reform; Arizona Works Ch. 300			(8,030.8)
IRS Conformity Ch. 63		(3,330.0)	(3,330.0)
Energy Conservation Incentives Ch. 137			(34.1)
Income Adjustments Ch. 238		(749.0)	(749.0)
Air Quality Omnibus Ch. 274		(250.0)	(250.0)
Savings Account; Postsecondary Ed. Ch. 171			(20.4)
Tax Relief Act of 1997 - Rates Reductions Ch. 8		(110,800.0)	(110,800.0)
TOTAL INDIVIDUAL INCOME		**(115,129.0)**	**(131,657.5)**
CORPORATE INCOME			
IRS Conformity Ch. 62		4,177.0	4,177.0
Welfare Reform; Arizona Works Ch. 300			(585.2)
TOTAL CORPORATE INCOME		**4,177.0**	**3,591.8**
SALES AND USE			
Light Vehicle Fees Ch. 110		(2,000.0)	(2,000.0)
Used Oil Amendments Ch. 178		(92.2)	(92.2)
Use Tax Exemptions - Libraries Ch. 227		(36.9)	(36.9)
Sales Tax; Nursing Homes Ch. 245			(2,000.0)
Omnibus Tax Changes Ch. 274		(542.9)	(542.9)
TOTAL SALES AND USE		**(2,672.0)**	**(4,672.0)**
PROPERTY			
None			
TOTAL PROPERTY			
OTHER			
Agriculture Omnibus Ch. 228		(90.0)	(90.0)
Health Care Omnibus Ch. 268		(15.0)	(15.0)
TOTAL OTHER		**(105.0)**	**(105.0)**
TOTAL		**(113,729.0)**	**(132,842.7)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1998

($ in Thousands)

	FY 1998	FY 1999	FY 2000	FY 2001
INDIVIDUAL INCOME				
Prop. 200 - Campaign Finance			(1,279.1)	(1,279.1)
Alternative Fuels Ch. 221		(923.0)	(2,854.8)	0.0
Omnibus Taxation of 1998 Ch. 283	160.0	(3,240.0)	(6,410.0)	(6,410.0)
Tax Relief Act of 1998 - Rates Reductions Ch. 3		(30,000.0)	(50,000.0)	(50,000.0)
Wheels to Work Ch. 208			(1,140.0)	(1,140.0)
Tax Exemptions; Exempts; Credits Ch. 286			(1,347.0)	(1,347.0)
TOTAL INDIVIDUAL INCOME	**160.0**	**(34,163.0)**	**(63,030.9)**	**(60,176.1)**
CORPORATE INCOME				
Income Tax Credits; Coal Taxes Ch. 137		(1,600.0)	(1,600.0)	(1,600.0)
Tax Relief Act of 1998 - Rates Reductions and Deduction Elimination Ch. 3		(10,000.0)	(20,000.0)	(20,000.0)
Wheels to Work Ch. 208			(1,140.0)	(1,140.0)
Tax Exemptions, Deductions Ch. 286			(577.3)	(577.3)
TOTAL CORPORATE INCOME		**(11,600.0)**	**(23,317.3)**	**(23,317.3)**
SALES AND USE				
Sales and Use; Printing Ch. 132		(100.0)	(200.0)	(200.0)
Flight Property Exemptions Ch. 177		(110.0)	(30.0)	(30.0)
Alternative Fuels Ch. 221		(577.0)	(1,434.6)	(1,434.6)
Tax Exemptions, Deductions Ch. 286	(60.0)	(857.2)	(296.5)	(296.5)
TOTAL SALES AND USE	**(60.0)**	**(1,644.2)**	**(1,961.1)**	**(1,961.1)**
PROPERTY				
Telecommunications 1/ Ch. 220			(19.3)	(19.3)
Widow, Widowers Exemption 1/ Ch. 261			(32.3)	(32.3)
TOTAL PROPERTY			**(51.6)**	**(51.6)**
OTHER				
Tax Relief Act of 1998 - VLT Rate Reduction Ch. 3		(80,000.0)	(100,000.0)	(100,000.0)
TOTAL OTHER		**(80,000.0)**	**(100,000.0)**	**(100,000.0)**
TOTAL	**100.0**	**(127,407.2)**	**(188,360.9)**	**(185,506.1)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Revenue loss due to reduced levies on property located in unorganized districts and minimum qualifying tax rate (MQTR) districts. Property tax levies in such districts are deposited in the General Fund.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 1999

($ in Thousands)

	FY 1999	FY 2000	FY 2001	FY 2002
INDIVIDUAL INCOME				
Public Retirement Benefits Ch. 50			(1,766.7)	(1,766.7)
Alternative Fuel Vehicles Ch. 168			(427.1)	
Taxpayer Bill of Rights Ch. 250		(200.0)	(600.0)	(400.0)
IRS Conformity Ch. 317	(240.0)	2,330.0	690.0	(3,190.0)
TOTAL INDIVIDUAL INCOME	**(240.0)**	**2,130.0**	**(2,103.8)**	**(5,356.7)**
CORPORATE INCOME				
Tax Relief and Fiscal Control (Trigger) Rate Reduced from 8.0% to 7.0%; R&D Cap. Removed Ch. 5			(37,000.0)	(74,000.0)
Income Allocation (Airline Bill) Ch. 190			(700.0)	(1,400.0)
Alternative Fuel Vehicles Ch. 168			(1,052.1)	
IRS Conformity Ch. 317	5,170.0	2,920.0	2,920.0	890.0
TOTAL CORPORATE INCOME	**5,170.0**	**2,920.0**	**(35,832.1)**	**(74,510.0)**
SALES AND USE				
Sales Tax Exemption; Expendables Ch. 153	(100.0)	(3,500.0)	(3,500.0)	(3,500.0)
Tax Relief and Fiscal Control (Trigger) Mining Severance Tax Reduction Ch. 5		(4,667.0)	(8,000.0)	(8,000.0)
TOTAL SALES AND USE	**(100.0)**	**(8,167.0)**	**(11,500.0)**	**(11,500.0)**
PROPERTY				
Reduced Min. Value of Personal Property 1/ 1st SS, Ch. 5			(30.0)	(30.0)
TOTAL PROPERTY			**(30.0)**	**(30.0)**
OTHER				
Omni. Reconciliation - VLT Cut Ch. 5		(35,000.0)	(60,000.0)	(60,000.0)
TOTAL OTHER		**(35,000.0)**	**(60,000.0)**	**(60,000.0)**
TOTAL	**4,830.0**	**(38,117.0)**	**(109,465.9)**	**(151,396.7)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Revenue loss due to reduced levies on property located in unorganized districts and minimum qualifying tax rate (MQTR) districts. Property tax levies in such districts are deposited in the General Fund. Provision does not include $21.4 million in increased Arizona Department of Education expenditures.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2000

($ in Thousands)

