

OVERVIEW OF 2000 TAX RELATED LEGISLATION

The following is intended to give a brief overview of the 2000 tax-related legislation impacting the Department of Revenue and is not intended to discuss the details regarding any specific enactment. Please refer to the particular legislation for more definitive information. The general effective date for 2000 legislation is July 18, 2000.

Copies of specific bills can be obtained from the Secretary of State, State Capitol, West Wing, 1700 W. Washington St., 7th Floor, Phoenix, AZ 85007. The first copy of each bill is free. Any additional fees must be discussed with the Secretary of State's Office. Copies can be mailed or picked up in person.

HB 2037: Revised Arizona Unclaimed Property Act (CH. 184)

- Replaces the current 1981 Unclaimed Property Act with a modified version of the 1995 Uniform Unclaimed Property Act.
 - Shortens the dormancy period for certain types of property.
 - Assists holders with reporting because it reduces the statutes of limitations, clarifies what is required when reporting, allows for de minimus property of \$50 or less for business-to-business transactions, and creates a Holder's Bill of Rights.
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HB 2060: Agricultural Preservation District Land, Tax Credit (CH. 267)

Creates a refundable income tax credit for individuals and corporations for donating land or development rights to land to an agricultural preservation district. The amount of the credit is equal to the appraised value of the property if ownership is conveyed to the district or the difference between the appraised value of the undeveloped land and the appraised value of the land for development purposes if the taxpayer conveys the development rights to the district. The total credits in any single district cannot exceed \$33,000 in any calendar year. The credit is available for taxable years 2001 through 2005. Also, creates an addition to Arizona gross income for amounts deducted for conveying property or development rights to a district.

HB 2128: Victim Compensation; Unclaimed Restitution (CH. 168)

Directs DOR to deposit all monies from unclaimed victim restitution payments in the Victims Compensation and Assistance Fund.

HB 2226: Tuition Tax Credit, Handicapped Preschoolers (CH. 394)

Amends A.R.S. §43-1089 to include preschools for handicapped students in the definition of qualified schools for purposes of the credit for contributions made to a school tuition organization. Applies to taxable years beginning from and after December 31, 2000.

HB 2245: Reviser's Technical Corrections; 2000 (CH. 32)

Contains, in part, technical corrections that relate to individual and corporate income tax. The provisions correct defective enactments and errors in statutory cites.

HB 2287: Renewable Energy; Tax Incentive (CH. 214)

- Amends the prime contracting classification to add a deduction for the retail cost of solar energy devices that a contractor supplies and installs pursuant to contracts. The deduction is limited to the cost of the device to the contractor. The deduction does not apply to the installation of the device. This deduction is set to expire on January 1, 2011. In addition, a technical correction is made with reference to the deduction for the construction of a lake facility development.
- Provides that the deduction added under the prime contracting classification applies retroactively to from and after December 31, 1996.
- Adds a new A.R.S. § 43-1030 to provide an income tax subtraction for selling an energy efficient residence and amend A.R.S. § 43-1022 to implement the subtraction. The subtraction is applicable to individuals, partnerships, and fiduciaries that file estate or trust income tax returns. The subtraction does not apply to corporations.

Under new A.R.S. § 43-1030, a taxpayer that sells one or more new single family residences, condominiums or town houses, that exceed the 1995 model energy code by 50% or more as determined by an approved rating system, may take a subtraction for 5% of the sales price,

excluding certain amounts. The subtraction cannot exceed \$5,000 with respect to each single-family residence, condominium, or town house.

The Arizona Department of Commerce Energy Office is responsible for annually reviewing the threshold eligibility rating, and for increasing the qualifying rating by 5% if the number of homes receiving a subtraction in a single year exceeds 5% of the new homes built in Arizona as estimated by the Energy Office. The Energy Office is also required to provide the Department of Revenue with an annual list of the criteria used to determine an energy efficiency rating that qualifies for a subtraction.

This new subtraction is applicable to taxable years beginning from and after December 31, 2001 through December 31, 2010.

HB 2329: Vehicle License Tax, Corporate Tax Rates (CH. 48)

- Changes the amount of vehicle license tax that is provided to the state general fund to aid school finance from 23 cents to 6 cents and changes the amount to the state highway fund from 14 cents to 10 cents.
- Reduces the corporate income tax rate to 6.968 percent effective for taxable years beginning from and after December 31, 2000. (This effective date was amended by SB 1424.)
- Repeals the year 2000 conditional (trigger) enactments.

HB 2334: Municipal Telecommunications; Franchises (CH. 397)

Provides, in part, an exemption under the telecommunications classification for sales of Internet access services. The amendment separates ARS § 42-5064(A) into two paragraphs. Paragraph 1 deals with the current deduction for sales of intrastate telecommunications. Paragraph 2 adds a deduction for "sales of Internet access services to the taxpayer's subscribers and customers." This proposed amendment also provides definitions of "Internet" and "Internet access."

