THE REVENUE IMPACT OF ARIZONA'S TAX EXPENDITURES

FISCAL YEAR 2010/2011

PREPARED FOR: THE GOVERNOR AND THE LEGISLATURE

BY: OFFICE OF ECONOMIC RESEARCH & ANALYSIS, ARIZONA DEPARTMENT OF REVENUE

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The following report on Arizona's Tax Expenditures was prepared for the Governor and the Legislature in compliance with A.R.S. § 42-1005.

The preliminary 2011 report, released November 15, 2011, provided a broad range of information. The report contained sections for all taxes imposed by Arizona. However, the individual and corporate income tax sections contained data only on credits.

The second preliminary 2011 report, released September 7, 2012, updated the corporate income tax section.

This final report contains a complete individual income tax section with information made available through the 2009 Individual Income Tax Simulation Model.

If you have questions or comments regarding this report, please contact the Office of Economic Analysis at the Arizona Department of Revenue at (602) 716-6924.

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FISCAL YEAR 2010/11 ARIZONA TAX EXPENDITURE REPORT

INTRODUCTION

The Arizona Tax Expenditure Report is a study prepared for the Governor and the Legislature by the Arizona Department of Revenue's Office of Economic Research and Analysis. The report is prepared in compliance with A.R.S. § 42-1005.

Tax expenditures are provisions within the law designed to encourage certain kinds of activity or to aid taxpayers in certain categories. These provisions are generally known as exemptions, exclusions, deductions, subtractions and credits. Such provisions result in a loss of tax revenues, thereby reducing the amount of revenues available for state (and, in some circumstances, local) programs. In effect, the fiscal impact of implementing a tax expenditure would be similar to a direct expenditure of state funds. This report provides a list of tax expenditures and, whenever possible, details the approximate cost of exempting certain types of income, goods, services or property from their respective tax statutes.

The purpose of this report is to provide a better understanding of costs associated with existing tax exemptions, exclusions, deductions, subtractions and credits. There are sections on every tax imposed in Arizona. Each section contains statutory provisions for that specific tax type. The analysis includes an explanation of the provision as well as the approximate cost of that provision where possible. Information in sections pertaining to tax types not administered by the Arizona Department of Revenue is submitted by the agency administering the tax. Any cost estimates presented are provided by that agency.

ASSUMPTIONS

This report does not contain any judgment regarding the merit, desirability, importance or usefulness of a tax expenditure. The Legislature and the Governor determine the taxation environment that they wish to create in Arizona and formulate law to create the corresponding policy. All tax expenditures were conscious public policy decisions at the time of enactment.

The costs associated with the specific provisions are the estimated impact of that provision based upon the information available for the stated fiscal or calendar year. There is no consideration of altered demand resulting from the tax expenditure. There is also no consideration of dynamic fiscal impacts resulting from a reduced tax.

The summary page(s) at the end of each section provides a total value of the tax expenditure. ***This total value is a general guide and should not be used in isolation from the rest of the expenditure amounts.*** In fact, the expenditures for a particular tax can often not be added to reach a total. The presence or absence of one expenditure for a tax type can directly affect the value of another expenditure for that same tax type.

AIRCRAFT LICENSE TAX EXPENDITURES[1] - FISCAL YEAR 2010/11

A license tax is imposed on aircraft operating in Arizona at the rate of 0.5% of the average fair market value of the particular make, model and year of the aircraft, but not less than $20. The proceeds from this tax are deposited into the state aviation fund.

AIRCRAFT LICENSE TAX EXEMPTIONS

A.R.S. § 28-8322: Aircraft operated by an airline company and regularly scheduled for the primary purpose of carrying persons or property for hire in interstate, intrastate or international transportation are exempt from tax. Aircraft owned by a nonresident who bases the aircraft in this state for a period of not more than 90 days in any one calendar year, if the aircraft is not engaged in interstate commercial activity, is also exempt from tax.

Calculating the tax value of these tax expenditures would require knowing the average fair market value of every aircraft carrying persons or property that stops at an airport in Arizona. Therefore, the value of this tax expenditure is not quantifiable.

A.R.S. § 28-8323: Aircraft owned and operated exclusively in the public service by the federal government, by Arizona or by any political subdivision of Arizona or by the civil air patrol is exempt from tax.

The average fair market value of aircraft owned by the federal government and operated in Arizona is unknown. It is known that there were 95 aircraft owned by the Arizona Department of Transportation, the Arizona Department of Public Safety, various Arizona counties and cities and the civil air patrol in fiscal year 2010/11. The average fair market value of each aircraft is approximately $518,908, which equates to a tax value of $246,481 for this tax expenditure.

A.R.S. § 28-8323B: Aircraft owned and held by a bona fide aircraft dealer solely for the purpose of sale, as long as these aircraft are registered within ten days of the dealer's purchase date are exempt from tax.

There were 67 aircraft of this type registered by bona fide aircraft dealers in Arizona in fiscal year 2010/11. The tax value of these aircraft was approximately $366,565.

PREFERENTIAL TAX RATES

A.R.S. § 28-8336: The license tax rate for a nonresident who bases his aircraft in Arizona for more than 90 days but less than 210 days in a given calendar year, provided that the aircraft is not engaged in any intrastate commercial activity, is equal to 0.1% of the average fair market value of the particular make, model and year of aircraft. This tax rate is 20% of the tax rate imposed on resident-owned aircraft.

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[1] Any figures presented for Aircraft License Tax Expenditures were provided by the Arizona Department of Transportation.

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In fiscal year 2010/11, there were 70 nonresident aircraft based in Arizona. The total aircraft license tax paid by nonresidents falling into this category was $157,235. The value of this expenditure is calculated by multiplying this figure by four, yielding the foregone tax collections allowed by the preferential rate of $628,940.

__A.R.S. § 28-8337__: Aircraft in storage or being repaired are charged a license tax of $20.

There are 99 aircraft which have been granted this license tax rate with a fair market value of approximately $168.5 million. The tax value of this preferential license tax is $840,610, which is the total fair market value multiplied by 0.5% less $20 per aircraft.

__A.R.S. § 28-8338__: The annual license tax for a salvage aircraft that is in storage or that is being restored is $5.

There are 19 aircraft registered under this provision. Assuming no market value for salvage aircraft, the tax value of this tax expenditure is the difference between the $20 minimum license tax imposed on all other aircraft and the $5 minimum license tax imposed on these aircraft, or $285.

__A.R.S. § 28-8339__: There is a $20 license tax for an antique, classic, warbird, glider, experimental, homebuilt or balloon aircraft.

There are 4,134 aircraft registered in Arizona under this provision, with a total market value of $16.5 million. The tax value of this tax expenditure is the total market value multiplied by 0.5% less the $20 license tax paid per aircraft, or $0.

__A.R.S. §§ 28-8340 and 28-8341__: Maintenance aircraft owned by a nonresident and manufacturer's aircraft are required to pay an aircraft license tax of $20.

There are 3 nonresident-owned maintenance aircrafts and 2 manufacturer's aircraft registered in Arizona with a total market value of $362,400. The tax value of this tax expenditure can be calculated by multiplying the total market value by 0.5% and subtracting the $20 per aircraft tax paid, or $1,712.

SUMMARY OF AIRCRAFT LICENSE TAX EXPENDITURES – FISCAL YEAR 2010/11

AIRCRAFT LICENSE TAX EXEMPTIONS

Aircraft operated for the primary purpose of carrying persons or property for hire	NIA[2]
Nonresident owned aircraft in Arizona for less than 90 days	NIA
Aircraft owned by a government or by the civil air patrol	$246,481
Aircraft owned by an aircraft dealer for sale	355,565
TOTAL VALUE OF AIRCRAFT LICENSE TAX EXPENDITURES	**$613,046**

[2] No Information Available

PREFERENTIAL TAX RATES

Preferential rate for nonresidents with aircraft in Arizona from 90 to 210 days	$628,940
Preferential rate for aircraft in storage or being repaired	840,610
Preferential rate for salvage aircraft in storage or being repaired	285
Preferential rate of antique, classic, warbird, etc. aircraft	0
Preferential rate for maintenance and manufacturer's aircraft	1,712
TOTAL VALUE OF PREFERENTIAL TAX RATES	**$1,471,547**

TOTAL QUANTIFIABLE AIRCRAFT LICENSE TAX EXPENDITURES[3] $2,084,593

[3] This amount represents foregone revenue to the state aviation fund.

AVIATION FUEL TAX EXPENDITURES[4] - FISCAL YEAR 2010/11

An aviation fuel tax is imposed on every supplier for each gallon of aviation fuel processed, refined, manufactured, produced, blended or compounded in Arizona by the supplier or imported by the supplier, whether in the original package or container in which it was imported or otherwise. In order to qualify for exemptions on certain types of aviation fuel, the taxpayer must file for a refund. The fuel tax rate is 5¢ per gallon. Revenue from the aviation fuel tax is deposited in the Aviation Fund.

AVIATION FUEL TAX EXEMPTIONS

A.R.S. § 28-5610: Aviation fuel moving in interstate commerce, not destined or diverted to a point within Arizona is exempt from tax.

There is no requirement for reporting this information; therefore, the tax value of this exemption is unknown.

A.R.S. § 28-5610: Also exempt from aviation fuel in this statute is aviation fuel sold to the United States armed forces for use in ships or aircraft or for use outside of Arizona.

The amount of aviation fuel purchased by the United States armed forces is not reported so the tax value is unknown.

A.R.S. § 28-5610A: Aviation fuel exported from Arizona is exempt from aviation fuel tax.

If such fuel were subject to taxation in fiscal year 2010/11, an additional $92,922 in aviation fuel tax would have been received.

OTHER AVIATION FUEL TAX REDUCTIONS

A.R.S. § 28-5611A: A taxpayer may request a refund for aviation fuel for us in applying seeds, fertilizer or pesticides.

No requests for refunds were made for this in fiscal year 2010/11.

A.R.S. § 28-5611A: A taxpayer may request a refund for losses of fuel due to fire, theft or other accident.

No requests for refunds were made for this in fiscal year 2010/11.

[4] Any figures presented for Aviation Fuel Tax Expenditures were provided by the Arizona Department of Transportation.

SUMMARY OF AVIATION FUEL TAX EXPENDITURES – FISCAL YEAR 2010/11

AVIATION FUEL TAX EXEMPTIONS AND OTHER REDUCTIONS

Aviation fuel moving in interstate or foreign commerce	NIA[5]
Aviation fuel sold to the United States armed forces	NIA
Aviation fuel for use in applying seeds, fertilizer or pesticide	$0
Exported aviation fuel	92,922
Aviation fuel lost due to fire, theft or other accident	0
TOTAL VALUE OF AVIATION FUEL TAX EXEMPTIONS	**$92,922**

TOTAL QUANTIFIABLE AVIATION FUEL TAX EXPENDITURES[6] **$92,922**

[5] No Information Available.
[6] This amount represents foregone revenue to the state aviation fund.

BINGO TAX EXPENDITURES[7] - FISCAL YEAR 2010/11

The tax on state-licensed bingo operations is based on a multi-tiered licensing structure. There are three classes of bingo licenses, each of which has a different tax rate. Each class' tax rate is based on bingo receipts. All bingo tax collections are deposited into the general fund.

BINGO TAX EXEMPTIONS

A.R.S. § 5-414: Class A licensees (for whom gross receipts do not exceed $15,600 per year) are taxed at 2.5% of their adjusted gross receipts. Adjusted gross receipts equals gross receipts less the amount paid for prizes. Therefore, prize money is exempt from taxation for this class of bingo licensees.

In fiscal year 2010/11, Class A licensees subtracted $4.6 million from gross receipts. At a 2.5% tax rate, the prize money represents $115,562 in forgone revenue.

PREFERENTIAL TAX RATES

Bingo receipts are taxed at one of three rates, dependent upon the level of gross receipts.

Class A	Gross receipts less than or equal to $15,600	2.5% of adjusted gross receipts
Class B	Gross receipts $15,601 to $300,000	1.5% of gross receipts
Class C	Gross receipts greater than $300,000	2.0% of gross receipts

This is a preferential rate structure because different tax rates are imposed on similar taxpayers based on criteria set in statute. This preferential rate structure allows taxpayers with lower gross receipts to be taxed at a lower rate.

The impact of taxing all bingo receipts at one of the three rates in use is possible but unrealistic. If a uniform rate were imposed, it is probable that the uniform rate would be an effective tax rate among all licensees, making the fiscal impact revenue neutral. Given that legislative action cannot be predicted, we will point out the preferential tax rate structure in law but will not attempt to attach a revenue impact.

SUMMARY OF BINGO TAX EXPENDITURES FISCAL YEAR 2010/11

Exemption of prize money from taxation for Class A licensees	$115,562

TOTAL QUANTIFIABLE BINGO TAX EXPENDITURES[8] $115,562

[7] Any figures presented for Aircraft License Tax Expenditures were provided by the Arizona Department of Transportation.
[8] These tax expenditures represent forgone revenue to the state general fund.

BOXING AND MIXED MARTIAL ARTS TAX EXPENDITURES[9] - FISCAL YEAR 2010/11

Any person who promotes a boxing or mixed martial arts (MMA) contest in Arizona must pay a 4% tax on the gross receipts of such match or exhibition, after deduction of city, state and federal taxes. The tax is paid to the Department of Racing, which collects for the Arizona Boxing Commission. Gross receipts are defined as receipts from the face value of tickets sold.

BOXING AND MMA TAX EXEMPTIONS

A.R.S. § 5-104.02A: Tickets issued as complimentary by the promoter of a boxing or MMA match are exempt from taxation as long as the number of complimentary tickets does not exceed 2% of the total number of tickets issued or 75 tickets, whichever is greater.

During fiscal year 2010/11, 15 boxing contests were held. At each event, up to 75 complimentary tickets were issued with an average price of $20 each. (Each event may not have issued complimentary tickets.) Had the value of these tickets been taxable, an additional $1,350 in boxing taxes would have been received.

SUMMARY OF BOXING AND MMA TAX EXPENDITURES – FISCAL YEAR 2010/11

Complimentary tickets issued	$1,350

TOTAL QUANTIFIABLE BOXING AND MMA TAX EXPENDITURES $1,350

[9] Any figures presented for Boxing and Mixed Martial Arts Tax Expenditures were provided by the Arizona Boxing Commission.

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CORPORATE INCOME TAX EXPENDITURES – FISCAL YEAR 2010/11

The Arizona Department of Revenue collected $560 million in net corporate income taxes in fiscal year 2010/11. Net corporate income tax is deposited into the general fund. However, 15% of the tax is distributed to cities and towns two years after the year in which it was collected. For example, 15% of tax collected in fiscal year 2010/11 will be distributed to incorporated cities and towns in fiscal year 2012/13. Therefore, only 85% of the tax collected is actually deposited in the general fund. This fact should be kept in mind when reviewing the reported tax value of subtractions and credits. The assumption can be made that 85% of the tax value is general fund revenue and the remaining 15% is distributed to cities and towns two years after collection.

Arizona corporate taxable income is calculated beginning with federal taxable income. Therefore, by conforming Arizona law to the Internal Revenue Code (IRC), any subtractions allowed under federal law in the calculation of federal taxable income are allowed under Arizona law. From federal taxable income, certain additions and subtractions are allowed to arrive at Arizona taxable income. After calculating tax liability, corporate taxpayers may take advantage of credits to reduce tax liability.

Most corporate tax expenditures are not quantifiable. The tax value of the federal subtractions in the calculation of federal taxable income cannot be determined because these are for corporate income from all states, not just Arizona income. The tax value of Arizona's subtractions from federal taxable income cannot be calculated because subtractions are deducted from federal taxable income prior to apportionment of income to Arizona. Therefore, the percent of the subtractions used in the calculation of Arizona tax cannot be determined.

SUBTRACTIONS ALLOWED IN THE CALCULATION OF FEDERAL TAXABLE INCOME

The starting point for the calculation of Arizona corporate tax liability is federal taxable income as calculated on the federal corporate income tax return. The Arizona legislature must approve legislation to conform to the definition of federal taxable income as of January of each year. In conforming to the definition of federal taxable income, Arizona accepts the subtractions from gross income as allowed by the federal government. These subtractions include:

- Compensation of officers.
- Salaries and wages.
- Incidental repairs that do not add to the value of property or appreciably prolong its life.
- Debts that became worthless in whole or in part during the tax year.
- Expenses of renting or leasing a vehicle.
- Certain taxes paid or accrued during the tax year.
- Interest paid on certain debts.

- Contributions or gifts actually paid within the tax year to charitable and governmental organizations and any unused contributions carried over from prior years, except that the total amount claimed may not be more than 10% of taxable income.
- Certain percentage depletion rates applicable to natural deposits.
- Contributions to pensions, profit sharing or other funded deferred compensation plans.
- Contributions to employee benefit programs not elsewhere claimed.
- Other deductions including amortization, certain costs of qualified film or television productions, certain business start-up and organizational costs, qualified demolition and clean-up costs attributable to damage from storms and tornadoes in certain areas, reforestation costs, insurance premiums, legal and professional fees, supplies used and consumed in the business, travel, meals and entertainment expenses, utilities, losses from partnership trade or business activities, any extraterritorial income exclusion, deduction for certain energy efficient commercial building property, dividends paid in cash on stock held by an employee stock ownership plan, etc.

It is not possible to estimate the tax value of these subtractions. While the Arizona Department of Revenue receives information from the Internal Revenue Service about federal tax returns for corporations with an Arizona address, data on corporations headquartered outside of Arizona but operating within the state is not available. Even if it were available, multi-state corporations would include income and deductions from all states in which a corporation operates, making it useless for Arizona tax expenditure calculation purposes.

EXEMPT ORGANIZATIONS

Certain organizations are exempt from corporate income tax according to Arizona law. The organizations specifically set out in statute as exempt are:

A.R.S. § 43-104 (23): The United States, the state, counties, municipalities, school districts or other political subdivisions or units of this state or the federal government.

A.R.S. § 43-1201 (1): Labor, agricultural or horticultural organizations, other than cooperative organizations.

A.R.S. § 43-1201 (2): Qualifying fraternal beneficiary societies, orders or organizations.

A.R.S. § 43-1201 (3): Cemetery companies owned and operated exclusively for the benefit of their members or which are not operated for profit.

A.R.S. § 43-1201 (4): Qualifying corporations organized and operated exclusively for religious, charitable, scientific, literary or educational purposes or for the prevention of cruelty to children or animals.

A.R.S. § 43-1201 (5): Nonprofit business leagues, chambers of commerce, real estate boards or boards of trade.

A.R.S. § 43-1201 (6): Nonprofit qualifying civic leagues or organizations operated exclusively for the promotion of social welfare, or local organizations of employees.

A.R.S. § 43-1201 (7): Clubs organized and operated exclusively for pleasure, recreation and other non-profit making purposes.

A.R.S. § 43-1201 (8): Corporations organized for the exclusive purpose of holding title to property, collecting income therefrom and turning over the entire amount less expenses, to an organization which itself is exempt from the tax imposed by this title.

A.R.S. § 43-1201 (9): Voluntary employee's beneficiary organizations providing for the payment of life, sick, accident or other benefits to members of such organizations or their dependents, providing certain requirements are met.

A.R.S. § 43-1201 (10): Teachers' or public employees' retirement fund organization of a purely local character, provided certain requirements are met.

A.R.S. § 43-1201 (11): Religious or apostolic organizations or corporations, if such organizations or corporations have a common treasury or community treasury, even if such corporations or organizations engage in business for the common benefit of members, but only if the members thereof include in their Arizona gross income their pro rata shares, whether distributed or not, of the net income of the organizations or corporations for such year.

A.R.S. § 43-1201 (12): Voluntary employees' beneficiary organizations providing for the payment of life, sick, accident or other benefits to members of such organization, their dependents or their designated beneficiaries, provided membership is limited to officers or employees of the U.S. government.

A.R.S. § 43-1201 (13): Corporations classified as diversified management companies under§5 of the Federal Investment Company Act of1940 and registered as provided in that act.

A.R.S. § 43-1201 (14): Insurance companies paying state tax upon premium income derived from sources within this state.

A.R.S. § 43-1201 (15): Mutual ditch, irrigation or water companies or similar nonprofit organizations if 85% or more of the income consists of amounts collected from members for the sole purpose of meeting losses and expenses.

A.R.S. § 43-1201 (16): Workers' compensation pools established pursuant to § 23-961.01.

A.R.S. § 43-1126: A small business corporation which makes an election for a taxable year pursuant to subtitle A, chapter 1, subchapter S of the IRC is not subject to corporate taxes for such year but only to the extent such corporation is not subject to federal income taxes.

Three of these organizations (religious or apostolic organizations, insurance companies and Subchapter S corporations) are exempt from corporate tax but their income does not escape taxation. In the case of the religious or apostolic corporations and the Subchapter S corporations, the income is taxes at the individual income tax level. Insurance companies are required to pay insurance premium tax rather than corporate income tax.

It is not possible to calculate the corporate tax that would be collected if all exempt organizations were subject to corporate income tax. That calculation would require completion of federal and state tax forms by the exempt organizations.

ARIZONA SUBTRACTIONS FROM FEDERAL TAXABLE INCOME

Arizona statutes set out certain items that can be subtracted from federal taxable income to reach adjusted income attributable to Arizona. The tax value of these subtractions cannot be determined because these are subtracted prior to apportionment of income to Arizona. It is impossible to isolate the portion of those subtractions attributable to Arizona only.

A.R.S. § 43-1022 (8): Annuity income included pursuant to §72 of the IRC if the first payment with respect to such annuity was received prior to 12/31/78.

A.R.S. § 43-1022 (9): The excess of a partner's share of income required to be included under §702(a)(8) of the IRC over the income required to be included under chapter 14, article 2 of Title 43.

A.R.S. § 43-1022 (10): The excess of a partner's share of partnership losses determined pursuant to chapter 14, article 2 of Title 43 over losses allowable under §702(a)(8) of the IRC.

A.R.S. § 43-1022 (11): The amount by which the adjusted basis of all property held for the production of income and sole or otherwise disposed of during the taxable year other than depreciable property used in a trade or business, computed pursuant to Title 43 and the income tax act of 1954, as amended, exceeds the adjusted basis of such property computed pursuant to the IRC.

A.R.S. § 43-1022 (12): The amount allowed by A.R.S. § 43-1024 for amortization by a qualified defense contractor certified by the Arizona Department of Commerce under § 41-1508, of a capital investment for private commercial activities.

A.R.S. § 43-1022 (13): Gain included on the sale or other disposition of a capital investment that a qualified defense contractor has elected to amortize pursuant to A.R.S. § 43-1024.

A.R.S. § 43-1022 (14): The amount allowed by § 43-1025 for contributions during the taxable year of agricultural crops to charitable organizations.

A.R.S. § 43-1022 (15): The portion of any wages or salaries paid or incurred by the taxpayer for the taxable year equal to the amount of the federal work opportunity credit, the empowerment zone employment credit, the credit for employer paid social security taxes on employee cash tips, and the Indian employment credit that the taxpayer received under §§ 45A, 45B, 51(a) and 1396 of the IRC.

A.R.S. § 43-1022 (28, 29): An adjustment for federal bonus depreciation.

A.R.S. § 43-1122 (2): Arizona capital loss carryover in an amount no to exceed $1,000.

A.R.S. § 43-1122 (3): With respect to a financial institution, expenses and interest relating to tax-exempt income disallowed pursuant to §265 of the IRC.

A.R.S. § 43-1122 (4): Dividends received from another corporation owned or controlled directly or indirectly by a recipient corporation.
A.R.S. § 43-1122 (5): Interest income received on obligations of the U.S.
A.R.S. § 43-1122 (6): Dividend income from foreign corporations.
A.R.S. § 43-1122 (8): State income tax refunds received which were included as income in computing federal taxable income.
A.R.S. § 43-1122 (9): Expense recapture included in income pursuant to §617 of the IRC for mine exploration expenses.
A.R.S. § 43-1122 (10): Deferred exploration expenses allowed by A.R.S. § 43-1127.
A.R.S. § 43-1122 (11): Exploration expenses related to the exploration of oil, gas or geothermal resources.
A.R.S. § 43-1122 (12): Amortization of pollution control devices.
A.R.S. § 43-1122 (13): Amortization of the cost of child care facilities.
A.R.S. § 43-1122 (14): Income from a domestic international sales corporation required to be included in the income of its shareholders pursuant to §995 of the IRC.
A.R.S. § 43-1122 (15): The income of an insurance company exempt under A.R.S,. § 43-1201 to the extent that it's included in computing Arizona gross income on a consolidated return.
A.R.S. § 43-1122 (16): The amount of contributions by the taxpayer during the taxable year to individual medical savings accounts pursuant to A.R.S. § 43-1028.
A.R.S. § 43-1122 (17): The amount by which capital loss carryover allowable per A.R.S. § 43-1130.01F exceeds the capital loss carryover allowable per section 13410(b)(5) of the IRC.

In tax year 2009, $549.0 billion in subtractions were claimed on corporate income tax returns. It is not possible to convert this figure into corporate tax revenue lost because of the apportionment of income. For informational purposes, the following line items on the Arizona corporate income tax return are shown their corresponding percentage share of the $549.0 billion.

Line on Corporate Income Tax Form 120	% of total
B1. Recalculated federal depreciation	58.25%
B2. Basis adjustment for property sold or otherwise disposed of.	0.33%
B3. Adjustment for IRC §179 expense not allowed.	0.16%
B4. Dividends received from 50% or more controlled domestic corporations.	9.35%
B5. Foreign dividend gross-up.	6.49%
B6. Dividends received from foreign corporations.	21.59%
B7. Dividends received from a DISC	0.01%
B8. Interest on U.S. obligations.	1.22%
B9. Agricultural crops charitable contribution.	0.00%
B10. Capital investment by a qualified defense contractor.	0.00%
B11. Other subtractions.	2.59%

APPORTIONING INCOME TO ARIZONA

Multi-state corporations must use a formula to determine the percentage of total income that is taxable in a given state. Historically, in all states, the three components of the formula were:

- Value of property in the state divided into value of property held everywhere;
- Payroll in the state divided into payroll paid everywhere; and,
- Sales in the state divided by sales everywhere.

The three percentages produced by these calculations were added together and divided by three to create an apportionment factor for the state in question.

In 1991, Arizona adopted a double-weighted sales factor apportionment formula. The percentage produced by the calculation involving sales is multiplied by two, added to the factors for property and for payroll. The sum is then divided by four.

In tax year 2009, corporate taxpayers could pick either a double-weighted sales factor or an 80%-weighted sales factor. Allowing this 80% option resulted in a decrease in corporate tax revenues of $60 million.

If all corporate taxpayers had been required to return to the equal-weighted three factor formula, general fund corporate income tax collections would have increased by $91.5 million in 2009.

ARIZONA NET OPERATING LOSSES

All corporate taxpayers are allowed to subtract unused net operating losses attributable to Arizona (*A.R.S. § 43-1122 (7)*) from their Arizona adjusted gross income. Corporations claimed Arizona-based net operating losses totaling $3.6 billion in tax year 2009. (This figure compares to $2.3 billion in tax year 2008.)

In many cases, a corporation's reported net operating loss exceeded its Arizona adjusted gross income. Subtracting the net operating loss in these cases resulted in negative taxable income. To calculate the tax value of the net operating losses, the loss was multiplied by 6.968% (the corporate tax rate in Arizona) for those businesses with positive taxable income. For those businesses with negative taxable income, that portion of net operating loss that was used to reduce taxable income to $0 was multiplied by 6.968%. These calculations result in a maximum tax value of $109.4 million (compared to $72.2 million in tax year 2008).

Over 17% of the 47,328 corporations that filed Arizona corporate income tax returns for tax year 2009 reported net operating losses. The table below shows the number of corporations by size of net operating loss and by whether or not there was enough taxable income to generate a tax liability other than the $50 minimum tax.

2009: Size of NOL	# with Tax Liability	# without Tax Liability	Total
$1 to $99	56	413	469
$100 to $999	422	581	1,003
$1,000 to $9,999	2,521	165	2,686
$10,000 to $49,999	2,146	210	2,356
$50,000 to $99,999	548	95	643
$100,000 to $499,999	711	136	847
$500,000 to $999,999	116	33	149
$1,000,000 and over	193	88	281
Total	6,713	1,721	8,434
NOL $ Value	**$1,780,093,889**	**$1,841,743,500**	**$3,621,837,389**

CORPORATE INCOME TAX CREDITS

A tax credit reduces corporate tax liability, as opposed to a subtraction which reduces taxable income. Most tax credits that currently exist in Arizona corporate tax law are nonrefundable; any credit amount greater than a firm's tax liability will not be refunded. The unused credit, in most cases, can then be carried forward for use in future tax years. The following corporate credits were in effect in tax year 2009.