	FY 2000	FY 2001	FY 2002	FY 2003
INDIVIDUAL INCOME				
Renewable Energy Incentives Ch. 214				(57.0)
Technology Training Credit Ch. 239			(300.0)	(300.0)
IRS Conformity Ch. 252	(680.0)	(2,796.0)	(3,260.0)	(636.0)
Agricultural Preservation District Ch. 267			(100.0)	(100.0)
Character Instruction Tax Credit Ch. 313			(75.0)	(75.0)
Handicapped Preschoolers Tax Credit Ch. 394			(100.0)	(100.0)
Clean Air Act Ch. 405 (neighborhood electric vehicle credit)		(15,750.0)		
Clean Air Act [1/] Ch. 405 (alt fuel vehicle credit)		(59,100.0)	(26,700.0)	(3,100.0)
Alternative Fuels Program Changes Ch. 1 (7th Special Session)		(4,427.0)		
Low-income Tax Credit Ch. 1 (5th Special Session)			(20,100.0)	(20,100.0)
Tuition Tax Credit Ch. 1 (5th Special Session)			(3,750.0)	(3,847.5)
TOTAL INDIVIDUAL INCOME	**(680.0)**	**(82,073.0)**	**(54,385.0)**	**(28,315.5)**
CORPORATE INCOME				
Technology Training Credit Ch. 239			(2,500.0)	(2,500.0)
IRS Conformity Ch. 252	(15.0)	21.0	175.0	149.0
Clean Air Act Ch. 405			192.3	192.3
Clean Air Act [1/] Ch. 405 (alt fuel vehicle credit)		(7,300.0)	(6,600.0)	(1,600.0)
TOTAL CORPORATE INCOME	**(15.0)**	**(7,279.0)**	**(8,732.7)**	**(3,758.7)**
SALES AND USE				
Renewable Energy Incentives Ch. 214		(40.7)	(42.8)	(45.0)
Spaceport Launch Site Exemption Ch. 359	(18.4)	(36.7)	(36.7)	(36.7)
TOTAL SALES AND USE	**(18.4)**	**(77.4)**	**(79.5)**	**(81.7)**
PROPERTY				
Renewable Energy Incentives [2/] Ch. 214				(8.8)
Cemeteries; Property Tax Exemption [2/] Ch. 258				(7.3)
Electrical Generation Facilities [2/] Ch. 384			(2,234.9)	(3,957.1)
TOTAL PROPERTY			**(2,234.9)**	**(3,973.2)**
OTHER				
None				
TOTAL OTHER				
TOTAL	**(713.4)**	**(89,429.4)**	**(65,432.1)**	**(36,129.1)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Amounts for FY 2001, FY 2002, and FY 2003 represent actual impact rather than initial estimated impact. Totals do not include approximately $(12.7) million paid out for consumer loss recovery, for a total alternative fuel impact of approximately $(117) million.

2/ Revenue loss due to reduced levies on property located in unorganized districts and minimum qualifying tax rate (MQTR) districts. Property tax levies in such districts are deposited in the General Fund.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2001

($ in Thousands)

	FY 2001	FY 2002	FY 2003
INDIVIDUAL INCOME			
Conditional Appropriations; Taxation (reduce standard deduction) Ch. 235		(15,000.0)	(15,000.0)
Department of Revenue; Confidentiality Ch. 261		1,400.0	1,300.0
IRS Conformity Ch. 296	(123.0)	(280.0)	(385.0)
Retirement Benefits; Defined Contribution Ch. 380		(300.0)	(300.0)
Equity Tax Act; Archaic Laws Ch. 382		(552.8)	(552.8)
TOTAL INDIVIDUAL INCOME	**(123.0)**	**(14,732.8)**	**(14,937.8)**
CORPORATE INCOME			
IRS Conformity Ch. 296	(470.0)	(1,098.0)	(1,315.0)
Enterprise Zone Program; Extension Ch. 370 (impact can not be determined)			
TOTAL CORPORATE INCOME	**(470.0)**	**(1,098.0)**	**(1,315.0)**
SALES AND USE			
None			
TOTAL SALES AND USE			
PROPERTY			
None			
TOTAL PROPERTY			
OTHER			
None			
TOTAL OTHER			
TOTAL	**(593.0)**	**(15,830.8)**	**(16,252.8)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2002 *

($ in Thousands)

	FY 2002	FY 2003	FY 2004	FY 2005
INDIVIDUAL INCOME				
IRS Conformity Ch. 344		(14,480.0)	(14,480.0)	(14,480.0)
TOTAL INDIVIDUAL INCOME		**(14,480.0)**	**(14,480.0)**	**(14,480.0)**
CORPORATE INCOME				
Repeal Dividends Income Tax Subtraction Ch. 50		11,200.0	11,200.0	11,200.0
IRS Conformity Ch. 344		5,610.0	5,610.0	5,610.0
TOTAL CORPORATE INCOME		**16,810.0**	**16,810.0**	**16,810.0**
SALES AND USE				
None				
TOTAL SALES AND USE				
PROPERTY				
None				
TOTAL PROPERTY				
OTHER				
IRS Conformity - Estate Tax Ch. 344		(18,830.0)	(38,140.0)	(57,740.0)
TOTAL OTHER		**(18,830.0)**	**(38,140.0)**	**(57,740.0)**
TOTAL		**(16,500.0)**	**(35,810.0)**	**(55,410.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

* Includes 45th Legislature, 2nd Special Session (December 2001), 3rd Special Session (March 2002), and 2nd Regular Session.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2003 *

($ in Thousands)

	FY 2003	FY 2004	FY 2005
INDIVIDUAL INCOME			
None			
TOTAL INDIVIDUAL INCOME			
CORPORATE INCOME			
None			
TOTAL CORPORATE INCOME			
SALES AND USE			
None			
TOTAL SALES AND USE			
PROPERTY			
None			
TOTAL PROPERTY			
OTHER			
Remove Medicaid Exemption/Ins. Premium Tax Ch. 136		69,728.1	92,970.1
TOTAL OTHER		**69,728.1**	**92,970.1**
TOTAL		**69,728.1**	**92,970.1**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

* Includes 45th Legislature, 6th Special Session (November 2002), and 46th Legislature, 1st Special Session (March 2003), and 1st Regular Session.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2004

($ in Thousands)

	FY 2004	FY 2005
INDIVIDUAL INCOME		
IRS Conformity Ch. 196		(1,800.0)
Stillborn Children Exemption Ch. 214		(34.0)
TOTAL INDIVIDUAL INCOME		**(1,834.0)**
CORPORATE INCOME		
None		
TOTAL CORPORATE INCOME		
SALES AND USE		
None		
TOTAL SALES AND USE		
PROPERTY		
None		
TOTAL PROPERTY		
OTHER		
Liquor Fees Ch. 275		250.0
TOTAL OTHER		**250.0**
TOTAL		**(1,584.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2005