A similar exemption is added to ARS § 42-6004 prohibiting the cities to tax Internet access fees.

HB 2336: Tax Appeals; Attorney Fees (CH. 17)

Covers the award of attorney's fees and costs in tax and other cases involving the state. The change in ARS § 12-348(B) states that whether the taxpayer or the state files the action, the court may award fees to a taxpayer who prevails. Previously, it only stated that the award was possible if the taxpayer brought the action.

The change to ARS § 12-342(E)(3) increases the maximum amount of fees per hour that can be awarded from \$100 to \$175. The statutory change to ARS § 12-348(E)(5) raises the fee cap at each level of court. This allows for up to \$120,000 in fees, opposed to the current \$20,000 cap, assuming the case goes through the Tax Court, Court of Appeals, AZ Supreme Court, and the US Supreme Court.

HB 2385: Contracting Classification; Exterminators; Exemptions (CH. 33)

Amends the prime contracting classification to exempt insect extermination, except pre-treatments, from transaction privilege tax. This proposal is retroactive to December 31, 1993.

HB 2442: Technology Training; Tax Credit (CH. 239)

Provides a refundable income tax credit to individuals and corporations for providing qualified technology skills training to employees.

The amount of the credit is the lesser of 50% of the training costs or \$1,500 per employee per taxable year. A taxpayer may not claim a credit for more than twenty employees. The maximum credit for all corporate taxpayers is \$2.5 million per year. The maximum credit for all individual taxpayers is \$2.5 million per year. The credit is effective for taxable years beginning from and after December 31, 2000 and ending before January 1, 2006.

To receive this credit a taxpayer must apply to the Department of Commerce on or before January 15 of the year following the calendar year in which the credit is claimed. If applications exceed the \$2.5 million threshold, Commerce must proportionately reduce the amount of credit for each taxpayer.

HB 2451: Tax Credit; School Site Donation (CH. 334)

Provides income tax credits for individuals and corporations that donate real property and improvements to a school district or charter school for use as a school or as a site for the construction of a school.

The amount of the credit is 30% of the fair market value of the property donated and is in lieu of a charitable deduction for the donation.

To qualify for the credit, the property must be located in Arizona. In addition, the property must be subject to certain deed restrictions and, in the case of a donation to a charter school, a lien in the amount of the allowable tax credit adjusted by the average change in the GDP price deflator for each calendar year since donation, not exceeding 12.5% more than the allowable credit.

Taxpayers are allowed a 5-year carryover for unused credits.

School districts may sell donated property; however, the proceeds must be used for capital projects.

Charter schools that receive donated property are required to pay the State Treasurer the amount of the tax credit allowed in the event of the financial failure of the charter school or if the charter school fails to establish a school on the property or provide instruction to pupils within certain time frames.

The lien recorded with the title to the property donated to a charter school is extinguished on the earliest of the following:

1. Ten years after the lien is recorded.
2. On payment to the State Treasurer the amount of the allowable tax credit.
3. On conveyance of the property to a school district.
4. On enforcement and satisfaction of the lien by the State Treasurer's Office.

The bill is effective for taxable years beginning from and after December 31, 2000.

HB 2459: Income Tax Subtraction; Holocaust Reparations (CH. 286)

Amends ARS § 43-1022 and adds a new ARS § 43-1030 to provide an income tax subtraction for distributions made to a taxpayer for the taxpayer's persecution or for the persecution of the taxpayer's ancestor by Nazi Germany or any other axis regime for racial, religious, or political reasons. ARS § 43-1030 also provides a subtraction for items of income that are attributable to, derived from, or related to assets that were stolen or hidden from or lost to a taxpayer who was persecuted by Nazi Germany or any other axis regime for racial, religious, or political reasons. The subtraction applies to the taxpayer who is the first recipient of any distribution or recovered asset.

ARS § 43-1030 also provides that any income received by a taxpayer for the taxpayer's persecution or for the persecution of the taxpayer's ancestors by Nazi Germany or any other axis regime shall not be included for the purposes of any state program that uses income as an eligibility requirement.

This legislation applies retroactively to taxable years beginning from and after December 31, 1999.

HB 2557: Tobacco Sales: Unlawful Manufacture, Sale or Distribution (CH. 350)

Prohibits the sale and distribution of cigarettes in containers of less than 20 and packages of tobacco that contain less than .60 ounces of tobacco.

HB 2624: Supplemental Air Carriers; Classification; Exemption (CH. 401)

Broadens the exemption to include sales to a person holding a supplemental air carrier certificate under federal aviation regulations (14 Code of Federal Regulations part 121). The existing statutes exempt sales of such equipment made to a person holding a federal certificate of public convenience and necessity or a foreign air carrier certificate or a foreign air carrier permit.

This act applies retroactively to taxable periods beginning from and after May 31, 1998. All claims for refund must be filed by December 31, 2000. The maximum revenue impact from the refunds is \$10,000.

