

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.

2014 Legislative Summaries

**State of Arizona
Department
of Revenue**

This document contains summaries of 2014 legislation from the Fifty First Legislature – Second Regular Session.

2014 Legislative Summaries

The following is intended to give a brief summary of the 2014 tax-related legislation impacting the Department of Revenue (DOR) and not intended to discuss the details of any specific enactment. Detailed summaries of these bills can also be found at www.azleg.gov. Please refer to the particular legislation for more definitive information.

The general effective date for legislation enacted during the First Special Session is July 24, 2014. All legislation will have this effective date unless otherwise noted in the summary.

Income Tax

HB 2046 (Chapter 43)

Disaster recovery; businesses; tax; regulation

See Multiple Tax Types

HB 2272 (Chapter 168)

Tax credits; capital investments; employment

Small Business Investment Tax Credit

The Small Business Investment Tax Credit is extended through tax year 2024. The Arizona Commerce Authority (ACA) is authorized to approve tax credits through fiscal year 2021.

The maximum amount of an investment in any single small business that a taxpayer can apply towards a tax credit is increased from \$250,000 to \$500,000. The deadline for application for a credit is extended from 30 to 90 days after the investment.

Quality Jobs Tax Credit

Allows a taxpayer to remain eligible for the Quality Jobs Tax Credit in all three years of eligibility if a full-time employee in the newly created job leaves the position, as long as the position is filled by another qualified full-time employee and is not

vacant for more than 90 days from the original date the position was filled to the end of the current TY.

R&D Tax Credit

Beginning TY 2015, taxpayers must obtain certification from the ACA that basic research payments meet statutory requirements prior to application to DOR for preapproval of additional income tax credits for increased research activities involving basic research payments to a university.

HB 2377 (Chapter 10)

Income tax brackets; inflation index

For tax year 2015, the Department is required to adjust the income dollar amounts for each individual income tax rate bracket by the average annual change in the metropolitan Phoenix consumer price index.

SB 1081 (Chapter 68)

Tax credit; excise; SSN

Beginning in tax year 2015, eligibility for the Tax Credit for Increased Excise Taxes Paid requires a valid social security number or federal tax identification number for the claimant, spouse, and qualifying children.

Transaction Privilege Tax/Use Tax

HB 2283 (Chapter 139)

Property taxes; postmark; filing by mail

See Multiple Tax Types

HB 2285 (Chapter 54)

TPT; refined coal transfer; exemption

Exempts the transfer of title or possession of coal from an owner or operator of a power plant to a person in the business of refining coal from TPT and municipal taxes if the transfer of title or possession of the coal is for the purpose of refining coal and the title or possession of the coal is transferred back to the owner or operator of the power plant after completion of the coal refining process.

Coal acquired from an owner or operator of a power plant by a person who is responsible for refining coal is exempt from use tax if the transfer of title or possession of the coal is for the purpose for refining the coal and the title or possession of the coal is transferred back to the owner or operator of the power plant after completion of the coal refining process.

The transfer of title or possession of coal from an owner or operator of a power plant to a person in the business of refining coal is not deemed as being engaged in business classified under the TPT retail classification.

HB 2288 (Chapter 141)

Sales tax; reduced reporting requirements

Beginning January 1, 2015, the Department is required to allow taxpayers with an annual transaction privilege tax liability between \$2,000 and \$8,000 (increased from \$500 and \$1,250) to

SB 1300 (Chapter 223)

Internal revenue code conformity

Incorporates the federal changes made in 2013 into Arizona's definition of "internal revenue code."

SB 1301 (Chapter 245)

2014 tax corrections

See Multiple Tax Types

SB 1326 (Chapter 120)

State parks; donations; fund; transportation

The Department is required to provide a check off box on the individual income tax return form in which a taxpayer may designate an amount of the taxpayer's refund as a voluntary contribution to the newly established Sustainable State Parks and Roads Fund.

Monies in the Fund are specified to be used by the Arizona State Parks Board to operate, maintain and make capital improvements to state parks.