($ in Thousands)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
INDIVIDUAL INCOME							
IRS Conformity Ch. 334		(5,400.0)	(5,090.0)	(7,950.0)	(7,950.0)	(7,950.0)	(7,950.0)
Elimination of "Marriage Penalty" Ch. 334		(6,400.0)	(12,800.0)	(12,800.0)	(12,800.0)	(12,800.0)	(12,800.0)
Index Standard Deduction to CPI Ch. 334		(2,400.0)	(4,800.0)	(7,200.0)	(7,200.0)	(7,200.0)	(7,200.0)
Active Duty Military Pay Exemption Ch. 303			(10,300.0)	1/	1/	1/	1/
Graywater Tax Credit 2/ Ch. 292				(250.0)	(250.0)	(250.0)	(250.0)
Small Business Investment Credit Ch. 316				3/	3/	3/	3/
TOTAL INDIVIDUAL INCOME		**(14,200.0)**	**(32,990.0)**	**(28,200.0)**	**(28,200.0)**	**(28,200.0)**	**(28,200.0)**
CORPORATE INCOME							
IRS Conformity Ch. 196		(3,000.0)	5,210.0	9,410.0	9,410.0	9,410.0	9,410.0
AZ National Guard Employment Credit Ch. 264		(250.0)	(250.0)	(250.0)	(250.0)	(250.0)	(250.0)
Motion Picture Tax Incentives Ch. 317			(8,000.0)	(9,200.0)	(9,200.0)	(9,200.0)	(9,200.0)
Graywater Tax Credit 2/ Ch. 292				(500.0)	(500.0)	(500.0)	(500.0)
Corporate Sales Factor 4/ Ch. 289				(32,000.0)	(62,000.0)	(91,000)	(120,000)
Corporate Consolidated Credit 5/ Laws 1994 Ch. 41							
TOTAL CORPORATE INCOME		**(3,250.0)**	**(3,040.0)**	**(32,540.0)**	**(62,540.0)**	**(91,540.0)**	**(120,540.0)**
SALES AND USE							
Motion Picture Tax Incentives Ch. 317		(600.0)	(1,200.0)	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)
TOTAL SALES AND USE		**(600.0)**	**(1,200.0)**	**(1,300.0)**	**(1,300.0)**	**(1,300.0)**	**(1,300.0)**
PROPERTY							
Business Property Tax Reduction 6/ Ch. 302							
Increased Widows Property Tax Exemption 7/ Ch. 309							
TOTAL PROPERTY							
OTHER							
None							
TOTAL OTHER							
TOTAL		**(18,050.0)**	**(37,230.0)**	**(62,040.0)**	**(92,040.0)**	**(121,040.0)**	**(150,040.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Chapter 303 established a one-time active duty pay exemption. Laws 2006, Chapter 342 (see following page) made the exemption permanent, as well as expanding the exemption to National Guard or Reserves..

2/ Individual and corporate credit combined capped at $750,000 per year for 5 years beginning in FY 2008.

3/ Credit capped at $20 million for tax years 2007 through 2014. No estimates of impact by year.

4/ Revised since 2020 Tax Handbook to correct an error.

5/ Legislation enacted in 1994 provided a tax credit totalling $115 million for certain consolidated returns which was to be spread over 10 years. In the 11th year, DOR is required to refund any unused credit. This legislation is estimated to have a one-time impact of $(4) million in FY 2007, and $(55.5) million in FY 2008.

6/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be $12.3 million in FY 2007, $26.6 million in FY 2008, $42.8 million in FY 2009, $61.5 million in FY 2010, $82.7 million in FY 2011, $102.8 million in FY 2012, $114.2 million in FY 2013, and $126.5 million in FY 2015. Full implementation in FY 2016 is expected to cost $140 million.

7/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be $500,000 in FY 2007 and $512,000 in FY 2008.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2006

($ in Thousands)

	FY 2006	FY 2007	FY 2008
INDIVIDUAL INCOME			
IRS Conformity Ch. 357		(700.0)	400.0
Individual Income Tax Rate Reduction Ch. 354		(156,100.0)	(334,000.0)
Solar Energy Device Credit Ch. 333		(500.0)	(500.0)
Active Duty Military Pay Exemption [1/] Ch. 342			(12,200.0)
TOTAL INDIVIDUAL INCOME		**(157,300.0)**	**(346,300.0)**
CORPORATE INCOME			
IRS Conformity Ch. 357		(700.0)	(800.0)
Solar Energy Device Credit Ch. 333		(500.0)	(500.0)
School Tuition Tax Credit [2/] Chs. 14 & 325		(10,000.0)	(12,000.0)
TOTAL CORPORATE INCOME		**(11,200.0)**	**(13,300.0)**
SALES AND USE			
Solar Energy Device Credit Ch. 333		(500.0)	(500.0)
Exemption for Purchase of Liquid Natural Gas Ch. 371		(378.6)	(378.6)
Tax Simplification-Eliminate 3 Categories Ch. 354		(200.0)	(200.0)
TOTAL SALES AND USE		**(1,078.6)**	**(1,078.6)**
PROPERTY			
State Equalization Rate Suspension [3/] Ch. 354			
Nonprofit Hospital Property Tax Exemption [4/] Ch. 327			
TOTAL PROPERTY			
OTHER			
Health Insurance Premium Tax Credit Ch. 378		(5,000.0)	(5,000.0)
TOTAL OTHER		**(5,000.0)**	**(5,000.0)**
TOTAL		**(174,578.6)**	**(365,678.6)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Chapter 342 made the one-time active duty pay exemption enacted by Laws 2005, Chapter 303 permanent. In addition, the act expands the exemption to include active National Guard or Reserves.
2/ Credit capped at $10 million for FY 2007. The cap will increase 20% annually beginning in FY 2008.
3/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be $215.2 million in FY 2007, $226.0 million in FY 2008, and $239.6 million in FY 2009.
4/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be $60,000 per year beginning in FY 2007.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2007

($ in Thousands)

	FY 2007	FY 2008	FY 2009
INDIVIDUAL INCOME			
IRS Conformity Ch. 1		(1,300.0)	(980.0)
College Savings Plan Ch. 258			(2,500.0)
Military Relief Fund Ch. 258			(1,000.0)
TOTAL INDIVIDUAL INCOME		**(1,300.0)**	**(4,480.0)**
CORPORATE INCOME			
IRS Conformity Ch. 1		(300.0)	60.0
TOTAL CORPORATE INCOME		**(300.0)**	**60.0**
SALES AND USE			
None			
TOTAL SALES AND USE			
PROPERTY			
Business Property Tax Reduction 1/ Ch. 258			
Business Personal Property Accelerated Depreciation 2/ Ch. 258			
TOTAL PROPERTY			
OTHER			
None			
TOTAL OTHER			
TOTAL		**(1,600.0)**	**(4,420.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Laws 2005, Chapter 302 phased down the assessment ratio for business personal property over 10 years. Chapter 258 accelerates the phase down from the remaining 8 years to 4 years. Impact will occur as increased Arizona Department of Education expenditures. The incremental cost of the accelerated phase down is expected to be an additional $3.1 million in FY 2009.