HB 2663: Closing Agreements; Refund; Credit (CH. 69)

Allows closing agreements made due to a substantial misunderstanding of a tax statute to apply retroactively to January 1, 1985 to taxpayers who operate a restaurant or transient lodging business on an Indian reservation.

SB 1015: Theme Parks; Repeal (CH. 299)

Repeals any provision relating to theme parks by repealing the following statutes:

- Issuing Bonds for Theme Parks;
- Local Theme Park Excise Tax; and,
- Session laws that currently have a delayed repeal of Theme Parks of December 31, 2005.

This proposal is retroactive to September 7, 1999.

SB 1040: Tax Corrections Act of 2000 (CH. 63)

Annual legislation to make technical corrections for erroneous or obsolete language contained in the statutes.

SB 1055: County Juvenile Facilities (CH. 387)

Allows a county excise tax on TPT if a majority of qualified electors approve an ad valorem property tax for a district that includes juvenile detention facilities or if the electors approve the inclusion of juvenile detention facilities in an existing jail district. The excise tax is set at a maximum 5% of the state rate.

Also, provides a county use tax that will "piggyback" the state use tax imposed on utility services purchased from out-of-state vendors. In 1999, A.R.S. § 42-6110 was enacted to impose a county use tax on electricity purchased from an electrical supplier. This "general" statute is available to all counties other than Maricopa County. The statutes vary as to whether

the county board of supervisors will approve the county use tax, or whether the imposition of tax will be resolved at a countywide special or general election.

Contains an emergency provision.

SB 1109: Electric Deregulation; Study Committee (CH. 54)

Extends the study committee on electric deregulation issues to December 31, 2002.

SB 1118: Severance Tax: Revenue Distribution Formula (CH. 337)

Provides a distribution formula (to hold the counties harmless) under the severance tax to take into account the impact to the counties made by the change in the severance tax calculation that went into effect November 1, 1999.

This proposal is retroactive to November 1, 1999.

SB 1128: DOR Voter Registration Repeal (CH. 109)

Removes the requirement in ARS § 42-1004 that DOR mail voter registration forms. Contains an emergency provision.

SB 1220: Tourism and Sports Authority (CH. 372)

Income Tax Summary:

Adds a new A.R.S. § 43-209 that requires the following:

- Requires the department to adopt and enforce rules for collection of income tax on the income earned for services performed in Arizona by professional athletes and employees of professional sport franchises.
- Requires every professional football franchise organization that is domiciled in Arizona

to provide the department with the federal identification number of each resident and nonresident employee who performed services in Arizona during the calendar year. The numbers are to be provided on or before December 31 and a penalty of five dollars is provided for failure to provide a number.

- Requires the department to separately account for and report to the state treasurer, on or before March 31, the total aggregate net income tax revenues collected on income from all sources during the preceding calendar year from the following:
 1. Any professional football franchise organization that is domiciled in Arizona.
 2. Resident and nonresident employees of any professional football franchise organization domiciled in Arizona. This includes all income reported on a joint return by married individuals and the income of an employee's spouse that is reported on a separate return.

Amends ARS § 43-1116 to provide that each month, beginning July 2001 the state treasurer is required to transmit to the Tourism and Sports Authority the greater of one-twelfth of the amount reported by the Department under ARS § 43-209 or \$292,000 per month for first 12 month period (increased by an additional eight per cent for each subsequent twelve-month period).

Contains a conditional repeal, if the surcharge is not approved by the voters, from and after November 30, 2000.

TRANSACTION PRIVILEGE TAX SUMMARY:

Authorizes the formation of a Tourism And Sports Authority for the purpose of constructing and operating a multipurpose facility for sporting events and other activities. The boundaries of the authority are the boundaries of any county that has a population of more than two million persons (Maricopa).

If approved by the voters in the authority, a car rental surcharge is imposed by § 5-838 on leases or rentals of cars within the tourism and sports authority area for periods of less than one year. The surcharge is 3.25% of the gross proceeds or gross income from the business or \$2.50 on each lease or rental, whichever is more. For a person who reside within the boundaries of the authority and who rents a vehicle as a temporary replacement for their own motor vehicle, the surcharge is \$2.50 on each rental. Lessors are required to report the number of rental transactions to the department so that the department can provide the information to the state treasurer for purposes of distribution of the revenue.

If approved by the voters in the authority, § 5-839 imposes an additional tax of 1% on persons

engaged in business under the transient lodging classification within the boundaries of the authority.

§ 42-5061 (retail class) is amended to provide that for purposes of distribution, the department shall separately account for revenues collected under the retail classification from businesses selling on the premises of a multipurpose facility that is owned, leased or operated by the tourism and sports authority and at professional football contests that are held in a stadium located on the campus of an institution under the jurisdiction of the Arizona Board of Regents.

§ 42-5073 (amusement class) is amended to specifically provide that the amusement classification includes the operation or sponsorship of events by a tourism and sports authority. § 42-5073(A)(7) is amended to provide that the exclusion from the amusement class for intercollegiate football games does not apply when the game is played in a multipurpose facility that is owned or operated by the tourism and sports authority.