SB 1484 (Chapter 8)

Tax credit; manufacturers; renewable energy

Establishes an individual and corporate income tax credit for taxpayers who investment at least \$300 million in a three-year period in new "renewable energy facilities" in Arizona. To qualify, the facilities must produce energy for self-consumption and used primarily for manufacturing. The amount of the credit is \$1 million per year for five years for each renewable energy facility, and the maximum credit allowed per taxpayer per year is \$5 million. A credit may not be claimed for any tax year after 2025.

pay TPT on a quarterly basis; taxpayers with annual TPT liability of less than \$2,000 (increased from less than \$500) are authorized to pay on an annual basis.

HB 2389 (Chapter 263)

Transaction privilege tax changes

Licensing

Standardizes state and municipal transaction privilege tax (TPT) licensing processes by requiring a person engaging or continuing in business to annually apply for a license. TPT licenses are valid for only the calendar year in which it is issued and must be renewed by January 1.

There is no state fee for license renewal. Municipal TPT licensing and renewal fees may be imposed up to \$50. A penalty of up to \$25 for failure to timely renew a municipal TPT license may be imposed.

Taxpayers who operate in multiple locations or under multiple names must obtain a TPT and municipal TPT license for each location. Taxpayers who operate in multiple locations or under multiple names and files a consolidated tax return is required to pay only one municipal TPT renewal fee for each jurisdiction. Taxpayers who operate in multiple locations or under multiple names and does not file a consolidated tax return is required to pay a license renewal fee for each location in each jurisdiction.

Requires, beginning October 1, 2014, the Department, to mail a single TPT license renewal notice to each taxpayer. The notice must include all locations maintained by the taxpayer.

Administrative Procedures

The cost of credit card convenience fees that are paid by taxpayers for tax payments can now be extended to other fees and payments.

Eliminates the expanded online portal for filing and paying municipal TPT and allows, rather than requires, current non-program cities to pay for the electronic system maintained by the Department.

Municipal TPT levied by a city or town will be governed by state tax administration statutes and appeals of audit assessments are administered pursuant to state procedures.

Trained and certified third-party auditors are precluded from representing a taxpayer in any tax matter.

Establishes procedures to address refund requests related to municipal TPT returns filed prior to January 1, 2015.

The Department may establish a system to allow for e-signatures on all returns, statements, and other filed tax documents regardless of whether the system complies with current electronic and digital signature statutory requirements.

Taxpayers operating in multiple locations or under multiple names are required to e-file tax returns.

Hearings pursuant the Model City Tax Code for non-program cities relating to liabilities established before January 1, 2013 and appeals from supplementary audits performed by program cities for all audits and assessments initiated prior to January 1, 2015 will be heard by the Municipal Tax Hearing Office.

Prime Contracting Classification

The Department is required to provide a specific exemption certificate for contractors who are no longer required to be licensed and pay TPT under the prime contracting classification.

Clarifies that the gross proceeds of sales or gross income derived from a contract with the owner of real property for the maintenance, repair, replacement or alteration of existing property is not subject to TPT.

The definition of modification is clarified by eliminating “addition” and “subtraction”.

Restaurant Classification

Qualifying transactions made with benefits issued to members of the Supplemental Nutrition Assistance Program (SNAP) under the Restaurant Program are exempted from TPT.

HB 2415 (Chapter 228) **Prime contracting deductions; waste facility**

Retroactive to January 1, 2013, establishes a deduction under the prime contracting classification of the TPT for the gross proceeds of sales or gross income derived from a contract for the construction of a mixed waste processing facility located on a municipal solid waste landfill that is constructed for the purpose of recycling solid waste or producing renewable energy from landfill waste.

HB 2546 (Chapter 174) **Alarm businesses; alarm agents; regulation**

Beginning January 1, 2015, exempts alarm system monitoring services from municipal transaction privilege tax.

HB 2701 (Chapter 276) **TPT; health sciences institutions; exemption**

Personal property that is sold to or purchased by a qualified health sciences educational institution is exempt from transaction privilege, use and municipal excise tax.