A.R.S. § 43-1161: for increased employment in enterprise zones, as certified by the Arizona Department of Commerce.

A.R.S. § 43-1162: for businesses that enhance or sustain forest health, sustain or recover watershed or improve public safety, as certified by the Arizona Department of Commerce.

A.R.S. § 43-1163: for motion picture production costs, as certified by the Arizona Department of Commerce.

A.R.S. § 43-1164: for installing one or more solar energy devices for commercial, industrial or any other nonresidential application, as certified by the Arizona Department of Commerce.

A.R.S. §§ 43-1165, 43-1166: for employment and for property taxes paid by a qualified defense contractor, as certified by the Arizona Department of Commerce.

A.R.S. § 43-1167: for increased employment in military reuse zones, as certified by the Arizona Department of Commerce.

A.R.S. § 43-1167.01: for employing a member of the Arizona National Guard if the employee is placed on active duty.

A.R.S. § 43-1168: for research and development expenses.

A.R.S. § 43-1169: for costs in constructing a qualified environmental technology manufacturing, producing or processing facility, as certified by the Arizona Department of Commerce.

A.R.S. § 43-1170: for expenses to purchase property used to control or prevent pollution.

A.R.S. § 43-1170.01: for expenses incurred for tangible personal property used to control or prevent pollution relating to agriculture.

A.R.S. § 43-1175: for employment of TANF recipients.

A.R.S. § 43-1176: for solar hot water heater plumbing stub outs and electric vehicle recharge outlets installed.

A.R.S. § 43-1178: for transaction privilege taxes paid on coal purchased in Arizona and consumed in generating electric power.

A.R.S. § 43-1181: for donating real property or improvements to a school district.

A.R.S. § 43-1182: for installing or including in one or more houses or dwelling units in Arizona and constructed by the taxpayer, a water conservation plumbing stub out that collects all graywater sources that end at a plumbing stub out that is separate and distinct from the regular plumbing system.

A.R.S. § 43-1183: for cash contributions to a school tuition organization, as approved by the Arizona Department of Revenue.

A.R.S. § 43-1184: for cash contributions to a school tuition organization for scholarships to students with disabilities or displaced students, as approved by the Arizona Department of Revenue.

A.R.S. § 16-954B: for donations made directly to the Clean Elections Fund.

When reviewing the credit data, it is important to mention two points. First, corporate tax information for a given tax year changes over time. Late returns are filed, corporations are audited, amended returns are filed, retroactive legislation is enacted, etc. Therefore, figures state here will change over time and figures cited in previous years will not match what is presented here. Second, information cannot be revealed about certain credits claimed without breaching confidentiality. If less than three firms claim a credit ***or*** if one firm owns more than 90% of the total credit amount claimed ***or*** if providing statistics on one credit would result in confidential information being divulged about other credits, then that information cannot legally be released.

Data for tax year 2009 is shown in the following table. For tax year 2009, corporations claimed 689 commercial tax credits and used a total of $54.5 million in credits to offset taxes. Asterisks indicate instances in which release of information would breach confidentiality laws.

TYPE OF CREDIT	2008 #	2008 $	2009 #	2009 $
Enterprise zone	102	$7,081,503	94	$6,248,427
Healthy forest	**	**	**	**
Motion picture production costs	11	7,377,180	5	1,639,943
Commercial & industrial solar energy	7	74,899	10	87,163
Defense contracting	**	**	**	**
Military reuse zone	**	**	**	**
Employing National Guard members	5	3,100	6	7,000

TYPE OF CREDIT	2008 #	2008 $	2009 #	2009 $
Research and development	251	49,697,682	253	32,544,386
Environmental technology facility	3	11,440,954	3	1,139,140
Pollution control device	18	1,418,256	16	1,718,412
Agricultural pollution control equipment	0	0	0	0
Employment of TANF recipients	10	29,006	12	43,178
Solar hot water heater plumbing stub outs & electric vehicle recharge outlets	0	0	0	0
Taxes paid for coal consumed in generating electrical power	**	**	4	658,252
School site donation	**	0	**	**
Water conservation plumbing stub outs	0	**	0	0
Contributions to school tuition organizations for low-income students	74	10,823,475	69	8,872,088
Contributions to school tuition organizations for disabled/displaced students	----	----	**	**
Clean election	329	22,558	228	1,292
Total	**820**	**$83,617,744**	**708**	**$53,963,729**

SUMMARY OF CORPORATE INCOME TAX EXPENDITURES – TAX YEAR 2009

SUBTRACTIONS ALLOWED IN CALCULATION OF FEDERAL TAXABLE INCOME

Compensation of Officers	NIA[10]
Salaries and Wages	NIA
Incidental Repairs Adding No Value to Property	NIA
Debts Becoming Worthless During the Tax Year	NIA
Expenses of Renting or Leasing a Vehicle	NIA
Charitable or Governmental Organization Contributions	NIA
Depreciation	NIA
Certain Percentage Depletion Rates Applicable to Natural Deposits	NIA
Pension, Profit-Sharing, etc. Contributions	NIA
Contributions to Employee Benefit Programs	NIA
Certain Taxes Paid or Accrued During the Tax Year	NIA
Interest Paid on Certain Debts	NIA
Other Miscellaneous Deductions	NIA
TOTAL VALUE OF SUBTRACTIONS ALLOWED IN FEDERAL TAXABLE INCOME	**NIA**

[10] No Information Available.

EXEMPT ORGANIZATIONS

Political Subdivisions or Unites of the State or Federal Government	NIA[11]
Labor, Agriculture or Horticultural Organizations	NIA
Qualifying Fraternal Beneficiary Societies	NIA
Cemetery Companies Not For Profit	NIA
Qualifying Religious, Charitable Scientific, etc. Corporations	NIA
Nonprofit Business Leagues	NIA
Nonprofit Qualifying Civic Leagues	NIA
Clubs Organized for Pleasure, Recreation or Other Nonprofit Purposes	NIA
Corporations Organized to Hold Title to Property for Exempt Organizations	NIA
Voluntary Employee's Beneficiary Organizations	NIA
Teachers' or Public Employees' Retirement Fund Organization	NIA
Religious or Apostolic Organizations Which Pass Through Income	NIA
Certain Voluntary Employee's Beneficiary Organization	NIA
Diversified Management Companies	NIA
Insurance Companies Subject to the Insurance Premium Tax	NIA
Mutual Ditch, Irrigation or Water Companies	NIA
Subchapter S Corporations	NIA
TOTAL VALUE OF EXEMPT ORGANIZATIONS	**NIA**

ARIZONA SUBTRACTIONS FROM FEDERAL TAXABLE INCOME

Annuity Income included pursuant to §72 of the IRC	NIA
Excess of a Partner's Share of Income under §702(a)(8) of the IRC	NIA
Excess of a Partner's Share of Partnership Losses	NIA
Excess of Adjusted Basis of Property held for income production	NIA
Amortization by a Qualified Defense Contractor	NIA
Gain on Amortized Capital Investment by a Qualified Defense Contractor	NIA
Dividend Income Received from Arizona corporations	NIA
Arizona Capital Loss Carryover not to exceed $1,000 prior to 1/1/88	NIA
Expenses/Interest Relating to Tax-Exempt Income disallowed per IRC	NIA
Dividends Received from Controlled Corporations	NIA
Interest Income Received on Obligations of the U.S.	NIA
Dividend Income from Foreign Corporations	NIA
State Income Tax Refunds	NIA
Expense Recapture for Mine Exploration Expenses	NIA
Deferred Exploration Expenses allowed by § 43-1127	NIA
Exploration Expenses Related to Oil, Gas or Geothermal Exploration	NIA
Amortization of Pollution Control Devices	NIA
Amortization of the Cost of Child Care Facilities	NIA
Income from Domestic International Sales Corporation	NIA

[11] No Information Available.

Contributions to Individual Medical Savings Accounts	NIA[12]
Excess Capital Loss Carryover	NIA
TOTAL VALUE OF ARIZONA SUBTRACTIONS FROM FEDERAL TAXABLE INCOME	**NIA**

APPORTIONMENT OF INCOME TO ARIZONA

Double-weighted Sales Factor Apportionment Formula	$91,500,000
Option of 80% Weighted Sales Factor Apportionment Formula	60,000,000
TOTAL VALUE OF APPORTIONMENT FORMULA CHANGES	**$151,500,000**[13]

NET OPERATING LOSS SUBTRACTION

Net Operating Loss	**$109,400,000**

CORPORATE INCOME TAX CREDITS

Enterprise Zone Employment	$6,248,400
Healthy Forest	NR[14]
Motion Picture Production Costs	1,639,900
Commercial and Industrial Solar Energy	87,200
Defense Contracting	NR
Military Reuse Zone	NR
Employing National Guard members	7,000
Research and Development	32,544,400
Environmental Technology Facility	11,139,100
Pollution Control Devices	1,718,400
Agricultural Pollution Control Equipment	0
Employment of TANF Recipients	43,200
Solar Hot Water Plumbing Stub Outs and Electric Vehicle Recharge Outlets	0
Taxes Paid for Coal Consumed in Generating Electrical Power	658,300
School Site Donation	NR
Water Conservation Plumbing Stub Outs	0
Contributions to School Tuition Organizations	8,872,000
Clean Elections	1,300
TOTAL VALUE OF CORPORATE INCOME TAX CREDITS	**$53,963,700**

TOTAL QUANTIFIABLE CORPORATE INCOME TAX EXPENDITURES $314,863,700

[12] No Information Available.
[13] The 80% weighted sales factor cost is shown as the total expenditure because it is the most recent change in statute.
[14] Not Releasable.

FIDUCIARY INCOME TAX EXPENDITURES – FISCAL YEAR 2010/11

Arizona imposes fiduciary income tax on trusts and estates. The taxability of the income is determined by the residence of the fiduciary, beneficiary, or deceased taxpayer. For estates, the tax applies to the entire taxable income if the deceased taxpayer was an Arizona resident. The fiduciary or beneficiary residence is immaterial. In contract, for trusts, the tax applies to the entire taxable income when the fiduciary or beneficiary is an Arizona resident.

Arizona taxable income is calculated beginning with federal taxable income. By conforming Arizona law to the Internal Revenue Code, subtractions allowed under federal law in calculating federal taxable income are allowed under Arizona law. From federal taxable income, certain additions, subtractions and exemptions are allowed to reach Arizona taxable income. After calculating tax liability, fiduciary taxpayers may reduce their tax liability by using a credit for taxes paid to other state or countries or a clean elections credit.

Fiduciary income tax is deposited into the general fund. However, !5% of the tax is distributed to cities and towns two years after the year in which it was collected. For example, 15% of tax collected in fiscal year 2010/11 will be distributed to incorporated cities and towns in fiscal year 2012/13. Therefore, only 85% of the tax collected, or of the tax value of any expenditure, is actually available for the state's use. This fact should be kept in mind when reviewing the reported tax value of the various subtractions, exemptions and credits.

SUBTRACTIONS ALLOWED IN THE CALCULATION OF FEDERAL TAXABLE INCOME

The starting point for calculating Arizona fiduciary income tax liability is federal taxable income as calculated on the federal form 1041 (U.S. Fiduciary Income Tax Return). The Arizona legislature must approve legislation to conform to the definition of federal taxable income each year. In conforming to the definition of federal taxable income, Arizona accepts the subtractions from gross income allowed by the federal government. These subtractions include:

- Deduction for interest paid by the estate or trust on amounts borrowed by the estate or trust or on debt acquired by the estate or trust. This includes an investment interest (subject to limitations), qualified residence interest, and any interest payable on any unpaid portion of the estate tax attributable to the value of a reversionary or remained interest in property.
- Deductible taxes, including state income tax or state and local general sales tax; real property tax; and generation-skipping transfer tax imposed on income distributions.
- Deductible fees paid to the fiduciary for administering the estate or trust during the tax year.
- Charitable deduction.
- Attorney, accountant and return preparer fees.

- Other deductions, such as amortizable bond premiums, casualty and theft losses, net operating loss deduction, up to 6% of the fiduciary's share of qualified domestic production activities and the fiduciary's share of amortization, depreciation and depletion not claimed elsewhere.
- Miscellaneous itemized deductions in excess of 2% AGI.
- Income distribution deduction.
- Estate tax deduction.
- $600 exemption for estates. $300 exemption for trusts in which all income must be distributed currently. $100 exemption for all other trusts.

It is not possible to calculate the tax value of these subtractions. Information from the Internal Revenue Service would be required to determine the value and this information is not readily available.

ARIZONA SUBTRACTIONS FROM FEDERAL TAXABLE INCOME

The Arizona fiduciary income tax return lists the following specific items that can be subtracted from federal taxable income to reach adjusted gross income attributable to Arizona:

A.R.S. § 43-1332 (1): A negative Arizona fiduciary adjustment from another estate or trust is used if Schedule K-1 indicates a negative difference between the federal and state distributable income.

A.R.S. § 43-1022 (6): Interest income received on U.S. obligations less any interest on indebtedness or other related expenses, and deducted in arriving at Arizona gross income, which were incurred or continued to purchase or carry such obligations.

A.R.S. § 43-1022 (27): The amount authorized by A.R.S. § 43-1031 for constructing an energy efficient residence.

The remaining subtractions on the Arizona fiduciary tax form are entered in aggregate on the line "Other subtractions from federal taxable income." The following is a list of these:

A.R.S. § 43-1022 (2): Benefits, annuities and pensions totaling not more than $2,500 received from the any retirement system or plan established by federal law or the Arizona state retirement system and retirement plan, the corrections officer retirement plan, the public safety personnel retirement plan, the elected officials' retirement plan, an optional retirement program established by the Arizona Board of Regents, an optional retirement program established by an Arizona community college district board, or a retirement plan established for employees of a county, city or town in Arizona.

A.R.S. § 43-1022 (7): The amount of any income tax refunds received from states other than Arizona and included as income.

<u>A.R.S. § 43-1022 (8):</u> Annuity income included pursuant to §72 of the IRC if the first payment with respect to such annuity was received prior to 12/31/1978.

<u>A.R.S. § 43-1022 (21):</u> The amounts authorized by A.R.S. § 43-1027 for converting to qualified wood stoves, wood fireplaces or gas-fired fireplaces.

<u>A.R.S. § 43-1022 (23):</u> The amount by which a net operating loss carryover or capital loss carryover allowable pursuant to § 43-1029(F) exceeds the net operating loss carryover or capital loss carryover allowable pursuant to §1341(b)(5) of the IRC.

<u>A.R.S. § 43-1022 (15):</u> The portion of any wages or salaries paid or incurred by the taxpayer equal to the amount of the federal work opportunity credit, the empowerment zone employment credit, the credit for employer-paid social security taxes on employee cash tips and the Indian employment credit that the taxpayer received under §§ 45A, 45B, 51(a) and 1396 of the IRC.

<u>A.R.S. § 43-1022 (22):</u> With respect to individual medical savings accounts established pursuant to A.R.S. § 43-1028, the account holder may subtract the amount of contributions made by the employer, to the extent that these contributions are included in the taxpayer's federal adjusted gross income, and the amount deposited by the taxpayer in the account during the year.

<u>A.R.S. § 43-1022 (14):</u> The amount allowed by A.R.S. § 43-1025 for contributions of agricultural crops to charitable organizations.

<u>A.R.S. § 43-1022 (5):</u> The amount of income on an installment receivable which is recognized pursuant to the IRC and which has already been recognized on the death of the taxpayer for purposes of this title for tax years ending before 1/1/1990.

<u>A.R.S. § 43-1022 (26):</u> The amount authorized by A.R.S. § 43-1030 relating to holocaust survivors.

<u>A.R.S. § 43-1022 (28):</u> The amount of depreciation allowable per §167(a) of the IRC calculated as if bonus depreciation for eligible properties had not been claimed for federal purposes.

<u>A.R.S. § 43-1022 (29):</u> For property sold or otherwise disposed of, a subtraction is allowed for the difference in basis for any asset for which federal bonus depreciation had been claimed.

<u>A.R.S. § 43-1022 (3):</u> When the estate or trust is the beneficiary of another estate or trust, the beneficiary's share of the trust or estate income recognized under the IRC may be subtracted.

<u>A.R.S. § 43-1022 (1):</u> Exemptions are allowed for blind persons ($1500), persons over 65 years of age ($2100), dependents ($2300), and qualifying ancestors that live with the taxpayer and require assist6ance with activities of daily living ($10,000).

<u>A.R.S. § 43-1022 (4):</u> The amount of any distributions from an individual retirement account as provided for in §408 of the IRC or from a qualified retirement plan of a self-employed individual as provided for in §401 of the IRC to the extent that total adjustments in all tax years do not exceed the total of all contributions made by the taxpayer to such plans prior to 12/31/1976 which were included in computing Arizona taxable income.

A.R.S. § 43-1022 (9): The excess of a partner's share of income required to be included under §702(a)(8) of the IRC over income required to be included under chapter 14, article 2 of title 43.

A.R.S. § 43-1022 (10): The excess of a partner's share of partnership losses determined pursuant to chapter 14, article 2 of title 43 over losses allowable under §702(a)(8) of the IRC.

A.R.S. § 43-1022 (11): The amount by which the adjusted basis of all property which is held for the production of income and which is sold or otherwise disposed of during the taxable year, other than depreciable property used in a trade or business, computed pursuant to title 43 and the income tax act of 1954, as amended, exceeds the adjusted basis of such property computed pursuant to the IRC.

A.R.S. § 43-1022 (12): The amount allowed by § 43-1024 for amortization by a qualified defense contractor certified by the Arizona Department of Commerce under § 41-1508, of a capital investment for private commercial activities.

A.R.S. § 43-1022 (13): The amount of gain included on the sale or other disposition of capital investment that a qualified defense contractor has elected to amortized pursuant to § 43-1024.

A.R.S. § 43-1022 (16): The amount of winnings less than $5,000 in a taxable year from any of the state lotteries, except that all such winnings before 3/22/1983, including periodic distributions from such winnings made after 3/22/1983, may be subtracted.

A.R.S. § 43-1022 (17): The amount of mining exploration expenses determined pursuant to §617 of the IRC which have been deferred in a taxable year ending before 1/1/1990 and for which a subtraction has not been previously made.

A.R.S. § 43-1022 (18): The amount of Social Security Benefits included in federal taxable income.

A.R.S. § 43-1022 (19): To the extent not already excluded, compensation received for active service as a member of the U.S. armed forces for any month during any part of which the member service in a combat zone.

A.R.S. § 43-1022 (20): The amount of unreimbursed medical and hospital costs, adoption counseling, legal and agency fees and other nonrecurring costs of adoption not to exceed $3,000.

A.R.S. § 43-1022 (24): Any amount of qualified educational expenses distributed from a qualified state tuition program determined pursuant to §529 of the IRC and that is included in income.

A.R.S. § 43-1022 (25): Any item of income resulting from an installment sale that has been properly subjected to tax in another state in a previous year and is included in Arizona gross income in the current taxable year.

A.R.S. § 43-1332 (2): In the case of a trust established as a medical savings account pursuant to A.R.S. § 43-1028, income earned by the trust that is included in the trust's Arizona gross income.

A.R.S. § 43-1333: The income of the estate or trust which is to be distributed or credited during the year to any legatee, heir or beneficiary is allowed as a subtraction from federal taxable income.
A.R.S. § 43-1022 (30): The amount contributed to §529 college savings plans up to $750.

In tax year 2009, subtractions on fiduciary tax returns were reported in combination with additions to fiduciary income on the front of the tax return. Therefore, information is only available on the value of subtractions not entirely offset by additions to fiduciary income for a total of $11,907,770. Subtractions for income from a trust established as a medical savings account were reported on the front of the tax return for a total of $101,968.

PREFERENTIAL TAX RATES

Fiduciary income tax is calculated according to a graduated tax rate schedule, shown below:

At Least	But Less Than	
$0	10,000	2.59% of taxable income
10,000	25,000	2.88% of taxable income less $29
25,000	50,000	3.36% of taxable income less $149
50,000	150,000	4.24% of taxable income less $589
150,000	And over	4.54% of taxable income less $1,039

This is a preferential rate structure because different tax rates are imposed on similar taxpayers based on criteria set in statute. Taxpayers with higher incomes are taxed at a higher rate.

If a uniform rate were imposed, it is probable that the uniform rate would be an effective tax rate among all taxpayers, making the fiscal impact revenue neutral. Given that legislative action cannot be predicted, we will point out the preferential tax rate structure in law but will not attempt to attach a revenue impact.

FIDUCIARY INCOME TAX CREDITS

After fiduciary income tax liability is calculated, two credits can be subtracted. If the estate or trust is considered to be a resident of Arizona and also a resident of another state or country, the estate or trust will be allowed a tax credit against the Arizona income tax liability for taxes paid to the other state or country. In 2009, $4,104,031 was claimed as credit for taxes paid to other states or countries. Additionally, if the trust or estate makes a contribution to the Clean Elections Fund, a credit may be claimed for that contribution. The total clean elections tax credits claimed in 2009 by estates and trust was $4.381. Both credits are a direct reduction to tax liability.

SUMMARY OF FIDUCIARY INCOME TAX EXPENDITURES – TAX YEAR 2009

SUBTRACTIONS ALLOWED IN CALCULATION OF FEDERAL TAXABLE INCOME

Deduction for interest paid	NIA[15]
Deductible taxes	NIA
Deductible fiduciary fees	NIA
Charitable deduction	NIA
Attorney, accountant and return preparer fees	NIA
Other miscellaneous deductions	NIA
Miscellaneous itemized deductions in excess of 2% of AGI	NIA
Income distribution deduction	NIA
Estate tax deduction	NIA
$600/$300/$100 estate or trust exemption	NIA
TOTAL VALUE OF SUBTRACTIONS ALLOWING IN FEDERAL TAXABLE INCOME	**NIA**

ARIZONA SUBTRACTIONS FROM FEDERAL TAXABLE INCOME

Negative Arizona fiduciary adjustment from another trust or estate	NIA
Interest income on U.S. obligations	NIA
Energy efficient residence	NIA
U.S./State pensions not over $2,500	NIA
Income tax refunds from other states	NIA
Annuity income included pursuant to §72 of the IRC	NIA
Qualified wood stoves and fireplaces	NIA
Excess operating loss carryover	NIA
Certain federal credits	NIA
Medical savings accounts	NIA
Contribution of agricultural crops	NIA
Installment income recognized pursuant to the IRC	NIA
Holocaust survivors	NIA
Recalculated Arizona depreciation	NIA
Basis adjustment for property sold or disposed	NIA
Federal income from other fiduciaries	NIA
Exemptions for blind persons, persons over 65, dependents and qualifying ancestors	NIA
Distributions from individual retirement accounts	NIA
Partner's share of income	NIA

[15] No Information Available.

Partner's share of loss	NIA[16]
Sale of income-producing property	NIA
Amortization of capital investment	NIA
Gain on capital investment	NIA
State lottery winnings	NIA
Mining exploration expenses	NIA
Social Security benefits	NIA
Compensation for armed forces active service	NIA
Adoption costs	NIA
Qualified educational expenses	NIA
Installment sale subject to tax in another state	NIA
Income from a trust established as a medical savings account	$101,968
Arizona distribution to beneficiaries	NIA
Contributions to §529 college savings plan	NIA
Other subtractions	11,907,770
TOTAL VALUE OF ARIZONA SUBTRACTIONS FROM FEDERAL TAXABLE INCOME	**$12,009,738**

FIDUCIARY INCOME TAX CREDITS

Taxes paid to other states or countries	$4,104,031
Clean Elections	4,381
TOTAL VALUE OF FIDUCIARY INCOME TAX CREDITS	**$4,108,412**

TOTAL QUANTIFIABLE FIDUCIARY INCOME TAX EXPENDITURES[17] $16,118,150

[16] No Information Available.

[17] These expenditures represent forgone revenues to the state general fund and to the urban revenue sharing fund, which is distributed to incorporated cities and towns.

FLIGHT PROPERTY TAX EXPENDITURES – FISCAL YEAR 2010/11

The airline companies in Arizona pay a tax on the flight property within the state. The taxable value, or net assessed value, of the flight property is determined by multiplying the full cash value of the property by an assessment ratio. The tax rate that is applied to the net assessed value is equal to the statewide average tax rate, which was 9.67% in tax year 2010.

FLIGHT PROPERTY TAX EXEMPTIONS

A.R.S. § 42-14251.10: If an airline is operating in Arizona with a maximum passenger capacity of less than 56 seats and a maximum pay load capacity of less than 18,000 pounds, this small flight property shall be valued at 30% of its original cost less depreciation, multiplied by the assessment ratio.

Had the taxable value been 100%, the state would have raised $836,256 more in fiscal year 2010/11.

PREFERENTIAL ASSESSMENT RATIO

A.R.S. § 42-14255: Arizona statutes set the assessment ratios to be used in determining the net assessed values of the various classes of property. These assessment ratios range from 22% to 5%. For flight property, the assessment ratio is equal to the ratio which the total net assessed valuation of all taxable property in class 1, class 6 paragraph 3 and personal property in class 2 bears to the total full cash value of such property.

For tax year 2010, the assessment ratio used for flight property was 17%. This is considered to be a preferential assessment ratio because it is an average of the assessment ratios in several other classes of property. If flight property had an assessment ratio equal to the highest assessment ratio imposed, 21%, tax collections would have increased by $1.1 million.

SUMMARY OF FLIGHT PROPERTY TAX EXPENDITURES – TAX YEAR 2010

FLIGHT PROPERTY TAX EXEMPTION

Tax value at 30% for small airplanes	$836,256

FLIGHT PROPERTY PREFERENTIAL ASSESSMENT RATIO

Preferential assessment ratio at 25%	$1,117,351

TOTAL QUANTIFIABLE FLIGHT PROPERTY TAX EXPENDITURES[18] $1,953,607

[18] This amount represents foregone revenue to the state aviation fund.

IN LIEU PROPERTY TAX EXPENDITURES – FISCAL YEAR 2010/11

Irrigation districts, power districts, electrical districts or agricultural improvement districts directly engaged in the sale of electric power or energy other than for irrigation purposes may elect to make voluntary contributions to Arizona and the political subdivisions thereof for property taxes. These districts are not legally liable for property taxes imposed by the state and the political subdivisions, so these voluntary contributions are known as in lieu property taxes. (However, per A.R.S. § 9-432B, water may not be transported from remote municipal property by a city, town or political subdivision unless voluntary contributions have been paid.)

The Department of Revenue determines the full cash value of the district electing to make in lieu property tax payments. The county assessor of each county where district electric facilities are located computes the gross contribution to be made. The district may subtract certain amounts from this gross contribution figure.

IN LIEU PROPERTY TAX SUBTRACTIONS

A.R.S. § 48-242 (C)(1): A subtraction is allowed for the contribution related to that portion of the electric system related to pumping water.

A.R.S. § 48-242 (C)(2): A deduction of $10,000 is allowed from the gross contribution.

A.R.S. § 48-242 (C)(3): Certain taxes or assessments paid to any political subdivision during the preceding calendar year may be deducted from the gross contribution.

A.R.S. § 48-242 (C)(4): The annual average of the total water costs devoted to municipal use during the last three calendar years is deductible from the gross contribution.

The effect of these subtractions from the gross contribution amount is that the district in question pays a certain percentage of the gross contributions. The primary contributor, Salt River Project, paid approximately 80.44% of the tax that would have been levied in fiscal year 2010/11 had they been legally bound to pay property tax. Given the repeal of the state rate, the dollar expenditure that previously appeared in this report is no longer applicable. However, because the exemptions filter through to the tax base at the local level, descriptions of the exemptions remain.

INDIVIDUAL INCOME TAX EXPENDITURES – FISCAL YEAR 2010/11

The Arizona Department of Revenue collected almost $2.4 billion in resident individual income taxes from 2009 tax returns filed in calendar year 2010, before credits. In the same tax year, the state allowed exemptions, deductions, exclusions, and credits worth as much as $2.0 billion in tax liability. This report details the value of each of these exemptions, deductions, exclusions, credits and preferential rates.

The figures presented in this report were calculated using the Individual Income Tax Simulation Model, containing a 2009 database. This model contains 53,000 resident returns, selected using stratified sampling techniques. The information on the back of Arizona Individual Income Tax Form 140 and on Schedule A was entered for the sample returns, making the detailed information presented below available. **Please remember these figures are for tax year 2009.** All tax expenditures in this report refer to tax law in existence in 2009, filed in 2010.

