

# OVERVIEW OF 1997 TAX RELATED LEGISLATION

The links below will provide you with a synopsis of each piece of tax related legislation passed by the 43rd Legislature and approved by the governor. Each synopsis will also provide a link to the complete version of each bill.

---

## **FIRST REGULAR SESSION - 1997**

[TRANSACTION PRIVILEGE / USE TAX](#)

[INCOME TAX - WITHHOLDING](#)

[LUXURY TAX](#)

[PROPERTY TAX](#)

[MULTIPLE TAX TYPES](#)

[OTHER](#)

---

## **FIRST SPECIAL SESSION - 1997**

[INCOME TAX - WITHHOLDING](#)

[PROPERTY TAX](#)

---

TRANSACTION PRIVILEGE / USE TAXES

---

H2069 (Chapter 227)

## Use Tax Exemption; School Libraries

Provides transaction privilege tax and use tax exemptions for purchases of printed, photographic, electronic, or digital media materials by schools libraries and other publicly funded libraries.

Effective July 21, 1997; tax exemptions for printed or photographic materials are retroactive for taxable periods beginning from and after August 7, 1985, and tax exemptions for electronic or digital media materials are retroactive for taxable periods from and after July 17, 1994.

[Complete Version](#)

---

## H2199 (Chapter 3)

### Commercial Lease Sales Tax; Royalties

Provides an exclusion under the commercial lease classification for rights in real property granted or provided which constitute a *profit a prendre*. These include mining claim leases and leases related to the sale of mineral rights (royalties). The exclusion does not apply to leases of real property that are in addition to and not included in the granting of mineral rights or mining claims.

Note: See procedure for refund claims of tax paid on qualified mineral leases under S1132.

Effective July 21, 1997; provisions apply retroactively to March 22, 1968.

[Complete Version](#)

---

## H2353 (Chapter 109)

### Gila River Bridge

Establishes distributions of transaction privilege tax revenues to a county that has entered into an intergovernmental agreement with the state by June 30, 1998, for bridge construction to provide direct access to commercial, residential and recreational facilities.

Effective from and after September 30, 1997.

[Complete Version](#)

---

H2555 (Chapter 297)

Stadium District; Multipurpose Facilities

Allows the establishment of a multipurpose facility district by a county or by two or more municipalities in the same county, and authorizes a transaction privilege tax and excise tax for land, construction, financing, maintaining, operating and marketing of the multipurpose facilities (requires voter approval for taxation). Multipurpose facility is defined as a facility located in the district and designed to accommodate sporting and entertainment, cultural, civic, meeting or convention events.

Effective July 21, 1997.

[Complete Version](#)

---

S1018 (Chapter 110)

Light Motor Vehicle Fee

Provides a transaction privilege tax exemption under the transporting classification beginning January 1, 1998, for transporting for hire persons, freight or property by light motor vehicles subject to the annual light motor vehicle fees imposed under Title 28.

Effective July 21, 1997; the provisions become effective from and after September 30, 1997.

[Complete Version](#)

---

S1184 (Chapter 245)

Sales Tax; Nursing Home Campuses

Amends retroactive provisions to allow refunds to residents back to January 1, 1982, for

transaction privilege/use taxes paid on tangible personal property installed in an unlicensed residential care facility operated in conjunction with a licensed nursing care institution from December 31, 1981 to July 17, 1993. Refunds are granted regardless of existence of contractual relationship, and must be paid to past, current or future residents of the facility. Establishes rate of interest for refund/credit vouchers as 1% per year until June 30, 1998. Prohibits refunds prior to July 1, 1998. Refunds are capped at \$2M, but DOR may issue credit vouchers in excess of \$2M.

Includes non-severability clause.

Effective July 21, 1997; retroactive to January 1, 1982.

