

The seal of the State of Arizona is a large, faint watermark in the background. It is circular with the text "SEAL OF THE STATE OF ARIZONA" around the top and "1912" at the bottom, flanked by two stars. In the center is a shield depicting a landscape with a mountain, a river, and a sun.

# **2016 Legislative Summaries**

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**State of Arizona  
Department  
of Revenue**

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This document contains summaries of 2016 legislation from the Fifty Second Legislature – Second Regular Session.

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# 2016 Legislative Summaries

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The following is intended to give a brief summary of the major 2016 tax-related legislation impacting the Department of Revenue (DOR) and not intended to discuss the specifics of any particular enactment. Detailed summaries and the chaptered versions of these bills can also be found at [www.azleg.gov](http://www.azleg.gov). Please refer to the particular legislation for more definitive information.

The general effective date for legislation enacted during the First Regular Session is August 6, 2015. All legislation will have this effective date unless otherwise noted in the summary.

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## Income Tax

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### **HB 2114 (Chapter 231)** **Declaration; Independent Business Status**

Permits an employing unit and contractor to create a rebuttable presumption of an independent contractor relationship by prescribing a Declaration of Independent Business Status Form.

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### **HB 2190 (Chapter 331)** **Education omnibus**

Contributions to a public school for extracurricular activities for which a fee *may* be charged are eligible to be claimed as an individual income tax credit for contributions for public school extracurricular activities and character education programs.

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### **HB 2388 (Chapter 214)** **Qualified disability expenses; eligible individuals**

Beginning in tax year 2016, establishes an individual income tax subtraction for any amount of qualified disability expenses that is distributed from a qualified Achieving a Better Life Experience Act (ABLE) program determined pursuant to federal law and that is included in income computing federal adjusted gross income.

Additionally provides for an individual income tax addition for the amount of a withdrawal from and ABLE account that is not qualified disability expense to the extent not included in federal adjusted gross income.

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### **HB 2449 (Chapter 197)** **Taxation; self-reported errors; injured spouses**

Authorizes a taxpayer filing a married filing jointly tax return to apply to the Department of Revenue for protection of the taxpayer's share of any refund from a setoff for past due state taxes, child support, spousal maintenance, debt to courts or debt to state agencies of the taxpayer's spouse. The amount of protected share is prorated based on each spouse's estimated tax payments or taxes withheld from wages and may not exceed taxpayer's portion of the entire refund.

Eliminates the penalty for taxpayers who voluntarily file an amended return and report an amount of additional tax due that exceeds the greater of 10% of the actual tax liability or \$2000.

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**HB 2697 (Chapter 118)**  
**Bonus depreciation; budget reconciliation;**  
**2016-2017.**

Increases the percentage of depreciation allowed pursuant to the Internal Revenue Code for Arizona income tax purposes from 10% to 55% in tax year 2016 and from 55% to 100% in tax years 2017 and beyond.

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**HB 2708 (Chapter 125)**  
**Revenue; budget reconciliation; 2016-2017**

See Multiple Tax Types

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**SB 1137 (Chapter 216)**  
**Schools; CPR instruction.**

Requires public schools to provide cardiopulmonary resuscitation (CPR) training to high school students by July 1, 2019. Beginning tax year 2016, contributions for CPR training in a public school are eligible to be claimed as an individual income tax credit for contributions for public school extracurricular activities and character education programs.

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**SB 1216 (Chapter 109)**  
**Charitable donations; tax credit amounts**

For taxable years beginning January 1, 2016, increases the amount of tax credit a taxpayer may claim for contributions to a qualifying charitable organization (QCO) from \$200 to \$400 for individuals and \$400 to \$800 for married couples. The amount of tax credit a taxpayer may claim for contributions to a qualified foster care organization (QFCO) is increased from \$400 to \$500 for individuals and from \$800 to \$1000 for married couples.

A taxpayer is eligible to claim a tax credit for separate voluntary cash contributions to both a QCO and to a QFCO.

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**SB 1217 (Chapter 309)**  
**Charitable tax credit; contribution date**

For taxable years beginning January 1, 2016, contributions made to a QCO or a QFCO on or before April 15th may be claimed as a tax credit in the current or preceding taxable year.

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**SB 1288 (Chapter 155)**  
**Internal revenue code conformity**

Incorporates the federal changes made in 2015 into Arizona's definition of "internal revenue code."

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**SB 1289 (Chapter 156)**  
**Tax corrections**

See Multiple Tax Types

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## **Transaction Privilege Tax/Use Tax**

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**HB 2025 (Chapter 359)**  
**Utilities TPT; sales of propane**

The gross proceeds of sales or gross income derived from the sale of liquefied petroleum gas to, and purchases of liquefied petroleum gas made by, a business that is principally engaged in manufacturing or smelting operations is exempt from transaction privilege tax under the utility classification and use tax.