2/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be $4.0 million per year beginning in FY 2009.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2008

($ in Thousands)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
INDIVIDUAL INCOME					
IRS Conformity Ch. 94		(970.0)			
TOTAL INDIVIDUAL INCOME		**(970.0)**			
CORPORATE INCOME					
IRS Conformity Ch. 94		(80.0)			
Research and Development Credit [1/] Ch. 290				(5,700.0)	(11,200)
TOTAL CORPORATE INCOME		**(80.0)**		**(5,700.0)**	**(11,200.0)**
SALES AND USE					
None					
TOTAL SALES AND USE					
PROPERTY					
None					
TOTAL PROPERTY					
OTHER					
None					
TOTAL OTHER					
TOTAL		**(1,050.0)**		**(5,700.0)**	**(11,200.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Revised since 2020 Tax Handbook to correct an error.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2009

($ in Thousands)

	FY 2009	FY 2010	FY 2011	FY 2012
INDIVIDUAL INCOME				
IRS Conformity Ch. 2		(4,000.0)	(880.0)	(880.0)
Contributions to Charitable Organizations Ch. 80		(5,000.0)	(5,900.0)	(5,900.0)
Renewable Energy Investment 1/ Ch. 96				
TOTAL INDIVIDUAL INCOME		**(9,000.0)**	**(6,780.0)**	**(6,780.0)**
CORPORATE INCOME				
IRS Conformity Ch. 2		(4,410.0)	(100.0)	(100.0)
Renewable Energy Investment 1/ Ch. 96			(5,000.0)	(5,000.0)
TOTAL CORPORATE INCOME		**(4,410.0)**	**(5,100.0)**	**(5,100.0)**
SALES AND USE				
None				
TOTAL SALES AND USE				
PROPERTY				
Renewable Energy Investment 1/ Ch. 96				
TOTAL PROPERTY				
OTHER				
None				
TOTAL OTHER				
TOTAL		**(13,410.0)**	**(11,880.0)**	**(11,880.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Chapter 96 provides income and property tax incentives for qualifying renewable energy companies that invest in headquarter or manufacturing facilities in the state, including land, buildings, machinery and equipment, from tax year 2010 to 2014. The income tax credits are refundable, and are capped at $70 million annually. The $(5) million impact is a revised estimate for CY 2010. The cumulative $(5) million reduction is shown as a corporate income tax reduction for display purposes.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2010

($ in Thousands)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
INDIVIDUAL INCOME					
IRS Conformity [1/] Ch. 176					
STO Contribution Deadline Extension Ch. 188		(2,500.0)	(2,500.0)	(2,500.0)	(2,500.0)
STO Maximum Credit Inflation Adjustment Ch. 293		(600.0)	(600.0)	(600.0)	(600.0)
Research and Development Refundable Credit [2/] Ch. 312		(5,000.0)	(5,000.0)	(5,000.0)	(5,000.0)
Renewable Energy Production Credit [3/] Ch. 312					
Out-of-State Filers Proportionality 6th SS, Ch. 3		22,000.0	22,000.0	22,000.0	22,000.0
TOTAL INDIVIDUAL INCOME		**13,900.0**	**13,900.0**	**13,900.0**	**13,900.0**
CORPORATE INCOME					
IRS Conformity [1/] Ch. 176					
Research and Development Refundable Credit [2/] Ch. 312					
Renewable Energy Production Credit [3/] Ch. 312			(10,000.0)	(20,000.0)	(20,000.0)
TOTAL CORPORATE INCOME		**0.0**	**(10,000.0)**	**(20,000.0)**	**(20,000.0)**
SALES AND USE					
TPT Increase - May Election 6th SS, SCR 1001 (May 2010 Election, Prop 100) [4/]		918,000.0	918,000.0	918,000.0	0.0
Estimated Payment Threshold 7th SS, Ch. 12 [5/]					
TOTAL SALES AND USE		**918,000.0**	**918,000.0**	**918,000.0**	**0.0**
PROPERTY					
None					
TOTAL PROPERTY					
OTHER					
None					
TOTAL OTHER					
TOTAL		**931,900.0**	**921,900.0**	**911,900.0**	**(6,100.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ These adjustments may have a minimal revenue impact not reflected in this chart.
2/ The refundable credit provisions of Chapter 312 impact both individual and corporate income tax. The cumulative $(5) million reduction is shown as an individual income tax reduction for display purposes.
3/ The renewable energy production provisions of Chapter 312 impact both individual and corporate income tax. The cumulative $(10) million reduction is shown as a corporate income tax reduction for display purposes.
4/ The original ballot proposition estimated collections of $918 million, $968 million, and $1.06 billion respectively for the three years of collection.
5/ The threshold for the June estimated TPT payment was lowered from $1.0 million in TPT tax liability to $100,000 for FY 2010 through FY 2012. This change was estimated to generate $48 million in FY 2010, and reduce revenues by $(52) million in FY 2013. These changes do not impact a taxpayer's tax liability, but do impact the timing of payments. The impacts are considered one-time, and are not included in the above chart.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2011

($ in Thousands)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
INDIVIDUAL INCOME 1/								
IRS Conformity Ch. 4		3,100.0	3,100.0	3,100.0	3,100.0	3,100.0	3,100.0	3,100.0
"Angel" Investment Credit Increase 2/ 2nd SS, Ch. 1		(4,000.0)	(4,000.0)	(4,000.0)	(4,500.0)	0.0	0.0	0.0
Eliminate Small Business-Generated Cap. Gains 2nd SS, Ch. 1					(11,600.0)	(12,300.0)	(12,900.0)	(13,600.0)
New Employment Credit 2nd SS, Ch. 1								
University R&D Credit Increase 2nd SS, Ch. 1 3/								
Eliminate Enterprise Zones 2nd SS, Ch. 1 4/								
TOTAL INDIVIDUAL INCOME		**(900.0)**	**(900.0)**	**(900.0)**	**(13,000.0)**	**(9,200.0)**	**(9,800.0)**	**(10,500.0)**
CORPORATE INCOME 1/								
IRS Conformity Ch. 4		6,100.0	6,100.0	6,100.0	6,100.0	6,100.0	6,100.0	6,100.0
Corporate Rate Reduction 2nd SS, Ch. 1 5/					(53,800.0)	(116,000.0)	(183,500.0)	(269,600.0)
100% Sales Factor 2nd SS, Ch. 1 6/					(24,600.0)	(47,300.0)	(67,800.0)	(84,000.0)
New Employment Credit 2nd SS, Ch. 1		(6,700.0)	(13,400.0)	(29,800.0)	(47,700.0)	(52,700.0)	(53,700.0)	(50,900.0)
University R&D Credit Increase 2nd SS, Ch. 1 3/			(4,000.0)	(4,000.0)	(4,000.0)	(4,000.0)	(4,000.0)	(4,000.0)
Eliminate Enterprise Zones 2nd SS, Ch. 1 4/		4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0
TOTAL CORPORATE INCOME		**3,400.0**	**(7,300.0)**	**(23,700.0)**	**(120,000.0)**	**(209,900.0)**	**(298,900.0)**	**(398,400.0)**
SALES AND USE None								
TOTAL SALES AND USE								
PROPERTY None								
TOTAL PROPERTY								
OTHER None								
TOTAL OTHER								
TOTAL		**2,500.0**	**(8,200.0)**	**(24,600.0)**	**(133,000.0)**	**(219,100.0)**	**(308,700.0)**	**(408,900.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ The Chapter 1 "Jobs Bill" provisions are fully phased in by 2018. See the Corporate Income Tax section for additional information.
2/ Revised since 2013 Tax Handbook to correct an error.
3/ The university R&D credit impacts both individual and corporate income tax. The cumulative reduction is shown as a corporate income tax reduction for display purposes.
4/ The elimination of enterprise zones impacts both individual and corporate income tax. The cumulative reduction is shown as a corporate income tax reduction for display purposes.
5/ The impact of the corporate income tax rate reduction is estimated at $(116.0) million in FY 2016, $(183.5) million in FY 2017, and $(269.6) million in FY 2018. These reflect estimates at the time of enactment and have changed since that time.
6/ The impact of the 100% sales factor phase-in is estimated at $(47.3) million in FY 2016, $(67.8) million in FY 2017, and $(84.0) million in FY 2018. These reflect estimates at the time of enactment and have changed since that time.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2012