SB 1301 (Chapter 245) **2014 tax corrections**

See Multiple Tax Types

SB 1331 (Chapter 121) **Model City Tax Code; changes**

Specifies that retroactively to taxable periods beginning July 2, 1988, any changes to the model city tax code that are not reflected in the official copy on file with the Department of Revenue are void and have no effect.

Any claim for a refund of transaction privilege tax paid based on the retroactive application of this legislation must be submitted to the Department or the appropriate city by December 31, 2014. The burden is on the taxpayer to establish by competent evidence the amount of any such refund claim. The total amount of refunds issued based on the retroactive application cannot exceed \$10,000.

SB 1413 (Chapter 7) **Taxes; manufacturers’ electricity sales; exemption**

The 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 business that is principally engaged in manufacturing or smelting operations from transaction privilege tax under the utility classification and use tax. Qualified manufacturing or smelting operations must use at least 51% of its electricity in the manufacturing or smelting operation.

Property Tax

HB 2283 (Chapter 139)

Property taxes; postmark; filing by mail

See Multiple Tax Types

HB 2395 (Chapter 209)

Property tax calculations; school districts

The county school superintendent is required to annually certify the amount of Equalization Assistance and additional amount to be levied from primary property taxes to the Property tax Oversight Commission (PTOC) by July 25.

Additionally, the county school superintendent must annually file an estimate of the amount of monies required by each school district in the ensuing year, based on each school district budget, with the governing board of each school district and the PTOC by July 25.

The PTOC is required to review the primary property tax calculations.

The county school superintendent must annually file the amount required to be levied for each school district, for primary property taxes, with the County Board of Supervisors and PTOC by the third Monday in August.

If the PTOC notifies a school district of an incorrect calculation and the school district disputes the finding, a hearing may be held before the PTOC.

HB 2403 (Chapter 264)

Renewable energy equipment; valuation

For purposes of valuing renewable energy equipment, taxable original cost is defined as the original cost of the renewable energy equipment

minus the value of applicable investment and production tax credits or cash grants.

SB 1301 (Chapter 245)

2014 tax corrections

See Multiple Tax Types

SB 1352 (Chapter 249)

Property tax roll; corrections

Updates statutes related to corrections to the tax roll.

Annual Notice of Full Cash Value

If an assessor discovers an incorrect opinion of value, the assessor has 60 days to amend a notice of valuation. The assessor must inform the property owner of any amendments to a notice of valuation and to certify the amended notices with the Board of Supervisors and the Department of Revenue. Before mailing amended notices of valuation, the assessor must receive approval from DOR.

Destruction of Property after Closure of the Tax Roll

Property owners may file a notice of claim to prorate a property's value from the date of destruction, in the event that property is destroyed after the assessor has closed the tax roll. The assessor is required to prorate the property value from the lien date to the date of destruction.

Notice of Proposed Correction

The tax officer (the Department of Revenue, county assessor or county treasurer, as applicable) is required to mail a taxpayer a notice of the proposed correction after a determination that real or personal property has been assessed improperly as a result of a property tax error.

Multiple Tax Types/Misc.

HB 2046 (Chapter 43)

Disaster recovery; businesses; tax; regulation

Out-of-state companies and employees who are in Arizona temporarily to perform disaster recovery work during a disaster period are exempt from income, withholding, use and property taxes.

HB 2283 (Chapter 139)

TPT; postmark; filing by mail

Specifies that tax returns and payments that are mailed and do not contain a post mark date are considered timely if received within 5 days of the due date of the filing.

For taxpayers choosing to file and pay by any other method, transaction privilege tax returns and payments are considered delinquent if not received by the second to last business day of the month.

HB 2694 (Chapter 275)

Theme park districts; formation; bonds

Makes statutory changes for the formation and regulation of Theme Park Districts (Districts). A District may include a combination of a county with a population between 125,000 and 150,000 persons and a city with a population between 3,000 and 5,000 persons that is located entirely in that county. Additionally, a District may be established with a single theme park site. After the District is initially established, additional sites may be added and the geographical boundaries be modified.

Removes the requirement that negotiable revenue bonds issued by a District be insured.