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**HB 2133 (Chapter 181)**  
**TPT; exemption; aerial applicators**

Retroactive to April 18, 1985, the sale of agricultural aircraft used for the commercial production of agricultural crops and products is exempted from retail TPT and use tax.

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**HB 2326 (Chapter 361)**  
**Agricultural feed; sales; tax exemption**

Expands the current deduction under the retail classification of the TPT for gross income or gross receipts derived from sales of livestock and poultry feed, salts, vitamins and other additives to include transactions with persons for use or consumption by their own livestock or consumption in noncommercial livestock boarding.

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**HB 2533 (Chapter 367)**  
**Charter aircraft; tax exemption**

Beginning July 1, 2017, the current deduction under the retail classification of the TPT for gross income or gross receipts derived from sales of aircraft, navigational and communication instruments and other accessories and related equipment is expanded to include transactions with any person that is federally licensed or certificated to transport persons for hire.

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**HB 2536 (Chapter 368)**  
**Fine art; TPT exemption**

Exempts, from retail TPT and use tax, gross income or gross receipts derived from sales of works of fine art at an auction or gallery in this state to nonresidents of this state for use outside this state if the vendor ships or delivers the work of fine art to a destination outside of this state.

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**HB 2584 (Chapter 369)**  
**Data center tax relief; qualification**

Retroactive to September 13, 2013, modifies the requirements and qualifications for an owner, operator or qualified colocation tenant of a computer data center to be certified by the Arizona Commerce Authority for purposes of tax relief for purchases of qualifying computer data center equipment.

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**HB 2674 (Chapter 373)**  
**TPT exemption; amateur races**

Retroactively exempts the gross proceeds of sales or gross income derived from entry fees from noncompetitive races consisting of a run, walk, swim, bicycle ride or a combination of these events, from the amusement classification of the TPT. The retroactivity only applies to those qualified events where the sponsor did not collect additional monies to offset the operator's TPT liability from the participants.

Beginning March 1, 2017, the exemption is limited to noncompetitive races sponsored by nonprofit organizations.

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**HB 2676 (Chapter 374)**  
**Utilities; manufacturing; smelting; TPT**

Beginning January 1, 2017, expands the exemption of gross proceeds of sales or gross income derived from the sale of electricity or natural gas to, and purchases of electricity and natural gas made by, a qualified manufacturing or smelting business from TPT under the utility classification and use tax.

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**SB 1289 (Chapter 156)**  
**Tax corrections**

See Multiple Tax Types

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**SB 1310 (Chapter 223)**  
**TPT exemption; billboard rentals**

Exempts the leasing or renting of billboards that are used to advertise or inform and are visible from any street, road or other highway from the personal property rental classification of TPT.

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**SB 1350 (Chapter 208)**  
**online lodging; administration; definitions**

Establishes the Online Lodging Marketplace Classification of the TPT consisting of the business of operating an online lodging marketplace licensed with the Department. The tax base for the online lodging marketplace classification is the gross proceeds of sales or gross income derived from the business. The tax rate for this classification is 5.5% of the tax base.

For taxable periods beginning January 1, 2018, a property manager that obtains a TPT license may file a monthly electronic consolidated tax return with respect to gross proceeds or gross income derived from the individual properties under management on behalf of the property owners. The Department is required to develop an electronic consolidated return form that separately identifies each owner's property locations and the gross income and deductions for each property location.

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**SB 1492 (Chapter 171)**  
**Taxis, limousines, livery vehicles**

Exempts *vehicle for hire* companies that have been issued a permit by the Arizona Department of Transportation and drivers operating under a company permit on *vehicle for hire* transactions from the transporting classification of TPT.

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**SB 1505 (Chapter 357)**  
**Tax exemption; natural gas delivery**

The gross proceeds of sales or gross income derived from gas transportation services related to purchases of natural gas made by a business that is principally engaged in manufacturing or smelting operations is exempt from transaction privilege tax under the utility classification and use tax.

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## Property Tax

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**HB 2481 (Chapter 364)**  
**Schools; primary property tax rates**

To determine the property tax levy, school districts must use the lesser of the qualifying tax rate or the district support level. The four percent budget balance carryforward cap is eliminated.

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**SB 1157 (Chapter 144)**  
**Small property tax balance delinquency**

The delinquency date for property tax amounts totaling \$100 or less, is extended from November 1 to December 31 at 5:00 p.m.

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**SB 1432 (Chapter 168)**  
**Conservation easements; tax classification; registry**

Establishes Class Two (C) as a subclass of Class Two property for the purposes of taxation consisting of real property currently burdened by a conservation easement. The assessment ratio for property classified under Class Two (C) is 15 percent

The county assessors are required to maintain a public digital registry of each parcel of property classified as Class Two (C) and periodically verify the status of properties classified as Class Two (C) and revise information in the registry as necessary.