($ in Thousands)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
INDIVIDUAL INCOME								
STO Tax Credit Ch. 4		(4,000.0)	(4,000.0)	(4,000.0)	(4,000.0)	(4,000.0)	(4,000.0)	(4,000.0)
Eliminate Clean Election Tax Credit Ch. 257		12,800.0	12,800.0	12,800.0	12,800.0	12,800.0	12,800.0	12,800.0
Healthy Forest Restoration Ch. 331		(110.0)	(110.0)	(110.0)	(110.0)	(110.0)	(110.0)	(110.0)
Long-Term Capital Gains Reduction Ch. 343			(17,500.0)	(40,500.0)	(56,500.0)	(61,400.0)	(65,600.0)	(69,300.0)
Federal Bonus Depreciation Deduction 1/ Ch. 343				(4,200.0)	0.0	0.0	0.0	0.0
Eliminate Cap-New Employment 2/ Ch. 343								
Qualified Facility Credit 3/ Ch. 343								
Long Term Care Premium Subtraction Ch. 351		(4,100.0)	(4,100.0)	(4,100.0)	(4,100.0)	(4,100.0)	(4,100.0)	(4,100.0)
TOTAL INDIVIDUAL INCOME		**4,590.0**	**(12,910.0)**	**(40,110.0)**	**(51,910.0)**	**(56,810.0)**	**(61,010.0)**	**(64,710.0)**
CORPORATE INCOME								
Service Provider Corporate Sales Factor 1/ Ch. 2				(3,000.0)	(3,500.0)	(3,900.0)	(4,400.0)	(4,400.0)
Eliminate Cap-New Employment 2/ Ch. 343			(1,800.0)	(3,600.0)	(5,400.0)	(5,400.0)	(5,400.0)	(5,400.0)
Qualified Facility Credit 3/ Ch. 343			(4,000.0)	(8,000.0)	(12,000.0)	(16,000.0)	(20,000.0)	(20,000.0)
Extend Net Operating Loss Carry Forward Ch. 343								(12,200.0)
TOTAL CORPORATE INCOME		**0.0**	**(5,800.0)**	**(14,600.0)**	**(20,900.0)**	**(25,300.0)**	**(29,800.0)**	**(42,000.0)**
SALES AND USE								
Public Infrastructure Improvements 4/ Ch. 328								
TOTAL SALES AND USE								
PROPERTY								
None								
TOTAL PROPERTY								
OTHER								
None								
TOTAL OTHER								
TOTAL		**4,590.0**	**(18,710.0)**	**(54,710.0)**	**(72,810.0)**	**(82,110.0)**	**(90,810.0)**	**(106,710.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Revised since 2013 Tax Handbook to correct an error.
2/ Impact is estimated at $(1.8) million between corporate and individual income taxpayers beginning in FY 2014. Impact grows by another $(1.8) million each year through FY 2016. The impact of the credit is shown in the Corporate Income Tax section for display purposes.
3/ Impact is estimated at $(4.0) million between corporate and individual income taxpayers, beginning in FY 2014. Impact grows by another $(4.0) million each year through FY 2018. The impact of the credit is shown in the Corporate Income Tax section for display purposes.
4/ Fiscal impact could not be determined at the time of enactment but statute caps the loss to more than $50 million over the life of the program.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2013

($ in Thousands)

	FY 2013	FY 2014	FY 2015	FY 2016
INDIVIDUAL INCOME				
IRS Conformity Ch. 65		8,300.0	8,700.0	9,300.0
Working Poor Credit/Itemized Deduction Ch. 236		(18,000.0)	(18,000.0)	(18,000.0)
529 College Savings Plan Subtraction Ch. 236		(4,000.0)	(4,000.0)	(4,000.0)
Business Expensing Conformity [1/] Ch. 256		(24,800.0)	0.0	0.0
Foster Care Credit 1st SS Ch. 9		(850.0)	(850.0)	(850.0)
TOTAL INDIVIDUAL INCOME		**(39,350.0)**	**(14,150.0)**	**(13,550.0)**
CORPORATE INCOME				
IRS Conformity Ch. 65	4,600.0	5,400.0	8,900.0	6,300.0
ACA Certification/Enterprise Zone Credit Ch. 236		(500.0)	(300.0)	0.0
TOTAL CORPORATE INCOME	**4,600.0**	**4,900.0**	**8,600.0**	**6,300.0**
SALES AND USE				
Certified Interlock Device Rental Ch. 236		(600.0)	(600.0)	(600.0)
TPT Simplification Ch. 255				1,300.0
Data Center Exemption 1st SS Ch. 9		(4,200.0)	(6,000.0)	(7,900.0)
TOTAL SALES AND USE		**(4,800.0)**	**(6,600.0)**	**(7,200.0)**
PROPERTY				
None				
TOTAL PROPERTY				
OTHER				
None				
TOTAL OTHER				
TOTAL	**4,600.0**	**(39,250.0)**	**(12,150.0)**	**(14,450.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Removed the state's $25,000 business expensing cap, beginning in TY 2013. As a result, the state effectively conformed its business expensing level to the amounts permitted by federal law. At the time of enactment, Chapter 256 was expected to have a one-time revenue impact of $(24.8) million in FY 2014. While Chapter 256 reduces both individual and corporate income tax, the entire impact is shown as an individual income tax reduction for display purposes. Laws 2015, Chapter 227 extends this provision.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2014

($ in Thousands)

	FY 2014	FY 2015	FY 2016	FY 2017
INDIVIDUAL INCOME				
Tax Bracket Inflation Adjustment Ch. 10			(6,100.0)	1/
Social Security Number Requirement Ch. 68			1,500.0	1,500.0
TOTAL INDIVIDUAL INCOME			**(4,600.0)**	**1,500.0**
CORPORATE INCOME				
Renewable Energy Facility Credit Ch. 8			(10,000.0)	(10,000.0)
Job Tax Credit Ch. 168		(882.0)	(882.0)	(882.0)
TOTAL CORPORATE INCOME		**(882.0)**	**(10,882.0)**	**(10,882.0)**
SALES AND USE				
Electricity/Natural Gas Exemption Ch. 7		(14,600.0)	(18,200.0)	(18,200.0)
Mixed Waste Processing Facility Ch. 228		(183.6)	(183.6)	(183.6)
Health Science Institution Ch. 276		(196.4)	(196.4)	(196.4)
TOTAL SALES AND USE		**(14,980.0)**	**(18,580.0)**	**(18,580.0)**
PROPERTY				
None				
TOTAL PROPERTY				
OTHER				
None				
TOTAL OTHER				
TOTAL		**(15,862.0)**	**(34,062.0)**	**(27,962.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Chapter 10 provided a one-time inflation adjustment of the income tax rate brackets for TY 2015. Laws 2015, Chapter 91 (see following page) made the inflation adjustment of the tax brackets permanent, beginning in TY 2016.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2015