Calculating the sum of the tax value of tax expenditures individually does not produce the total value of removing all tax expenditures at one time. (The sum of the parts is less than the whole.) Disallowing exemptions, subtractions or deductions can change the tax rate applied to a portion of a taxpayer's taxable income. For example, a taxpayer may have taxable income of $40,000 prior to removal of a tax exemption device, resulting in a tax rate of 3.36% on part of this income. Removing deductions may result in pushing the taxpayer's taxable income to $55,000, resulting in a tax rate of 4.24% on part of this income. Removal of all exemptions, subtractions, and deductions may make taxable income high enough to hit the 4.54% tax rate. Therefore, adding back income that was previously untaxed can push the taxpayer into two or three higher tax brackets.

In other areas of this report, adding the cost of individual deductions together results in a **larger** impact than what the figure for removal of the entire section indicates. (The sum of the parts is greater than the whole.) For example, if the components of the Taxes Paid Deduction on the Schedule A were added together, the total would be $186 million. However, removal of the entire Taxes Paid Deduction section results in a value of $185 million. In this case, removal of individual pieces may lower the Schedule A total and push the taxpayer into a higher tax bracket. Removal of the entire section, however, may push the Schedule A total below the standard deduction level. If this happens, the standard deduction amount is substituted for the Schedule A amount. Therefore, there is a constant deduction level (equal to the standard deduction) below which the taxpayer will not fall. This constant deduction level buffers the impact of losing the Schedule A deductions and could potentially keep the taxpayer from moving into a higher tax bracket.

Net income tax (corporate, individual and fiduciary) collections are deposited in the general fund after 15% of net income tax collections received two years prior is disbursed to cities and towns. In other words, 15% of net individual income tax plus net corporate income tax plus net fiduciary income tax received in Fiscal Year 2009/10 will be distributed to incorporated cities/towns in Fiscal Year 2011/12. Therefore, when reviewing the tax value of individual income tax expenditures the assumption can be made that 85% of the tax value is general fund revenue, although the remaining 15% is not actually disbursed for two years in the future.

SUBTRACTIONS ALLOWED IN CALCULATING FEDERAL ADJUSTED GROSS INCOME

The starting point for the calculation of Arizona individual income tax liability is federal adjusted gross income, as calculated on the federal form 1040, 1040A and 1040EZ U.S. Individual Income Tax returns. The Arizona legislature must approve legislation annually to conform to the definition of federal adjusted gross income as of January of the current year. In conforming to the definition of federal adjusted gross income, Arizona allows subtractions from gross income allowed by the federal government. These subtractions include:

- Qualified expenses for eligible educators up to $250
- Certain business expenses of reservists, performing artists and fee-basis government officials
- Archer medical savings account deduction
- Health savings account deduction
- Moving expenses in connection with a job or business, with certain requirements
- One-half of self-employment tax paid
- Self-employed SEP, SIMPLE, and Qualified Plans
- Self-employed health insurance deduction
- Penalty on early withdrawal of savings
- Alimony paid
- Individual Retirement Account contributions for individuals with qualifying incomes
- Interest paid on student loans for qualified higher education expenses for individuals with qualifying incomes
- Qualified tuition and fees of up to $4,000 under certain conditions
- Domestic production activities deduction
- Deductible expenses related to income from rental of personal property
- Reforestation amortization and expenses
- Jury duty pay
- Repayment of supplemental unemployment benefits under the Trade Act of 1974
- Contributions to section 501(c)(18) pension plans
- Contributions by certain chaplains to 403(b) plans

- Attorney fees and courts costs paid after 10/22/04 for actions involving certain unlawful discrimination claims
- Attorney fees and courts costs paid after 12/19/06 for actions involving tax law violations

The tax value of subtractions that appear on the front of the federal tax return as subtractions to gross income can only be estimated.

SUBTRACTIONS WHEN CALCULATING FEDERAL ADJUSTED GROSS INCOME	2009 (millions)
Educator expenses	$0.47
Certain business expenses of reservists, performing artists and fee-based government officials	0.26
Individual retirement account for qualifying individual	4.03
Student loan interest deduction	3.32
Tuition and fees deduction	2.22
Health savings account	1.84
Moving expenses	0.63
One-half of self-employment tax	9.02
Self-employed health insurance deductions	9.86
Self-employed SEP and SIMPLE deductions	9.47
Penalty on early withdrawal of savings	0.06
Alimony paid	6.69
Domestic production activities deduction	2.02
TOTAL VALUE OF SUBTRACTIONS	**$50.51**

EXEMPTIONS

Like the federal government, Arizona grants exemptions for taxpayers meeting certain conditions. The amount of exemption varies.

A.R.S. § 43-1043: The personal exemption is the most broad-based exemption; every taxpayer (and spouse) is eligible. Single taxpayers and those who are married but filing separately were allowed exemptions of $2,100 for tax year 2009. Married couples filing jointly with no children and unmarried head of household taxpayers were allowed $4,200 exemptions. The higher personal exemption allowed unmarried head of household filers is a preferential personal exemption amount, double the amount normally allowed for one person.

Married couples filing jointly with at least one dependent are allowed a $6,300 personal exemption; married filing separate taxpayers with one or more dependents are allowed half this amount, an exemption of $3,150. This higher personal exemption for married couples with children is also a preferential personal exemption.

A.R.S. § 43-1023 (E) Taxpayers age 65 or older were eligible for an additional exemption of $2,100 for primary filer and for eligible spouse in 2009.

A.R.S. § 43-1023 (B): Arizona taxpayers may claim a dependent exemption for children and certain other relatives for whom they provide more than 50% support. The dependent exemption was $2,300 in 2009.

A.R.S. § 43-1023 (A)(1): Taxpayers who have corrected vision of no better than 20/200 or have a field of vision no wider than 20 degrees are eligible for a blind exemption. The exemption amount was $1,500 in 2009.

A.R.S. § 43-1023 (C): Arizona residents may claim a $10,000 exemption for each qualifying parent and ancestor. A qualifying parent or ancestor may be a parent, a parent's ancestor or a spouse's parent or spouse's parent ancestor. The qualifying parent or ancestor must have lived in the taxpayer's residence for the entire taxable year, was 65 years old or older and the taxpayer paid more than 1/2 of support and maintenance costs during the taxable year. Additionally, the parent or ancestor must have required assistance with activities of daily living.

Type of Exemption	2009 (millions)
Personal exemption	$200.46
Preferential personal exemption for Unmarried Head of Household filers	12.37
Preferential personal exemption for married filers with at least one dependent	25.71
Age 65 or older exemption	18.83
Dependent exemption	88.05
Blind exemption	0.15
Qualifying parent or ancestor exemption	3.56
TOTAL VALUE OF EXEMPTIONS	**$327.92**

ARIZONA SUBTRACTIONS FROM INCOME

Arizona taxpayers can subtract certain amounts from their adjusted gross income.

A.R.S. § 43-1022.18: The largest subtraction in 2009 was for taxable Social Security or Railroad Retirement benefits included on the federal Form 1040.

A.R.S. § 43-1022.2: The first $2,500 of a federal, State or local retirement annuity.

A.R.S. § 43-1022.16: The first $5,000 of Arizona lottery winnings.

A.R.S. § 43-1022.6: Interest on U.S. obligations.

A.R.S. § 43-1022.27: An amount relating to constructing an energy efficient residence.

A.R.S. § 43-1022.22: Deposits or employee contributions into medical savings accounts.

A.R.S. § 43-1022.7: The amount of income tax refunds received from states other than Arizona and which were included as income in computing federal adjusted gross income.

A.R.S. § 43-1022.19: Compensation for active service as a member of the armed services.

A.R.S. § 43-1022.28, 29, 30: An amount equal to the "bonus" depreciation allowable pursuant to the IRC.

Wages earned on the reservation by enrolled members of the American Indian tribe if also living on the reservation are also a subtraction from adjusted gross income. In addition, there were "other subtractions" including, but not limited to:

A.R.S. § 43-1022.3: A beneficiary's share of the fiduciary adjustment to the extent that the amount decreases the beneficiary's Arizona gross income.

A.R.S. § 43-1022.4: Distributions from an individual retirement account as provided for in §408 of the IRC or from a qualified retirement plan of a self-employed individual.

A.R.S. § 43-1022.5: Income on an installment receivable recognizable pursuant to the IRC and which has already been recognized on the death of the taxpayer for purposes of this title for tax years ending before 1/90.

A.R.S. § 43-1022.8: Annuity income included in income pursuant to §72 of the IRC if the first payment with respect to such annuity was received prior to 12/31/78.

A.R.S. §§ 43-1022.9 and 1022.10: The excess of a partner's share of income or loss required to be included under §702(a)(8) of the IRC over the income required to be included under Chapter 14, article 2 of title 43.

A.R.S. § 43-1022.11: The amount by which the adjusted basis of all property held for the production of income and sold or otherwise disposed of during the taxable year other than depreciable property used in a trade or business, computed pursuant to title 43 and the income tax act of 1954, as amended, exceeds the adjusted basis of such property computed pursuant to the internal revenue code.

A.R.S. §§ 43-1022.12 and 1022.13: The amount allowed for amortization, by a qualified defense contractor, of a capital investment for private commercial activities or the amount of gain included in income on the sale or disposition of a capital investment that a qualified contractor has elected to amortize.

A.R.S. § 43-1022.14: Agricultural crops contributed to Arizona charitable organizations.

A.R.S. § 43-1022.15: Wages paid for the taxable year equal to the amount of the federal work opportunity credit, the empowerment zone employment credit, the credit for employer paid social security taxes on employee cash tips and the Indian employment credit.

A.R.S. § 43-1022.17: Exploration expenses determined pursuant to §617 of the IRC, which have been deferred in a taxable year ending before 1/90 and for which a subtraction has not been previously made.

A.R.S. § 43-1022.4: Unreimbursed medical and hospital costs, adoption counseling, legal and agency fees and other nonrecurring costs of adoption, not to exceed $3,000.

A.R.S. § 43-1022.4: Authorized amounts for purchase of, and nonoptional equipment directly related to the operation of, qualified wood stoves, wood fireplaces or gas fired fireplaces.

A.R.S. § 43-1022.23: Excess net operating loss carryover or capital loss carryover.

A.R.S. § 43-1022.24: Qualified educational expenses distributed from a qualified state tuition program that is included in income.

A.R.S. § 43-1022.25: Income resulting from an installment sale properly subjected to income tax in another state.
A.R.S. § 43-1022.26: An amount authorized relating to holocaust survivors.
A.R.S. § 43-1022.30: Adjustment for IRC §179 expenses not allowed.

ARIZONA SUBTRACTIONS FROM FEDERAL ADJUSTED GROSS INCOME	**2009 (millions)**
Interest on U.S. obligations	$5.05
Exclusion for federal, Arizona or local pensions	8.16
Exempt Arizona lottery winnings	0.30
Social Security or Railroad Retirement benefits included in income	93.29
Adjustment for bonus depreciation	44.30
Certain wages of Native Americans	8.29
Income tax refunds from other states	0.77
Deposits and employee contributions into medical savings accounts	0.09
Construction of an energy efficient residence	0.00
Active duty military pay	5.55
Other subtractions	15.48
TOTAL VALUE OF ARIZONA SUBTRACTIONS	**$183.91**

DEDUCTIONS

Arizona taxpayers can deduct income used to pay for certain expenses, such as taxes or medical bills, by either listing (itemizing) deductions or taking a standard deduction. Arizona allows the same itemized deductions as the federal government, with four exceptions. Medical deductions are fully deductible in Arizona; gambling losses are adjusted to consider the lottery subtraction; a property tax adjustment is made to offset a property tax credit claimed; and, an adjustment to charitable contributions is made to offset credits taken for these donations.

A.R.S. § 43-1041: As a result of inflation indexing, the standard deduction for 2009 was $4,677 (up from $4,521 in 2008) for single and married filing separate filers and $9,354 (up from $9,042) for married filing joint and unmarried head of household filers. If the inflation indexing of the standard deduction had not occurred, $5.70 million in additional taxes would have been collected. Removing the standard deduction would result in additional tax revenue of $203.73 million.
A.R.S. § 43-1041 (A)(2): The higher standard deduction amount allowed for unmarried head of household filers is a preferential deduction amount, double the amount normally allowed one person. The value of this preferential standard deduction was $20.19 million in 2009.
A.R.S. § 43-1042: The Schedule A deductions are governed by this statutory section. When calculating the impact of disallowing portions of the Schedule A or the entire Schedule A, the standard deduction replaces the Schedule A if the Schedule A total drops below the standard

deduction amount. In other words, if the Schedule A total drops below $4,677 or $9,354 (the standard deduction amounts), the standard deduction is then used.

Medical Deduction. The medical deduction on the federal Schedule A equals medical expenses greater than 7.5% of the taxpayer's federal adjusted gross income. This deduction is adjusted on the Arizona return to allow all medical expenses incurred. The value of allowing the additional 7.5% in medical expenses in 2009 was $76.50 million. The value of the entire medical deduction in 2009 was $118.53 million.

Taxes Paid Deduction. Deductions allowed for taxes paid include state and local income taxes, real estate taxes and other taxes, including personal property taxes. The value of the deduction for state and local income taxes in 2009 was $114.16 million. The value of the deduction for real estate taxes in 2009 was $59.38 million. The value of the deduction for personal property and other taxes was $12.23 million. The total value of the deduction for all taxes paid was $184.77 million.

Interest Expense Deduction. The interest expense deduction is the largest of all the itemized deductions. Deductible interest includes home mortgage interest, points paid on the purchase of a home and some investment interest. In 2009, qualified mortgage insurance premiums could also be deducted. Home mortgage interest and points paid reported on the Form 1098 had a tax value of $268.74 million in 2009. Home mortgage interest not reported on Form 1098 had a tax value of $4.35 million. Points not reported on Form 1098 had a tax value of $0.64 million. Qualified mortgage insurance premiums had a value of $3.51 million. Deductible investment interest had a tax value of $12.24 million. The total value of the interest expense deduction piece of the Schedule A was $287.99 million.

Charitable Contribution Deduction. Deductions are allowed for contributions made to religious, charitable, educational, scientific or literary organizations. The contributions could be cash, property or out-of-pocket expenses incurred while doing volunteer work. The tax value of cash contributions in 2009 was $65.89 million. Contributions other than cash had a tax value of $13.64 million. Carryover from prior years had a value of $3.89 million. All charitable contribution deductions had a tax value of $83.47 million.

Casualty and Theft Losses. Losses on non-business property arising from theft, vandalism, fire, storm, and car, boat and other accidents or similar causes are deductible. Money kept in a financial institution that was lost because of insolvency or bankruptcy of the institution was also deductible in some cases. However, only those losses that exceeded 10% of Federal Adjusted Gross Income were deductible. The value of this type of deduction was $0.01 million in 2009.

Limited Miscellaneous Deductions. This deduction includes unreimbursed job expenses, tax return preparation fees, safe deposit box rental, certain legal and accounting fees, etc., which exceed 2% of Federal Adjusted Gross Income. The value of this deduction in 2009 was $42.70 million.

Other Miscellaneous Deductions. These fully deductible miscellaneous deductions include gambling losses to the extent of gambling winnings, federal estate tax on income in respect of a decedent, amortizable bond premiums on bonds acquired before 10/23/86, etc. Any gambling losses taken on the federal Schedule A were adjusted for Arizona to offset the subtraction for Arizona lottery winnings. Without this adjustment, a double deduction could have been allowed for gambling losses associated with the Arizona lottery. An adjustment is also made to the Arizona itemized deductions for the amount of property taxes included on the federal Schedule A for those qualified defense contractors who claim a credit. This deduction was worth $17.02 million in 2009.

Eliminating all itemized deductions produces increased taxes of $564.00 million. Eliminating all itemized deductions and the standard deduction would result in increased taxes of $1,002.82 million.

PREFERENTIAL TAX RATES

Individual income tax for single and married filing separate filers is calculated according to a graduated tax rate schedule as presented below (double this for married filing joint and unmarried head of household filers).

Income at Least	But Not More Than	
$0	$10,000	2.59%
$10,000	$25,000	3.88%, less $29
$25,000	$50,000	3.36%, less $149
$50,000	$150,000	4.24%, less $589
$150,000	And over	4.54%, less $1,039

Lower taxable incomes are taxed at a lower level, or, in other words, are treated preferentially. If all taxpayers were treated identically, the same tax rate would be applied regardless of the level of taxable income. A question arises, however, as to what tax rate should be applied to determine the revenue impact of treating all taxpayers identically. *If one tax rate were applied to individual income, the logical tax rate applied would be the effective tax rate of all individual income taxpayers.* Dividing total tax liability on individual income tax returns by the total Arizona taxable income results in an effective tax rate 3.25%. Applying this tax rate to all taxpayers results in the same individual income tax collections as with the graduated tax rate structure, but the burden of the tax will change. Taxpayers with lower Federal Adjusted Gross Income will pay more tax and taxpayers with higher Federal Adjusted Gross Income will pay less tax.

INDIVIDUAL INCOME TAX CREDITS

A tax credit differs from an exemption, subtraction or deduction in that it directly reduces tax liability rather than taxable income. A $100 deduction, for example, would reduce tax liability by $4.54 at most ($100 times the maximum tax rate of 4.54%). On the other hand, a $100 credit reduces tax liability by the full $100. The first group of credits identified below is claimed on the front of the Arizona income tax return or, in the case of the property tax credit and the increased excise taxes paid credit, can be claimed on a separate form without filing an income tax return.

A.R.S. § 43-1072: The property tax credit program provides tax relief to the state's low-income elderly. Under this program, full-year residents age 65 or older with a household income of less than $5,500 are eligible for credits ranging from $56 to $502. The property tax credit is refundable, meaning that those eligible for the credit receive money even if they had no income tax liability.

A.R.S. § 43-1072.01: The credit for increased excise taxes paid is a refundable credit is allowed against income tax to mitigate the increase in transaction privilege tax rates for education. To qualify, claimants must have federal adjusted gross income of $25,000 or less for married filing jointly or $12,500 or less for single filers. The credit shall not exceed $25 for each person who is a resident and for whom a personal or dependent exemption is allowed, with a maximum credit of $100 per household.

A.R.S. § 43-1073: Single and married filing separately filers with a federal adjusted gross of $10,000 or less, and married filing jointly filers with a federal adjusted gross income of $31,000 or less may claim the family tax credit. The amount of the credit is set at $40 per person in the household and is capped at $240 for married filing jointly and unmarried head of household filers, and $120 for single and married filing separately filers.

A.R.S. § 16-954B: A credit is allowed for donations made directly to the Clean Elections Fund or a clean election donation made on the individual income tax return. The credit is not to exceed 20% of the tax liability or $610 for single filers ($1,220 for married filing jointly), whichever is greater. The maximum credit is adjusted biennially.

Other credits are filed on a separate schedule and claimed on one line on the front of the income tax return. In many instances, the credit claimed exceeds the tax liability on the return. With credits that are non-refundable, the unused portion of the credit is superfluous. (The excess, for most credits, can be carried forward to future years.) For this reason, in order to generate the true expenditure associated with credits, each credit claim must be reviewed.

A.R.S. § 43-1071: The majority of the credits claimed in terms of dollars and volume are for taxes paid to other states or countries.

A.R.S. § 43-1074: Enterprise zone credits are income tax credits provided for non-retail businesses located in an enterprise zone established under Arizona law who have a net increase in employment of qualified employees. A maximum of $500 per each net new employee can be claimed in the first or partial year of employment. In the second year of continuous employment, a maximum of $1000 per net new employee can be claimed. The limit in the third year of continuous employment is $1,500 per net new employee.

A.R.S. § 43-1074.01: The research and development tax credit is calculated based on calculations done for the federal research and development tax credit. The amount of the credit is based on the excess of the qualified research expenses for the taxable year over a base amount.

A.R.S. § 43-1074.02: The credit for investments made in a qualified small business is based on a percentage of the investment amount and depends on the location or type of the qualified small business. The amount of credit is determined and authorized by the Arizona Department of Commerce.

A.R.S. §§ 43-1075 and 43-1075.01: A nonrefundable, transferable credit is allowed for a motion picture production company that produces motion pictures completely or partially in Arizona and for the construction of an eligible infrastructure. The taxpayer must receive pre- and post-approval from the Arizona Department of Commerce.

A.R.S. § 43-1076: The recycling equipment credit was an income tax credit for businesses or individuals that acquire and place in service recycling equipment in the state. The credit is now repealed and only available to the extent that the taxpayer had unused carry forward from prior years.

A.R.S. § 43-1076: This statute now governs the credit for net increases in qualified employment positions by a qualified business that is certified by the Arizona Department of Commerce as a healthy forest enterprise. The credit amount per employee depends on the employee's year of employment (maximum credit is in the third year and is equal to the less of $1,500 or ½ of the taxable wage paid to the employee.

A.R.S. §§ 43-1077 and 43-1078: Defense contracting credits are provided to qualified defense contractors for net increases in full-time employment positions under the United States Department of Defense contracts and for net increases in private commercial full-time employment within Arizona by a qualified defense contractor. An income tax credit is also allowed equal to a portion of the amount paid as property taxes during the taxable year by a qualified defense contract on property that is classified as Class 3.

A.R.S. § 43-1079: The military reuse zone credit is a tax credit for net increases in employment by the taxpayer of full-time employees working in a military reuse zone who are primarily engaged in manufacturing, assembling or fabricating aviation or aerospace products. The amount of the credit is determined by a dollar amount allowed for net new employee positions other than dislocated military base employees and by a dollar amount allowed for net new dislocated military base employee positions.

A.R.S. § 43-1079.01: A credit is allowed to each taxpayer whose employee is a member of the Arizona national guard if the employee is placed on active duty. The amount of the credit is $1,000 for each employee placed on active duty.

A.R.S. § 43-1080: An income tax credit is provided for expenses incurred in constructing a qualified environmental technology manufacturing, producing or processing facility. The amount of the credit is 10% of the amount spent during the taxable year to construct the facility.

A.R.S. § 43-1081: The pollution control device credit is a tax credit for expenses incurred to purchase real or personal property that is used in Arizona in the taxpayer's trade or business to control or prevent pollution. The amount of the credit is the lesser of 10% of the purchase price or $500,000.

A.R.S. § 43-1081.01: A credit is allowed for expenses that a taxpayer (involved in the commercial production of livestock, livestock products or agricultural, horticultural, viticultural or floricultural crops or products) incurs to purchase tangible personal property that is primarily used in the taxpayer's trade or business in Arizona to control or prevent pollution.

A.R.S. § 43-1083: A solar energy credit is provided for an individual who installs a solar energy device in his or her residence in Arizona. The credit for buying or installing such a device is 25% of the cost, including installation, or $1,000, whichever is less.

A.R.S. § 43-1084: A credit is allowed for expenses incurred by a taxpayer to purchase and install an agricultural water conservation system. The agricultural water conservation system must be primarily designed to substantially conserve water on land that is used to produce agricultural products, raise, harvest or grow tress, or sustain livestock. The amount of the credit is 75% of the qualifying expenses.

A.R.S. § 43-1085: A credit is provided for installing one or more solar energy devices for commercial or industrial purposes in the taxpayer's trade or business. The credit is 10% of the installed cost of the device, not to exceed $25,000 per taxpayer per building or $50,000 total in a year. This credit must be approved by the Arizona Department of Commerce.

A.R.S. § 43-1086: An income tax credit is available if a taxpayer makes cash donations to the Arizona Department of Veteran's Services Military Family Relief Fund. There is a $1 million cap on donations.

A.R.S. § 43-1087: An income tax credit is allowed for net increases in qualified employment of recipients of temporary assistance for needy families who are Arizona residents. A maximum of $500 per each net new employee can be claimed in the first year of employment, $1,000 in the second year of employment and $1,500 in the third year.

A.R.S. § 43-1088: A credit is allowed for the amount of voluntary cash contributions to a charitable organization that spends at least 50% of its budget on services to Arizona residents who received TANF benefits or low-income Arizona residents (income of less than 150% of the federal poverty level). The credit amount is up to $400 for married filing jointly taxpayers and $200 for all other taxpayers.

A.R.S. § 43-1089: The private school tuition organization credit is allowed for cash contributions to a school tuition organizations up to $1,000 for married filing jointly filers and $500 for all other taxpayers.

A.R.S. § 43-1089.01: An income tax credit is allowed for the amount of fees paid to an Arizona public school for the support of extracurricular activities or character education. The credit is for up to $400 for married filing jointly taxpayers and $200 for all other taxpayers.

A.R.S. § 43-1089.02: The school site donation credit is for donation of real property and improvements to a school district or charter school for use as a school or a site for the construction of a school. The amount of the credit is 30% of the value of real property and improvements donated.

A.R.S. § 43-1090: A credit is allowed for costs incurred in installing an electric vehicle recharge outlet and for solar hot water plumbing stub outs in one or more houses in Arizona constructed by the taxpayer. The amount of the credit is equal to the lesser of $75 or the installation cost for each stub out or recharge outlet in each separate house or dwelling unit.

A.R.S. § 43-1090.01: A credit is allowed for installing a water conservation system in a taxpayer's Arizona residence. The amount of the credit is 25% of the cost of the system not to exceed $1,000 for the same residence.

TYPE OF CREDIT	# OF CLAIMANTS	2009 (MILLIONS)
Property tax credit	17,366	$6.61
Credit for increased excise taxes paid	664,675	35.93
Family tax credit	515,867	5.27
Clean elections credit	26,088	0.63
Credit for taxes paid to other states or countries	30,125	75.22
Enterprise zone credit	119	0.68
Credit for increased research activities	359	4.77
Investment in qualified small business credit	208	0.57
Motion picture production and infrastructure credit	8	0.10
Recycling equipment credit	0	0.00
Credit for employment by a healthy forest enterprise	0	0.00
Defense contracting credit	0	0.00
Military reuse zone credit	0	0.00
Employing National Guard members credit	NR[19]	NR

[19] Too few taxpayers have claimed this credit to allow for a release of the cost without violating confidentiality laws.

Environmental technology credit	3	0.00
Pollution control device credit	NR[20]	NR
Agricultural pollution control equipment credit	3	0.01
Solar energy device credit	8,530	5.07
Agricultural water conservation system credit	141	1.05
Commercial and industrial solar energy credit	81	0.33
Donations to the military family relief fund credit	3,185	1.00
Employment of TANF recipients credit	0	0
Contributions to charities providing assistance to the working poor credit	49,915	12.89
Private school tuition organization credit	73,430	50.88
Public school extracurricular activity credit	239,031	42.66
School site donation credit	30	0.08
Solar hot water heater plumbing stub outs and electric vehicle recharge outlet credit	16	0.00
Water conservation systems credit	218	0.10
TOTAL VALUE OF ALL CREDITS	**1,629,402**	**$243.85**

SUMMARY OF INDIVIDUAL INCOME TAX EXPENDITURES – TAX YEAR 2009

FEDERAL SUBTRACTIONS FROM INCOME:

Educator expense	$469,000
Certain business expenses of reservists, performing artists, etc.	256,000
Individual retirement account for qualifying individuals	4,025,000
Student loan interest deduction	3,320,000
Tuition and fees deduction	2,224,000
Health savings account deduction	1,844,000
Moving expenses	634,000
One-half of self-employment tax	9,016,000
Self-employed health insurance deduction	9,858,000
Self-employed SEP, SIMPLE deduction	9,470,000
Penalty on early withdrawal of savings	60,000
Alimony paid	6,686,000
Domestic production activities deduction	2,025,000
TOTAL VALUE OF FEDERAL SUBTRACTIONS	**$50,508,000**

[20] Too few taxpayers have claimed this credit to allow for a release of the cost without violating confidentiality laws.