[Complete Version](#)

---

S1265 (Chapter 165)

Commercial Enhancement Reuse District

Allows a city or town, thru December 31, 2004, to designate a development as a commercial enhancement reuse district if certain qualifications are met, and allows them to issue certificates of qualification to prime contractors. Provides transaction privilege tax and use tax exemptions for prime contractors and sales of materials that are incorporated into such a project.

Effective July 21, 1997; with a delayed repeal date of December 31, 2004.

[Complete Version](#)

---

S1266 (Chapter 116)

Taxation of Wireless Telecommunication

Provides transaction privilege tax and use tax exemptions related to wireless communication equipment sold or furnished as an inducement to purchase telecommunication services. Also provides that a sale 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 contractor for telecommunication services is a sale for resale.

Effective July 21, 1997; applies retroactively to taxable periods beginning from and after December 31, 1989.

[Complete Version](#)

---

S1354 (Chapter 178)

Used Oil Amendments

Provides an exemption under retail and utilities classifications for sales of alternative fuel to a used oil fuel burner who has received a Department of Environmental Quality permit to burn used oil or used oil fuel. Provides a similar exemption under use tax.

Effective July 21, 1997.

[Complete Version](#)

---

S1363 (Chapter 75)

Excise Tax Assessments; Limitations

Provides a four year statute of limitations for assessments of use tax against vendors subject to collect the use tax, for retail sales to purchasers who had a transaction privilege tax or use tax license and who filed use tax returns for the period in which the sales were made. A written waiver may extend the period of time to assess the use tax. Also authorizes the department, when issuing a use tax deficiency assessment against a seller, to provide a credit or offset for any use tax, interest and penalty paid by the purchaser, and specifies the criteria for such credits or offsets.

Effective July 21, 1997; applies retroactively to use tax assessments issued after June 1, 1996.

[Complete Version](#)

---

S1441 (Chapter 258) Emergency Provision

## Telecommunications Tax; 911 Exchange Excess

Broadens the scope of the telecommunication services excise tax, which is imposed for the purpose of financing emergency 911 service and telecommunication devices for the deaf and the hearing and speech impaired. The tax imposed on wireless providers through June 30, 1999 may not exceed ten cents per month for each activated wireless service, and after June 30, 1999 it may not exceed twenty cents per month. The tax rate is set annually by the Joint Legislative Tax Committee no later than June 15th.

Effective April 29, 1997.

[Complete Version](#)

---

## S1452 (Chapter 287 ) Emergency Clause

### 1997 WQARF Program Amendments

Includes a Title 49 (environment) provision to prohibit a state tax on the sale or purchase of tangible personal property used in environmental response or remediation activities. This legislation also includes a provision to assure \$18M available annually for WQARF by transferring \$15M, plus any monies needed to offset a deficit in collected fees and appropriations, from the corporate income tax. When corporate income tax is insufficient to supplement collected fees and appropriations, transaction privilege tax revenues are to be used.

Effective April 29, 1997.

[Complete Version](#)

---

# INCOME TAX-WITHHOLDING

---

## H2074 (Chapter 48)

### Tax Credit; School Tuition Organization

Provides individual tax credits up to \$500 for cash contributions made to a qualifying school tuition organization, and up to \$200 tax credit for fees paid to a public school for support of extra curricular activities by a taxpayer. Credits may be carried forward for five years. Department of Revenue is required to report the fiscal impact of the tax credit provided to qualifying school tuition organizations by July 1, 1999.

Effective July 21, 1997; for taxable years beginning from and after December 31, 1997.

[Complete Version](#)

---

H2179 (Chapter 232)

Restructuring Incentives; Defense Contractors

Extends period in which Department of Commerce may certify qualified contractors for incentives program for additional three years until June 30, 2001. Also allows retroactive certification of defense contractors who did not request certification but previously met requirements.

Effective July 21, 1997.