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**SB 1523 (Chapter 173)**  
**truth in taxation; levy increases**

Any proposed community college district, county or municipal property tax levy that is proposed to increase by 15% or more from the previous year, excluding increases due to new construction, may only be approved by the jurisdiction's governing body by a unanimous roll call vote.

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**Luxury Tax**

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**HB 2708 (Chapter 125)**  
**Revenue; budget reconciliation; 2016-2017**

See Multiple Tax Types

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**SB 1289 (Chapter 156)**  
**Tax corrections**

See Multiple Tax Types

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**SB 1381 (Chapter 76)**  
**Wine; direct shipment**

Allows a winery holding an Alcohol and Tobacco Tax Trade Bureau basic permit to apply for a direct shipment license administered by the Department of Liquor Licenses and Control (DLLC). Licensees may sell and ship wine to consumers for personal use.

All wine sold under a direct shipment license is deemed to be sold in this state for the purpose of assessing TPT and luxury taxes.

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**Multiple Tax Types/Misc.**

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**HB 2100 (Chapter 115)**  
**state agency reports; electronic submission**

State agencies are authorized to submit all statutorily required reports and budget estimates electronically.

Each state agency must post all statutorily required reports and budget estimates on the agency's website.

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**HB 2343 (Chapter 239)**  
**unclaimed property; auditor contingency contracts**

In conducting an audit of holders of unclaimed property, including an audit performed by contingent fee auditors, the holder must be provided a *notice of rights*.

The Department is required to establish procedures to monitor the performance of contingent fee auditors and develop metrics to evaluate the accuracy of unclaimed property auditor recommendations. The outcome of the evaluation metric can be taken into consideration when developing audit engagements.

The Department must also issue a request for information by January 1, 2017, to explore the feasibility of contracting for audits relating to unclaimed property that are not contingent on the auditor performance in recovering unclaimed property.

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**HB 2483 (Chapter 258)**  
**municipal population estimates; use**

A city or town may elect to use the most recent population estimates from the United States Bureau of the Census or the results of a special

census in the first year following that census count as the basis for apportionment of state shared revenues. The results of the special census may only be used for only one year, and beginning on July 1 in the second year after the special census, the city or town must use the most recent population estimates from the U.S. Bureau of the Census as the basis for apportionment.

The most recent population estimates of the U.S. Bureau of the Census must be used annually for distribution of state shared tax revenues to cities and towns beginning on July 1 in the second year following the decennial census through June 30 of the year following the next decennial census.

Before May 1 of the sixth year following a federal decennial census, a county may submit the county's population estimate as of the fifth year following the last decennial census (as approved by the Office of Employment and Population Statistics) to be used for distribution of state shared revenues to the director of the Department of Revenue and the State Treasurer.

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## **HB 2708 (Chapter) Revenue; budget reconciliation; 2016-2017**

### Assessments for Local Governments

The Department of Revenue (DOR) is required to assess and collect fees from local governments in FY 2015-1016 for costs incurred in providing administrative and collections services.

Local governments may meet their cost sharing obligation from any source of revenue designated by the appropriate county, city or town and the contributions are excluded from applicable expenditure limitations.

### Tax Recovery Program

DOR is required to establish a tax recovery (amnesty) program from September 1, 2016, through October 31, 2016, for the purposes of reducing or waiving civil penalties and interest for unpaid tax liabilities for any period before January

1, 2014, for annual filers, and February 1, 2015, for all other filers.

### Native American Veterans Tax Settlement

Establishes a program for Native American veterans of the United States armed forces to claim a settlement payment for income tax withheld (but not otherwise claimed as a refund) by the Department of Defense during the period of September 1, 1993 through January 1, 2006.

\$2M is appropriated to pay settlement claims. The Department of Revenue and the Department of Veterans' Services are appropriated 5%, respectively, to administer the program.

### Tobacco Tax Stamps

Increases the discount rate a tobacco distributor may purchase tobacco stamps from 96% of the stamp's face value to 96.48% of the stamp's face value beginning September 30, 2016.

The Department is required to remit \$3.52 per stamp to each distributor as an administrative allowance for stamps with either a face value of \$0 or do not require tobacco tax to be precollected.

If a distributor requests a refund for tobacco stamps or redemption of unused or spoiled stamps, the refund must be issued as the total face value of the stamps, minus 4% if the stamps were purchased or acquired between October 1, 2014 and September 30, 2016 or the total face value of the stamps, minus 3.52%, if the stamps were purchased or acquired after September 30, 2016.

Any rebate of stamps in which no precollected tax was required must be reimbursed at the full face value of the stamps.

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## **SB 1289 (Chapter 156)**

### **Tax corrections**

Makes numerous, technical, clarifying and conforming changes in the tax-related statutes in the Arizona Revised Statutes.