EXEMPTIONS:

Personal exemption	$200,455,000
Preferential personal exemption for unmarried head of household	12,371,000
Preferential personal exemption for married filers with dependents	25,710,000
Age 65 or over exemption	18,828,000
Dependent exemption	88,045,000
Blind exemption	153,000
Qualifying parent or ancestor exemption	3,557,000
TOTAL VALUE OF EXEMPTIONS	**$327,924,000**

ARIZONA SUBTRACTIONS FROM INCOME:

Interest on U.S. obligations	$5,054,000
Exclusion for federal, Arizona or local pensions	8,155,000
Exempt Arizona state lottery winnings	298,000
Social Security or Railroad Retirement benefits included in Federal Adjusted Gross Income	93,292,000
Bonus depreciation adjustment	44,300,000
Certain wages of Native Americans	8,294,000
Income tax refunds from other states	773,000
Deposits and employee contributions into medical savings accounts	89,000
Constructing energy efficient residences	1,000
Active duty military pay	5,545,000
Other subtractions	15,484,000
TOTAL VALUE OF ARIZONA SUBTRACTIONS	**$183,907,000**

DEDUCTIONS:

Standard deduction	$203,726,000
Preferential standard deduction for unmarried head of household	20,189,000
Standard deduction inflation indexing over prior year	5,704,000
ITEMIZED DEDUCTIONS:	
Medical and dental expenses	118,533,000
Additional 7.5% medical allowed on Arizona return	76,498,000
Taxes paid deduction:	
State and local income taxes	114,159,000
Real estate taxes	59,383,000
Personal property and Other taxes	12,229,000
Total value of Taxes Paid Deduction	184,773,000
Interest expenses deduction:	
Home mortgage interest and points	268,740,000
Mortgage interest not on Form 1098	4,353,000
Points not on Form 1098	639,000

Qualified mortgage insurance premiums	$3,509,000
Investment interest	12,239,000
Total value of Interest Expenses Deduction	287,992,000
Charitable contributions deduction	
Cash contributions	65,888,000
Contributions other than cash	13,638,000
Charitable contribution carryover from prior year	3,894,000
Total value of Charitable Contributions Deduction	83,468,000
Casualty and theft losses	12,000
Limited miscellaneous deductions	42,697,000
Non limited miscellaneous deductions	17,017,000
Total Value of Itemized Deductions	
TOTAL VALUE OF STANDARD AND ITEMIZED DEDUCTIONS	**$1,002,820,000**

CREDITS:

Property tax credit	$6,606,000
Increased excise taxes paid credit	35,928,000
Family tax credit	5,270,000
Clean elections credit	633,000
Income taxes paid to other states or countries credit	75,216,000
Enterprise zone credit	677,000
Increased research activities credit	4,774,000
Investment in qualified small business credit	574,000
Motion picture production and infrastructure credit	99,000
Recycling equipment credit	0
Employment by a healthy forest enterprise credit	0
Defense contracting credit	0
Military reuse zone credit	0
Employing National Guard members credit	NR[21]
Environmental technology credit	2,000
Pollution control device credit	NR
Agricultural pollution control equipment credit	13,000
Solar energy device credit	5,068,000
Agricultural water conservation system credit	1,046,000
Commercial and industrial solar credit	325,000
Donations to the military family relief fund credit	998,000
Employment of TANF recipients credit	0
Contributions to charities providing assistance to the working poor credit	12,890,000
Private school tuition organization credit	50,879,000

[21] Too few taxpayers have claimed this credit to allow for a release of the cost without violating confidentiality laws.

Public school extracurricular activity credit	$42,657,000
School site donation credit	76,000
Solar hot water heater plumbing stub outs and electric vehicle recharge outlets credit	2,000
Water conservation systems credit	104,000
TOTAL VALUE OF CREDITS	**$243,846,000**

TOTAL QUANTIFIABLE INDIVIDUAL INCOME TAX EXPENDITURES[22]

$1,987,662,000

[22] This amount represents foregone revenue to the state general fund and to the urban revenue sharing fund which is distributed to incorporated cities and towns.

INSURANCE PREMIUM TAX EXPENDITURES[23] - FISCAL YEAR 2010/11

Each admitted insurer doing business in the state is required to annually report its total direct premium income to the Arizona Department of Insurance.

A.R.S. § 20-224: Total direct premium income excludes "...applicable cancellations, returned premiums, the amount of reduction in or refund of premiums allowed to industrial life policyholders for payment of premiums direct to an office of the insurer, all policy dividends, refunds, savings coupons and other similar returns paid or credited to policyholders within this state and not reapplied as premiums for new, additional or extended insurance." Direct premium income also excludes "considerations received on annuity contracts," as well as the "unabsorbed portion of any premium deposit." No information is available on the value of these exclusions from direct premium income because insurers are not required to report this information to the Department of Insurance. However, there is data available for "*considerations received on annuity contracts."* Insurance companies (excluding fraternal benefit societies) reported $4.26 billion in these considerations which, if taxed at a 2% rate, would have resulted in $85.3 million in revenues to the state in fiscal year 2010/11.

A.R.S. §§ 20-674(b), 20-692(b): Insurers subject to Guaranty Fund assessments may offset their premium tax liabilities "in the amount of 20% of the assessment for the year of assessment and 20% of the assessment in each of the succeeding four years." Because insurers have not been assessed by either of the Insurance Guaranty Funds for over five years, no credits emanating from Guaranty Fund assessments were available to offset calendar year 2010 premium tax liabilities (and thus, Fiscal Year 2010/11 tax revenues).

A.R.S. § 20-167(D): Domestic life and disability insurers that pay their certificate of authority renewal fees are eligible for credits against their insurance premium taxes. The sum of these credits reduced fiscal year 2010/11 premium tax revenues by $21,600.

ARS §§ 20-224.03, 20-224.04: Insurers are allowed credits to insurers that increase their employment of individuals who reside in enterprise zones if the insurers meet a series of requirements, and provide credits to insurers that have offices established in military reuse zones as established in Title 41, Chapter 10, Article 3 and that meet other requirements. Two insurers reported credits relating to calendar year 2010, totaling $99,900, which offset the insurers' insurance premium tax obligations. ARS § 20-224.03(H) prevents the enterprise zone credit from causing a foreign insurer to have to pay a corresponding increase in retaliatory taxes required under ARS § 20-230.

A.R.S. §§ 20-224.06, 20-224.07: A tax credit is allowed for insurers that make voluntary contributions to school tuition organizations and exclude the credits from the retaliation

[23] All information presented on the insurance premium tax was provided by the Arizona Department of Insurance.

calculation prescribed by ARS § 20-230, described later. During fiscal year 2010/11, insurers reduced their taxes by $1.18 million.

A.R.S. §§ 20-224.05, 43-210: A tax credit is allowed to an insurer that issues health insurance coverage to individuals and small businesses who are certified by the Department of Revenue as meeting prescribed qualifications. The Act requires the Department of Revenue to limit certifications such that the aggregate credits to which insurers will be entitled shall not exceed $5 million. An insurer is owed a tax refund or tax credit carry-forward for unused credit issued pursuant to the Act. In the aggregate, insurers reduced their calendar year 2010 tax liability by $3.7 million with health insurance coverage credits.

A.R.S. § 20-416: Surplus lines insurers do not remit ordinary premium tax. Instead, surplus lines brokers are responsible for remitting premium taxes collected from insureds when coverage is placed in the surplus lines market. The tax rate is 3% of gross premiums and fees less certain prescribed statutory reductions.

A.R.S. § 20-416: Surplus lines brokers are not required to collect and remit insurance premium tax on "...reinsurance, ocean marine and foreign trade insurance, insurance on subjects located, resident or to be performed wholly outside this state, insurance on vehicles or aircraft owned and principally garaged outside this state, or insurance on property or operations of railroads engaged in interstate commerce."

A.R.S. § 20-420(A): Surplus lines tax is not imposed on coverage provided to federally recognized Native American governments in accordance with Attorney General Opinion I95-13 (R95-11). Surplus lines tax is not imposed on coverage provided to the State of Arizona pursuant to ARS § 41-621(F), which exempts the Department of Administration from the provisions of Title 20, Chapter 2, Article 5 -- the Article that, in part, imposes the surplus lines tax. Excluding reinsurance and insurance on extra-state risks (which are excluded from taxation for admitted insurers), surplus line brokers reported $3.4 million in premiums exempted from calendar year 2010 premium tax. The tax on these premiums would have been $101,900 if they were taxed at the 3% rate at which non-exempt surplus lines premiums are taxed.

A.R.S. § 20-224(B): Insurers are required to pay a 2.2% tax on fire insurance premiums "... except that the tax on fire insurance premiums on property located in [qualified locations including] incorporated cities or towns that procure the services of private fire companies...." is 0.66%. The State Treasurer apportions eighty-five percent of fire insurance premium taxes to fire districts and municipalities for the retirement plans of firefighters [ARS §§ 20-224(C), 9-951, 9-952, 9-972]. The remaining 15% of fire insurance premium taxes are deposited with the General Fund (ARS § 20-227). In calendar year 2010, insurers wrote $2.5 million of taxable fire insurance premium for risks in *qualified* locations resulting in $16,400 in insurance premium tax paid during fiscal year 2010/11 for those risks. If risks in qualified locations were subject to the 2.2% tax rate applied to other fire insurance premiums, insurers would have paid $54,800 in fiscal year 2010/11, a difference of $38,400. The portion of the difference allocable to the

General Fund (15%) would have been $5,800 although for the purposes of this report, we suggest the tax expenditure is $38,400 (i.e. to include the amounts transferred for firefighter retirement plans). The effect of the tax rate difference may be mitigated by the retaliation calculation required by ARS § 20-230, described later.

Title 20, Chapter 4, Article 14: Arizona law does not impose a premium tax on captive insurers licensed. All other states that license captive insurers impose an insurance premium tax. The Director of Insurance has discretion over the license fees and renewal fees imposed upon captive insurers, and those fees are higher than the fees for other types of insurers licensed in Arizona and the fees captive insurers pay in some other states. Other states tax captive insurer premiums at lower tax rates than other types of insurer premiums but tax nationwide premiums (rather than just intra-state premiums). The other states tax insurance and reinsurance (rather than only insurance). Vermont was one of the first states to license captive insurers and it has the most captive insurers licensed of any state. In total, Arizona captive insurers reported $2.6 billion in premiums exempted from calendar year 2010 premium tax. If Arizona applied Vermont's captive insurance tax structure, Arizona would have collected $2.3 million in captive insurance premium tax. During fiscal year 2010/11. The Department collected $500,000 in license renewal fees from captive insurers. If Arizona replaced its $5,500 captive insurer renewal fee with Vermont's $500 captive insurer renewal fee and adopted Vermont's captive insurance premium tax structure, Arizona would have collected an additional $1.8 million.

A.R.S. § 20-837: The premium tax for non-profit hospital, medical, dental and optometric service corporations does not apply to "any coverage concerning which the corporation's relationship is as administrative or fiscal agent for national, state or municipal government or any political subdivision body thereof and such tax shall not apply with respect to any premiums received from funds of national, state or municipal government or any political subdivision or body thereof.". The total of exempted net premiums in calendar year 2010 was $144.7 million and if the State were able to apply the 2% tax rate, the State would have collected $2.9 million in additional premium taxes in fiscal year 2010/11.

42 U.S.C. § 1395w-24(g): "The Medicare Prescription Drug Improvement and Modernization Act of 2003" prohibits states from taxing Medicare Advantage premiums. In calendar year 2010, insurers reported a total of $3.34 billion subject to this preemption. If those premiums were subject to the Arizona 2% tax rate, the state would have collected $66.8 million in fiscal year 2010/11.

5 U.S.C. §§ 8714 and 8909(f): Life and health insurance premiums paid by the Federal Employee Health Benefits Fund are exempt from taxation by the states. In calendar year 2010, the FEHB Fund paid $540.9 million to provide life and health coverage for Federal employees in Arizona. If Arizona were able to tax those premiums at a 2% rate, the state would have collected $11.8 million in fiscal year 2010/11

7 U.S.C. § 1511: Premiums for farm owners' multiperil coverage reinsured by the Federal Crop Insurance Corporation are exempt from state insurance premium taxation. In calendar year 2010, insurers collected $14.9 million in premiums reinsured by the FCIC which, if taxed at a 2% rate, would have resulted in an additional $297,500 being collected in fiscal year 2010/11.

ARS § 20-2304(J): Small group health insurance policies written by accountable health plans from insurance premium tax are exempt. During Calendar Year 2010, insurers received $590.7 million in premiums for health benefits plans issued to small employers by accountable health plans. Had the tax rate on these premiums remained at 2%, an additional $11.8 million would have been deposited to the General Fund in fiscal year 2010/11.

ARS § 20-883: Fraternal benefit societies qualified under ARS § 20-893 are exempted from insurance premium taxes (and from other state, county, district, municipal and school taxes). Fraternal benefit society premiums exempted from tax totaled $146.8 million for calendar year 2010. Had these premiums been subject to a 2% tax rate, the State would have collected $2.9 million more in fiscal year 2010/11.

ARS § 20-230: The Department of Insurance is required to impose on foreign and alien insurers the same taxes, fees, fines, penalties, licenses, deposit and other obligations that the laws of their domicile impose on Arizona insurers doing business in their state or country. Because the amount of retaliatory tax that foreign and alien insurers pay relies on the tax rates, fees, assessments, credits, etc. in the insurers' states of domicile, no method exists to calculate the exact effect Arizona would realize if the foregoing qualifications and exemptions of insurance premium taxes were not in place. Additionally, retaliation is extremely difficult to calculate because of differences in the ways that states tax each type of insurers or each class of insurance, and the variety of additional fees, credits and other obligations that apply to insurers in each state. Therefore, the tax expenditure estimates exclude the possible consequential effects on the retaliation calculation. It is fair to say, however, that retaliation revenues could fall if Arizona imposed additional taxes or fees, or eliminated tax credits that were part of the retaliation calculation.

SUMMARY OF INSURANCE PREMIUM TAX EXPENDITURES – FISCAL YEAR 2010/11

SUBTRACTIONS FROM TOTAL PREMIUM INCOME:

Applicable cancellations	NIA[24]
Returned premiums	NIA
Reduction or refund for direct payment of industrial life insurance	NIA
Policy dividends	NIA

[24] No Information Available

Refunds	NIA[25]
Savings coupons	NIA
Other similar returns paid or credited to policyholders not reapplied as premiums	NIA
Considerations received on annuity contracts (excludes tax expenditures relating to considerations received by fraternal benefit societies)	$85,286,949
Unabsorbed portion of any premium debt	NIA
TOTAL VALUE OF SUBTRACTIONS	**$85,286,949**

AVAILABLE TAX CREDITS:

Insurance guaranty fund assessment tax credit	$0
Domestic life and disability insurer tax credit	21,565
Enterprise zone and military reuse zone tax credits	98,977
School tuition organization contributions credits	1,177,313
Health insurance certificates for qualified persons	3,718,004
TOTAL VALUE OF CREDITS	**$5,015,859**

EXEMPTIONS FOR SURPLUS LINE INSURANCE:

Ocean marine and foreign trade insurance	NIA
Insurance on property or operations of railroads engaged in interstate commerce	NIA
Insurance on federally reorganized Native American governments	NIA
Insurance on the State of Arizona	NIA
TOTAL VALUE OF SURPLUS LINE INSURANCE EXEMPTIONS	**$101,897**

PREFERENTIAL RATE ON QUALIFIED FIRE INSURANCE:

Preferential rate	$38,368

ABSENCE OF CAPTIVE INSURANCE PREMIUM TAX

Absence of tax	$1,767,252

GOVERNMENT PROGRAM EXEMPTIONS:

Hospital, medical, dental and optometric service corporation premiums paid by federal, state and municipal governments	$2,893,744
Medicare Advantage Plan premiums	66,833,968
Life and health insurance premiums paid by the Federal Employee Health Benefits Fund	10,818,465
Premiums for coverage reinsured by the Federal Crop Insurance Corporation	297,522

[25] No Information Available

Accountable health plan group health insurance to small employers	11,813,572
Exempt fraternal benefit societies	2,935,415
TOTAL VALUE OF GOVERNMENT PROGRAM EXEMPTIONS	**$95,592,687**

TOTAL QUANTIFIABLE INSURANCE PREMIUM TAX EXPENDITURES[26]

$187,803,012

[26] This amount represents foregone revenue to the state general fund.

JET FUEL EXCISE AND USE TAX EXPENDITURES – FISCAL YEAR 2010/11

Arizona imposes a tax of 3.05¢ per gallon on the first ten million gallons of jet fuel sold. Jet fuel is defined as being expressly manufactured and blended for operating jet or turbine powered aircraft. The jet fuel use tax rate is also a 3.05¢ per gallon and is levied on the first ten million gallons of jet fuel stored, used or consumed. The use tax applies to purchasers who originally purchased jet fuel for resale but instead used or consumed the jet fuel and on which excise tax has not been paid. The excise tax does not apply to the sale or use of jet fuel that has already been taxed by another state unless the tax imposed by another state is less than Arizona's tax rate. The difference between Arizona's rate and the rate of the other state is what will be levied and collected.

PREFERENTIAL JET FUEL TAX RATES

Amounts of jet fuel sold over ten million gallons are not subject to the excise or use tax. Fiscal year 1993/94 was the last year that amounts over ten million gallons were taxed. In that year, 179,413,000 gallons were taxed at the over ten million gallon tax rate of 1.05¢ per gallon. Using the same growth rate that has been experienced with jet fuel of less than ten million gallons, an additional $7.9 million could have been generated in fiscal year 2010/11 if sales of jet fuel over ten million gallons were taxed at 3.05¢ per gallon.

JET FUEL TAX EXEMPTIONS

A.R.S. § 42-5354: Jet fuel sold to commercial airlines and used on flights that originate in Arizona and whose first outbound destination is outside of the United States is exempt from the jet fuel excise tax. Information is not available on this tax exemption.

SUMMARY OF JET FUEL EXCISE AND USE TAX EXPENDITURES – FISCAL YEAR 2010/11

PREFERENTIAL TAX RATES:

Jet fuel over 10 million gallons	$7,895,136

JET FUEL EXEMPTIONS

International flights which originated within the state	NIA[27]

TOTAL QUANTIFIABLE JET FUEL EXCISE AND USE TAX EXPENDITURES[28]

$7,895,136

[27] No Information Available
[28] This amount represents foregone revenue to the state general fund, counties and incorporate cities and towns.

LUXURY TAX EXPENDITURES – FISCAL YEAR 2010/11

Luxury tax collected by the Arizona Department of Revenue totaled $437.0 million for fiscal year 2010/11. Luxury tax revenues go to the state general fund, the Tobacco Tax and Health Care Fund, the Tobacco Products Tax Fund, the Drug Treatment and Education Fund, the Department of Corrections, Smoke Free AZ and the Early Childhood Development and Health Fund.

ALCOHOL TAXED AT A PREFERENTIAL RATE

Current Arizona law (A.R.S. §42-3052) provides for liquor to be taxed at four different rates: (1) spirituous liquor at the rate of $3.00 per gallon; (2) on each container of vinous liquor, except cider, of which the alcoholic content is not greater than 24% by volume, at the rate of $0.84 per gallon (3) on each container of vinous liquor of which the alcoholic content is greater than 24% by volume[29], containing eight ounces or less, $0.25; and (4) on each gallon of malt liquor or cider, $0.16. This is a preferential rate structure because different tax rates are imposed on similar taxpayers based on criteria set in statute.

The impact of taxing all alcohol at the same rate is possible but unrealistic. If a uniform rate were imposed, it is probable that the uniform rate would be an effective tax rate among all types of alcohol. Given that legislative action cannot be predicted, we will point out the preferential tax rate structure in law but will not attempt to attach a revenue impact.

EXEMPTIONS FOR TOBACCO PRODUCTS

Several exemptions from luxury tax on tobacco products are allowed.

A.R.S. § 42-3052.06: Tobacco powder or tobacco products used exclusively for agricultural or horticultural purposes and unfit for human consumption are exempt from taxation. Since this is exempt from taxation, the Arizona Department of Revenue does not require this figure to be reported. Therefore, no tax value of this tax expenditure is available.

A.R.S. §42-3206: Discounts on cigarette stamps are allowed. The luxury tax on cigarettes is in the form of a stamp affixed to the cigarette package, which is obtained from the Department of Revenue at the following rates:

- 96% of face value of stamp for first $36,000 worth of stamps.
- 97% of face value of stamp for second $36,000 worth of stamps.
- 98% of face value of stamp for additional stamps up to $165,000 in any month by a distributor. In addition, if the distributor purchases more than $165,000 worth of

[29]The department has received no tax collections for this liquor type.

stamps, then the effective rate for all stamps purchased, including the first $72,000, will be 98% of face value.

If all stamps were purchased at face value, revenue would have increased by $6.9 million in fiscal year 2010/11.

A.R.S. §§ 42-3209 (A) and 42-3008 (A)(2): A distributor may return *unused* tobacco product stamps for a refund. Luxury tax is also refunded if the cigarettes become unfit for sale due to breakage or spoilage. Most often, staleness is the reason for refund. If the state considered this to be a hazard of doing business and disallowed such refunds, an additional $12.3 million in fiscal year 2010/11 in luxury revenues would have resulted.

A.R.S. § 42-3008A: If proof is provided that cigarettes for which the stamps were purchased were exported from the state, luxury tax may be refunded. No information is available on the value of this exemption.

EXEMPTIONS FOR LIQUOR

A.R.S. §§ 42-3001.10A, 3001.13 and 3001.14C: Liquids containing less than 1/2% alcohol by volume are exempt from luxury tax. Since reporting is not required by this group of taxpayers, there is no available information on potential luxury tax collections.

A.R.S. §§ 42-3001.10B, 3001.13 and 3001.14C: Taxable liquors do not include medicines that are unsuitable for beverage purposes. No information is available on medicine, which includes liquor and is unsuitable for beverage purposes.

A.R.S. §42-3008A: Luxury tax is refunded if (1) proof is provided that the liquor for which the stamps were purchased was exported from the state and (2) if the liquor becomes unfit for sale due to breakage or spoilage. No information is available on liquor for which stamps were purchased and were then exported from the state. Liquor unfit for sale due to breakage or spoilage includes beer or wine which has exceeded its shelf life of three to six months and containers damaged in such a way that the product's quality is uncertain. Documents reporting destruction under this provision indicated $142,246 in tax revenue lost in fiscal year 2010/11.

SUMMARY OF JET LUXURY TAX EXPENDITURES – FISCAL YEAR 2010/11

PREFERENTIAL TAX RATES:

Preferential rates on alcohol	NIA[30]

TOBACCO PRODUCT EXEMPTIONS AND REFUNDS:

Tobacco powder or products used exclusively for agricultural or horticultural purposes and unfit for human consumption	NIA
Discounts	$6,893,181

[30] No Information Available.

Breakage or spoilage	12,281,134
Exported from state after cigarette stamps purchased	NIA[31]
TOTAL VALUE OF TOBACCO PRODUCT EXEMPTIONS AND REFUNDS	**$19,174,315**

LIQUOR EXEMPTIONS AND REFUNDS:

Liquids containing less than ½% alcohol by volume	NIA
Liquor contained in medicines, unsuitable for beverage purposes	NIA
Liquor exported from state after stamps were purchased.	NIA
Breakage or spoilage refunds	$142,246
TOTAL VALUE OF TOBACCO PRODUCT EXEMPTIONS AND REFUNDS	**$142,246**

TOTAL QUANTIFIABLE LUXURY TAX EXPENDITURES[32] $19,316,561

[31] No Information Available.

[32] This amount represents foregone revenue to the state general fund, various Department of Corrections funds, the Tobacco Tax and Health Care Fund, the Tobacco Products Tax Fund, the Drug Treatment and Education Fund, Smoke Free AZ and the Early Childhood Development and Health Fund.

MOTOR CARRIER FEE TAX EXPENDITURES[33] – FISCAL YEAR 2010/11

Motor carriers are responsible for the following fees: motor carrier fee, commercial registration fee, gross weight fee, highway use fee, title fee and registration fee. Receipts from these fees go into the Highway User Revenue Fund and are distributed to the Department of Public Safety, Economic Strength Fund, state highway fund, counties and incorporated cities and towns. The basic motor carrier fee is set at amounts ranging from $64 to $800. The fees are flat amounts based on gross vehicle weight. The vehicle weight for this schedule ranges from 12,001 pounds to 80,000 pounds. During fiscal year 2010/11, Arizona-based carriers paid $16.9 million in motor carrier fees.

PREFERENTIAL VEHICLE FEE RATES

A.R.S. § 28-5493(A): Lightweight motor vehicles with a declared gross weight of 12,000 or fewer pounds pay a flat rate of $64 per vehicle. Persons who pay the light motor vehicle fee are exempt from any transaction privilege tax or any similar tax imposed by any taxing authority in this state on transactions involving transporting for hire persons, freight or property. The value of this expenditure is currently unavailable.

A.R.S. § 28-5855: A reduced motor carrier fee of 7/10 of the full rate is applied against motor vehicles that pre-qualified for the reduced motor carrier fee with the department and travel under the following conditions: 45% or more of the mileage reported is either (1) without a load; (2) with equipment which makes a motor vehicle ready for the road, (3) with restraining equipment which makes the load safe, (4) with equipment normally carried with the motor vehicle and used for load or unloading, (5) with empty containers and boxes being returned to the point of shipment, or (6) with commodities or goods being returned to the point of shipment as a result of damage, spoilage, misfills, consignee rejections, or consignee returns. The value of this expenditure is unavailable.

A.R.S. § 28-5856: A reduced motor carrier fee of 7/10 of the full rate is applied against motor vehicles weighing 26,000 pounds or more. To qualify, the vehicle must begin and end its trip at the same point without adding to its load any items other than those listed in the previous paragraph and at the midway point of a qualifying trip, the load is less than 45% of the full load capacity of the vehicle. The tax value of this information is not available.

A.R.S. § 58-5857: A reduced motor carrier fee of 7/10 of the full rate applies to motor vehicles or lightweight motor vehicles if the vehicle is used only for transporting agricultural products. Agricultural products are crops, livestock, machinery or supplies used or produced in farming operations or products, crops or livestock in their unmanufactured or unprocessed states. The value of this expenditure is unavailable.

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[33] Figures presented for Motor Carrier Fee Tax Expenditures were provided by the Arizona Department of Transportation.

EXEMPT VEHICLES

A.R.S. § 28-5853: The following vehicles are exempt from the motor carrier fee:

- School bus
- A motor vehicle used in the production of (a) motion pictures, including films to be shown in theaters and on television, (b) industrial, training and educational films, (c) commercials for television, (d) video discs, and (e) videotapes.
- Alternate vehicles when the vehicle is propelled by an alternate fuel and is a school bus or a motor vehicle used in the production of the items listed above.
- Church vehicles when used in religious associations or institutions.
- Leased school bus.
- Non-profit school vehicles not used or held for profit.

No information is available on the impact of these exemptions.

A.R.S. § 28-5432(C): The following motor vehicles are exempt from the Commercial Registration Fee as a result of the weight fee exemption established for certain circumstances:

- Religious vehicles operated by non-profit religious institutions and used exclusively for the transportation of property produced and distributed for charitable purposes.
- Non-profit school vehicles if used exclusively for transportation of pupils in connection with school curriculum, training of pupils or transportation of property for charitable purposes without compensation.
- Non-profit organization vehicles which can present a form approved by the director of the division of emergency management.
- Vehicles owned and operated by a foreign government, a consul or any other official representative of a foreign government, by the United States, by a state or political subdivision of a state or by an Indian tribal government.
- A motor vehicle that is privately owned and operated exclusively as a school bus pursuant to a contract with a school district.

No information is available on the impact of these exemptions.

GROSS WEIGHT FEE

The gross weight fee is set at amounts ranging from $7.50 to $918, dependent upon vehicle weight. The vehicle weight for this schedule ranges from up to 8,000 pounds to 80,000 pounds. Vehicles in excess of 80,000 pounds are subject to special permits. Total gross weight fee collections for Arizona-based vehicles during fiscal year 2010/11 was not available. A $4 commercial registration fee is added to the gross weight fee for each registered vehicle. Commercial registration fees collected for Arizona-based vehicles during fiscal year 2010/11 are also not available.

A.R.S. § 28-5436: If a motor vehicle is used for seasonal agricultural work, the annual fee will be reduced by 1/12th for each month the vehicle is not in use. The reduced fee is for a period of at least 90 days but less than a full year. The value of this expenditure is currently unavailable.

A.R.S. § 28-5432: If a privately owned school bus is temporarily operated for purposes other than providing transportation of children to and from school, the owner must pay 1/10th of the annual gross weight fee. The value of this expenditure is currently unavailable.

A.R.S. § 28-5432(C): The following motor vehicles, trailers and semitrailers are exempt from the gross weight fee:

- Motor vehicles, trailers or semitrailers owned and operated by non-profit religious institutions and used exclusively for the transportation of property produced and distributed for charitable purposes.
- Motor vehicles, trailers or semitrailers owned and operated by non-profit schools which are recognized as being tax exempt by the federal or state government if used exclusively for transportation of pupils in connection with school curriculum, training of pupils or transportation of property for charitable purposes without compensation.
- Motor vehicles, trailers and semitrailers owned by a non-profit organization which can present a form approved by the director of the division of emergency management.
- A vehicle owned and operated by a foreign government, a consul or any other official representative of a foreign government, by the United States, by a state or political subdivision of a state or by an Indian tribal government.
- A motor vehicle that is privately owned and operated exclusively as a school bus pursuant to a contract with a school district.

No information is available on the impact of these exemptions.

HIGHWAY USE FEES

The highway use fee is set at amounts ranging from $50 to $2,217, depending upon vehicle weight and age. Vehicle weight for this schedule ranges from 0 to 80,000 pounds. Highway use fees collected for Arizona-based vehicles totaled $5.0 million during fiscal year 2010/11. Vehicles in excess of 80,000 pounds are subject to special permits.