($ in Thousands)

	FY 2015	FY 2016	FY 2017	FY 2018
INDIVIDUAL INCOME				
Tax Bracket Inflation Adjustment [1/] Ch. 91			(15,400.0)	(24,700.0)
Internal Revenue Code Conformity Ch. 227	(30,800.0)	(30,800.0)	(30,800.0)	(30,800.0)
TOTAL INDIVIDUAL INCOME	**(30,800.0)**	**(30,800.0)**	**(46,200.0)**	**(55,500.0)**
CORPORATE INCOME				
Renewable Energy Facility Credit [2/] Ch. 6				
TOTAL CORPORATE INCOME	**0.0**	**0.0**	**0.0**	**0.0**
SALES AND USE				
Electricity/Natural Gas Exemption [3/] Ch. 6			(1,300.0)	(1,300.0)
TOTAL SALES AND USE	**0.0**	**0.0**	**(1,300.0)**	**(1,300.0)**
PROPERTY				
Religious Institution Exemption [4/] Ch. 49				
TOTAL PROPERTY				
OTHER				
Insurance Fraud Assessment Ch. 10		516.6	516.6	516.6
Retaliatory Insurance Premium Tax Exemption Ch. 184		(1,500.0)	(1,500.0)	(1,500.0)
Insurance Premium Tax Rate Reduction [5/] Ch. 220			(1,300.0)	(1,500.0)
TOTAL OTHER	**0.0**	**(983.4)**	**(2,283.4)**	**(2,483.4)**
TOTAL	**(30,800.0)**	**(31,783.4)**	**(49,783.4)**	**(59,283.4)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Chapter 91 made the one-time tax bracket inflation adjustment enacted by Laws 2014, Chapter 10 permanent, beginning in TY 2016.

2/ Laws 2014, Chapter 8 created a credit for investments in new renewable energy facilities that produce energy for self-consumption used in manufacturing operations. Laws 2015, Chapter 6 expanded the credit program to include "International Operations Centers" (IOC). Since the program's credit cap of $10 million is already "priced in" for manufacturers, there would be no additional revenue loss for IOCs under Chapter 6.

3/ Laws 2014, Chapter 7 established an electricity and natural gas sales tax exemption for manufacturers. Laws 2015, Chapter 6 expanded the exemption to include "International Operations Centers" (IOC). The numbers as displayed reflect the marginal impact of Laws 2015, Chapter 6.

4/ Impact will occur as increased Arizona Department of Education expenditures. The cost is expected to be $300,000 per year, beginning in FY 2017.

5/ The numbers as displayed reflect the scheduled insurance premium tax rate reduction provided by Laws 2015, Chapter 220. See Laws 2016, Chapter 358 for further changes.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2016

($ in Thousands)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
INDIVIDUAL INCOME						
Charitable Tax Credit Cap Increase [1/] Ch. 109		(11,000.0)	(11,000.0)	(11,000.0)	(11,000.0)	(11,000.0)
Federal Bonus Depreciation Deduction [2/] Ch. 118		(8,000.0)	(16,000.0)	(16,000.0)	(16,000.0)	(16,000.0)
Extended Due Date for Charitable Tax Credit Ch. 309		(1,700.0)	(1,700.0)	(1,700.0)	(1,700.0)	(1,700.0)
TOTAL INDIVIDUAL INCOME		**(20,700.0)**	**(28,700.0)**	**(28,700.0)**	**(28,700.0)**	**(28,700.0)**
CORPORATE INCOME						
None						
SALES AND USE						
Natural Gas Transportation Exemption Ch. 357		(870.0)	(870.0)	(870.0)	(870.0)	(870.0)
Agricultural Feed Exemption Ch. 361		(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)
Charter Airline Exemption Ch. 367		0.0	(2,300.0)	(2,300.0)	(2,300.0)	(2,300.0)
Fine Art Exemption Ch. 368		(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)
Electricity/Natural Gas Exemption [3/ 4/] Ch. 374		(8,700.0)	(20,900.0)	(20,900.0)	(20,900.0)	(20,900.0)
TOTAL SALES AND USE		**(11,870.0)**	**(26,370.0)**	**(26,370.0)**	**(26,370.0)**	**(26,370.0)**
PROPERTY						
None						
OTHER						
Insurance Premium Tax Rate Reduction [5/] Ch. 358		(3,000.0)	(7,100.0)	(11,400.0)	(16,100.0)	(21,100.0)
TOTAL OTHER		**(3,000.0)**	**(7,100.0)**	**(11,400.0)**	**(16,100.0)**	**(21,100.0)**
TOTAL		**(35,570.0)**	**(62,170.0)**	**(66,470.0)**	**(71,170.0)**	**(76,170.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Chapter 109 increases the maximum amount that an individual income taxpayer is allowed to claim for cash contributions to charitable organizations and foster care charitable organizations, beginning in TY 2016. Based on JLBC Staff's original estimate, the May 2016 budget agreement assumed an annual impact of $(2.6) million, beginning in FY 2017. The current numbers reflect JLBC Staff's revised estimates based on additional research.

2/ Laws 2012, Chapter 343 provided an individual income tax deduction equal to 10% of the federal bonus depreciation allowance. The current numbers reflect Laws 2016, Chapter 118, which increases the deduction to 55% of federal bonus depreciation in TY 2016 and 100% in TY 2017 and subsequent years.

3/ Laws 2014, Chapter 7 established an electricity and natural gas sales tax exemption for manufacturers while Laws 2015, Chapter 6 expanded the exemption to "International Operation Centers" (IOC). Laws 2016, Chapter 374 further modified the requirements to qualify for the exemption. The numbers as displayed reflect the marginal impact of Laws 2016, Chapter 374.

4/ Chapter 374 modifies requirements to qualify for the electricity sales tax exemption, beginning in CY 2017. Based on Department of Revenue's original estimate, the May 2016 budget agreement assumed a revenue impact of $(7.0) million in FY 2017 and $(14.0) million, beginning in FY 2018. The current number reflects JLBC Staff's revised estimate based on additional research.