For distribution purposes, the department shall separately account for revenues collected under the amusement class from sales of admissions to events that are held in a multipurpose facility that is owned or operated by the tourism and sports authority, including intercollegiate football games, and professional football games that are held in a stadium located on the campus of an institution under the jurisdiction of the Arizona Board of Regents.

§ 42-5074 (restaurant class) is amended to provide that for distribution purposes, the department shall separately account for revenues collected under the restaurant classification from businesses operating on the premises of a multipurpose facility that is owned or operated by the tourism and sports authority and at professional football games that are held in a stadium located on the campus of an institution under the jurisdiction of the Arizona Board of Regents.

§ 42-5075 (prime contracting class) is amended to provide that for distribution purposes, the department shall separately account for revenues collected from any prime contractor engaged in the preparation or construction of a multipurpose facility, and related infrastructure, that is owned, operated or leased by the tourism and sports authority.

§ 48-4234 (car rental surcharge for baseball spring training) is amended to provide that if a business demonstrates that it is subject to the tourism and sports authority car rental surcharge, the business is entitled to a credit against the baseball surcharge equal to the tourism and sports authority surcharge, but not to exceed the amount of the baseball surcharge.

Amends ARS § 35-142 to authorize any state agency or an authorized agent of a state agency to accept credit cards or charge cards pursuant to an agreement entered into by the State Treasurer's Office.

SB 1369: Income Tax Credit; Character Education (CH. 313)

Amends ARS § 43-1089.01 to create an individual income tax credit of up to \$200 for paying fees or for making a cash contribution in support of a character development instruction program or for the support of extracurricular activities. The credit would be in lieu of a charitable contribution deduction and could be carried forward for up to 5 years. Applies to taxable years beginning from and after December 31, 2000.

SB 1375: Recreational Vehicle Space Surcharge; Repeal (CH. 314)

Repeals ARS § 48-4235, which authorizes the imposition of a recreational vehicle space surcharge for major league spring training. ARS §§ 42-5070 (transient lodging classification) and 48-4237 (multipurpose facilities tax) are also amended to delete references to the repealed section.

Session law provides that if a district has levied a RV space surcharge before January 1, 2000, the district may continue to levy the surcharge at any time after that date, except that the surcharge shall be terminated when all bonds, obligations and associated payments outstanding as of September 1, 2000 that are secured by the surcharge are fully met and discharged.

This act is effective from and after June 30, 2000.

SB 1405: Tax Allocations to Corrections; Extension (CH. 296)

Extends the cutoff date for luxury tax revenues to be deposited in the corrections fund. Currently, luxury tax revenues are to be deposited in the corrections fund through June 30, 2000. This bill extends that date to June 30, 2005.

SB 1417: Internal Revenue Code Conformity (CH. 252)

Conforms the Arizona Revised Statutes with that of the Internal Revenue Code for taxable years beginning from and after December 31, 1999, through December 31, 2000 (excluding changes made to the Internal Revenue Code after January 1, 2000), including those provisions of the Miscellaneous Trade and Technical Corrections Act of 1999 and The Ticket to Work and Work Incentives Improvement Act of 1999, with all the retroactive effective dates.

SB 1418: Regulatory Reform; Rule Making; Review (CH. 374)

Amends various parts of Title 41 regarding rules and agency practice and substantive policy statements.

SB 1424: Property Tax; Corrections Act (CH. 390)

Contains changes to the effective date in ARS § 43-1111 and also amends ARS §§ 43-1078, 43-1165 and 43-1166.

SB 1426: State Treasurer; Technical Changes (CH. 193)

Primarily makes conformance language changes to describe the process by which monies received by the Department are deposited. In addition, minor changes are made to reflect the transfer of money, the implementation of levies and other actions by the Department without involvement by the State Treasurer.

SB 1435: Regulatory Reform; Conforming Changes (CH. 113)

Amends, in part, ARS § 41-1092.07, that relates to administrative hearings, by adding new subsection (G). Subsection (G) provides that "[a]t a hearing on a denial of a license or permit, the applicant has the burden of proof." The only license administered by the Department that this would apply to is a bingo license.

SB 1493: Estate Tax; Filing Extension (CH. 265)

Amends ARS § 42-1107 to provide that the Department may grant reasonable cause filing extensions for Arizona estate tax returns.

SB 1504: 2000 Clean Air Act (CH. 405)

This bill relates to the alternative fuel credits applicable to individual and corporate income taxpayers and to the transaction privilege tax and use tax retail classification exemption.

Transaction Privilege Tax

Amends A.R.S. §§ 42-5061 and 42-5159 to provide that a retail sale of a used alternative fuel vehicle is exempt from transaction privilege tax and use tax. There is no specific effective date for these sections of the bill. However, section 47 of the bill provides that the bill will become effective immediately upon the signature of the Governor.

