



# 2016 Legislative Changes

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# 2016 Session at a Glance

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- **Adjourned Sine Die – 5/4/2016 117 Days**
- **Total Bills Introduced – 1247**
- **Total Bills Passed - 387**
- **Total Bills Tracked by DOR – 144**
- **Total Bills Enacted with DOR Impact – 41**
- **DOR Agency Bills Introduced – 3**
- **DOR Agency Bills Passed – 3**
- **Director Briant Confirmed by Senate**



# Department Administration

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- Department continued for 4 additional years
- Amnesty/Tax Recovery Program
- Tax Settlement Program for Native American Veterans who had state income tax withheld by the Department of Defense between 1993 and 2005.
- Develop and implement tribal consultation policies
- Electronic Submittal of Agency Budget Estimates and Statutorily Required Reports
- Annual Reporting of Fiscal Year Individual and Corporate Tax Credits to JLBC & OSPB

• Local Government Assessments to fund a portion of Department's Budget (\$21M)



# Conformity Issues

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- **Federal Partnership Audits**
  - If elected, partnership can pay any underpayment of AZ income tax in lieu of passing the adjustments through to the partners
  - Forms and Instructions under development
- **AZ allows an exclusion from gross income for of civil damages, restitution, or other monetary award for wrongfully incarcerated individuals**
  - Refund claims must be received by 12/18/16
  - 6 month period to review amended return from date of final federal adjustment



# Tax Amnesty/Tax Recovery

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- **September 1 through October 31**
- **Eligible Tax Types**
  - Income (Individual, Corporate & Fiduciary)
  - TPT, Use & Severance (State, County & Municipal)
  - Other special excise taxes and surcharges (Jet fuel, car rental, etc.)
- **Eligible Tax periods**
  - TY 2013 and prior for annual
  - January 2015 and prior for all others
- **Eligible Taxpayers include those who:**
  - Have an outstanding tax debt
  - Failed to file or report proper tax due for eligible tax periods



# Tax Amnesty/Tax Recovery

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- **Requirements**

- Complete Tax Recovery Application
- Payment of at least 1/3 of liability
- Application and payment received by October 31
- Not Currently Under Audit

- **Benefits**

- 3-Year Payment Play Option
- Abatement of Interest and Penalties
- No civil, administrative or criminal actions by DOR

- <https://www.azdor.gov/TaxRecovery.aspx>



# Native American Veterans' Tax Settlement Program

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- **\$2M is deposited into the Fund July 1, 2016 to be administered by DOR**
- **5% is allocated each fiscal year to DOR to cover costs actually incurred in administration**
- **5% is allocated each fiscal year to Veterans' Services to cover costs actually incurred in administration**
- **Any money leftover is swept to the general fund on July 1, 2019.**



# Native American Veterans' Tax Settlement Program

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- **What does the Claimant have to demonstrate?**
  - Was an enrolled member of tribe
  - Maintained a domicile on their reservation or their spouses reservation
  - Had Arizona withholding from veteran's active military duty pay after September 1, 1993 and before January 1, 2006 and the amount withheld has not been refunded and cannot be claimed as a refund by filing an AZ return



# Native American Veterans' Tax Settlement Program

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- **Apply with AZ Department of Veterans' Services**
  - 210 Days to Approve or Deny
- **Approved Claims Sent to DOR for Final Approval**
  - 210 Days to Approve or Deny



# Transaction Privilege Tax (TPT)

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- Establishes a mechanism, beginning in 2017, for an online lodging marketplace to voluntarily agree to be a licensed taxpayer in order to file and pay State and municipal TPT on behalf of its client owners that offer residential short-term vacation rentals.
- Before January 1, 2018, the Department is required to develop an electronic consolidated return for property management companies to file and pay residential rental tax on behalf of their clients.
- Out-of-State Wineries that want to sell wine directly to Arizona consumers must be obtain a TPT license and pay all applicable taxes.