[Complete Version](#)

---

H2237 (Chapter 269)

Air Quality Omnibus

Extends the individual and corporate income tax credits for purchase or conversion of alternative fuel vehicles of the purchase of an alternative fuel delivery system for an additional three years to January 1, 2002. Expands the provision to include alternative fuel vehicles that are leased for at least three years. The amount of the credit for taxable years 1997 through 2001 is increased to \$1000 per purchase, lease or conversion.

Effective July 21, 1997 for taxable year 1997.

[Complete Version](#)

## S1038 (Chapter 194)

### Group Self-Insurance; Workers' Compensation

Allows employers to establish workers' compensation pools for purposes of self-insurance in case of workers' compensation claims, and provides an exemption from Arizona income tax for such pools.

Effective July 21, 1997.

[Complete Version](#)

---

## S1052 (Chapter 238)

### Income Tax; Income Adjustments

Effective for taxable years beginning from and after December 31, 1996, reduces income tax liability for individuals by allowing a subtraction for expenses relating to taxable non-Arizona state/muni interest income. Allows subtraction for wages/salaries equal to federal work opportunity, empowerment zone employment, etc. received by taxpayer which are disallowed as deductions for federal purposes.

Effective July 21, 1997; provides limited relief for individual taxpayers who lost existing NOL carryovers due to the 1990 repeal of Arizona NOL provisions.

[Complete Version](#)

---

## S1054 (Chapter 62) Emergency Clause

### Taxation; Internal Revenue Code Conformity

IRS conformity provisions including estate tax, generation skipping tax, tax year specific (1991 through 1997) IRC applications for computation of Arizona income tax for individuals and corporations; includes provisions of IRC amended in 1996 with applicable taxable years (1991 through 1996), and for taxable years beginning from and after December 31, 1996, through

December 31, 1997 (1997 taxable year), the starting point for Arizona income tax computation is the IRC in effect on January 1, 1997.

Effective April 8, 1997.

[Complete Version](#)

---

S1055 (Chapter 171) Emergency Clause

Savings Account; Postsecondary Education

Establishes a family college savings program through a public-private partnership using selected financial institutions for the purpose of paying qualified higher education expenses of a specified beneficiary. Program must be qualified by IRS prior to implementation to take advantage of federal and state tax incentives. Also allows exemption from state income tax for withdrawal for qualified educational expenses.

Effective April 24, 1997.

[Complete Version](#)

---

S1268 (Chapter 121)

Withholding Tax; Nonresident Employees

Except for non-resident athletes and entertainers, exempts from withholding tax, wages or salary paid to nonresident employee of an entity having property, payroll and sales in Arizona, or a related entity having more than 50% direct or indirect common ownership. Nonresident employee is defined as one who is physically present in Arizona less than 60 days for the purpose of performing a service that will benefit the employer, however certain activities are excluded from being counted in the 60 day period. Allows non-resident employees to request withholding.

Effective July 21, 1997.

[Complete Version](#)

## S1298 (Chapter 282)

### Limited Liability Companies; Taxation

Amends the Arizona Limited Liability Act retroactive to December 31, 1996 to allow single member domestic or foreign limited liability companies and specifies the tax treatment of LLCs as either a corporation or a partnership or disregarded as an entity as determined by IRC.

Effective July 21, 1997; with various retroactive dates therein.

[Complete Version](#)

---

## S1301 (Chapter 177)

### Medical Savings Accounts; Federal Conformity

Replaces Arizona MSA with federal MSA model with exceptions. Provides transition for Arizona participants to new program, and establishes trustee reporting requirements.

Effective July 21, 1997; applies retroactively to taxable years beginning from and after December 31, 1996.

[Complete Version](#)

---

## S1357 (Chapter 300)

### Welfare Reform; Arizona Works Program

Tax credits for individuals and corporations allowed for net increases in qualified employment of Temporary Assistance for Needy Families (TANF) recipients. Also provides a tax credit for individuals of up to \$200 for contributions to qualifying charitable organization [501(c)(3)] spending at least 50% on services to TANF or low income residents.