Pollution Control Equipment Credits

Amends A.R.S. §§ 43-1081 and 43-1170 to provide that the pollution control equipment credit does not apply to the purchase of any personal property that is attached to a motor vehicle. These amendments will apply retroactively to taxable years beginning from and after December 31, 1994.

Alternative Fuel Vehicle Credits

Amends A.R.S. §§ 43-1086 and 43-1174 as follows:

- Provides that the credit is allowed only through the taxable year ending on or before December 31, 2009.
- Provides that tax credits will not be allowed for purchases or conversions that occur in a calendar year after the month in which the Motor Vehicle Division reports to the Department of Revenue that the number of new alternative fuel vehicles (excluding neighborhood electric vehicles (NEV's), vehicles registered under A.R.S. § 28-2511, and commercial vehicles) newly registered in Arizona exceed 1% of the total number of motor vehicles registered in Arizona in the previous year. This limitation applies only for the remainder of the calendar year in which the registrations exceed the 1% limitation.

- Requires the Motor Vehicle Division to submit a report, by the 15th of each month, to the Department of Revenue and the Department of Commerce Energy Office that contains the number of new alternative fuel vehicles (excluding NEV's, vehicles registered under A.R.S. § 28-2511, and commercial vehicles) that are newly registered in Arizona in the current calendar year at the end of the previous month and whether that number exceeds 1% of the total number of motor vehicles registered in Arizona in the previous year.
- Requires the Motor Vehicle Division to base the numbers of new alternative fuel vehicles in its reports on manufacturers' certificates of origin.
- Requires the Motor Vehicle Division to furnish a copy of its report to each Motor Vehicle Dealer Association in Arizona.
- Starting with the 2000 taxable year, provides that a taxpayer may elect to have the unused credit refunded or may elect to carry over the unused credit for a period of 10 consecutive years. A taxpayer that elects to carry the credit over may carry the credit back to any year still open under the statute of limitations, or forward, or both.
- Provides that if a taxpayer has a credit carryover (excluding a credit from a NEV) from taxable years beginning from and after December 31, 1998, that the taxpayer may elect to have the carryover refunded or may elect to carry over the unused credit for a period of 10 consecutive years. A taxpayer that elects to carry the credit over may carry the credit back to any year still open under the statute of limitations, or forward, or both.
- Allows a taxpayer that has an unused credit from a NEV to carry that credit forward for a period of the next 5 consecutive years.
- Allows taxpayers that have carryovers from taxable years beginning before January 1, 1999 to continue to use any allowable carryover in the time prescribed for its use.
- Requires the Department of Revenue to report to the speaker of the house, the president of the senate, and the joint legislative budget committee, on or before December 31, 2001, the amount of alternative fuel vehicle credits (under A.R.S. §§ 43-1086 and 43-1174) that were carried forward from taxable years ending on or before December 31, 1999, and applied against state income taxes in taxable year 2000. Tax credits related to NEV's are not to be included in the amount reported.
- Requires a taxpayer to apply for a grant under A.R.S. § 41-1516 to be eligible for a credit, unless the vehicle is a NEV.

- Allows credit for the purchase or lease of a used alternative fuel vehicle (excluding a NEV) only for vehicles purchased or leased on or before June 30, 2000.
- Requires a taxpayer that leases a new or used alternative fuel vehicle to lease the vehicle for at least one year.
- Allows a credit for a new super ultralow emission vehicle in the same amount as the credit allowed for zero emission vehicles.
- Provides that the credit for leasing a used zero emission vehicle is 25% of the cost or \$2,500, whichever is more.
- Provides that the credit for the conversion of a vehicle over 12,000 pounds is the greatest of 30% of the actual price of the vehicle plus the cost of conversion, or 30% of the original manufacturer's base retail price of the vehicle, or \$30,000.
- Provides that the credit for the conversion of a vehicle 12,000 pounds or less is the greatest of 30% of the actual purchase price of the vehicle plus the cost of conversion, or 30% of the original manufacturer's base retail price of the vehicle, or \$5,000, or the amount of tax credit prescribed for an ultralow or inherently low emission vehicle if the vehicle qualifies as such a vehicle, or the amount of tax credit prescribed for a zero emission vehicle or a super ultralow emission vehicle if the vehicle qualifies as such a vehicle.
- Creates one specific alternative fuel vehicle credit for NEV's. Beginning on July 1, 2000, the amount of credit allowed for the purchase of a new NEV would be 50% of the cost of the vehicle or \$1,000, whichever is more. For a taxpayer to be eligible for this credit, the taxpayer would have to certify that the vehicle has not been and will not be used on a golf course, other than as a maintenance vehicle. The taxpayer would be required to make this certification on a form provided by the department. A taxpayer who uses such a vehicle on a golf course would have to recapture the credit and also be subject to a civil fine of \$1,000.
- Requires the department to deposit any NEV penalties that it collects in the Arizona Clean Air Fund established under A.R.S. § 41-1516.
- Prohibits a credit for the purchase or lease of a used NEV that is purchased or leased on or after January 1, 2000.
- Provides that for a motor home that is converted to use liquefied petroleum gas to be eligible for a credit, the motor home must have a fuel tank for onboard storage of liquefied petroleum gas that holds at least 30 gallons.