Taxpayers may appeal any valuation or legal classification issue that arises from the proposed correction made by the tax officer. The tax officer must meet with the taxpayer to discuss the proposed correction. The tax roll must be corrected immediately if the tax officer and taxpayer agree on all or part of the proposed correction, which must be ratified in a signed agreement.

If the parties fail to agree on all or part of the proposed correction, the tax officer is required to serve a notice to the taxpayer within thirty days after the meeting date, informing the taxpayer that the tax roll will be corrected to the extent agreed. The taxpayer may file a petition with the State Board of Equalization within 30 days after the date of the notice.

Notice of Property Tax Error Claim

If the tax officer disputes a property tax error brought forth by a notice of claim, the tax officer must notify the taxpayer of the time and place of a meeting between the taxpayer and the tax officer within sixty days of receiving a notice of claim.

The tax roll is required be corrected immediately should both parties come to an agreement. The taxpayer may file a petition with the State Board of Equalization in the event that an agreement cannot be reached.

Corrected Billing Notice

The County Treasurer must mail a corrected billing to the taxpayer after the taxpayer consents to a tax roll correction, the tax officer consents to the notice of claim, the Board makes a final decision, or the final ruling by a court of competent jurisdiction.

The assessed taxes must be paid within 90 days after the date the corrected billing is mailed to the taxpayer, or be declared delinquent.

SB 1160 (Chapter 185)**Registrar of contractors; discipline grounds**

The Registrar of Contractors is required to temporarily suspend or permanently revoke the license of a person upon notice from the Department of Revenue that a tax debt related to income taxes, withholding taxes or transaction privilege taxes incurred in the operation of the licensed business has become final and the person neglects to pay or refuses to pay the tax debt.

SB 1301 (Chapter 245)**2014 tax corrections**

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

SB 1351 (Chapter 80)**Multipurpose facilities districts; rio nuevo**

Modifies the membership of the Rio Nuevo Multipurpose Facilities District Board of Directors to include residents of the county in which the District is located, at least four of whom must reside in the municipality in which the District is located.

The Board must submit an annual report by October 1 of each year regarding the activities, operations, revenues and expenditures of the District for the preceding fiscal year.

The requirement that monies distributed to the District can only be used until a notice to proceed is issued for a hotel and convention center located on the multipurpose facility site is eliminated.

For public funds distributed and expenditures of greater than \$500,000 or more, each Board member must provide advance notice of the consideration of the expenditure. The notice must be provided at least two weeks before the date of

the meeting and must be posted to the District's website on the day the notice is mailed.

Each Board member must also provide a written statement as to whether the member has financial interest in the subject of the proposed expenditure. The Board may not artificially divide or fragment planned expenditures in order to circumvent the expenditure requirements.

Luxury Tax

HB 2674 (Chapter 160)**Tobacco settlement agreement**

Beginning July 1, all tobacco product distributors must electronically file returns and reports using the DOR e-file program. Additionally, distributors of other tobacco products must remit taxes by electronic funds transfer on or before the due date. Failure to comply will result in a 5% penalty. Any tobacco distributor or liquor wholesaler who fails to file a required report or return is subject to a civil penalty of \$100 per month, with a maximum penalty of \$500, for any single report or return.

Codifies wholesaler, distributor and retailer requirements currently contained in the Arizona Administrative Code.

Establishes conditions for the issuance, suspension and cancelation of distributors' licenses.

End dates the current 1-4% tiered structure discount rate for cigarette tax stamps to the periods prior to October 1, 2014. Establishes a new discount cigarette tax stamp rate at 96% of the stamp's face value for periods beginning October 1, 2014. Refunds or rebates will be given in an amount equal to 96% of the stamp's face value.

DOR is authorized to enter into intergovernmental agreements with tribes for the purpose of collecting and administering tribal tobacco taxes on

behalf of the tribe, provided that such agreements include a uniform or coordinated audit process.

SB 1180 (Chapter 110)

Luxury privilege tax; cider; definition

The definition of "cider" is expanded to include vinous liquor made from the normal alcoholic fermentation of the juice of sound, ripe pears or other pome fruit.