# TPT - Continued

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- ***Expanded Exemptions***

- Electricity, natural gas & propane purchased by qualified manufacturers
- Equipment purchased by certified computer data centers
- Aircraft purchases by persons federally licensed to transport passengers for hire
- Noncommercial agricultural feed

- ***New Exemptions***

- Entry fees for noncompetitive athletic races operated by 501(c)3 organizations
- Fine art sold by art galleries and art auctions
- Transportation Network Companies permitted by MVD
- Leasing or renting billboards



# Income Tax

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- **2-year phase in to conform AZ with federal special 50% bonus depreciation allowance**
- **Doubles the maximum income tax credit claimed for contributions to a Qualifying Charitable Organization**
- **Creates a separate income tax credit (\$500 single/\$1000 m/fj) for contributions to a Qualifying Foster Care Organization**
- **Extends the deadline for contributions to QCOs and QFCOs from 12/31 to 4/15 to be eligible for the income tax credit**
- **Expands the income tax credit for public school extracurricular activities to include fees and contributions for:**

Activities that do not charge a fee for students to participate

CPR instruction



# Property Tax

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- **Allows property tax bills of less than \$100 to be paid in full by December 31 before becoming delinquent**
- **Requires residential property used for short-term vacation rentals to be classified as either class 3 or class 4 property, depending on primary use**
- **Classifies real property and improvements with a conservation easement as Class 2 property, with a 15% assessment ratio**
- **A proposed community college district, county or municipal tax levy that increases by 15% or more from the previous year must be approved by a unanimous roll call vote of the jurisdiction's governing body.**



# Luxury Tax

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- **Applies a new discount rate of 3.52% for the acquisition of tobacco stamp beginning 10/1/16. The discount rate also applies to rebates on purchases of tobacco stamps for cigarettes that were ultimately sold on tribal lands where the Tribe imposes a tobacco tax.**
- **Licensed out-of-state wineries that sell wine directly to Arizona consumers must pay all applicable liquor luxury taxes.**



# Unclaimed Property

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- **Develop metrics to evaluate contract auditors**
- **Provide Holders under audit with a “Notice of Rights”**
- **Issue RFI for a contract with contract audit vendors based on an hourly fee structure**



# Tax Policy Trends Since 2000

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- **Approximately 200 legislatively enacted tax reductions**
- **72 reductions in individual income tax**
  - 30 individual & corporate income tax credits
- **39 reductions in corporate income tax**
- **61 reductions in state transaction privilege tax**
- **30 reduction in other tax types (Property, VLT, Insurance Premium)**



# Categories of Tax Policy Trends

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- **Economic Development**
  - Individual & Corporate Rate Reductions
  - Corporate Income Apportionment
  - R&D Tax Credits
  - Angel Investment Tax Credits
  - Quality Jobs & Qualified Facilities Tax Credits
  - Sec. 179 Expensing & Special Bonus Depreciation
- **General Tax Reduction**
  - Indexing Tax Brackets and Specific Deduction Amounts to Inflation
  - NOL Carryforward from 5 to 20 years
  - Property Tax Assessment Ratio Reductions
- **Targeted Industry**
  - Renewable Energy Facilities and Production
  - Healthy Forests
  - Manufacturing
  - Motion Pictures (expired)
  - Spaceport Launch Site



# Categories of Tax Policies – contd.

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- **Targeted Businesses**
  - Corporate Tax Apportionment for Income of Certain Intangibles
  - International Operations Centers
  - TPT Exemptions for Health Science Institutions, Mixed Waste Facilities
  - “Cost” Definition for Valuation of Renewable Energy Production Facilities
- **Social Policy**
  - Tax Credit for Qualifying Charitable Orgs & Qualifying Foster Care Orgs
  - Tax Credit for School Tuition Orgs
  - Income Tax Exemption for Active Duty Military Pay
  - Tax Credits for Employment of TANF Recipients & Natl. Guard Members



# Categories of Tax Policies – contd.

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- **Policy Modifications**
  - Sales of Electricity to Manufacturers
  - Tax Incentives for Data Centers
  - Sales of Agricultural Feed
  - Prime Contracting Changes
- **Audit/Court Decision Reversals**
  - Ignition Interlock Devices, Destination Management Companies, Charter Aircraft, Billboards, Independent Functional Utility, Gift Cards, Crop Dusters, Education-related Software Application Services



# Categories of Tax Policies – contd.

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- **DOR Administration – Unfunded Mandates**
  - PTOC
  - Amnesty Programs
    - *5 in past 13 years (2003, 2009, 2011, 2015, 2016)*
  - STO Tax Credit Administration
    - *General Oversight, Reporting Requirements, Pass-through Entity Tracking, Corporate Cap Management*
  - Tax Credit Monitoring & Reporting Requirements
  - NOL Carryforward
    - *Record Retention*