5/ The scheduled insurance premium tax rate reduction provided by Laws 2015, Chapter 220 was accelerated by Laws 2016, Chapter 358. The numbers as displayed reflect the marginal impact of Laws 2016, Chapter 358.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2017

($ in Thousands)

	FY 2017	FY 2018	FY 2019	FY 2020
INDIVIDUAL INCOME				
Personal Exemption Increase Ch. 299		(6,800.0)	(13,500.0)	(16,400.0)
"Angel" Investment Credit Increase Ch. 319		(833.3)	(1,666.7)	(2,500.0)
TOTAL INDIVIDUAL INCOME		**(7,633.3)**	**(15,166.7)**	**(18,900.0)**
CORPORATE INCOME				
Income Tax Subtraction for ADA Retrofits Ch. 278			(1,300.0)	(1,300.0)
New Requirements for Employment Credit Ch. 340			(800.0)	(1,700.0)
TOTAL CORPORATE INCOME			**(2,100.0)**	**(3,000.0)**
SALES AND USE				
None				
TOTAL SALES AND USE				
PROPERTY				
None				
TOTAL PROPERTY				
OTHER				
None				
TOTAL OTHER				
TOTAL		**(7,633.3)**	**(17,266.7)**	**(21,900.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2018
($ in Thousands)

	FY 2018	FY 2019	FY 2020	FY 2021
INDIVIDUAL INCOME				
Military Pension Exemption Increase Ch. 283			(2,000.0)	(2,000.0)
TOTAL INDIVIDUAL INCOME			**(2,000.0)**	**(2,000.0)**
CORPORATE INCOME				
None				
TOTAL CORPORATE INCOME				
SALES AND USE				
Online Marketplace Lodging TPT Changes Ch. 189		1/	1/	1/
Sales Suppression Software Prohibition Ch. 190		1/	1/	1/
TOTAL SALES AND USE		**10,000.0**	**15,000.0**	**15,000.0**
PROPERTY				
None				
TOTAL PROPERTY				
OTHER				
None				
TOTAL OTHER				
TOTAL		**10,000.0**	**13,000.0**	**13,000.0**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Under the FY 2019 enacted budget, the revenue impacts of Chapter 189 and Chapter 190 were not separately delineated. Therefore, there are no separate estimates for Chapters 189 and 190.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2019
($ in Thousands)

	FY 2019	FY 2020	FY 2021	FY 2022
INDIVIDUAL INCOME				
IRS Conformity Ch. 273	167,700.0	209,900.0	209,900.0	209,900.0
IRS Conformity Offset:				
Eliminate Personal and Dependent Exemptions Ch. 273		353,900.0	353,900.0	353,900.0
Eliminate Lottery Winning Subtraction Ch. 273		100.0	100.0	100.0
Increase Standard Deduction Ch. 273		(404,000.0)	(404,000.0)	(404,000.0)
Dependent Credit Ch. 273		(144,000.0)	(144,000.0)	(144,000.0)
Reduce number of tax brackets and rates Ch. 273		(108,000.0)	(108,000.0)	(108,000.0)
Provide Additional Standard Deduction on 25% of Charitable Contributions Ch. 273		(24,000.0)	(24,000.0)	(24,000.0)
IRS Conformity Offset: Sub-Total		**(326,000.0)**	**(326,000.0)**	**(326,000.0)**
Reduce Annual Increase of STO Credit Cap Ch. 281			300.0	1,200.0
Expand Eligibility for Charitable Credit Ch. 297		(1,200.0)	(1,200.0)	(1,200.0)
TOTAL INDIVIDUAL INCOME	**167,700.0**	**(117,300.0)**	**(117,000.0)**	**(116,100.0)**
CORPORATE INCOME				
IRS Conformity Ch. 273	(12,700.0)	7,100.0	7,100.0	7,100.0
Reduce Annual Increase of STO Credit Cap Ch. 281			2,600.0	9,100.0
TOTAL CORPORATE INCOME	**(12,700.0)**	**7,100.0**	**9,700.0**	**16,200.0**
SALES AND USE				
Enactment of "Wayfair" Legislation Ch. 273		57,000.0	85,000.0	85,000.0
Expand Propagative Materials Exemption Ch. 288		(7,300.0)	(14,700.0)	(14,700.0)
TOTAL SALES AND USE		**49,700.0**	**70,300.0**	**70,300.0**
PROPERTY				
None				
TOTAL PROPERTY				
OTHER				
Reduce Annual Increase of STO Credit Cap (Insurance Premium Tax) Ch. 281			2,500.0	8,400.0
TOTAL OTHER			**2,500.0**	**8,400.0**
TOTAL	**155,000.0**	**(60,500.0)**	**(34,500.0)**	**(21,200.0)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2020 *

($ in Thousands)

	FY 2020	FY 2021	FY 2022	FY 2023
INDIVIDUAL INCOME				
None				
TOTAL INDIVIDUAL INCOME	**0.0**	**0.0**	**0.0**	**0.0**
CORPORATE INCOME				
None				
TOTAL CORPORATE INCOME	**0.0**	**0.0**	**0.0**	**0.0**
SALES AND USE				
None				
TOTAL SALES AND USE	**0.0**	**0.0**	**0.0**	**0.0**
PROPERTY				
None				
TOTAL PROPERTY	**0.0**	**0.0**	**0.0**	**0.0**
OTHER				
None				
TOTAL OTHER	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**

Notes:
* No legislation with revenue impact was enacted in 2020
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2021

($ in Thousands)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
INDIVIDUAL INCOME							
IRC Conformity [1/] Ch. 232							
Maximum 4.5% Tax Rate [2/] Ch. 411							
Reduce Tax Rates to 2.55%/2.98% [3/] Ch. 412			(1,273,700.0)	(1,336,000.0)	(1,336,000.0)	(1,336,000.0)	(1,336,000.0)
Reduce Tax Rates to a 2.5% Single Rate [3/ 4/] Ch. 412				(700,000.0)	(700,000.0)	(700,000.0)	(700,000.0)
Full Exemption on Military Pension Ch. 412		(48,300.0)	(37,900.0)	(37,900.0)	(37,900.0)	(37,900.0)	(37,900.0)
Increase Optional Standard Deduction for Charitable Contributions Ch. 412			(2,000.0)	(3,900.0)	(3,900.0)	(3,900.0)	(3,900.0)
Impose Alternative Income Tax (SB 1783) [5/] Ch. 436							
TOTAL INDIVIDUAL INCOME	**0.0**	**(48,300.0)**	**(1,313,600.0)**	**(2,077,800.0)**	**(2,077,800.0)**	**(2,077,800.0)**	**(2,077,800.0)**
CORPORATE INCOME							
Increase STO Credit Cap for Displaced/Disabled Students Ch. 412		(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)
Expand Eligibility for Students Receiving Corporate Scholarships Ch. 412		(400.0)	(400.0)	(400.0)	(400.0)	(400.0)	(400.0)
Deduction for "Contribution in Aid of Construction" Ch. 412		(400.0)	(400.0)	(400.0)	(400.0)	(400.0)	(400.0)
Healthy Forest Production Credit Ch. 412		(395.8)	(395.8)	(395.8)	(395.8)	(395.8)	(395.8)
Low Income ("Affordable") Housing Tax Credit Ch. 430				(4,000.0)	(8,000.0)	(12,000.0)	(16,000.0)
TOTAL CORPORATE INCOME	**0.0**	**(2,195.8)**	**(2,195.8)**	**(6,195.8)**	**(10,195.8)**	**(14,195.8)**	**(18,195.8)**
SALES AND USE							
None							
TOTAL SALES AND USE							
PROPERTY							
Class 1 Assessment Ratio Reduction [6/] Ch. 412							
Increase of Homeowner's Rebate [7/] Ch. 412							
TOTAL PROPERTY							
OTHER							
Gaming - Keno/Mobile Draw Games, Fantasy Sports Betting, and Event Wagering [8/] Ch. 234		10,000.0					
TOTAL OTHER		**10,000.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL	**0.0**	**(40,495.8)**	**(1,315,795.8)**	**(2,083,995.8)**	**(2,087,995.8)**	**(2,091,995.8)**	**(2,095,995.8)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Arizona conformed to the Internal Revenue Code in effect as of March 11, 2021. Conformity was estimated to have a one-time cost of $(635) million. The tax law changes charts, however, do not display one-time impact. As background, this cost was originally intended to be offset by a deposit of federal funds, which would have resulted in no net overall revenue impact. The Executive ultimately chose to offset the cost of the conformity provisions by using federal funds to reduce General Fund spending.