A.R.S. § 28-5471: If the model year of the vehicle is 1978 or older, the use fee schedule is lower, ranging from $50 to $1,095. The value of this expenditure is unknown.

Due to reporting practices, the Department of Transportation is unable to split out foreign based motor carrier fee collections. However, the total amount received from both of these carriers in fiscal year 2010/11 was $88.7 million. This amount includes registration fees, motor carrier fees, gross weight fees and highway use fees prorated for miles driven in Arizona. The values of these expenditures are also unavailable.

A.R.S. § 28-5473(D): A farm vehicle that is issued a farm vehicle license plate is exempt from highway use fees. No information is available on this tax exemption.

SUMMARY OF MOTOR CARRIER FEE TAX EXPENDITURES – FISCAL YEAR 2010/11

MOTOR CARRIER PREFERENTIAL FEES:

Same motor carrier fees for all Arizona-based vehicles	NIA[34]
Reduced motor carrier fee for lighter loads	NIA
Reduced motor carrier fee for trips starting and ending at the same point with a lighter load midway	NIA
Reduced motor carrier fee for agricultural loads	NIA
Commercial Registration Fee	NIA
TOTAL VALUE OF MOTOR CARRIER PREFERENTIAL FEES	**NIA**

GROSS WEIGHT PREFERENTIAL FEES:

Same gross weight fees for all Arizona-based vehicles	NIA
Reduced gross weight fee for seasonal agricultural vehicles	NIA
Reduced gross weight fee for privately owned school buses	NIA
TOTAL VALUE OF GROSS WEIGHT PREFERENTIAL FEES	**NIA**

HIGHWAY USE PREFERENTIAL FEES:

Same use fees for all Arizona-based vehicles	NIA

VEHICLE FEE EXEMPTIONS:

Motor carriers owned by religious institutions and used for charitable purposes	NIA
Motor carriers owned by nonprofit schools	NIA
Motor carriers owned by non-profit organizations with a division of emergency maintenance form	NIA
Motor carriers owned by governments	NIA

[34] No Information Available.

Farm vehicles	NIA[35]
TOTAL VALUE OF VEHICLE FEE EXEMPTIONS	**NIA**

TOTAL QUANTIFIABLE MOTOR CARRIER FEE EXPENDITURES[36] **NIA**

[35] No Information Available.

[36] This amount represents foregone revenue to the state highway fund, counties and incorporated cities and towns.

MOTOR VEHICLE FUEL TAX EXPENDITURES[37] – FISCAL YEAR 2010/11

There is a tax of 18¢ per gallon on each gallon of motor vehicle fuel possessed, refined, manufactured, produced, blended or compounded by the supplier or imported by the supplier, whether in the original package or container in which it was imported or otherwise. All suppliers are required to pay tax on all fuel received.

During fiscal year 2010/11, motor vehicle fuel tax collected from licensed suppliers was $470.3 million. The proceeds of this tax go into the Highway User Revenue Fund, the off-highway vehicle recreation fund and the state lake improvement fund. The Highway User Revenue Fund revenues are distributed to the Department of Public Safety, Economic Strength Fund, state highway fund, counties and incorporate cities and towns.

EXEMPTIONS FROM THE MOTOR VEHICLE FUEL TAX

In order to qualify for an exemption, the taxpayer must file for a refund.

A.R.S. § 28-5610 (A)(1) and (2): Motor vehicle fuel purchased in Arizona, for which proof of export is available and either exported by a supplier or sold by a supplier to a distributor for immediate export is exempt from motor vehicle fuel tax. Requests for refunds against import liability in the amount of $4,899,978 were received in fiscal year 2010/11.

A.R.S. § 28-5610 (A)(3): Motor vehicle fuel that is sold within an Indian Reservation to an enrolled member of the Indian tribe is excluded from taxation. The total amount refunded for this provision during fiscal year 2010/11 was $1,062,380.

A.R.S. § 28-5610(A)(4): Motor vehicle fuel used solely and exclusively as fuel to operate a motor vehicle on highways in this state if the motor vehicle is leased to or owned by and is being operated for the sole benefit of an Indian tribe for governmental purposes only.

A.R.S. § 28-5611 (A)(4): Anyone who purchases motor vehicle fuel and loses such fuel due to fire, theft or other accident may request a refund for the tax paid on this fuel. No refunds of this type were requested for fiscal year 2010/11.

A.R.S. § 28-5610 (A)(5): Motor vehicle fuel moving in interstate or foreign commerce, not destined or diverted to a point within this state is exempt from the motor vehicle fuel tax. No information is available on this tax expenditure.

A.R.S. § 28-5610 (A)(6): Motor vehicle fuel sold to the United States or an instrumentality or agency of the United States is exempt from the motor vehicle fuel tax. During fiscal year 2010/11, $1,271,363 was refunded for this exemption.

A.R.S. § 28-5611 (A): A person who purchases and uses motor vehicle fuel other than in motor vehicles upon the highways of Arizona, and other than in watercraft upon the waterways in

[37] All information presented for Motor Vehicle Fuel Tax Expenditures was provided by the Arizona Department of Transportation.

Arizona, and other than in motor vehicles operating on a transportation facility or toll road shall be repaid the motor vehicle fuel tax paid. In fiscal year 2010/11, $193,607 in motor vehicle fuel tax was refunded based on this exemption.

SUMMARY OF MOTOR VEHICLE FUEL TAX EXPENDITURES – FISCAL YEAR 2010/11

MOTOR VEHICLE FUEL TAX EXEMPTIONS:

Motor vehicle fuel purchased for export	$4,899,978
Motor vehicle fuel sold to Native Americans on reservations	1,062,380
Motor vehicle fuel for motor vehicles leased to or owned by and operated for the sole benefit of a Native American tribe for governmental purposes	NIA[38]
Motor vehicle fuel lost due to fire, theft or other accident	0
Motor vehicle fuel moving in interstate or foreign commerce	NIA
Motor vehicle fuel sold to the United States or an instrumentality or agency of the United State	1,271,363
Motor vehicle fuel used other than in motor vehicles, watercraft and motor vehicles operating on a transportation facility or toll road	193,607
TOTAL VALUE OF MOTOR VEHICLE FUEL TAX EXPENDITURES	**$7,427,328**

TOTAL QUANTIFIABLE MOTOR VEHICLE FUEL TAX EXPENDITURES[39] $7,427,328

[38] No Information Available.

[39] This amount represents foregone revenue to the state highway fund, the off-highway vehicle recreation fund, the state lake improvement fund, counties and incorporated cities and towns.

PARI-MUTUEL TAX EXPENDITURES[40] – FISCAL YEAR 2010/11

HORSE OR HARNESS RACING PREFERENTIAL RATES

A.R.S. § 5-111 (D): For horse or harness races, the state receives 2% of the gross amount of the first $1 million wagered on live races in pari-mutuel pools and 5% of the gross amount exceed $1 million. If the state received 5%of all dollars wagered in horse or harness live races, the state would have received an additional $528,963 in fiscal year 2010/11.

PARI-MUTUEL TAX EXEMPTIONS

A.R.S. § 5-111 (D): Moneys handled in a pari-mutuel pool for wagering on simulcasts of out-of-state horse or harness races are exempt from tax. The state share of the pari-mutuel tax was reduced by $3.2 million in fiscal year 2010/11 due to this exemption.

A.R.S. § 5-111 (E): Any county fair racing association may have one race meeting each year. All such racing meetings are exempt from the state tax on horse or harness live racing. If county fair racing meetings were not exempt from the tax, the state would have received an additional $91,317 in pari-mutuel revenues during fiscal year 2010/11.

A.R.S. § 5-111 (F): Moneys from charity racing days are exempt from state tax. Taxation of these events would have raised an additional $8,203 in pari-mutuel revenues during fiscal year 2010/11.

A.R.S. § 5-111.03.A: The percentage paid to the state for greyhound racing and for horse or harness racing shall be reduced by 1% of the total amount wagered in counties with a population of 5000,000 or more and by 2% in all other counties for those permittees who make capital improvements to existing race tracks. The state share of the pari-mutuel tax was reduced by $32,506 due to this reduction in the percentage during fiscal year 2010/11.

A.R.S. § 5-111.I: The percentage decrease in pari-mutuel wagering between the base year and the previous fiscal year determines a permittee's eligibility for a hardship tax credit. The state share of the pari-mutuel tax for greyhound racing and for horse or harness racing was reduced by the amount equal to the amount of the hardship tax credit. The state share of the pari-mutuel tax was reduced by $472,604 in hardship tax credits in fiscal year 2010/11.

SUMMARY OF PARI-MUTUEL TAX EXPENDITURES – FISCAL YEAR 2010/11

HORSE OR HARNESS RACING PREFERENTIAL TAX RATES:

Preferential rates on horse or harness racing	$528,963

[40] All information presented for Pari-Mutuel Tax Expenditures was provided by the Arizona Department of Racing.

PARI-MUTUEL TAX EXEMPTIONS:

Reduction in pari-mutuel tax on simulcast out-of-state races	$3,232,712
County fair racing association meetings	97,317
Charity racing days	8,203
Reduction in pari-mutuel tax for capital improvements to race tracks	32,506
Reduction in pari-mutuel tax for hardship tax credit	472,604
TOTAL VALUE OF PARI-MUTUEL TAX EXEMPTIONS	**$3,843,342**

TOTAL QUANTIFIABLE PARI-MUTUEL TAX EXPENDITURES[41] $4,372,304

[41] This amount represents foregone revenue to the breeders award fund, the county fairs' racing betterment fund, the county fairs' livestock agriculture promotion fund, the coliseum and exposition center fund, the county fair racing fund, the administration of county fair racing betterment retirement fund, the stallion award fund, the greyhound adoption fund, the agriculture consulting and training fund and the state general fund.

PRIVATE CAR PROPERTY TAX EXPENDITURES – FISCAL YEAR 2010/11

Businesses which operate, furnish or lease railroad cars to be used for transporting or accommodating persons or freight over railroad lines not owned, leased or operated by the business are subject to a private car property tax in Arizona. The taxable value, or net assessed value, of the private car property is determined by multiplying the full cash value of the property by an assessment ratio. The tax rate that is applied to the net assessed value is equal to the average primary and secondary property tax rates in the taxing districts of the state, which was $9.67 in 2010.

A.R.S. § 42-14308: Arizona statutes set out the assessment ratios to be used in determining the net assessed values of the various classes of property. These assessment ratios range from 22% to 5%. For private car property, the assessment ratio is equal to the ratio which the total net assessed valuation of all taxable property in class 1, class 6 paragraph 3 and personal property in class 2 bears to the total full cash value of such property. For tax year 2010, the assessment ratio used for private car property was 17%. This is considered to be a preferential assessment ratio because it is an average of the assessment ratios in several other classes of property. If private car property had an assessment ratio equal to the highest assessment ratio imposed, 21%, tax collections would have increased by $301,413.

SUMMARY OF PRIVATE CAR PROPERTY TAX EXPENDITURES – FISCAL YEAR 2010/11

PREFERENTIAL ASSESSMENT RATIO:

Preferential assessment ratio for private cars at 22%	$301,413

TOTAL QUANTIFIABLE PRIVATE CAR PROPERTY TAX EXPENDITURES[42] $301,413

[42] This amount represents foregone revenue to the state general fund.

PROPERTY TAX EXPENDITURES – FISCAL YEAR 2010/11

The property tax system in Arizona has many components. These components are intertwined, making it difficult to address the impact of tax expenditures on one component in isolation. The state no longer levies a property tax per $100 of net assessed value on primary values, so state revenues are affected by exemptions from property tax in three ways.

First, basic state aid, or a basic level of funding for education per student statewide, is provided through the state, the county and school districts. The school district's responsibility is determined by multiplying a uniform tax rate by assessed valuation. If this amount is less than the basic level of funding, additional revenues are received from the state, funded by the education equalization rate which is currently set at zero. If education equalization revenues cannot bring the school district to its basic level of funding, the state provides the balance of the basic state aid. Therefore, exemptions reduce the property tax base, which may increase the state's portion of basic state aid funding.

The second method concerns the taxation of homeowner property. Frequently, if a political subdivision sees a decline in property values, the tax rate imposed by that subdivision increases so that a consistent revenue stream is provided from the property tax. The same is true if the political subdivision sees its taxable base decrease through exemptions from the property tax. Through a program called additional state aid (commonly known as homeowner's rebate), the state pays 40% of a homeowner's school district tax bill, up to $600. If a homeowner's school taxes increase due to higher tax rates, the state will be required to pay a larger amount of money.

Finally, the state pays that part of a homeowner's primary tax bill that exceeds 1% of the limited property value. Higher tax rates could mean a larger state payment.

Although the state education equalization property tax rate per $100 of net assessed value is now set at $0, exemptions filter through to the tax base at the local level, and therefore, as mentioned earlier in this section, these exemptions do affect state revenues.

PROPERTY TAX EXEMPTIONS

Article IX of the Arizona Constitution exempts:

- property owned by widows and widowers subject to limitations.
- property owned by disabled persons, subject to limitations.
- all federal, state, county and municipal property.
- property of educational, charitable and religious associations or institutions not used or held for profit.
- household goods owned by the user and used solely for noncommercial purposes.
- stocks of raw or finished materials, unassembled parts, work in process or finished products constituting the inventory of a retailer or wholesaler located within the state and

principally engaged in the resale of such materials, parts or products, whether or not for resale to the ultimate consumer.

There are also exemptions from property taxation that are listed in the Arizona Revised Statutes.

A.R.S. § 42-11104 (A): Libraries, colleges, school buildings and other buildings used for education, with furniture, libraries and equipment, and the lands appurtenant to and used with such buildings, as long as they are used for the purpose of education and not used or held for profit.

A.R.S. § 42-11104 (B): Property and buildings leased from a school district or a community college district pursuant to a lease or lease-purchase agreement.

A.R.S. § 42-11104 (C): Property and buildings, including land, improvements, furniture and equipment, owned by a nonprofit organization recognized under section 501(c)(3) of the IRC and that operates as a charter school pursuant to section 15-183.

A.R.S. § 42-11105 (A): Hospitals for relief of the indigent or afflicted, appurtenant land and their fixtures and equipment to such buildings, as long as they are not used or held for profit.

A.R.S. § 42-11105 (B): Property used for operation of a health care institution which provides medical, nursing or health-related services to handicapped persons or persons 62 years of age or older and which is not used or held for profit.

A.R.S. § 42-11105 (C): Property used for qualifying community health care centers which is not used or held for profit.

A.R.S. § 42-11105 (D): Property owned by a health care provider, recognized under section 501(c)(3) of the IRC and organized as a nonprofit corporation if the property is used to provide health care services and not used or held for profit.

A.R.S. § 42-11106 (1): Property used for the operation of a residential apartment housing facility which is not used or held for profit, is structured for handicapped persons or persons 62 years of age or older, located adjacent to a property exempted from taxation and which is owned and operated by the same persons or associations as such other adjacent property.

A.R.S. § 42-11106 (2): Property used for the operation of a residential apartment housing facility which is not used or held for profit, which is structured for handicapped persons or persons 62 years of age or older and for which a subsidy or payment is given by federal, state or local government or by nonprofit organizations in a substantial amount in relation to the amount given or the total annual operating expenses to pay for principal, interest and operating expenses as long as that organization was not created or operating for the primary purpose of providing the subsidy or payment.

A.R.S. § 42-11107: Property of charitable institutions for relief of the indigent or afflicted, including the lands appurtenant to such property, with fixtures, equipment and other reasonably required property, as long as such institutions and property are not held or used for profit.

A.R.S. § 42-11108: Grounds and buildings owned by agricultural societies, as long as they are used for those purposes only, and not used or held for profit.

A.R.S. § 42-11109 (A): Property or buildings used or held primarily for religious worship, including furniture and equipment, and the land and improvements appurtenant to and used with such buildings, as long as the property is not used or held for profit.

A.R.S. § 42-11110: Cemeteries set apart and used for interring the dead, except such portions that are used or held for profit.

A.R.S. § 42-11111: Property of widows, widowers and disabled persons subject to specified conditions and limitations.

A.R.S. § 42-11112: Observatories maintained for astronomical research and education for the public welfare, together with all property used in the work or maintenance of observatories, including property held in trust, as long as the observatories and other property are used for such purposes only and not used or held for profit.

A.R.S. § 42-11113: Grounds and buildings belonging to societies for the prevention of cruelty to animals and for sheltering, caring for and controlling animals, as long as the grounds and buildings are used for those purposes only and not held or used for profit.

A.R.S. § 42-11114 (A): Property held by a charitable organization for transfer to this state or a political subdivision of this state to be used as parkland if no rent or valuable consideration is received by the charitable organization.

A.R.S. § 42-11115: Property held by a charitable organization to preserve and protect scientific, biological, geological, paleontological, natural or archaeological resources.

A.R.S. § 42-11116: Property of musical, dramatic, dance and community art groups, botanical gardens, museums and zoos as long as the property is used for those purposes and not used or held for profit.

A.R.S. § 42-11117: Property belonging to a volunteer fire department if the property is used exclusively for fire suppression and prevention activities and neither used nor occupied by or for the benefit of any person.

A.R.S. § 42-11118 (A): Property that is owned by a volunteer nonprofit organization that is operated exclusively to promote social welfare and provide community quasi-governmental services in an unincorporated area of a county.

A.R.S. § 42-11119: Property that is owned by a volunteer nonprofit organization, used exclusively for the purpose of performing roadway cleanup and beautification on a gratuitous basis, not used or held for profit and not used or occupied by or for the benefit of any person.

A.R.S. § 42-11120: Property that is owned by a U.S. Veterans' Organization that qualifies as a charitable organization and is recognized under either section 501(C)(3) or 501(C)(19) of the IRC if the property is used predominantly for those purposes and not used or held for profit.

A.R.S. § 42-11121: Property that is not used or held for profit and is owned by a community service organization the mission of which is to serve a population that includes persons who are indigent or afflicted and that qualifies as a charitable organization and is recognized under §501(C)(3) of the IRC if the organization is primarily engaged in delivering services on that property consisting of fitness programs, camping programs, health and recreation services, youth programs, child care, senior citizen programs, individual and family counseling, employment and training programs, services for individuals with disabilities, meals, feeding programs and disaster relief.

A.R.S. § 42-11122: A commodity that is consigned for resale in a warehouse in this state in or from which the commodity is deliverable on a contract for future delivery subject to the rules of a commodity market regulated by the U.S. commodity futures trading commission .

A.R.S. § 42-11123: Animal and poultry feed, including salts, vitamins and other additives, for animal or poultry consumption.

A.R.S. § 42-11125: Stocks of row or unfinished materials, unassembled parts, work in progress or finished products constituting the inventory of a retailer, wholesaler or manufacturer located in this state and principally engaged in reselling the materials, parts or products.

A.R.S. § 42-11126: Livestock and poultry as defined in section 3-1201, aquatic animals defined in section 3-2901, and colonies of bees.

A.R.S. § 42-11127: Commercial and agricultural personal property subject to specified conditions and limitations.

A.R.S. § 42-11128 (A): Personal property moving through Arizona or consigned to a warehouse in Arizona from a point outside Arizona for storage or assembly in transit to a final destination outside this state.

A.R.S. § 42-11128 (B): Property claimed to have no situs in this state for the purposes of taxation shall be considered property-in-transit or futures contract property.

A.R.S. § 42-11129: Property that is owned by a fraternal society or organization that is devoted exclusively to religious, charitable, scientific, literary, educational or fraternal purposes and if no portion of the property is used for the sale of food or beverages to the general public or the consumption of alcoholic beverages by nonmemebers or is used or held for profit.

A.R.S. § 42-11130: Property that is owned by an organization whose mission is to provide supplemental financial support to public libraries, that qualifies as a charitable organization and that is not used or held for profit.

A.R.S. § 42-11131: Property owned and operated by a federally recognized Indian tribe or its tribally designated housing authority, used exclusively for the charitable purpose of providing low-income rental housing and related facilities for the use of Indians; not used or held for profit; no part of the earnings of the authority may inure to benefit of any private shareholder or individual; the housing was designed and constructed using federal financial assistance pursuant to the Native American Housing Assistance and Self-Determination Act or using tribal monies.

A.R.S. § 42-11132: Property, buildings and fixtures that are owned by an educational, a religious or a charitable organization, institution or association if the property is used for educational instruction in any grade or program through grade twelve.

A.R.S. § 42-11133(A): Property used exclusively for rental housing and related facilities if the property is not used or held for profit; is owned and operated by, or a wholly owned subsidiary of, a charitable fund, foundation or corporation, including a limited partnership; the acquisition, rehabilitation, development or operation of the property is financed with tax exempt mortgage review bonds or general obligation bonds or is financed by local, state or federal loans or grants; the rents do not exceed those prescribed by deed restrictions or regulatory agreements; the owner of the property is eligible for and receives tax credits for low-income housing established under §42 of the IRC; the property is used as an assisted living facility for low-income elderly residents; and the facility does not exceed 200 residents.

A.R.S. § 48-3472 (A): Property owned or used by special taxing districts for the purpose of irrigation water delivery shall be exempt from taxation when used for district purposes.

2011 ADDITIONAL STATE AID TO EDUCATION

Pursuant to A.R.S. § 15-972, a report indicating the amount of additional State Aid to Education is prepared each year. This additional aid is the amount referred to as the "Homeowner's Rebate." (The state pays 40% of a homeowner's school district tax bill, up to $600.) The summary at the end of this section shows the Additional State Aid to Education tax roll that was billed in 2011, including additional amounts that were billed for legal class 3 property on the personal property tax roll.

ADDITIONAL STATE AID TO EDUCATION

	ASAE Tax Roll	Personal Property Tax Roll	County Total
Apache	NA[43]	NA	$822,995
Cochise	NA	NA	6,376,418
Coconino	9,575,887	84,051	9,659,938
Gila	NA	NA	3,792,866
Graham	NA	NA	259,362
Greenlee	NA	NA	111,774
La Paz	NA	NA	334,120
Maricopa	NA	NA	203,551,071
Mohave	10,513,583	111,374	10,624,957
Navajo	NA	NA	5,690,375

[43] The breakdown between real and personal property is not available.

	ASAE Tax Roll	Personal Property Tax Roll	County Total
Pima	54,056,681	560,071	54,616,752
Pinal	NA	NA	17,653,329
Santa Cruz	NA	NA	2,301,561
Yavapai	NA	NA	13,987,182
Yuma	NA	NA	8,360,224
Total			**$338,142,925**

SUMMARY OF PROPERTY TAX EXPENDITURES – TAX YEAR 2011

ADDITIONAL STATE AID TO EDUCATION:

Additional state aid to education	$338,142,925

TOTAL QUANTIFIABLE PRIVATE CAR PROPERTY TAX EXPENDITURES[44]

$338,142,925

[44] This amount represents foregone revenue to the state general fund.

SEVERANCE TAX EXPENDITURES – FISCAL YEAR 2010/11

Persons engage in the business of mining or timbering in Arizona are subject to a severance tax. Mining severance is taxed at the rate of 2.5% (A.R.S. § 42-5202(C)) and is levied upon the net severance base. The net severance base is defined as 50% of the difference between the gross value of production and the production costs (A.R.S. § 42-5204).

The timber severance tax was levied on the timber products derived from timbering activity (A.R.S. § 42-5202 (D)) through October 31, 2006. Beginning November 1, 2006 the timber severance tax was repealed. Total mining and timbering severance tax collections in fiscal year 2010/11 totaled $40.2 million.

PREFERENTIAL SEVERANCE TAX RATES

Until October 31, 2006 timber severance was taxed depending on the type of timber product. The tax rate for ponderosa pine timber products was $2.13 per thousand board feet and the tax rate for all species except ponderosa pine was $1.51 per thousand board feet. The tax rate for all other species except ponderosa pine is a preferential rate over the ponderosa pine rate. During fiscal 2010/11 virtually all timber severance collections were for ponderosa pine for periods prior to its repeal. As a result, the preferential rate had no impact on collections.

SEVERANCE TAX CREDITS

A.R.S. § 42-5017 (A): A credit is allowed against severance tax imposed for accounting and reporting expenses incurred by the taxpayer. The credit equals 1% of the amount of tax due, not to exceed $10,000 in any calendar year. In fiscal year 2010/11, information about the value of the severance tax accounting credit was unavailable.

MINING SEVERANCE TAX EXCLUSIONS

A.R.S. § 42-5204: The net severance base is 50% of the difference between the gross value of production and the production costs Both the 50% factor and the value of production costs are exclusions from severance taxation. Taxing the net severance base at 100% would have generated an additional $40.2 million in fiscal year 2010/11. The tax value of the production costs is unknown

SUMMARY OF SEVERANCE TAX EXPENDITURES – FISCAL YEAR 2010/11

PREFERENTIAL SEVERANCE TAX RATES:

Preferential timber severance tax rate for other timber products	$0

SEVERANCE TAX CREDITS:

Accounting credit	NIA[45]

SEVERANCE TAX CREDITS:

50% factor	$40,236,000
Production costs	NIA
TOTAL VALUE OF PARI-MUTUEL TAX EXEMPTIONS	**$40,236,000**

TOTAL QUANTIFIABLE SEVERANCE TAX EXPENDITURES[46] $40,236,000

[45] No Information Available.
[46] This amount represents foregone revenue to the state general fund, counties and incorporated cities and towns.

TRANSACTION PRIVILEGE AND USE TAX EXPENDITURES – FISCAL YEAR 2010/11

Transaction privilege and use tax gross collections in fiscal year 2010/11 totaled over $4.4 billion. Of that amount, $978 million was distributed to the counties and cities. The remaining $3.5 billion was deposited into the state general fund. Potential transaction privilege and use tax collections from the various transaction privilege tax exemptions would have, at a minimum, increased collections by more than 245%. The quantifiable exemptions discussed in this report represent potential collections of $9.6 billion. Additionally, lost revenues due to preferential tax rates, e.g., those items taxed at a rate below 5%, total $405 million while credits totaled $19 million. Therefore, Arizona could be collecting at least an additional $10 billion in transaction privilege and use tax if the credits, exempted items and items taxed at a preferential rate were taxed at a 5% rate.

The Proposition 301 - Education Tax, collected $514 million at the 0.6% rate. While the two taxes are collected on roughly the same tax base, the Proposition 301 monies are dedicated to Education related funds. We continue to present the value of exemptions at the 5% rate. The effect of these exemptions on Proposition 301 can be estimated by taking 12% of the amounts shown later in this section. For fiscal year 2010/11, the value of the exemptions on the Proposition 301 Education funds was $1.2 billion.

The Proposition 100 – Temporary Tax of 1.0% collected $864.5 million at the 1% rate. While the two taxes are collected on roughly the same tax base, the Temporary Tax monies are directed to the state general fund. We continue to present the value of exemptions at the 5% rate. The effect of these exemptions on Proposition 100 can be estimated by taking 20% of amounts shown later in this section. For fiscal year 2010/11, the value of the exemptions on the Proposition 100 Temporary Tax funds was $2 billion.

PREFERENTIAL TRANSACTION PRIVILEGE TAX RATES

In most categories, sales in Arizona are taxed at a 5% rate. Two categories of taxable activities, however, are currently taxed at a lower rate. These activities and the corresponding tax rates are as follows:

CODE	TAXABLE ACTIVITIES	RATE
2	Non-Metal Mining, Oil & Gas Production	3.125%
13	Commercial Lease[47]	0%

If the activities in these categories had been taxed at a 5% rate in fiscal year 2010/11, additional transaction privilege tax of $405 million would have been collected.

[47] The tax rate for this class changed to 0% from 1.0% effective July 1, 1997.

TRANSACTION PRIVILEGE AND USE TAX CREDIT

A.R.S. § 42-5017: A credit is allowed against transaction privilege tax imposed for accounting and reporting expenses incurred by the taxpayer. The credit equals 1% of the amount of tax due, not to exceed $10,000 in any calendar year. In fiscal year 2010/11, the value of the accounting credit equaled $19.3 million.

TRANSACTION PRIVILEGE AND USE TAX EXEMPTIONS

Certain types of income or sales by businesses are exempt from transaction privilege and use tax. Some of these businesses have taxable sales as well as exempt sales; some have no taxable sales at all. In the case of those businesses that have both taxable and exempt sales, there is some information on the value of the exemption. Those businesses that only have exempt sales generally do not file transaction privilege tax returns; therefore, no figures are reported for the value of the exempt business. The following information lists all exemptions identified in the Arizona Revised Statutes, whether information was available on the tax value of the exemption or not.