- Provides that a person who purchases an alternative fuel vehicle and then leases the vehicle to a governmental entity is entitled to take a tax credit for the purchase of the vehicle.
- Prohibits a taxpayer that purchases alternative fuel vehicles for the purpose of leasing those vehicles from taking an alternative fuel vehicle credit for purchasing the vehicles. However, the purchaser may split the credit for leasing the vehicle with the lessee.
- Provides that if a person receives a grant under A.R.S. § 41-1516 on or before June 30, 2003, for the purchase of an alternative fuel vehicle or for the conversion of a conventionally fueled vehicle to operate on alternative fuel, the tax credit shall only be for the incremental cost of the purchase or conversion.
- Provides that if a person applies for a grant under A.R.S. § 41-1516 on or before June 30, 2003, for the purchase of an alternative fuel vehicle or for the conversion of a conventionally fueled vehicle to operate on alternative fuel, but funds are not available for a grant, the person is eligible for the tax credit prescribed under A.R.S. §§ 43-1086 or 43-1174 plus the incremental cost of the purchase or conversion.
- Provides that if a person receives a grant under A.R.S. § 41-1516 on or after July 1, 2003 through December 31, 2009, for the purchase of an alternative fuel vehicle or for the conversion of a conventionally fueled vehicle to operate on alternative fuel, the person is not eligible for the tax credit prescribed under A.R.S. §§ 43-1086 or 43-1174.
- Eliminates the requirement that a taxpayer claiming a credit have access to a refueling apparatus or provide proof that the taxpayer purchased at least 100 gallons of alternative fuel.
- Prohibits a credit for golf carts, unless the golf cart qualifies as a NEV.
- Prohibits a credit for motorcycles, motor driven cycles, mopeds, or electric bicycles.
- Provides that the term "alternative fuel" has the same meaning prescribed in A.R.S. § 1-215.
- Defines the term "neighborhood electric vehicle" to mean a motor vehicle that has alternative fuel vehicle special plates or an alternative fuel vehicle sticker issued under A.R.S. § 28-2416 and that meets the standards prescribed in 49 cfr § 571.500, except that, if a vehicle is designed to be operated at speeds of 20 miles per hour or less, the vehicle is not required to have a 17 digit vehicle identification number.

- Defines the term "incremental cost" to mean the amount by which the cost of an alternative fuel vehicle exceeds the cost of the same model of conventionally fueled vehicle that is similarly equipped and for a zero emission vehicle is assumed to be \$10,000 or 25% of the cost, whichever is more.
- The amendments to the alternative fuel vehicle credits apply retroactively to taxable years beginning from and after December 31, 1999.

Vehicle Refueling Apparatus Credits

Amends A.R.S. § § 43-1086.01 and 43-1174.01 as follows:

- Provides that the amount of credit for each refueling apparatus is the cost of the apparatus.
- Includes a new credit for the installation cost of any infrastructure necessary for the operation of a vehicle refueling apparatus when such costs are incurred to install an apparatus purchased for installation on the taxpayer's property in Arizona. The amount of the credit is the cost of the infrastructure. This new credit is effective for taxable years beginning after December 31, 1998.
- Starting with the 2000 taxable year, provides that a taxpayer may elect to have the unused credit refunded or may elect to carry over the unused credit for a period of 10 consecutive years. A taxpayer that elects to carry the credit over may carry the credit back to any year still open under the statute of limitations, or forward, or both.
- Provides that if a taxpayer has a credit carryover from taxable years beginning from and after December 31, 1998, that the taxpayer may elect to have the carryover refunded or may elect to carry over the unused credit for a period of 10 years. A taxpayer that elects to carry the credit over may carry the credit back to any year still open under the statute of limitations, or forward, or both.
- Clarifies that the term "vehicle refueling apparatus" does not include wall sockets or extension cords.
- Provides that tanks used to store liquefied petroleum gas are a refueling apparatus that qualify for the credit.
- Provides that the amendments to the vehicle refueling apparatus credits will apply retroactively to taxable years beginning from and after December 31, 1999.