2/ After Proposition 208 was ruled invalid in March 2022, the impact of this provision was nullified as no taxpayers had a highest mariginal tax rate above 4.5%.

3/ These revised estimates reflect the fiscal impact from the FY 2023 enacted budget and differ from the original estimates included in the 2021 Tax Handbook.

4/ Ch. 412 further reduces tax rates to as low as a single 2.5% rate conditional on receiving sufficient revenues above the forecast. Based on a joint JLBC Staff/OSPB determination that actual FY 2022 revenue collections were $16.7 billion, the Executive determined that this level was sufficient to implement the flat 2.5% rate as of TY 2023/FY 2024.

5/ The ongoing effect of this provision was nullified once Proposition 208 was ruled invalid, as the original estimate was related to offseting the costs of the 4.5% maximum tax rate. In FY 2022, this provision resulted in General Fund revenue collections of $143 million. This amount should not be considered a net revenue gain, however, as FY 2022 payments under the Ch. 436 tax rate is less than what certain taxpayers would have paid under the pre-Ch. 412 tax rates. We do not have an estimate of the dollar value of that tax reduction in FY 2022.

6/ Increases the General Fund formula cost for K-12 funding by $4.4 million in FY 2023 and $9.0 million in FY 2024.

7/ Increases the General Fund formula cost for K-12 funding by $30.0 million in FY 2023 and $30.8 million in FY 2024.

8/ The FY 2022 budget 3-year plan assumed a General Fund revenue impact of $200 million in FY 2023 and $300 million in FY 2024. The actual FY 2022 collections were $10 million and the enacted FY 2023 budget incorporated slightly higher estimates for FY 2023 and beyond.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2022

($ in Thousands)

	FY 2022	FY 2023	FY 2024	FY 2025
INDIVIDUAL INCOME				
Annually Increase QCO/QFCO Credit Cap for Inflation Ch. 385	0.0	(1,000.0)	(2,000.0)	(4,000.0)
TOTAL INDIVIDUAL INCOME	**0.0**	**(1,000.0)**	**(2,000.0)**	**(4,000.0)**
CORPORATE INCOME				
Motion Picture Production Credit [1/] Ch. 387	0.0	- -	- -	- -
TOTAL CORPORATE INCOME	**0.0**			
SALES AND USE				
Exemption for Used Agricultural Machinery Ch. 321	0.0	(583.0)	(583.0)	(583.0)
Public Infrastructure TPT Distribution Cap Increased from $50 M to $100 M Ch. 321		(50,000.0)	0.0	0.0
TOTAL SALES AND USE	**0.0**	**(50,583.0)**	**(583.0)**	**(583.0)**
PROPERTY				
Increase Depreciation of Business Personal Property [2/] Ch. 103				
Class 1 Assessment Ratio Reduction [3/] Ch. 171				
Veterans' Property Tax Exemption [4/] Ch. 341				
TOTAL PROPERTY				
OTHER				
Change to Aircraft License Tax Ch. 321	0.0	(1,900.0)	(950.0)	(950.0)
TOTAL OTHER	**0.0**	**(1,900.0)**	**(950.0)**	**(950.0)**
TOTAL	**0.0**	**(53,483.0)**	**(3,533.0)**	**(5,533.0)**

Notes:

- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Chapter 387 was not scored as part of the 3-year budget plan. The credit has a cap of $75 million in 2023, $100 million in 2024, and $125 million, beginning in 2025. Based on a JLBC Fiscal Note of an earlier version of the bill, we estimate that less than half of the credit cap will be used by the third year. The JLBC analysis did not attempt to estimate the indirect impacts of the credit.

2/ Chapter 103 was not scored as part of the 3-year budget plan. JLBC Staff analysis estimated the General Fund K-12 funding formula cost to be $9.2 million in FY 2023, $19.2 million in FY 2024, and $29.6 million in FY 2025.

3/ JLBC Fiscal Note estimated the General Fund K-12 funding formula cost to be $3.8 million in FY 2027 and $6.9 million annually, beginning in FY 2028.

4/ JLBC Staff analysis estimated the General Fund K-12 funding formula savings to be $(1.0) million annually, beginning in FY 2024. This property tax exemption is subject to voter approval (as Proposition 130) in the November 2022 General Election.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2023

($ in Thousands)

	FY 2023	FY 2024	FY 2025	FY 2026
INDIVIDUAL INCOME				
Adoption Expenses Subtraction from TY 2023 to TY 2025 Ch. 147	0.0	(178.5)	(178.5)	(178.5)
TOTAL INDIVIDUAL INCOME	**0.0**	**(178.5)**	**(178.5)**	**(178.5)**
CORPORATE INCOME				
None				
TOTAL CORPORATE INCOME	**0.0**	**0.0**	**0.0**	**0.0**
SALES AND USE				
Public Infrastructure TPT Distribution Cap Increased from $100 M to $200 M [1/] Ch. 181		(50,000.0)	(50,000.0)	0.0
TOTAL SALES AND USE	**0.0**	**(50,000.0)**	**(50,000.0)**	**0.0**
PROPERTY				
None				
TOTAL PROPERTY	**0.0**	**0.0**	**0.0**	**0.0**
OTHER				
None				
TOTAL OTHER	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL	**0.0**	**(50,178.5)**	**(50,178.5)**	**(178.5)**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.

1/ Chapter 181 was not scored as part of the 3-year budget plan enacted in May 2023.

TAX LAW CHANGES THAT OCCURRED IN CALENDAR YEAR 2024

($ in Thousands)

	FY 2024	FY 2025	FY 2026	FY 2027
INDIVIDUAL INCOME				
None				
TOTAL INDIVIDUAL INCOME	**0.0**	**0.0**	**0.0**	**0.0**
CORPORATE INCOME				
Ch. 221		31,700.0	35,400.0	39,000.0
TOTAL CORPORATE INCOME	**0.0**	**31,700.0**	**35,400.0**	**39,000.0**
SALES AND USE				
None				
TOTAL SALES AND USE	**0.0**	**0.0**	**0.0**	**0.0**
PROPERTY				
None				
TOTAL PROPERTY	**0.0**	**0.0**	**0.0**	**0.0**
OTHER				
None				
TOTAL OTHER	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL	**0.0**	**31,700.0**	**35,400.0**	**39,000.0**

Notes:
- Unless otherwise noted, dollar amounts are estimates of impact at time of enactment.
- After the first year, amounts represent the total dollar impact for the year, not the incremental amount.