A.R.S. § 42-5061 (A)(1) and (A)(2): The primary type of business exempt from transaction privilege tax in Arizona is the business of providing a service. The U.S. Census Bureau provides information about the value of services in Arizona through the Economic Census. The 2007 Economic Census Service has recently been released and is the basis for the following analysis of the tax value of some services. *Please note that some portion of the value of these services may already be taxable.* For example the sale of hair shampoo products at a Beauty Salon is taxable but the service of cutting and styling hair is not. The receipts reported in the Economic Census would include both the retail sale of products and the provision of the service. No attempt has been made to determine the *non-taxable* portion of the receipts.

The list of services in this report is a ***sample*** of services and is not intended to be a comprehensive list. The categories shown are defined by the Census Bureau, not by the preparers of this report. For a complete look at the service industry in Arizona, refer to the several reports comprising the 2007 Economic Census of Arizona, available at the U.S. Census Bureau website, www.census.gov .

Several major categories as defined by the U.S. Census Bureau are shown in the sample of services: (1) professional, scientific and technical; (2) health care; (3) administrative and business support; (4) personal care; (5) educational; (6) finance and (7) other services. Examples of each of these service categories are listed at the end of this section. A summary of potential transaction privilege tax revenue from the Sample of Services in these major categories is as follows[48]:

Professional, Scientific and Technical	$955,010,000
Health Care	$902,883,000
Administrative and Business Support	$444,009,000
Personal Care	$73,373,000
Educational	$49,410,000
Finance	$349,000,000
Other Services	$139,365,000

Total transaction privilege tax revenue available from these businesses is $2.6 billion. Although the estimate of potential tax collections provided here does not include estimates for all services, the majority have been captured.

A.R.S. § 42-5061: The business of selling tangible personal property at wholesale, by definition, is not taxable. During fiscal year 2010/11, wholesale trade was estimated to be $95 billion. If taxed at a 5% rate, collections from this category would be $4.8 billion. Another measure of this type of activity is the deduction for sales for resale. In fiscal year 2010/11 it is estimated that businesses deducted nearly $70 billion for sales for resale. At 5%, these transactions would have generated $3.5 billion.

A.R.S. §§ 42-5001.5 and 5001.6: The transaction privilege and use tax is levied upon the gross income or the gross proceeds of sales. Gross proceeds of sales do not include *cash discounts* allowed. The value of merchandise traded in on the purchase of new merchandise when the *trade-in* allowance is deducted from the sales price of the new merchandise before completion of the sale is exempt. No information is available on the value of cash discounts or trade-ins.

A.R.S. § 42-5061 (A)(3): Sales of warranty or service contracts are exempt from transaction privilege tax. In fiscal year 2010/11 it is estimated that businesses deducted $556 million for such contracts. Taxing these contracts at a 5% rate would have resulted in collections of $27.8 million.

A.R.S. §§ 42-5061 (A)(4), 42-5074 (B)(6), 42-5159 (A)(15)(a): Sales of tangible personal property by any nonprofit organization and operated exclusively for charitable purposes and recognized by the department and the United States Internal Revenue Service as such a nonprofit organization for charitable purposes are exempt from transaction privilege and use tax. No information is available on this tax expenditure.

A.R.S. § 42-5061 (A)(7): The sale of stocks and bonds is not subject to transaction privilege tax in Arizona. No information is available on this tax expenditure.

[48] This summary is not intended to be a comprehensive analysis of potential transaction privilege tax revenue for services. Some portion of the value of these services may already be taxable.

A.R.S. §§ 42-5061 (A)(8), 42-5159 (A)(16): Items required by prescription, such as prescription drugs and medical oxygen, are exempt from transaction privilege tax. In fiscal year 2010/11 it is estimated that businesses took $7 billion in deductions for prescriptions and medical oxygen. Had these purchases been taxed at a rate of 5%, collections would be $350.8 million.

A.R.S. §§ 42-5061 (A)(9 through 13), 42-5159 (A)(17 through 21): Insulin, syringes, glucose test strips, eyeglasses and contact lenses, prosthetic appliances prescribed or recommended by a physician, dentist or other professional and hearing aids are exempt from transaction privilege and use tax, as are durable medical equipment. In fiscal year 2010/11 it is estimated that deductions of $529 million were taken for these items. Had they been taxed, collections would have been $26.5 million.

A.R.S. § 42-5061 (A)(14): Sales to nonresidents of Arizona for use outside Arizona if the vendor ships or delivers the tangible personal property outside of the state are exempt from transaction privilege tax. It is estimated that in fiscal 2010/11 a total of $4.0 billion was deducted for other tangible personal property sold to a nonresident and delivered out of state. Were these transactions taxable, an additional $122.4 million would have been collected.

A.R.S. §§ 42-5061 (A)(15 and 16), 42-5159 (A)(22 and 23): Food for home consumption was exempted from transaction privilege and use tax effective July 1980. This includes items purchased with food stamps. In fiscal year 2010/11 it is estimated that deductions of $12.6 billion were taken for these items. A 5% tax on these would have brought in $628.7 million in additional revenues.

A.R.S. §§ 42-5061 (A)(17), 42-5159 (A)(28): Textbooks sold by any bookstore that are required by any state university or community college are not subject to the transaction privilege or use tax Deductions estimated to be $36.5 million were taken for this exemption in fiscal 2010/11. At a rate of 5%, these deductions would have generated $1.8 million had they been taxable.

A.R.S. §§ 42-5061 (A)(18), 42-5159 (A)(24): Meals provided to employees of restaurants are exempt from transaction privilege and use taxation. No information is available for this tax expenditure.

A.R.S. §§ 42-5061 (A)(19), 42-5159 (A)(26): No transaction privilege or use tax is applied to food, drink or condiment purchased for school lunches. No information is available for this tax expenditure.

A.R.S. §§ 42-5061 (A)(20), 42-5159 (A)(27): Arizona lottery ticket sales, amounting to $583.5 million in fiscal year 2010/11, are not taxable. Additional tax collections of $29.2 million would have been received if the sales were taxed at a 5% rate.

A.R.S. § 42-5061 (A)(21): The sale of precious metal bullion and monetized bullion to the ultimate consumer is exempt from transaction privilege tax. Precious metal bullion is defined as precious metal, including gold, silver, platinum, etc., which has been smelted or refined so that its value depends on its contents and not on its form. Monetized bullion means coins and other forms of money which are manufactured from gold, silver, etc., and which have been used as a medium of exchange. No information is available for this tax expenditure.

A.R.S. §§ 42-5061 (A)(25)(a and b), 42-5063 (C)(3), 42-5065 (B)(2), 42-5066 (B)(3), 42-5067 (B), 42-5074 (B)(8), 42-5159 (A)(13)(a, b and d): Tangible personal property sold to a qualifying hospital or a qualifying health care organization used by the organization solely to provide health and medical related educational and charitable services is exempt from transaction privilege and use. In fiscal year 2010/11 deductions of an estimated $646 million were taken for these exemptions. Had they been taxed at 5%, $32.3 million would have been collected.

A.R.S. §§ 42-5061 (A)(25)(c and d), 42-5159 (A)(13)(e): Tangible personal property sold to or purchased by qualifying community health centers and health care organizations dedicated to assisting blind, visually impaired, and multi-handicapped children are exempt from transaction privilege and use tax. In fiscal year 2010/11, an estimated $66.2 million in deductions were taken for these exemptions. Had they been taxed at a 5% rate, $33.1 million would have been collected.

A.R.S. §§ 42-5061 (A)(25)(e), 42-5159 (A)(13)(j): Sales of tangible personal property to a nonprofit charitable organization that regularly serves meals to the needy and indigent on a continuing basis at no cost is exempt from the transaction privilege and use tax. During fiscal 2010/11, businesses deducted an estimated $10.4 million for this exemption. At 5%, this would have raised $0.5 million had it been taxable.

A.R.S. §§ 42-5061 (A)(25)(f), 42-5159 (A)(13)(l), 42-5075(B)(13): Sales of tangible personal property to a nonprofit charitable organization that provides residential apartment housing for low income persons over 62 years of age in a facility that qualifies for a federal housing subsidy, is exempt from the transaction privilege and use tax. The gross proceeds of sales from a contract for construction of a residential apartment housing facility that qualifies for a federal housing subsidy for low income persons over 62 years of age and that is owned by a nonprofit charitable organization is exempt from the prime contracting classification of transaction privilege tax. Information is not available on these expenditures.

A.R.S. §§ 42-5061 (A)(26), 42-5065 (A)(2), 42-5159 (A)(29): No transaction privilege or use tax is charged on magazines or other periodicals or other publications by this state to encourage tourist travel. Arizona Highways magazine is the primary publication of this type. No information is available on the value of this exemption.

A.R.S. §§ 42-5061 (A)(27)(a), 42-5159 (A)(4) and ACRR R15-5-1839: Articles or materials purchased to be incorporated into a final product for sale are exempt from transaction privilege and use tax. Two examples of this exemption can be quantified. Sales of articles to a contractor with a transaction privilege tax license for incorporation or fabrication under a construction contract cannot be quantified for fiscal year 2010/11. Sales of articles to be incorporated into a manufactured product were estimated using the 2007 Census of

Manufacturing. On the basis of estimated cost of materials of $29 billion, potential tax collections at a 5% tax rate would have been $1.4 billion in fiscal year 2010/11.

A.R.S. § 42-5061 (A)(28): The sale of a motor vehicle is exempt from transaction privilege tax under two conditions. If the buyer is a nonresident of this state and the state of residence does not allow a corresponding use tax exemption and if the nonresident has secured a special thirty-day nonresident vehicle registration, the transaction is not taxable. In fiscal 2010/11 an estimated $355 million was deducted for this exemption. Had these transactions been taxable an additional $17.8 million would have been collected. Also, if the purchaser is an enrolled member of an Indian tribe who resides on the Indian reservation established for that tribe, no tax can be imposed. In fiscal 2010/11 an estimated total of $91 million was deducted for this exemption. An additional $4.6 million would have been collected at the 5% rate.

A.R.S. §§ 42-5061 (A)(29), 42-5159 (A)(13)(f): Tangible personal property purchased or leased by a nonprofit charitable organization that engages in and uses such property exclusively for training, job placement or rehabilitation programs or testing for mentally or physically handicapped persons is exempt from the transaction privilege and use tax. No information is available on the tax value of this exemption.

A.R.S. §§ 42-5061 (A)(30 and 32), 42-5073 (A)(5 and 6), 42-5074 (B)(4 and 5), 42-5159 (A)(15)(b and c): Tangible personal property sold and sales under the amusement and restaurant classifications by a nonprofit organization if the organization is associated with a major league baseball team or a national touring professional golf association is not subject to transaction privilege or use tax. Similar qualified organizations which sponsor or operate a rodeo featuring primarily farm and ranch animals are also exempt from the transaction privilege and use tax. No information is available on these tax expenditures.

A.R.S. §§ 42-5061 (A)(31), 42-5159 (A)(14): Sales of commodities, as defined by title 7 United States Code § 2, that are consigned for resale in a warehouse in or from which the commodity is deliverable on a contract for future delivery subject to the rules of a commodity market are exempt from transaction privilege and use tax. No information is available on the tax value of this exemption.

A.R.S. §§ 42-5061 (A)(33), 42-5159 (A)(9): There is no transaction privilege or use tax on the sale of seeds, seedlings, roots, bulbs, cuttings and other propogative material to persons who uses those items to commercially produce agricultural, horticultural, viticultural or floricultural crops in Arizona. In fiscal year 2010/11 an estimated $57.2 million was deducted for this exemption. Had it been taxable, $2.9 million would have been collected.

A.R.S. §§ 42-5061 (A)(34), 42-5159 (A)(34): Machinery, equipment and certain supplies used to assist the physically or developmentally disabled or those persons with head injuries are exempt from transaction privilege and use tax. In fiscal year 2010/11, an estimated $86.5 million was deducted for this exemption. Had it been taxable, $4.3 million would have been collected.

A.R.S. § 42-5061 (A)(35): Tangible personal property shipped or delivered directly to a foreign country for use in that country is exempt from transaction privilege tax. In fiscal year 2010/11 an estimated $332.7 million was deducted for this exemption. Had it been taxable, $16.6 million would have been collected.

A.R.S. §§ 42-5061 (A)(36), 42-5063 (B)(2 and 3), 42-5159 (A)(33): Sales of natural gas or liquefied petroleum gas used to propel a motor vehicle are exempt from transaction privilege and use tax. In fiscal year 2010/11 an estimated $140.6 million was deducted for this exemption. Had it been taxed at the 5% rate an additional $7.0 million.

A.R.S. §§ 42-5061 (A)(37), 42-5159 (A)(30): Paper machine clothing sold to a paper manufacturer and directly used or consumed in paper manufacturing is exempt from transaction privilege and use tax. No information is available for this expenditure.

A.R.S. §§ 42-5061 (E), 42-5063 (C)(4), 42-5159 (E): The gross proceeds of sales or gross income derived from sales of machinery, equipment, utility product, materials and other tangible personal property used directly to construct a qualified environmental technology manufacturing, producing or processing facility are deducted from transaction privilege tax base. Use tax does not apply to the storage, use or consumption in Arizona of machinery, equipment, materials or other tangible personal property if use directly to construct a qualified environmental technology manufacturing, producing or processing facility. Information is not available on these expenditures.

A.R.S. §§ 42-5061 (A)(38), 42-5159 (A)(31): Sales of coal, petroleum, coke, natural gas, virgin fuel oil and electricity to an environmental technology manufacturer, producer or processor and that are directly used or consumed in the generation or provision of on-site power or energy are exempt from transaction privilege and use tax. In fiscal year 2010/11 an estimated $20.0 million was deducted for this exemption. At a rate of 5% $1.0 million would have been collected.

A.R.S. §§ 42-5061 (A)(39), 42-5159 (A)(35): Sales of liquid, solid or gaseous chemicals used in manufacturing, processing, fabricating, mining, refining, metallurgical operations or research and development are exempt from transaction privilege and use tax if the chemicals are used for the purpose of causing or permitting a chemical or physical change to occur in the materials as a part of the production process. In fiscal year 2010.11 an estimated $33.5 million was deducted for this exemption. At a rate of 5% $1.7 million would have been collected.

A.R.S. §§ 42-5061 (A)(41), 42-5074 (B)(9), 42-5159 (A)(36): Under the retail classification and the restaurant classification, sales of food, drink or condiment for consumption within the premises of any jail or prison or any other institution under the jurisdiction of the county sheriff, DOC, DPS, or DYTR are exempt from transaction privilege and use tax. During fiscal year 2010/11 $71.6 million was estimated to be deducted for this exemption. Had this been taxed at 5%, $3.6 million would have been collected.

A.R.S. §§ 42-5061 (A)(42), 42-5159 (A)(37): Motor vehicles and any repair and tangible personal property that becomes a part of the motor vehicles sold to a licensed motor carrier subject to a fee under title 28, chapter 9, article 6 who lease or rent the property are not subject to transaction privilege or use tax. In fiscal year 2010/11 an estimated $188.0 million was deducted for this exemption. Had it been taxable, $9.4 million would have been collected.

A.R.S. § 42-5159 (A)(8): Livestock, poultry, feed and supplies for use or consumption in the businesses of farming, ranching and feeding livestock and poultry, not including fertilizers, herbicides and insecticides are not subject to use tax in Arizona. Information is not available on these expenditures.

A.R.S. § 42-5061 (A)(43): Sales of livestock and poultry feed, salts, vitamins for livestock or poultry consumption sold to persons engaged in producing livestock, poultry or products are exempt from transaction privilege tax. In fiscal year 2010/11 an estimated $340 million was deducted for this exemption. Had it been taxable, $17.0 million would have been collected.

A.R.S. §§ 42-5061 (A)(44), 42-5159 (A)(7): There is no transaction privilege or use tax on the sale or purchase of implants used as growth promotants and injectable medicines for livestock and poultry owned by persons engaged in producing or feeding livestock or poultry. In fiscal 2010/11 $0.9 million was estimated to be deducted for this exemption. Had it been taxable, $45,000 would have been collected.

A.R.S. § 42-5061 (A)(45): Sales of motor vehicles at auction to nonresidents of this state for use outside this state if the vehicles are shipped or delivered outside of the state are exempt from the transaction privilege tax. During fiscal 2010/11 an estimated total of $121.0 million was deducted for this exemption. Were these transactions taxable, an additional $6.1 million would have been collected.

A.R.S. §§ 42-5061 (A)(46), 42-5159 (A)(13)(k): Transaction privilege and use tax does not apply to sales of tangible personal property to persons engaged in business under the transient lodging classification if the property is personal hygiene products or articles used for drink or condiment, except alcoholic beverages, which are furnished to and to be consumed by the transient during his occupancy. No information is available on this tax expenditure.

A.R.S. §§ 42-5061 (A)(47), 42-5159 (A)(42), 42-5063 (B)(3): Sales or purchases of alternative fuel to a used oil fuel burner who is permitted under §49-426 or §49-480 to burn used oil or used oil fuel are exempt from transaction privilege and use tax. No information is available on this tax expenditure.

A.R.S. §§ 42-5061 (A)(48), 42-5159 (A)(12): Printed, photographic, electronic or digital media materials for use in libraries funded with public moneys in Arizona, are exempt from transaction privilege and use tax. During fiscal 2010/11 an estimated $2.5 million in deductions were claimed for this exemption. At a rate of 5%, tax collections would have been $125,000 had these items been taxable.

A.R.S. §§ 42-5061 (A)(49), 42-5074 (C), 42-5159 (A)(43): Under the retail classification and the restaurant classification, tangible personal property sold to or purchased by a commercial airline that consist of food, beverages and condiments and accessories used for serving, if the items are provided without additional charge, are exempt from transaction privilege and use tax. In fiscal 2010/11 an estimated $1.2 million was deducted for this exemption. Had this been taxable, an additional $59,000 would have been collected.

A.R.S. §§ 42-5061 (A)(50), 42-5159 (A)(44): Sales of new alternative fuel vehicles, as defined in A.R.S. §43-1086, if the vehicle was manufactured as a diesel fuel vehicle and converted to operate on alternative fuel, and equipment that is installed in a conventional diesel fuel motor vehicle to convert the vehicle to operate on an alternative fuel. Information is not available on this expenditure.

A.R.S. § 42-5061 (A)(51): Sales of any spirituous, vinous or malt liquor by a person that is licensed in this state as a wholesaler by the Arizona Department of Liquor Licenses and control. No information is available on the value of this tax expenditure.

A.R.S. § 42-5061 (A)(52): Sales of tangible personal property to be incorporated or installed as part of environmental response or remediation activities under A.R.S. §42-5075B6. No information is available on the value of this tax expenditure.

A.R.S. § 42-5061 (A)(53): Sales of tangible personal property by a nonprofit organization if the organization produces, organizes or promotes cultural or civic related festivals or events and no part of the organization's net earnings inures to the benefit of any private shareholder or individual. No information is available on the value of this tax expenditure.

A.R.S. § 42-5061 (A)(54): Sales of Arizona centennial medallions by the historical advisory commission. No information is available on the value of this tax expenditure.

A.R.S. § 42-5061 (A)(55): Application services that are designed to assess or test student learning or to promote curriculum design or enhancement purchased by or for any school district, charter school, community college or state university. No information is available on the value of this tax expenditure.

A.R.S. §§ 42-5061 (B)(1), 42-5159 (B)(1): Machinery or equipment used directly in manufacturing, processing, fabricating, job printing, refining or metallurgical operations is not subject to transaction privilege or use tax. During fiscal 2010/11 an estimated $994 million was deducted for this exemption. A 5% tax on this machinery would have brought in $49.7 million in additional revenues.

A.R.S. §§ 42-5061 (B)(2 and 10), 42-5159 (B)(2 and 10): Sales of machinery or equipment used in mining directly in the process of extracting ores or minerals from the earth for commercial purposes and sales of machinery or equipment used in drilling for or extracting oil or gas from the earth are not taxed. During fiscal 2010/11 an estimated $627 million was deducted for this exemption. A 5% tax on this machinery would have brought in $31.0 million in additional revenues.

A.R.S. §§ 42-5061 (B)(3), 42-5159 (B)(3): Tangible personal property sold to persons engaged in business under the telecommunications classification, consisting of central office switching equipment, switchboards, private branch exchange equipment, microwave radio equipment and carrier equipment including optical fiber, coaxial cable and other transmission media which are components of carrier systems are exempt from the transaction privilege and use tax. No information is available on this tax expenditure.

A.R.S. §§ 42-5061 (B)(4), 42-5159 (B)(4): Machinery, equipment or transmission lines used directly in producing or transmitting electrical power, but not including distribution is exempt from the transaction privilege and use tax. Transformers and control equipment used in transmission substation sites are included in this exemption. During fiscal 2010/11 $406 million was estimated to have been deducted for this exemption. Had this been taxable, an additional $20.0 million would have been collected.

A.R.S. §§ 42-5061 (B)(5), 42-5159 (B)(5): Neat animals, horses, asses, sheep, swine or goats used or to be used as breeding or production stock are not subject to the transaction privilege or use tax. No information is available on the tax value of this exemption.

A.R.S. §§ 42-5061 (B)(6), 42-5159 (B)(6): There is no transaction privilege or use tax on pipes or valves four inches in diameter or larger used to transport oil, natural gas, artificial gas, water or coal slurry. In fiscal 2010/11 $155 million was estimated to have been deducted for this exemption. Had this been taxable, $7.8 million would have been collected.

A.R.S. §§ 42-5061 (B)(7), 42-5159 (B)(7): Aircraft, navigational and communication instruments sold to (a) a person holding a federal certificate of public convenience and necessity or foreign air carrier permit for air transportation in intrastate, interstate or foreign commerce, (b) any foreign government for use outside of Arizona, or (c) nonresidents who will not use such property in Arizona other than in removing such property from Arizona are not subject to the transaction privilege and use tax. During fiscal 2010/11 it was estimated that $109 million was deducted for this exemption. Had it been taxable, $5.5 million would have been collected.

A.R.S. §§ 42-5061 (B)(8), 42-5159 (B)(8): Machinery, tools, equipment and related supplies used or consumed directly in repairing, remodeling or maintaining aircraft, aircraft engines or aircraft component parts by or on behalf of a certified or licensed carrier of persons or property are exempt from tax. No information is available on this exemption.

A.R.S. §§ 42-5061 (B)(9), 42-5159 (B)(9): Railroad rolling stock, rails, ties and signal control equipment used directly to transport persons or property in intrastate or interstate transportation for hire is exempt from the transaction privilege and use tax. No data is available on the value of this exemption.

A.R.S. §§ 42-5061 (B)(11), 42-5159 (B)(11): Transaction privilege and use tax do not apply to sales of buses or other urban mass transit vehicles which are used directly to transport persons or property for hire or pursuant to a governmentally adopted and controlled urban mass transportation program and which are sold to bus companies holding a federal certificate of convenience and necessity. No information is available on this exemption.

A.R.S. §§ 42-5061 (B)(12), 42-5075 (B)(2), 42-5159 (B)(12): Groundwater measuring devices and their installation required under A.R.S. §45-604 are exempt from transaction privilege and use tax. No information is available on the value of these devices.

A.R.S. §§ 42-5061 (B)(13), 42-5159 (B)(13): New machinery and equipment (never sold at retail pursuant to leases or rentals which do not total two years or more) used for commercial production of agricultural, horticultural, viticultural and floricultural crops in Arizona are exempt from transaction privilege and use tax. This equipment consists of tractors, tractor-drawn implements, self-powered implements and drip irrigation lines. No information is available on the value of this exemption.

A.R.S. §§ 42-5061 (B)(14), 42-5159 (B)(14): Transaction privilege and use tax does not apply to sales of machinery or equipment used in research and development. Research and development means basic and applied research in the sciences and engineering, and designing, developing or testing prototypes, processes or new products, including research and development of computer software that is embedded in or an integral part of the prototype or new product or that is required for machinery or equipment to function effectively. In fiscal 2010/11 an estimated total of $41 million was deducted for this exemption. At a rate of 5%, the value of the exemption is $2.0 million.

A.R.S. §§ 42-5061 (B)(15), 42-5159 (B)(15): Machinery and equipment purchased by or on behalf of owners of a soundstage complex and primarily used for motion picture, multimedia or interactive video production are exempt from transaction privilege and use tax. Information is not available on the value of this exemption.

A.R.S. §§ 42-5061 (B)(16), 42-5159 (B)(16)(a), 42-5064 (B)(4): Tangible personal property used by any direct broadcast satellite television or data transmission service or facility to receive, store, convert, produce, generate, decode, encode, control or transmit telecommunications information is exempt from transaction privilege and use tax. The broadcast satellite television or data transmission service or facility must operate within federal regulations. Sales of services by direct broadcast satellite television services that operate within federal regulation are not taxable under the telecommunications classification. No information is available on the value of these exemptions.

A.R.S. §§ 42-5061 (B)(17), 42-5159 (B)(17), 42-5075 (B)(12): Clean rooms that are used for manufacturing, processing, fabrication or research and development of semiconductor products are exempt from transaction privilege and use taxes. This includes the integrated systems, fixtures, piping, movable partitions, lighting and property that is necessary for control of the clean room. No information is available on the value of this exemption. The income derived from the installation, assembly, repair or maintenance of the clean rooms is exempt from taxation under the contracting classification. No information is available on the value of this exemption.

A.R.S. §§ 42-5061 (B)(18), 42-5159 (B)(18): Machinery and equipment used directly in the feeding of poultry, the environmental control of housing for poultry, the movement of eggs within a production and packaging facility or the sorting or cooling of eggs. No information is available on the value of this exemption.

A.R.S. §§ 42-5061 (B)(19), 42-5159 (B)(19): Machinery or equipment, including related structural components, that is employed in connection with manufacturing, processing, fabricating, job printing, refining, mining, natural gas pipelines, metallurgical operations, telecommunications, producing or transmitting electricity or research and development and that is used directly to meet or exceed rules or regulations adopted by the federal energy regulatory commission, the United States Environmental Protection Agency, the United States Nuclear Regulatory Commission, the Arizona Department of Environmental Quality or a political subdivision of this state to prevent monitor, control or reduce land, water or air pollution. No information is available on the value of this exemption.

A.R.S. §§ 42-5061 (B)(20), 42-5159 (B)(20): Machinery and equipment that are sold to a person engaged in the commercial production of livestock, livestock products or agricultural, horticultural, viticultural or floricultural crops or products in this state and that are used directly and primarily to prevent, monitor, control or reduce air, water or land pollution. No information is available on the value of this exemption.

A.R.S. §§ 42-5061 (B)(21), 42-5159 (B)(21): Machinery or equipment that enables a television station to originate and broadcast or to receive and broadcast digital television signals and that was purchased to facilitate compliance with the telecommunications act of 1996. No information is available on the value of this exemption.

A.R.S. § 42-5061 (B)(22): Qualifying equipment purchased by a qualifying business for harvesting or the initial processing of qualifying forest products removed as part of the Healthy Forests program are exempt from transaction privilege and use tax. In fiscal 2010/11 an estimated $3.3 million was deducted for this exemption. At a rate of 5% the value of this exemption is $165,000.

A.R.S. § 42-5061 (B)(23): Machinery, equipment and other tangible personal property used directly in motion picture production by a motion picture production company is exempt from transaction privilege and use tax. No information is available on the value of this exemption.

A.R.S. § 42-5061 (E and F): The portion of the sales price of heavy trucks and trailers that reflect the federal luxury excise tax are exempt from transaction privilege tax. The portion of the sales price of use fuel that reflects the federal luxury excise tax is also exempt from transaction privilege tax. Information is not available on these expenditures.

A.R.S. § 42-5061 (D): The gross proceeds of sales or gross income derived from sales of machinery, equipment, materials and other tangible personal property used directly and predominantly to construct a qualified environmental technology manufacturing, producing or processing facility as described in A.R.S. §41-1514.02. No information is available on the tax value of this exemption.

A.R.S. §§ 42-5061 (J and K), 42-5159 (A)(39): Sales of overhead materials or other tangible personal property to a manufacturer, modifier, assembler or repairer are exempt from transaction privilege and use tax if the gross proceeds of sales derived from the property are exempt from transaction privilege tax due to performing a contract between the United States government and the manufacturer, modifier, assembler or repairer. For those sales of tangible personal property made directly to the United States government that are not deducted under A.R.S. §42-5061J, 50% of the gross proceeds or gross income derived will be deducted from the tax base. Data is not available on the value of these exemptions.

A.R.S. § 42-5061 (M)(1 and 2): The gross proceeds of sales or gross income derived from a manufacturer's cash rebate on the sales price of a motor vehicle if the buyer assigns the buyer's right in the rebate to the retailer; or the waste tire disposal fee imposed pursuant to A.R.S. §44-1302. No data is available on the tax value of the waste tire disposal fee. During fiscal 2010/11 an estimated $160.0 million was deducted for the manufacturer's cash rebate. At a rate of 5%, the tax value of this exemption is $8.0 million.