Effective: July 21, 1997; for taxable years beginning from and after December 31, 1997.

[Complete Version](#)

---

S1399 (Chapter 218)

Energy Conservation Incentives

Provides individual and corporate income tax credits up to \$75 for each separate installation of solar hot water heater plumbing stub outs and electric vehicle recharge outlets when constructing new homes. Allows builder to transfer credit to new home buyer.

Effective on July 21, 1997 for taxable years beginning from and after December 31, 1997.

[Complete Version](#)

---

S1410 (Chapter 219)

Child Support; Omnibus

Amends confidentiality provisions of ARS 42-108 to expand the tax information which may be disclosed to the Department of Economic Security (DES) to the type of information which the IRS may disclose under IRC 6103(l)(6). Provides for DES access to department records for purposes of enforcing child support to the extent allowed by ARS 42-108. Also amends the debt setoff provisions with respect to joint income tax refunds claimed for overdue child support, by requiring DES to allocate such refunds between the obligated spouse (the only portion DES is entitled to retain), and the nonobligated spouse when a claim for such allocation is made.

Effective July 21, 1997.

[Complete Version](#)

---

## LUXURY TAX

---

## H2076 (Chapter 209)

### Omnibus Drug Bill

Repeals the requirements for luxury tax, stamps, and licensure of cannabis and controlled substances.

Effective: July 21, 1997.

[Complete Version](#)

---

## H2195 (Chapter 26)

### Luxury Tax; Ports of Entry

Allows the Department of Revenue and the Department of Transportation to enter into an interagency agreement to authorize Department of Transportation port of entry personnel to seize contraband shipments of tobacco on which Arizona cigarette tax has not been paid.

Effective: July 21, 1997.

[Complete Version](#)

---

# PROPERTY TAX

---

## S1035 (Chapter 19)

### Property Tax; Change in Use

Purchasers of class three (commercial) or four (agricultural) property who occupy the property as a residence can submit a request to be reclassified as class five (residential) property from date of conversion. A refund provision is included for persons who purchased or converted property and paid taxes on that property in legal class three for the 1995 or 1996 tax years, but used that property for residential purposes. Procedures are also included for petitioning for a

change of classification and effecting a refund of taxes paid on the difference in classification.

Effective July 21, 1997; retroactive to January 1, 1995.

[Complete Version](#)

---

S1248 (Chapter 147)

County Warrants; Taxes

Includes provisions to allow property taxes to be paid anywhere as designated by the treasurer, to conduct a tax lien sale on Saturdays, and to consider part of a month as a whole month when computing interest on delinquent taxes. Also raises the assignment fee for tax liens up to \$10, and changes the procedure for a taxpayer to file a Notice of Claim concerning an alleged error in the imposition of a tax rate with the County Board of Supervisors instead of the County Assessor. Changes the responsibility to the County Assessor for sending a notice to taxpayers who claimed a deferral of taxes for the preceding year advising that they must file another claim to receive deferral for the next year.

Effective July 21, 1997.

[Complete Version](#)

---

H2020 (Chapter 11)

Special taxing districts

Includes changes in the procedure under which boundaries of a sanitary district or fire district may be changed. Under this amendment, an owner of land located in a county that contains a sanitary district or fire district whose property is adjacent to the boundaries of such a district may make a written request to the district's governing body that the property owner's land be included in the district. The governing body can, upon finding that inclusion of that land is beneficial for both the district and the property owner, order that the district's boundaries be changed to include that land. Petitions and impact statements required for annexation of other lands are not required under this procedure.

Effective July 21, 1997.

[Complete Version](#)

## MULTIPLE TAX TYPES

---

### S1050 (Chapter 61)

#### Taxation of Cleanrooms

Provides that cleanrooms used for manufacturing, processing, fabrication or research and development of semiconductor products are to be valued and assessed as tangible personal property. Specifies that "cleanrooms" exclude the building or a permanent, nonremovable component of the building that houses the cleanroom environment. Also provides transaction privilege tax and use tax exemptions.