Alternative Fuel Delivery Systems

Amends A.R.S. § § 43-1086.02 and 43-1174.02 as follows:

- Provides that a taxpayer may take an alternative fuel delivery system credit for each variation of alternative fuel types dispensed through the alternative fuel delivery system.
 - Starting with the 2000 taxable year, provides that a taxpayer may elect to have the unused credit refunded or may elect to carry over the unused credit for a period of 10 consecutive years. A taxpayer that elects to carry the credit over may carry the credit back to any year still open under the statute of limitations, or forward, or both.
 - Provides that if a taxpayer has a credit carryover from taxable years beginning from and after December 31, 1998, that the taxpayer may elect to have the carryover refunded or may elect to carry over the unused credit for a period of 10 years. A taxpayer that elects to carry the credit over may carry the credit back to any year still open under the statute of limitations, or forward, or both.
 - Requires a taxpayer that claims an alternative fuel delivery system credit for a system located at a fueling station to include the price of the alternative fuel on the standardized sign that contains the price of the other fuels sold at the station.
 - Defines the term "renewable fuel" to mean electricity or solar energy.
 - Changes the definition of the term "construction costs" to mean those costs associated with the construction of an alternative fuel delivery system. Therefore, such costs would no longer have to be directly associated with the alternative fuel delivery system and can include construction costs for gasoline or diesel fuel delivery systems or adjacent buildings, landscaping or paving for areas not directly connected to the alternative fuel delivery system.
 - Provides that the amendments to the alternative fuel delivery system credits will apply retroactively to taxable years beginning from and after December 31, 1999.
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SB 1505: Clean Burning Fuel; Biodiesel

Amends the alternative fuel definition contained in ARS § 1-215.

SB 1513: Municipal Tax Code Commission; Continuation (CH. 297)

- Repeals the termination of Municipal Tax Code Commission on July 1, 2000.
- Amends legislative termination of agencies by extending the Municipal Tax Code Commission until July 1, 2005. The establishment of the Municipal Tax Code Commission is repealed on January 1, 2006.
- Requires the director to establish a Uniform Licensing, Collection and Audit Committee to coordinate such functions with the cities and towns.
- Provides for resolution of disputes arising between cities and towns over multi-municipal taxes through a newly created Municipal Tax Commission that if still unresolved may be appealed to The State Board of Tax Appeals.
- Requires the director to establish a Unified Audit Committee with cities and towns to coordinate uniform audit functions. The subsection provides various stipulations regarding joint audits by the state or by the cities and towns. Taxpayers conducting business in more than one taxing jurisdiction may or may not allow a joint audit for all taxing jurisdictions. The subsection codifies that where state statutes and model city tax code are the same and where the department has issued written guidance that the interpretation of the department is binding on the Unified Audit Committee.
- Amends the enabling provision establishing the Municipal Tax Code Commission. The members of the commission are increased to include nine members who are mayors or members of the governing bodies of cities or towns that have adopted the Model City Tax Code and who have been appointed. Five members are appointed by the Governor, Two members by the President of the Senate and two members are appointed by the Speaker of the House. Appointive members will serve three years instead of four years. No more than two members of the commission may be from the same city or town. The commission is required to meet on the second Friday of every month unless determined unnecessary due to a lack of issues. On the request of four or more of its members additional meeting may be called subject to new notice requirements.
- Requires changes to the Model City Tax Code that are made by the Municipal Tax Code Commission to be adopted by all cities and towns. However, the amendment provides that the commission may also allow model or local options or changes to such options.
- Establishes a Model City Tax Code Hearing Office. The hearing office is to hear all administrative appeals under the Model City Tax Code conducted by cities and towns not in the state collection system and for appeals from supplementary audits performed by cities and towns under the state collection system. The Municipal Tax Code Commission is to confirm within sixty days all hearing officers employed by the Model City Tax Code Hearing Office. Officers must be members of the State Bar of Arizona.

Hearings will be conducted pursuant to Title 41, Chapter 6, Article 6.

- Session law requires the department and the Model City Tax Code Commission to develop a uniform license application and uniform privilege and use tax return to be approved by the Municipal Tax Code Commission by December 21, 2000.
- Session law provides for the transition of appointments of additional members to the Municipal Tax Code Commission.

Sections 1 and 2 are effective retroactively to July 1, 2000 and the remaining provisions have a general effective date.

SB 1519: Tourism; Dedicated Sales Tax Revenue (CH. 375)

Adds ARS § 42-5029(E)(2) which requires that the State Treasurer distribute to the Tourism Fund an amount equal to 52.7% of the monies remaining after distribution under ARS § 42-5029(D) which is designated as distribution base pursuant to ARS § 42-5010(F). Based on FY99 collections, this would have brought Tourism \$8.4 million.

This proposal is effective from and after June 30, 2001.

SB 1531: Spaceport; Launch Site; Exemption (CH. 359)

Adds a deduction under the prime contracting classification for gross proceeds of sales or gross income derived from a contract entered into for the construction of a launch site, as defined in 14 code of federal regulations, part 401.5.

Also adds a deduction from the tax base under the prime contracting classification for gross proceeds of sales or gross income derived from a contract entered into for the construction of a domestic violence shelter that is owned and operated by a nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code.

Property Tax Bills

S.B. 1251: Common Areas (CH. 196)

This bill changes the structure for the ownership of common areas. The residential property owners must either 1) be members of the non-profit association or corporation which owns the common areas, or 2) they must be obligated to pay mandatory assessments to maintain the common area. Under this bill, a corporation, of which no residential owners are members, may own the common areas. As long as the residential owners are required to pay assessments, which ultimately are channeled to the owning corporation, the property qualifies for this valuation method.