A.R.S. §§ 42-5061 (N), 42-5075 (B)(14): Sales of solar energy devices and the contractor's retail cost of a solar energy device that the contractor supplied and installed are to be deducted from the tax base, but the deduction is not to exceed $5,000 for each device. Information is not available on this expenditure. In fiscal 2010/11 an estimated total of $280.0 million was deducted for this exemption. At a rate of 5%, the value of the exemption is $14.0 million.

A.R.S. §§ 42-5061 (O and P), 42-5159 (A)(41): Sales of wireless telecommunication equipment to a person who holds the equipment for sale or transfer to a customer as an inducement to enter into or continue a contract for telecommunications services taxable under A.R.S. §42-5064 is considered a sale for resale under the transaction privilege and use taxes. In addition, the gross proceeds of sales or gross income do not include the sales commissions received as a result of a customer entering or continuing a contract. Information is not available on these expenditures.

A.R.S. § 42-5062 (A)(23): Ambulances or ambulance services provided under Title 48 or certified pursuant to Title 36, chapter 21.1 or provided by a city or town in a county with a population of less than 150,000 is not subject to taxation under the transporting classification of the transaction privilege tax (A.R.S. §42-5062A3). No information is available about the value of this exemption.

A.R.S. § 42-5062 (A)(4): The transporting classification of the transaction privilege tax excludes public transportation services for the dial-a-ride programs and special needs transportation services. No information is available on the tax value of this exemption.

A.R.S. § 42-5062 (A)(5): The transporting classification of the transaction privilege tax also excludes transporting freight or property for hire by a railroad operating exclusively in this state if the transportation comprises a portion of a single shipment of freight or property, involving more than one railroad, either from a point in this state to a point outside this state or from a point outside this state to a point in this state. No information is available on the tax value of this exemption.

A.R.S. § 42-5062 (A)(6): The transporting classification of the transaction privilege tax does not apply to arranging transportation as a convenience or service the business is not otherwise engaged in the business of transporting persons, freight or property for hire. No information is available on the tax value of this exemption.

A.R.S. § 42-5062 (B)(1): The gross proceeds of sales or gross income derived from transporting for hire persons, freight or property by a railroad pursuant to a contract with another railroad is exempt from transaction privilege tax if the other railroad has already paid the transaction privilege tax on the transporting of goods. No data is available on the tax value of this exemption.

A.R.S. § 42-5062 (B)(5): The gross proceeds of sales or gross income derived from transporting fertilizer by a railroad from a point in this state to another point in this state is exempt from transaction privilege tax if the other railroad has already paid the transaction privilege tax on the transporting of goods. No data is available on the tax value of this exemption.

A.R.S. § 42-5063 (B)(1): Sales of electricity to a distributor who has a transaction privilege tax license are essentially sales of electricity for resale. Information on this activity is not available.

A.R.S. § 42-5063 (B)(4): Sales of ancillary services, electric distribution services, electric generation services, electric transmission services and other services that are related to providing electricity to a retail electric customer who is located outside this state for use outside this state if the electricity is delivered to a point of sale outside this state. No data is available on the tax value of this exemption.

A.R.S. §§ 42-5063 (C)(1), 42-5159 (F)(1): Revenues received by a municipally owned utility in the form of fees charged to persons constructing residential, commercial or industrial developments or connecting residential, commercial or industrial developments to a municipal utility system if the fees are segregated and used only for capital expansion, system enlargement or debt service of the utility system are excluded from the taxable base under the utilities classification of transaction privilege tax. No information is available on the tax value of this exemption.

A.R.S. §§ 42-5063 (C)(2), 42-5159 (F)(2): Revenues received by any person owning a utility system in the form of reimbursement or contribution compensation for property and equipment installed to provide utility access to, on or across the land of an actual utility consumer if the property and equipment become the property of the utility are excluded from the taxable base under the utilities classification of the transaction privilege tax. No information is available on the tax value of this exemption.

ACRR R15-5-2014: Interstate sales of electricity, natural gas and water are exempt from transaction privilege tax. Information is not available for this expenditure at this time.

A.R.S. § 42-5064: Income from interstate telecommunication services is not taxable under the telecommunications classification of transaction privilege tax. No data is available on the tax value of this exemption.

A.R.S. § 42-5064 (A)(1): Sales of intrastate telecommunications services by a cable television system or by a microwave television transmission system that transmits television programming to multiple subscribers are not subject to transaction privilege tax. No data is available on the tax value of this exemption.

A.R.S. § 42-5064 (A)(2): Sales of internet access services to subscribers and customers. No data is available on the tax value of this exemption.

A.R.S. § 42-5064 (B)(2 and 3): End user common line charges and carrier access charges established by federal communications regulations are exempt from transaction privilege tax. No information is available on the tax value of this exemption.

A.R.S. § 42-5064 (B)(4): Sales of direct broadcast satellite television services pursuant to 47 Code of Federal Regulations parts 25 and 100 by a direct broadcast satellite television service that operates pursuant to 47 Code of Federal Regulations parts 25 and 100. No data is available on the tax value of this exemption.

A.R.S. § 42-5065 (A)(1): The gross proceeds from manufacturing or publishing books are exempt from transaction privilege tax. No data is available on the tax value of this exemption.

A.R.S. § 42-5065 (B)(1): The gross income derived from advertising is excluded from the tax base for the publication classification under transaction privilege tax. The value of this deduction is included in the Services section under the Advertising, Public Relations category.

A.R.S. § 42-5066 (B)(1): The gross proceeds of sales to a person in Arizona who has a transaction privilege tax license and who distributes printing, engraving, embossing or copying without consideration in connection with the publication of a newspaper or magazine are not included in the taxable base under the job printing classification of the transaction privilege tax. No information is available on this exemption.

A.R.S. § 42-5066 (B)(2): Sales of job printing, engraving, embossing, and copying for use outside the state if the materials are shipped or delivered out of the state, regardless of where title to the materials passes or their free on board point are exempt from the job printing classification. No data is available on the tax value of this exemption.

A.R.S. § 42-5066 (B)(4): Sales of postage and freight except that the amount deducted shall not exceed the actual postage and freight expense that is paid to the United States postal service or a commercial delivery service are exempt from the job printing classification. During fiscal 2010/11 an estimated $15.4 million was deducted from transaction privilege tax returns. At a tax rate of 5%, $769,000 would have been collected.

A.R.S. § 42-5066 (B)(5): Sales to a motion picture production company that will use the job printing, engraving, embossing or copying directly in motion picture production are not included in the job printing tax base. No information is available on this exemption.

A.R.S. § 42-5070 (B)(3): Leasing or renting four or fewer rooms of an owner-occupied residential home, furnishing no more than a breakfast meal, with no more than 50% average annual occupancy rate is not subject to the transaction privilege tax under the transient lodging classification. No information is available on the value of this exemption.

A.R.S. § 42-5071 (A)(1): Leasing or renting films, tapes or slides used by theaters or movies, which are engaged in business under the amusement classification, or use by television stations or radio stations is not subject to the transaction privilege tax under the personal property rental classification. No information is available on the value of this exemption.

A.R.S. § 42-5071 (A)(4): Operating coin operated washing, drying and dry cleaning machines or coin operated car washing machines at establishments for the use of such machines are not subject to transaction privilege tax. No information is available on this exemption.

A.R.S. § 42-5071 (A)(5): Leasing or renting tangible personal property for incorporation into comprising any part of a qualified environmental technology facility. No data is available on the value of this exemption.

A.R.S. § 42-5071 (A)(6): Leasing or renting aircraft, flight simulators or similar training equipment to students or staff by nonprofit, accredited educational institutions that offer associate or bachelor's degrees in aviation or aerospace related fields. No data is available on the value of this exemption.

A.R.S. § 42-5071 (A)(7): Leasing or renting photographs, transparencies or other creative works used by this state on internet web sites, in magazines or in other publications that encourage tourism. No data is available on the value of this exemption.

A.R.S. § 42-5071 (B)(5): Amounts received by a motor vehicle dealer for the first month of a lease payment if the lease and the lease payment for the first month of the lease are transferred to a third party leasing company are deducted from the tax base. During fiscal 2010/11 an estimated $41 million was deducted from transaction privilege tax returns. At a tax rate of 5%, $2 million would have been collected.

A.R.S. § 42-5072 (C): Freight charges included in the sales price of any nonmetalliferous mineral product are subtracted from the taxable base under the mining classification of the transaction privilege tax. No data is available on the value of this exemption.

A.R.S. § 42-5073 (A)(1): Tuition and fees paid to universities and community colleges are exempt from transaction privilege tax. Information on tuition figures for fiscal year 2010/11 was not available.

A.R.S. §§ 42-5073 (A)(2) and 42-5073 (B)(1): Private or group instructional activities and membership and initiation fees for health or fitness clubs or private recreational establishments with memberships greater than 28 days are exempt from the amusement classification of transaction privilege tax. During fiscal year 2010/11, it is estimated that $50 million was deduction from transaction privilege tax returns for this deduction. At a 5% tax rate, the tax on this deduction would have been $2.5 million.

A.R.S. §§ 42-5071 (A)(2), 42-5073 (A)(3): Events sponsored by the Arizona Coliseum and Exposition Center Board are not subject to transaction privilege tax. Information about this exemption is not available.

A.R.S. § 42-5073 (A)(4): A musical, dramatic or dance group or a botanical garden, museum or zoo that qualified as a nonprofit charitable organization is exempt from transaction privilege tax under the amusements classification. Information about this exemption is not available.

A.R.S. § 42-5073 (A)(7): Sales of admissions to intercollegiate football contests if the contests are operated by a nonprofit organization are exempt from transaction privilege tax. Information about this exemption is not available.

A.R.S. § 42-5073 (A)(8): Fees and assessments received by a homeowners organization from members or guests of members are not taxable under the amusement classification. The value of this exemption is not available.

A.R.S. § 42-5073 (A)(10): Arranging an amusement activity as a service to a person's customers if that person is not otherwise engaged in the business of operating or conduction an amusement is not taxable under the Amusements classification. The value of this exemption is not available.

A.R.S. § 42-5074 (B)(2): Under the restaurant classification of transaction privilege tax, sales by a congressionally chartered veterans organization of food or drink prepared for consumption on the premises leased, owned or maintained by the organization are exempt from tax. No information is available on the value of this exemption.

A.R.S. § 42-5074 (B)(3): Sales by churches, fraternal benefit societies and other nonprofit organizations which do not regularly engage or continue in the restaurant business for the purpose of fund raising are exempt from transaction privilege tax. No information is available on the value of this tax expenditure.

A.R.S. § 42-5074 (B)(7): Under the restaurant classification of transaction privilege tax, sales to qualifying hospitals. No information is available on the value of this tax expenditure.

A.R.S. § 42-5074 (B)(11): Food sales to a school district or charter school by a restaurant are exempt from transaction privilege tax. During fiscal year 2010/11, it is estimated that $25 million was deducted from tax returns for this deduction. At a 5% tax rate, the tax on this deduction would have been $1.3 million.

A.R.S. § 42-5075 (B) and (B)(1): While income from prime contracting is taxable, both the sale price of land and the wages and salaries paid for any labor employed in construction are not taxable. The tax is limited to that portion which is essentially materials (tax is applied to 65% of gross proceeds). During fiscal 2010/11, $4.5 billion was estimated to be deducted from transaction privilege tax returns for the 35% deduction. At a 5% tax rate, the tax on the 35%

deduction would have been $226.7 million. In fiscal 2010/11 $195 million was estimated to be deducted for the cost of land. Had land been taxable at the 5% rate, an additional $9.7 million would have been collected.

A.R.S. § 42-5075 (B)(2): Sales and installation of groundwater measuring devices required under section 45-604 and groundwater monitoring wells required by law, are exempt from the Prime Contracting classification. No information is available for this exemption.

A.R.S. § 42-5075 (B)(4): The gross proceeds of sales or gross income received from a contract entered into for the construction, alteration, repair, addition, subtraction, improvement, movement, wrecking or demolition of any building, highway, road, railroad, excavation or other structure, project, development or improvement located in a military reuse zone for a manufacturer, assembler or fabricator of aviation or aerospace products is exempt from transaction privilege tax under the prime contracting classification. No information is available for this exemption.

A.R.S. § 42-5075 (B)(5): The gross proceeds of sales derived from a contract to construct a qualified environmental technology manufacturing, producing or processing facility is exempt from transaction privilege tax under the prime contracting classification. The value of this exemption is not available.

A.R.S. § 42-5075 (B)(6): The gross proceeds of sales from a contract to provide response to a release or suspected release of a hazardous substance is exempt from the prime contracting classification of transaction privilege tax. Information is not available on this expenditure.

A.R.S. § 42-5075 (B)(7): The gross proceeds of sales that are from a contract entered into for the installation, assembly, repair or maintenance of machinery or other tangible personal property that is deducted under the retail classification A.R.S. §42-5061B and that does not become permanently attached to the structure or project is exempt from the prime contracting classification of transaction privilege tax. No information is available on the value of this tax expenditure.

A.R.S. § 42-5075 (B)(10): Income from a contract for the construction of an environmentally controlled facility for the raising of poultry for the production of eggs and the sorting, cooling and packaging of eggs is exempt from the prime contracting classification of transaction privilege tax. Information is not available on this expenditure.

A.R.S. § 42-5075 (B)(11): Income from a contract with a person in the agricultural industry for construction, alteration, repair, improvement movement, wrecking, demolition, addition to or subtraction from any building, highway, road, excavation, manufactured building or other structure, development or improvement used directly and primarily to prevent, monitor, control or reduce air water or land pollution. No information about this expenditure is available.

A.R.S. § 42-5075 (B)(15): Income from a contract entered into for the construction of a launch site, as defined in 14 Code of Federal Regulations section 401.5. No information about this expenditure is available.

A.R.S. § 42-5075 (B)(16): Income from a contract entered into for the construction of a domestic violence shelter that is owned and operated by a nonprofit charitable organization. No information about this expenditure is available.

A.R.S. § 42-5075 (B)(17): Gross proceeds of sales or gross income derived from contracts to perform post-construction treatment of real property for termite and general pest control, including wood destroying organisms. No information is available on the value of this tax exemption.

A.R.S. § 42-5075 (B)(18): Gross proceeds of sales or gross income derived from contracts to build certain state university research infrastructure projects. No information is available on the value of this tax exemption.

A.R.S. § 42-5075 (B)(19): Gross proceeds of sales or gross income received from a contract for the construction of any building, or other structure, project, development or improvement owned a by a qualified Healthy Forest business In fiscal year 2010/11, $5.7 million was estimated to be deducted for this exemption. Had it been taxable at a 5% rate, an additional $287,000 would have been collected.

A.R.S. § 42-5075 (B)(20): Gross proceeds of sales or gross income received from a contract for the construction of any building or other structure associated with motion picture production in this state. No information is available on the value of this tax exemption.

A.R.S. § 42-5075 (B)(21): Any amount of the gross proceeds of sales or gross income from a contract that constitutes development or impact fees paid to the state or a local government to offset governmental costs of providing public infrastructure, public safety and other public services to a development. In fiscal year 2010/11, $43 million was estimated to be deducted for this exemption. At a 5% state rate, this would have generated $2.2 million tax.

Under prime contracting, the income derived from direct costs of providing architectural and engineering services is exempt from transaction privilege tax. During fiscal year 2010/11, it was estimated that $75.4 million was deducted for this exemption. Had it been taxable at a 5% rate, an additional $3.8 million would have been collected.

A.R.S. § 42-5159 (A)(10): Use tax does not apply for tangible personal property not exceeding $200 in any one month purchased by an individual at retail outside the continental limits of the United States for personal use and enjoyment. No data is available on the value of this exemption.

A.R.S. § 42-5159 (A)(13)(c): All purchases made by a residential care institution that is operated in conjunction with licensed nursing care institutions are exempt from use tax. Information is not available on this expenditure.

A.R.S. § 42-5159 (A)(13)(h): Tangible personal property purchased by a nonprofit charitable organization from the parent or affiliate organization that is located out of state is exempt from use tax. No data is available on the value of this exemption.

A.R.S. § 42-5159 (A)(32): Motor vehicles that are removed from inventory and are provided to charitable or educational institutions or state universities or their affiliated organizations are exempt from use tax. No information is available on the value of this exemption.

A.R.S. § 42-5159 (A)(38): Use tax does not apply to tangible personal property that is or directly enters into and becomes an ingredient or part of cards used as prescription plan identification cards. Information is not available on this.

SUMMARY OF TRANSACTION PRIVILEGE AND USE TAX EXPENDITURES – FISCAL YEAR 2010/11

PREFERENTIAL TAX RATES:

Nonmetalliferous Mining; Oil and Gas Production	$1,810,000
Commercial lease	403,402,000
TOTAL VALUE OF PREFERENTIAL TAX RATES	**$405,212,000**

CREDITS:

Accounting credit	$19,264,000

TRANSACTION PRIVILEGE AND USE TAX EXEMPTIONS – SAMPLE OF SERVICES:

PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES:

Legal	$163,661,000
Architectural and Engineering	211,757,000
Specialized Design Services	17,766,000
Computer System Design and Related Services	244,750,000
Management, Scientific and Technical Consulting	97,058,000
Scientific Research and Development	37,086,000
Advertising, Public Relations and Technical Services	57,546,000
Other Professional, Scientific and Technical Services	47,981,000
Accounting, Tax Preparation and Bookkeeping	77,404,000
TOTAL VALUE OF PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES	**$955,010,000**

HEALTH CARE SERVICES:

Physicians	$355,761,000
Dentists	112,314,000
Chiropractors	13,480,000
Optometrists	9,374,000
Mental Health Practitioners	4,263,000

Specialty Therapists	18,045,000
All Other Health Practitioners	8,490,000
Outpatient Care Centers	84,882,000
Medical and Diagnostic Labs	55,591,000
Home Health Services	40,448,000
Other Ambulatory Health Services	72,736,000
Nursing Care Facilities	48,652,000
Residential Mental Health Facilities	28,918,000
Community Care Facilities	42,821,000
Other Residential Care Facilities	7,108,000
TOTAL VALUE OF HEALTH CARE SERVICES	**$902,883,000**
ADMINISTRATIVE AND BUSINESS SUPPORT SERVICES:	
Office Administrative Services	$50,245,000
Facilities Support Services	24,823,000
Employment Placement and Executive Search Services	21,906,000
Business Support Services	74,710,000
Services to Building and Dwellings	147,417,000
Investigation and Security	38,981,000
Other Support Services	29,811,000
Waste Management and Remediation Services	56,115,000
TOTAL VALUE OF ADMINISTRATIVE AND BUSINESS SUPPORT SERVICES	**$444,009,000**
PERSONAL CARE SERVICES:	
Barber	$625,000
Beauty Salons	19,875,000
Nail Salons	917,000
Other Personal Care	5,269,000
Death Care Services	8,809,000
Drycleaner and Laundry	23,645,000
Pet Care (not Veterinary)	2,802,000
Parking lot/Garages	7,994,000
Other Personal Services	3,436,000
TOTAL VALUE OF PERSONAL SERVICES	**$73,373,000**
EDUCATIONAL SERVICES:	
Business School/Computer/Management Training	$5,433,000
Technical and Trade Schools	21,347,000
Other Schools and Instruction	17,095,000
Education Support Services	5,535,000
TOTAL VALUE OF EDUCATIONAL SERVICES	**$49,410,000**
FINANCIAL SERVICES:	
Mortgage and Nonmortgage Loan Brokers	$27,046,000
Financial Transaction Processing and Clearing	94,484,000

Other Activities Related to Credit Intermediation	18,574,000
Securities and Commodity Contracts Intermediation	141,208,000
Portfolio Management	52,690,000
Investment Advice	9,931,000
Other Financial Investment Activities	4,884,000
TOTAL VALUE OF FINANCIAL SERVICES	**$348,818,000**

OTHER SERVICES:

Automotive Repair and Maintenance	$103,633,000
Electronic and Precision Repair and Maintenance	7,928,000
Commercial, Industrial Machinery Repair and Maintenance	19,945,000
Personal and Household Goods Repair and Maintenance	5,131,000
Data Processing, Hosting and Related Services	63,885,000
Local Messengers and Local Delivery	2,727,000
TOTAL VALUE OF OTHER SERVICES	**$139,365,000**

TRANSACTION PRIVILEGE AND USE TAX EXEMPTIONS – ALL OTHER:

Wholesale trade	$3,513,490,000
Cash discounts	NIA[49]
Trade-ins	NIA
Sale of warranty or service contracts	27,785,000
Sale of tangible personal property by a nonprofit organization	NIA
Sale of stocks and bonds	NIA
Prescription drugs and medical oxygen	350,800,000
Eyeglasses and contact lenses, insulin, insulin syringe and glucose test strips, prosthetic appliances, hearing aids and durable medical equipment	26,464,000
Sales to nonresidents for use outside Arizona if the property is shipped or delivered outside the state	122,423,000
Food for home consumption	628,745,000
Textbooks that are required by any state university or community college	1,823,000
Meals provided to Employee of restaurants	NIA
Food used in school lunches	NIA
Sale of Arizona lottery tickets	29,177,000
Precious metal bullion and monetized bullion	NIA
Tangible personal property sold to a qualifying hospital or a qualifying health care organization	32,303,000
Tangible personal property sold to or purchased by qualifying community health centers and health care organizations	33,128,000
Tangible personal property sold to a nonprofit organization which regularly serves meals to the needy and indigent	518,000

[49] No Information Available

Tangible personal property sold to a nonprofit organization which provides housing for low-income persons over 62 years of age	NIA[50]
Gross proceeds from contracts to build housing for nonprofits to house low-income persons over 62 years of age	NIA
Magazines or other periodicals or publications to encourage tourist travel	NIA
Sale of articles to a contractor for incorporation or fabrication under a contract	NIA
Sale of articles to be incorporated into a manufactured product	1,449,703,000
Exempt motor vehicle sales (certain nonresidents and Native Americans)	22,315,000
Tangible personal property purchased by a nonprofit charitable organization that uses such property for training, etc., for mentally or physically handicapped persons	NIA
Tangible personal property sold by a nonprofit organization associated with a major league baseball team or a national touring professional golf association	NIA
Tangible personal property sold by a nonprofit organization associated with a rodeo featuring primarily farm and ranch animals	NIA
Sales of commodities under futures contracts consigned to a warehouse for resale	NIA
Seeds, seedlings, etc., to commercially produce agricultural, horticultural, viticultural or floricultural crops in Arizona	2,862,000
Machinery, equipment and certain supplies used to assist the physically or developmentally disabled or those persons with head injuries	4,327,000
Tangible personal property shipped or delivered directly to a foreign country for use in that country	16,636,000
Sales of natural gas or liquefied petroleum gas used to propel a vehicle	7,029,000
Paper machine clothing used or consumed in paper manufacturing	NIA
Machinery, equipment, utility product, materials and other tangible personal property used to construct a qualified environmental technology facility	NIA
Sales of coal, petroleum, coke, natural gas, virgin fuel oil and electricity to an environmental technology facility	1,000,000
Sales of liquid, solid or gaseous chemicals used in manufacturing, processing, fabricating, mining, refining, metallurgical operations or research or development	1,676,000
Sales of food or drink consumed on the premises of a jail or prison	3,582,000
Motor vehicles and any tangible personal property or repair that becomes a part of the motor vehicles sold to a licensed motor operator that lease or rent the property	9,406,000
Livestock, poultry, feed and supplies for use or consumption in the business of farming, ranching and feeding livestock or poultry	NIA

[50] No Information Available.

Livestock, poultry feed, salts, vitamins for livestock or poultry consumption	17,035,000
Sale or purchase of implants used as growth promotants and injectable medicine	45,000
Sales of motor vehicles at auction to nonresidents of Arizona for use outside Arizona	6,060,000
Personal hygiene products which are furnished to and to be consumed by hotel occupants	NIA[51]
Sales or purchases of alternative fuel to a used oil fuel burner	NIA
Printed, photographic, electronic or digital media materials for use in publicly funded libraries	125,000
Tangible personal property consisting of food, beverages and condiments sold to or purchase by a commercial airline	59,000
Sale of new alternative fuel vehicles and conversion equipment	NIA
Sale of spirituous, vinous or malt liquor by a liquor wholesaler	NIA
Property to be incorporated as part of environmental response or remediation activities	NIA
Sale of Arizona centennial medallions by the historical advisory commission	NIA
Application services designed to assess or test student learning	NIA
Tangible personal property by a nonprofit that produces, organizes or promotes cultural or civic related festivals	NIA
Machinery or equipment used directly in manufacturing, processing, fabricating, job printing, refining or metallurgical operations	49,716,000
Sale of machinery or equipment used in mining and in drilling for or extracting oil or gas from the earth	31,354,000
Certain equipment used in the telecommunications industry	NIA
Machinery, equipment or transmission lines used directly in producing or transmitting electrical power	20,335,000
Neat animals, horses, asses, sheep, swine or goats used or to be used as breeding or production stock	NIA
Pipes or valves 4” in diameter used to transport oil, natural gas, artificial gas, water or coal slurry	7,795,000
Certain aircraft, navigational and communication instruments	5,458,000
Machinery, tools, equipment used in repairing, remodeling or maintaining aircraft, aircraft engines or aircraft component parts	NIA
Railroad rolling stock, rails, ties and signal control equipment used to transport persons or property for hire	NIA
Buses or other urban mass transit vehicles used to transport persons for hire or pursuant to a governmentally adopted and controlled urban mass transportation program	NIA

[51] No Information Available.

Certain groundwater measuring devices and their installation	NIA[52]
New machinery and equipment used for commercial production of agricultural, horticultural, viticultural and floricultural crops	NIA
Machinery or equipment used in research and development	NIA
Machinery and equipment purchased by or on behalf of owners of a soundstage complex	NIA
Tangible personal property used by an direct broadcast satellite television or data transmission service or facility	NIA
Sales of services by direct broadcast satellite television services	NIA
Clean rooms used for manufacturing, processing, fabrication or research and development	2,051,000
Gross income from installation, assembly, repair or maintenance of clean rooms	NIA
Machinery and equipment used in the feeding of poultry or production and packaging of eggs	NIA
Machinery and equipment used to meet land, water, air quality standards	NIA
Machinery and equipment used by agriculture to prevent, monitor, control or reduce pollution	NIA
Digital television machinery and equipment purchases for compliance with the Telecommunications Act of 1996	NIA
Machinery and equipment sold or rented to a healthy forest certified business	165,000
Machinery, equipment and tangible personal property used directly in motion picture production by a motion picture production company	NIA
Portion of sales price of luxury automobiles that reflects the federal luxury excise tax	NIA
Portion of sales price of use fuel that reflects the federal luxury excise tax	NIA
Gross income from machinery, equipment and materials used directly to construct a qualified environmental technology facility	NIA
Sales of overhead materials or other tangible personal property to a manufacturer, modifier, assembler or repairer if performing a contract between the U.S. government and the manufacturer	NIA
Sales of tangible personal property made to the U.S. government not deducted under A.R.S. § 42-5061 (L)	NIA
Gross income from motor vehicle manufacturer's cash rebates if assigned to the retailer	8,024,000
Gross income derived from the waste tire disposal fee	NIS
Sales of solar energy devices	14,009,000
Sales of wireless telecommunication equipment as an inducement to enter into or continue a contract for telecommunication services or sales commissions received	NIA

[52] No Information Available.

Ambulances or ambulance services	NIA[53]
Public transportation services for dial-a-ride programs and special needs transportation services	NIA
Gross proceeds for transporting freight or property by an exclusively Arizona railroad for portions of single shipments involving other railroads	NIA
Gross proceeds for arranging transportation as a convenience or service to a customer if the business is not otherwise engaged in the transportation business	NIA
Gross proceeds of sales or gross income derived from transporting for hire persons, freight or property by a railroad pursuant to a contract with another railroad	NIA
Gross proceeds of sales or gross income derived from transporting fertilizer by a railroad from a point in Arizona to another point in Arizona	NIA
Sales of electricity to a distributor	NIA
Sales of electric services to a retail electric customer who is located outside Arizona for Delivery and use outside Arizona	NIA
Revenue received by a municipally-owned utility in the form of fees charged for constructing residential, commercial or industrial developments	NIA
Revenue received by any person owning a utility system in the form of reimbursement or compensation for property and equipment installed to provide utility access to, on or across land of any actual utility consumer	NIA
Interstate sales of electricity, natural gas and water	NIA
Interstate telecommunications services	NIA
Sales of intrastate telecommunications services by a cable television system or by a microwave television transmission system	NIA
Sales of internet access services	NIA
End-user common line charges and carrier access charges established by federal communications regulations	NIA
Sales of direct broadcast satellite television services	NIA
Manufacturing or publishing books	NIA
Gross income of publications derived from advertising	Included in services
Sales to a person distributing printing, engraving, embossing or copying without consideration in connection with the publication of a newspaper or magazine	NIA
Sales of job printing, engraving, embossing and copying for use outside Arizona if the materials are shipped or delivered out of the state	NIA
Sales of postage and freight	769,000
Sales of job printing, engraving, embossing or copying to a motion picture production company	NIA

[53] No Information Available.