Effective July 21, 1997.

[Complete Version](#)

---

### S1088 (Chapter 14)

#### Tax Correction Act of 1997

Nonsubstantive technical changes to statutes relating to property tax, transaction privilege tax, generation skipping transfer tax, corporate income tax, individual income tax, and withholding tax.

Effective July 21, 1997; amends, due to a typographical error, the amount of property tax credit allowed for an individual who lives alone with a household income of \$2,351 to \$2,450 to \$345 from \$348.

Effective July 21, 1997; and applicable retroactively to September 30, 1992, the date of the original enactment of the Arizona credit, an amendment is provided to override the federal termination provisions of I.R.C. §41 regarding computation of allowable corporate research and development expenses tax credit so that the Arizona credit will not terminate.

Effective July 21, 1997; revises property tax rates used to calculate additional state aid for education and deletes the statutory citation for definition of "bees" for purposes of property tax

exemption for productive livestock and animals, and conforms language with the Constitutional amendment relating to maximum personal property exemption amounts.

[Complete Version](#)

---

S1130 (Chapter 150)

Tax Code Recodification

Recodification of Title 42 with nonsubstantive amended language for clarity and removal of references to gender. Provides that the interpretation and construction of the tax code are not to be changed solely due to changes made by the recodification. Actions, liens, bonds, proceedings, etc., prior to the bill's effective date are to remain in effect, as are all forms and other documents that are based on or refer to Title 42. The latter remain valid until superseded by revised documents.

Effective from and after December 31, 1998.

[Complete Version](#)

---

S1132 (Chapter 274)

Tax Code; Omnibus Corrections

Includes tax exemptions retroactive from and after June 30, 1997 for materials purchased by prime contractors that do soil remediation work, and for the purchases of tangible personal property used in soil remediation activities (cleanup from S1452 WQARF);

Provides tax exemptions retroactive to from and after December 31, 1981, under retail and restaurant classifications for food and beverages that airlines furnish without additional charge to passengers for consumption in flight.

Clarifies that a person who has paid an excise tax on out-of-state purchases at a rate less than Arizona's use tax rate is required to pay Arizona use tax on the difference.

Provides that refund claims of tax paid on qualified mineral leases from the grant of profit a prendre are due on or before December 31, 1997, and establishes an aggregate refund cap of

\$100,000 (reference H2199, Chapter 3).

Changes adopted affecting property tax include various statutes relating to judicial appeals of property tax matters to clarify that such appeals may be taken to either the Tax Court or Superior Court. Also includes the adoption of a definition of "valuation year" and specifies the time period in the property tax calendar referred to in statute.

Effective July 21, 1997; please note above retroactive dates.

[Complete Version](#)

---

## OTHER

---

S1024 (Chapter 99)

Tires; Waste Tire Disposal

Provides that the Department of Environmental Quality is to receive a copy of the Department of Revenue annual report to the legislature on the collection and distribution of monies in the waste tire fund.

Effective: July 21, 1997.

[Complete Version](#)

---

## INCOME TAX-WITHHOLDING

---

S1008 (Chapter 8)

Tax Relief Act of 1997

Reduces individual income taxes through rate reduction and through an increased personal

exemption for married taxpayers who claim at least one dependent.

Effective June 26, 1997 to apply retroactively for taxable years beginning from and after December 31, 1996.

[Complete Version](#)

---

## PROPERTY TAX

---

SB1003 (CHAPTER 3)

Omnibus Public Finance Budget Reconciliation

Includes provisions for administration of various tax types and treatment of funds in the state budget process. The single provision in the bill relating to property tax changes the distribution of property taxes on airline flight property so that fifty per cent of the revenues are deposited in the state general fund and fifty per cent in the aviation fund.

Effective July 21, 1997.

[Complete Version](#)

---