Effective retroactively after December 31, 1998

H.B. 2287: Valuation of Renewable Energy Equipment (CH. 214)

This bill establishes a value of renewable energy equipment as 20% of the depreciated cost of the equipment. This applies to equipment owned by a gas or electric utility company and used to generate, store, transmit or distribute electric power, energy or fuel derived from solar, wind or other nonpetroleum sources.

H.C.R. 2028: Property Valuation Protection for Elderly

This resolution, if approved by the voters in the General Election in November 2000, will permit a resident of Arizona who is over 65 to apply to the County Assessor for a property valuation protection option on that person's primary residence. The applicant must have lived in the residence for two years, and there is a restriction on the total income the applicant may receive. The Assessor must review the income qualifications on a triennial basis, and must average the total income for the previous three years. If approved, the value of the property remains fixed at the value in effect during the year the application is filed with the Assessor. The applicant must reapply every three years. If the applicant subsequently sells the property to a nonqualified owner, the property protection option terminates. This applies to homes, condominiums and mobile homes. The Uniformity Clause of the Constitution is also amended to provide for this disparate treatment based on age and income.

H.B. 2331: Property Tax Administration (CH. 84)

By way of background, in 1999, the Arizona Legislature passed H.B. 2428. This law, which becomes effective on January 1, 2001, eliminates the distinctions between "secured" and "unsecured" personal property. Prior to the passage of this bill, two similarly situated taxpayers with identical personal property could be subjected to different tax rates and different appeals procedures, depending on which roll their personal property was placed. This disparity created a variety of legal and policy problems. Since the passage of this law, three counties have been the primary opponents of this change. Those counties are Cochise, Yuma and Mohave. H.B. 2331 recreates the statutory framework that was repealed last year, puts it into session law, and phases it out over three years.

This bill also deals with several other areas:

1. Amends A.R.S. § 42-13302 to provide for limited value adjustment if parcels are split or consolidated.
2. Provides for personal liability for tax on personal property for the owner of the personal property who does not own real property with a value in excess of \$200.
3. The Notice of Value for personal property shall be mailed on or before October 1, and must include the amount of property taxes due. The owner or person in possession of the property may appeal this value.
4. The personal property roll must be certified by August 25.
5. Amends the time when delinquent personal property taxes are transmitted to the sheriff for collection

Effective after December 31, 2000, except for the limited value provision.

S.B. 1424: Property Tax; Corrections Act (CH. 390)

Most of the technical corrections in this bill are as a result of House Bill 2634 (Chapter 344), passed in the 1999 legislative session. HB 2634, also known as the "Class Consolidation Bill," made significant changes to the number of property tax classes and the statutory citations referencing this system. The predecessor of HB 2634 died during the session, but was introduced again as an amendment in a conference committee. There was insufficient time to thoroughly analyze the provisions of this bill. As a result, there were numerous conflicts and mistakes, which SB 1424 is attempting to correct. There are other corrections resulting from amendments to statutes, other than those contained in HB 2634.

H.B. 2324: Property Tax; Electrical Generation Facilities (CH. 384)

The Property Tax Division of the Department of Revenue is responsible for valuing electric companies, among other types of property. A statutory formula for valuation has been utilized for many years, which resulted in reasonably predictable values without the necessity for litigation. This enabled taxing authorities to have a certain stability in their tax base. With the advent of deregulation, this stability is gone as it relates to the generation portion of electric companies. The other portion of these companies, which we refer to as the transmission and distribution portion, will continue to be regulated and will be valued using the statutory formula.

Our prediction is that the market value of the generation portion of these facilities will be reduced in the short term. This is based on the expertise of our staff and a review of the trend in other states. In our opinion, the value will probably be reduced by more than 15%. Some companies predict that the value of the deregulated portion of their business could plummet as much as 60%. Acknowledging that values will not remain stable and will, in fact, be reduced, H. B. 2324 was drafted in an attempt to control this reduction so that taxing jurisdictions do not see dramatic decreases in the values of these large companies. The Department worked with representatives of most, if not all, companies involved in this business. This included the existing companies (TEP, APS, SRP) as well as new companies, such as Reliant Energy, Dynegy, and Panda. The Department strongly supports this bill.

S.B. 1427: Personal Property Tax Collections; Remedies (CH. 125)

This bill amends the procedure used by the Sheriff to sell personal property for delinquent property taxes.

S.B. 1218: Cemeteries; Property Tax Exemption Process (CH. 258)

This bill expands the exemption of cemeteries to all cemeteries, whether operated for profit or not. Previously, only non-profit cemeteries were exempt. This bill is conditional on the voters approving a companion amendment to the Arizona Constitution at the next general election.

H.B. 2060: Agricultural Preservation District Land (CH. 267)

Although this bill is not a property tax bill, it does provide for an income tax credit for a taxpayer who conveys ownership or development rights of property to an agricultural preservation district under A.R.S. § 48-5702.