Leasing or renting 4 or fewer rooms of an owner-occupied residence bed and breakfast with less than 50% average annual occupancy	NIA[54]
Leasing films, tapes or slides used by theaters or movies or used by television stations or radio stations	NIA
Operating coin-operated washing, drying and dry cleaning machines	NIA
Operating coin-operated car washing machines	NIA
Leasing or renting personal property for incorporation into a qualified environmental technology facility	NIA
Leasing or renting aircraft or training equipment by a nonprofit school offering aviation and aerospace degrees	NIA
Leasing or renting photographs, transparencies, etc. used by Arizona on the internet, in magazines or other publications encouraging tourism	NIA
Amounts received by a motor vehicle dealer for the 1st month of a lease payment if the lease is transferred to a third party	2,048,000
Freight charges relating to nonmetalliferous mineral products	NIA
Tuition and fees paid to universities and community colleges	NIA
Private or group instructional activities and membership and initiation fees for health or fitness clubs or private recreational establishments with memberships greater than 28 days	2,483,000
Events sponsored by the Arizona Coliseum & Exposition Board	NIA
Musical, dramatic or dance groups or a botanical garden, museum or zoo that qualifies as a nonprofit charitable organization	NIA
Sales of admissions to intercollegiate football contests	NIA
Fees and assessments received by a homeowners organization	NIA
Arranging an amusement activity as a service to a person’s customers	NIA
Sales by Congressionally-chartered veterans organization of food or drink	NIA
Sales by churches, fraternal benefit societies and other nonprofit organizations which don’t regularly engage or continue in the restaurant business for the purpose of fund raising	NIA
Restaurant sales to qualifying hospitals	NIA
Restaurant sales to a school district	1,261,000
Wages and salaries for labor employed in construction	226,712,000
Sales price of land	9,746,000
Contracting in a military reuse zone for a manufacturer, assembler or fabricator of aviation or aerospace products	NIA
Gross proceeds from contracts to construct a qualified environmental technology facility	NIA
Gross proceeds of sales from a contract to provide response to a release or suspected release of a hazardous substance	NIA
Gross proceeds of sales from a contract to install, assemble, repair or maintain machinery that does not become permanently attached	NIA

[54] No Information Available.

Income from contracts for construction of facilities for raising egg producing poultry or the production and packaging of eggs	NIA[55]
Income from contracts for construction work to prevent, monitor, control or reduce pollution in the agriculture industry	NIA
Income from contracts for construction of a launch site	NIA
Income from contracts for construction of a domestic violence shelter	NIA
Gross proceeds from contracts to perform post-construction treatment of real property for termite and general pest control	NIA
Gross proceeds from contracts to certain state university research infrastructure projects	NIA
Gross proceeds from construction contracts for healthy forest business	287,000
Gross proceeds from a contract to construct any building or structure associated with motion picture production	NIA
Gross proceeds from development or impact fees	2,172,000
Gross proceeds from direct costs for architectural or engineering services	3,772,000
Tangible personal property not exceeding $200 purchased by an individual at retail outside the continental U.S. – USE TAX ONLY	NIA
Purchases made by a residential care institution that is operated in conjunction with licensed nursing care institutions – USE TAX ONLY	NIA
Tangible personal property purchased by a nonprofit charitable organization from the parent or affiliate organization located out of state – USE TAX ONLY	NIA
Motor vehicles removed from inventory and provided to charitable or educational institutions or state universities or their affiliated organization – USE TAX ONLY	NIA
Tangible personal property which directly enters into or becomes an ingredient or part of cards used as prescription plan identification cards – USE TAX ONLY	NIA
TOTAL VALUE OF ALL OTHER TRANSACTION PRIVILEGE AND USE TAX EXEMPTIONS	**$9,609,545,000**

TOTAL QUANTIFIABLE TRANSACTION PRIVILEGE AND USE TAX EXPENDITURES[56]

$10,034,020,000

Value of exemptions from the Proposition 301 – Education Tax **$1,204,082,000**

Value of exemptions from the Temporary Tax **$2,006,804,000**

[55] No Information Available.

[56] This amount represents foregone revenue to the state general fund, counties and incorporated cities and towns.

UNDERGROUND STORAGE TANK TAX EXPENDITURES[57] – FISCAL YEAR 2010/11

An underground storage tank tax is imposed by A.R.S. § 49-1031. For purposes of this tax, it is presumed until proven differently that all regulated substances which are motor vehicle fuel, aviation fuel and diesel and which are refined, manufactured, produced, compounded or blended in Arizona, or imported into the state, will be place in an underground storage tank from which the fuel is dispensed to users who consume the fuel and do not further distribute it. The tax is levied at the rate of 1¢ per gallon of regulated substance. Revenue from this tax is deposited into the Arizona Department of Environmental Quality Assurance Account, used for corrective action projects.

UNDERGROUND STORAGE TANK TAX EXEMPTIONS

A.R.S. § 49-1031 (C): This tax does not apply to underground storage tanks operated by the United States or Arizona and its agencies. Currently, there are 87 federal tanks in use with an average tank capacity of 10,668 gallons. There are 74 state tanks currently in use with an average tank capacity of 10,683 gallons. The Department of Environmental Quality does not require the owners/operators of these tanks to report the total number of times they are refueled. Therefore, there is no information on the tax value of this tax expenditure.

A.R.S. § 49-1031 (C): Underground storage tanks used for the purpose of storing, handling or distributing naphtha-type jet fuel or kerosene-type jet fuel are exempt from the underground storage tank tax. Currently, there are 96 of these jet fuel tanks in use with an average tank capacity of 13,971 gallons. As with the underground storage tanks owned by the federal government and the state of Arizona, the owner/operators of these types of underground storage tanks are not required to report the number of times their tanks are refueled. Due to the lack of information, there is no way to calculate the impact of this tax expenditure.

A.R.S. § 49-1031: Above-ground storage tanks are not subject to this tax. The owners/operators of these types of tanks are not required to register their tanks with the Department of Environmental Quality nor with the State Fire Marshal. Municipalities regulate these types of tanks in their own city. Thus, due to the lack of information, it is not possible to determine the impact

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[57] Any information for Underground Storage Tank Tax Expenditures was provided by the Arizona Department of Environmental Quality.

SUMMARY OF UNDERGROUND STORAGE TANK TAX EXPENDITURES – FISCAL YEAR 2010/11

UNDERGROUND STORAGE TANK TAX EXEMPTIONS:

Underground storage tanks operated by the U.S. or Arizona	NIA[58]
Tanks used for Naphtha-type or kerosene-type jet fuel	NIA
Above-ground storage tanks	NIA
TOTAL VALUE OF VEHICLE FEE EXEMPTIONS	**NIA**

TOTAL QUANTIFIABLE UNDERGROUND STORAGE TANK TAX EXPENDITURES[59]

$0

[58] No Information Available.
[59] This amount represents foregone revenue to the ADEQ Assurance Account.

UNEMPLOYMENT INSURANCE TAX EXPENDITURES[60] – FISCAL YEAR 2010/11

Unemployment insurance taxes are paid by liable employees on the first $7,000 in gross wages they pay to each of their employees during the calendar year.

UNEMPLOYMENT INSURANCE TAX EXEMPTIONS

A.R.S. § 23-622: The following are exemptions from the definition of taxable wages:

- That part of the remuneration in excess of $7,000 paid in a calendar year to an individual by an employer with respect to employment during the calendar year, unless that part of the excess remuneration is subject to a tax, under federal law, against which credit may be taken for contributions required to be paid into a state unemployment fund by employers subject to the federal law.
- The amount of any payment, including monies paid by an employer for insurance or annuities, made to or on behalf of an employee or his/her dependents under a plan or system established by an employer which makes provision for the employees generally on account of sickness or accident disability, medical or hospitalization expenses in connection with sickness or accident disability or death.
- The payment by an employer, without deduction from the remuneration of the employee, of the tax imposed upon an employee under §3101 of the IRC relating to federal insurance contributions with respect to remuneration paid to an employee for domestic service in a private home or for agricultural labor.
- Any payment on account of sickness or accident disability, or medical or hospitalization expenses in connection with sickness or accident disability, made by an employing unit to an employee after the expiration of six calendar months following the last calendar month in which the employee worked for such employing unit.
- Any payment made to an employee or his/her beneficiary:
  (1) from or to a trust described in §401(a) of the IRC relating to qualified pension, profit sharing and stock bonus plans which tax-exempt under §501(a) of the IRC;
  (2) under or to an annuity plan which is a plan described in §403(a) of the IRC;
  (3) under a simplified employee pension as defined in §408(k)(1) of the IRC other than contributions described in §408(k)(6) of the IRC;
  (4) under or to an annuity contract described in §403(b) of the IRC;
  (5) under or to an exempt governmental deferred compensation plan; as defined in §3121(v)(3) of the IRC;

[60] Any information for Unemployment Insurance Tax Expenditures was provided by the Arizona Department of Economic Security.

(6) to supplement pension benefits under a plan or trust described in this paragraph to take into account some portion of the increase in the cost of living since retirement;
(7) or under a cafeteria plan within the meaning of §125 of the IRC if such a payment would not be treated as wages without regard to such plan.

- Remuneration paid in any medium other than cash to an employee for service not in the course of the employing unit's trade or business.
- Remuneration paid for agricultural labor performed in any medium other than cash.
- Any tip, gratuity or service charge received by an employee, with certain exceptions.
- Remuneration which the individual receives for drill, training or other national guard or reserve activity which occurs on not more than one weekend per month.
- Remuneration paid to an employee if at the time of the payment it is reasonable to believe that a corresponding deduction is allowable under §217 of the IRC relating to moving expenses.
- Any contribution, payment or service provided by an employer which may be excluded from gross income under §120 of the IRC.
- Any payment made or benefit furnished to an employee if it is reasonable to believe that the employee will be able to exclude the payment or benefit from income under §127, relating to educational assistance, or §129, relating to dependent care assistance, of the IRC.
- The value of meals or lodging furnished by the employer if reasonable to believe that the employee will be able to exclude these items from income under §119 of the IRC.
- Any payment made by an employer to a survivor or the estate of a former employee after the calendar year in which the employee died.
- Any benefit provided to an employee if reasonable to believe that the employee will exclude the benefit from income under §74(c) relating to employee achievement awards, §117 relating to qualified scholarships or §132 relating to certain fringe benefits of the IRC.

A.R.S. § 26-313.01 (A) and (B): An employee is an individual who performs services for an employing unit and who is subject to the direction, rule or control of the employing unit as to both the method of performing the services and the result to be accomplished. This definition does not include:

- An individual who performs services as an independent contractor, business person, agent or consultant, or in a capacity characteristic of an independent profession, trade, skill or occupation.
- An individual subject to the direction, rule, control or subject to the right of direction, rule or control of an employing unit solely because of a provision of law regulating the employing unit.
- An individual or class of workers whose services have been exempted by the Internal Revenue Service from Federal Unemployment Tax.

- An individual whose services the employing unit demonstrates are performed in the same manner as a similarly situated class of workers whose services have been exempted by the Internal Revenue Service from Federal Unemployment Tax.
- An individual or class of workers that have previously been found not to be employees in prior audits by the department, but have currently been found to be employees due to prior audit errors, will not be treated as employees by the department for any previous time, but the employer will be required to begin reporting those workers during the next quarter.

A.R.S. § 23-615 (6)(d): Employment means any service of whatever nature performed by an employee for an employer. The following services are excluded from this definition of employment:

- Services performed in the employ of a church or convention or association of churches, or an organization operated primarily for religious purposes and which is operated, supervised, controlled or principally supported by a church or convention or association of churches.
- Services performed by a duly ordained, commissioned, or licensed minister of a church in the exercise of his or her ministry; or by a member of a religious order in the exercise of duties required by such order.
- Services performed in the employ of a governmental entity by an elected official, member of the legislature or judiciary of this state or a political subdivision, in the exercise of his or her duties.
- Services performed in the employ of a governmental entity as a member of the state National Guard or Air National Guard.
- Services performed in the employ of a governmental entity as an employee on a temporary basis in case of a fire, storm, snow, earthquake, flood or similar emergency.
- Services in the employ of a governmental entity in a position which is designated pursuant to state law as a major non tenured policy-making or advisory position, or a policy-making or advisory position of which the duties ordinarily do not require more than 8 hours per week.
- Services performed by impaired individuals who cannot be readily absorbed into the competitive labor market in a facility conducted for the purpose of providing a program of rehabilitation for such individuals.
- Services performed by an individual in an unemployment work relief or work training program financed in part or in whole by a governmental entity.
- Services performed by an inmate of a custodial or penal institution.

A.R.S. § 23-617: Types of exempt employment are as follows:

- Agricultural labor unless 10 or more individuals were employed for some portion of a day in 20 different weeks in a calendar year, or total cash wages of $20,000 or more were paid in a calendar quarter.
- Domestic service in a private home, local college club or local chapter of a college fraternity or sorority, unless total cash wages of $1,000 or more were paid in a calendar quarter.
- Service performed on or in connection with a vessel or aircraft not an American vessel or American aircraft, if the employee is employed on or in connection with such vessel or aircraft when outside the United States.
- Service performed by an individual in the employ of his/her children or spouse, and service performed by an individual under the age of 21 in the employ of a parent.
- Service performed in the employ of another state, or any political subdivision of another state, or an instrumentality of one or more thereof which is wholly owned by one or more other states or political subdivisions and which exercises only governmental functions, and service performed in the employ of any political subdivision of this or any other state to the extent the instrumentality, with respect to such service, is exempt under the U.S. Constitution from tax imposed by §3301 of the IRC.
- Service with respect to which unemployment compensation is payable under an unemployment compensation established by an act of Congress.
- Service performed in a calendar quarter in the employ of an organization exempt from income tax under §501(a) or §521 of the IRC, if the remuneration for the services is less than $50.
- Service performed in the employ of a school, college or university, if the service is performed by a student enrolled and regularly attending classes at the school, college or university, or by the spouse of such a student.
- Service performed in the employ of a corporation, community chest fund or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of a private shareholder or individual and with further qualifications.
- Services performed by a student nurse in the employ of a hospital or a nurses' training school by an individual enrolled and regularly attending classes, and service performed as an intern in the employ of a hospital by an individual who has completed a four years' course in a medical school.
- Service performed by an individual for an employing unit as an insurance agent, if paid solely by commission.
- Service performed by an individual under the age of 18 in the delivery or distribution of newspapers or shopping news, with qualifications.

- Service performed by an individual for an employing unit as a licensed real estate broker or licensed cemetery broker or a licensed real estate salesman or licensed cemetery salesman, if paid solely by commission.
- Service performed in the employ of a foreign government including service as a consular or other officer or employee or a non diplomatic representative.
- Service performed in the employ of an instrumentality wholly owned by a foreign government if certain qualifications are met.
- Service covered by an arrangement between the department and agency charged with the administration of any other state or federal unemployment compensation law pursuant to which all services performed by an individual for an employing unit is deemed to be performed entirely within such agency's state.
- Casual labor not in the course of the employer's trade or business.
- Service performed by an individual for an employing unit as a securities salesman, if paid solely by commission.
- Service performed in the employ of a hospital if such service is performed by a patient of the hospital.
- Service performed by individuals solely to the extent that the compensation includes commissions, overrides or profits realized on sales primarily resulting from the in-person solicitation of orders for or making sales of consumer goods in the home.
- Services performed by an individual for an employing unit in the preparation of tax returns and related schedules and documents if all such services are performed for remuneration solely by way of commission.

There is no requirement for reporting wages or remuneration for the exemptions mentioned above, therefore, no information is available on the value of these tax expenditures.

SUMMARY OF UNEMPLOYMENT INSURANCE TAX EXPENDITURES – FISCAL YEAR 2010/11

UNEMPLOYMENT INSURANCE TAX EXEMPTIONS:

Exemptions from the definition of taxable wages	NIA[61]
Exemptions from the definition of employee	NIA
Exemptions from the definition of employment	NIA
TOTAL VALUE OF UNEMPLOYMENT INSURANCE TAX EXEMPTIONS	**NIA**

TOTAL QUANTIFIABLE UNEMPLOYMENT INSURANCE TAX EXPENDITURES[62]

$0

[61] No Information Available.
[62] This amount represents foregone revenue to the state unemployment insurance fund.

USE FUEL TAX EXPENDITURES[63] – FISCAL YEAR 2010/11

Arizona has a two-tiered use fuel (diesel fuel) tax rate. There is a use fuel tax rate of 26¢ per gallon on use fuel used in the propulsion of a use class motor vehicle on any highway within Arizona (A.R.S, § 28-5060 (B)(2)), with the exception of clean burning use fuel, and a use fuel tax rate of 18¢ per gallon of use fuel used in the propulsion of a light class motor vehicle or exempt use class motor vehicle (A.R.S. § 28-5606 (B)(1)). A tax of 26¢ is collected by licensed suppliers.

During fiscal year 2010/11, total use fuel tax collected was $218.6 million. The primary source of revenue is from licensed suppliers. The proceeds of this tax go into the Highway User Revenue Fund and are distributed to the Department of Public Safety, Economic Strength Fund, state highway fund, counties, and incorporated cities and towns.

PREFERENTIAL USE FUEL TAX RATES

A.R.S. § 28-5614: For purposes of convenience the use fuel sold to light class motor vehicles and exempt use class motor vehicles by vendors is charged the 18¢ per gallon. Subsequently a vendor may request a refund for the 8¢ differential for the sales to light class motor vehicles and exempt use class motor vehicles. The amount of refunds issued for fiscal year 2010/11 was $14.9 million. Liquid use fuel, used for export purposes is taxed at a $0.26 per gallon rate. The amount refunded for this type of use fuel was $6.0 million.

A.R.S. § 28-5728: There is a $0.02 per gallon credit for all use fuel purchased in Arizona and used outside of the state. The total amount refunded for this type of purchase during fiscal year 2010/11 was $334,679

A.R.S. § 28-5606: Fuel used on use class motor vehicles used to transport forest products in compliance with § 41-1516 is taxed at $0.13 per gallon. This tax is perfected by the approved companies filing a refund request. Refunds for fiscal year 2010/11 were $12,496.

EXEMPTIONS TO THE USE FUEL TAX

A.R.S. § 28-5610 (A)(8)(a and b): Farm tractors and implements of husbandry designed primarily for or used in agricultural operations and only incidentally operated or moved upon a highway are exempt from use fuel tax. Road rollers or vehicles which are designed and used primarily for grading, paving, earth moving and other construction work on highways and which are not designed or used primarily for transportation of persons or property and which are incidentally operated or moved over the highway are also exempt from use fuel tax. Refunds granted for these types of exemptions together totaled $5.5 million in fiscal year 2010/11.

A.R.S. § 28-5610 (A)(7): Taxable use fuel that has been accidently contaminated so as to be unsalable as highway fuel as proved by proper documentation is exempt.

[63] Any information for Use Fuel Tax Expenditures was provided by the Arizona Department of Transportation.

_A.R.S. § 28-5610 (A)(3):_ Liquid use fuel sold within an Indian reservation to an enrolled member of the tribe is excluded from taxation. The total amount refunded for this provision during fiscal year 2010/11 was $71,880.

_A.R.S. § 28-5610 (A)(4):_ Use fuel used solely and exclusively as fuel to operate a motor vehicle on highways in Arizona when the motor vehicle is leased or owned by an Indian tribe and being operated for the sole benefit of an Indian tribe and used only for governmental purposes.

_A.R.S. § 28-5751:_ Each supplier that properly remits use fuel tax may retain 4/10 of 1% of the tax imposed to cover the costs of administration of the tax. This amount would have been collected by the state if this provision were not in effect. The value of this provision for fiscal year 2010/11 is $2.0 million.

_A.R.S. § 28-5708 (A)(2):_ All clean burning fuels are no longer taxed. Since taxpayers who consume alternative fuels are not required to report their use information to the department, no information is available on this exemption.

_A.R.S. § 28-5703 (B)(1):_ International Fuel Tax Agreement (IFTA) tax distributed to other states for fiscal year 2010/11 is $13.4 million.

SUMMARY OF USE FUEL TAX EXPENDITURES – FISCAL YEAR 2010/11

USE FUEL PREFERENTIAL TAX RATES:

Light class and exempt vehicles use rate	$14,910,737
Liquid use fuel used for export	6,064,209
Fuel purchased in Arizona and used outside the state	334,679
Fuel used to transfer forest products	12,496
TOTAL VALUE OF USE FUEL TAX PREFERENTIAL TAX RATES	**$21,322,121**

USE FUEL TAX EXEMPTIONS:

Farm tractors, implements of husbandry or vehicles designed and used for grading, paving, earth moving and other construction	$5,466,794
Native American refunds	71,880
Administration exemption for use fuel suppliers	1,975,462
Exemption for clean burning fuels	NIA[64]
IFTA tax distribution to other states	13,359,592
TOTAL VALUE OF USE FUEL TAX PREFERENTIAL TAX RATES	**$20,873,728**

TOTAL QUANTIFIABLE USE FUEL TAX EXPENDITURES[65] $42,195,849

[64] No Information Available.
[65] This amount represents foregone revenue to the state highway fund, counties and incorporate cities and towns.

VEHICLE LICENSE TAX EXPENDITURES[66] – FISCAL YEAR 2010/11

Arizona imposes a vehicle license tax at the rate of $2.95 for each $100 in vehicle value during the first 12 months of life of the vehicle. The vehicle value is set at 60% of the manufacturer's base retail price in the first year and declines by 16.25% each year thereafter. The minimum vehicle license tax is $10. The proceeds of this tax are distributed to the state highway fund, counties, incorporated cities and towns and the state general fund.

PREFERENTIAL VEHICLE LICENSE TAX RATES

A.R.S. §§ 28-5804, 28-5806, 28-5805: Three classes of motor vehicles pay lower vehicle license tax rates. Privately owned motor vehicles which are exclusively operated as a school bus, privately owned ambulances and fire fighting vehicles, and motor vehicles powered by alternative fuels have a vehicle value in the first year of 1% of the manufacturer's base retail price. The minimum tax for these vehicles is $5.00. The information on this tax expenditure is not available at this time.

EXEMPT MOTOR VEHICLES

Any vehicle, which is not required to be registered in Arizona, is not required to pay a vehicle license tax. Vehicles which are exempt from registration are:

- *A.R.S. § 28-2153 (D)(1):* Farm tractors
- *A.R.S. § 28-2153 (D)(2):* Trailers used solely in the operation of a farm for transporting unprocessed fiber or forage products of a farm or any implement of husbandry designed primarily for or used in agricultural operations and only incidentally operated or moved upon a highway
- *A.R.S. § 28-2153 (D)(3):* Road rollers or road machinery, including power sweepers, temporarily operating or moved upon the highway
- *A.R.S. § 28-2153 (D)(4):* Vehicles operated by an owner under special provisions relating to lienholders, manufacturers, dealers and nonresidents
- *A.R.S. § 28-2153 (D)(5):* Motorized or nonmotorized equipment designed primarily for and used in mining operations and only incidentally operated or moved on a highway
- *A.R.S. § 28-2153 (D)(6):* A motor vehicle towed by a tow truck which has been registered
- *A.R.S. § 28-2153 (D)(7):* A golf cart or other motor vehicle used in the operation of a golf course and only incidentally operated or moved on a highway
- *A.R.S. § 28-2153 (D)(8):* Wheeled equipment, such as compressors, forklifts, portable cement mixers, tow dollies, tar pots, water trailers, welders, etc.
- *Arizona Constitution, Article 9, Section 7:* A vehicle in the name and owned by a government agency such as the Federal, State, County or Municipalities

[66] Any information for Use Fuel Tax Expenditures was provided by the Arizona Department of Transportation.

- *Arizona Constitution, Article 9, Section 7:* A vehicle that is the property of educational, charitable and religious associations or institutions not used or held for profit
- *Arizona Constitution, Article 9, Section 7:* A school vehicle that is the property of educational, charitable and religious associations not used or held for profit.
- *Arizona Constitution, Article 20, Section 5:* A vehicle owned by an enrolled member of a Native America tribe who resides on the reservation
- *Arizona Constitution, Article 9, Section 2:* A vehicle owned by a widow or widower
- *A.R.S. § 28-5802:* A vehicle that is acquired by financial aid from the Veteran's Administration and that is owned by a veteran.
- *A.R.S. § 28-5802:* A vehicle owned by a 100% disabled veteran
- *Soldiers and Sailors Civil Relief Act of 1940:* A vehicle owned by a nonresident military member or officer of Public Health Service
- *A.R.S. § 28-5811:* An Arizona resident who is a member of the U.S. armed forces, including a National Guard or Reserve Unit who is deployed in support of a worldwide contingency operation may register a newly acquired vehicle or renew the registration of a motor vehicle for one year without payment of registration and vehicle license tax fees.
- *A.R.S. § 28-5803 (A):* A vehicle owned by a recipient of public monies as a disabled individual under Title 16 of the Social Security Act

SUMMARY OF VEHICLE LICENSE TAX EXPENDITURES – FISCAL YEAR 2010/11

VEHICLE LICENSE PREFERENTIAL TAX RATES:

School buses	NIA[67]
Ambulances and fire fighting vehicles	NIA
Motor vehicles operated by alternative fuel	NIA
TOTAL VALUE OF VEHICLE LICENSE TAX PREFERENTIAL TAX RATES	**NIA**

VEHICLE LICENSE TAX EXEMPT MOTOR VEHICLES:

Farm tractors	NIA
Trailers used solely in the operation of a farm for transporting the unprocessed fiber or forage products of a farm o any implement of husbandry designed primarily for or used in agriculture	NIA
Road rollers or road machinery	NIA
Any owner permitted to operate a vehicle under special provisions relating to lienholders, manufacturers, dealers and nonresidents	NIA
Motorized or nonmotorized equipment designed primarily for and used in mining operations	NIA

[67] No Information Available.

Motor vehicles being towed by a truck	NIA[68]
Golf carts or other motor vehicles on a golf course	NIA
Wheeled equipment	NIA
Vehicles purchased by Native Americans residing on the reservation	NIA
Vehicles owned by a government or by a nonprofit organization with a form approved by the division of emergency management	NIA
Vehicles owned by certain veterans	NIA
Vehicles owned by disabled individuals	NIA
TOTAL VALUE OF VEHICLE LICENST TAX EXEMPT VEHICLES	**NIA**

TOTAL QUANTIFIABLE VEHICLE LICENSE TAX EXPENDITURES[69] $0

[68] No Information Available.
[69] This amount represents foregone revenue to the state highway fund, the state general fund, counties and incorporate cities and towns.

WORKERS' COMPENSATION PREMIUM LIEU TAX EXPENDITURES[70] – CALENDAR YEAR 2010

Workers' compensation premiums are taxed at a rate up to 4.5% on all premiums collected during the calendar year.

WORKERS' COMPENSATION PREMIUM LIEU TAX DEDUCTIONS

A.R.S. § 23-961 (J): Certain deductions are allowed from total premiums. These deductions are for applicable cancellations, returned premiums, and policy dividends or refunds paid or credited to policyholders within Arizona and not reapplied as premiums for new, additional or extended insurance. During calendar year 2010 the deductions from premiums totaled $9,253,023 and returns of tax overpayments by the Industrial Commission to insurance carriers and self-insured employers totaled $3,485,119.

SUMMARY OF WORKERS' COMPENSATION PREMIUM LIEU TAX EXPENDITURES – CALENDAR YEAR 2010

WORKERS' COMPENSATION PREMIUM LIEU TAX DEDUCTIONS:

Certain deductions	$9,253,023
Returns of overpayments	3,485,119
TOTAL VALUE OF WORKERS' COMPENSATION PREMIUM LIEU TAX DEDUCTIONS	**$12,738,142**

TOTAL QUANTIFIABLE WORKERS' COMPENSATION PREMIUM LIEU TAX EXPENDITURES[71] $12,738,142

[70] Any information presented for Workers' Compensation Premium Lieu Tax Expenditures were provided by the Industrial Commission of Arizona.

[71] This amount represents foregone revenue to the administrative and special funds of the Industrial Commission.