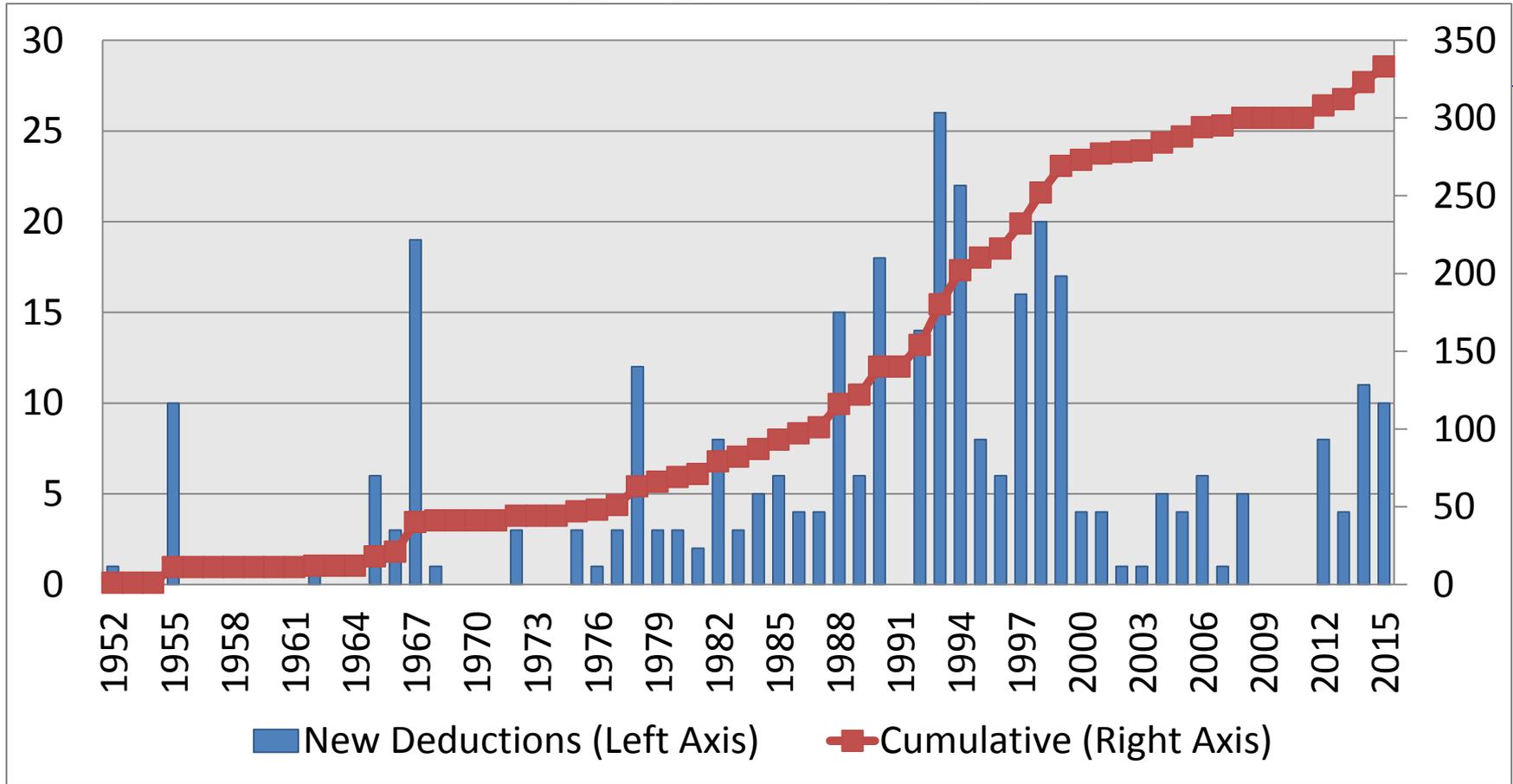
# Timeline Trends

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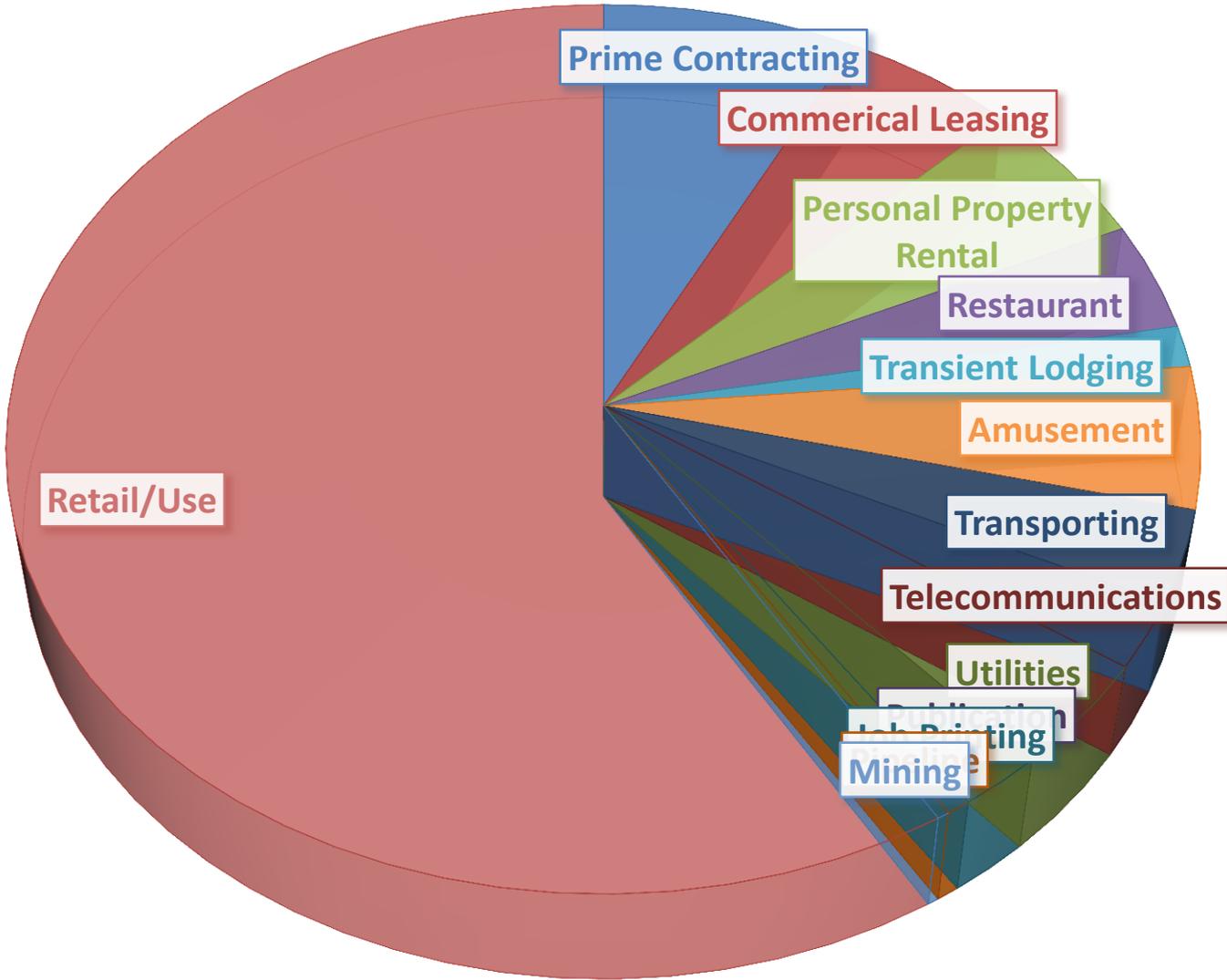
- **1990s through Mid 2000s – Individual Income Tax Reductions were the primary focus**
  - Rate Reductions
  - Elimination of the “marriage penalty”
- **Corporate Income Tax Reductions**
  - Competitiveness, job creation
- **TPT changes have risen to the forefront this decade**
- **Credits!**



# Total number of TPT deductions has grown from 1 in 1952 to 333 in 2015



# Number of Retail/Use deductions, 197, by far outstrip any other TPT classification



# The End

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- Questions?

