

# Arizona Tax 101

Arizona Tax Research Association  
2010 Outlook Conference

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# Total State and Local Taxes in Arizona FY 2010

Sales	\$7,364,083,841
Property	\$7,043,999,906
Income	\$2,836,408,014
<b>Subtotal</b>	<b>\$17,244,491,761</b>
Other Taxes	\$1,885,432,227
<b>Total</b>	<b>\$19,129,923,988</b>

# Common Characteristics of Most States

## *Three Legs to Most State & Local Stools*

- ▶ 50 - Property
- ▶ 46 - Sales
- ▶ 43 - Individual Income
- ▶ 46 - Corporate Income

# There Has Been On-going Debate About The Efficacy of our System for Decades

*Many Study Committees*

- ▶ Fiscal 2000 - 1999
- ▶ CFRC - 2004
- ▶ TRAC - 2004
- ▶ Usually jump-started for two reasons:
  - Impetus for real tax reform
  - Cover for tax increases
  - Combination of both

# Performance of Arizona's Tax System

## ATRA's Three Decade Analysis 1980-2010

- ▶ Arizona's tax system is far from perfect and in need of reform in some key areas;
- ▶ However, as a revenue producer, the system performed quite well from 1980 through 2010.

# How Has The System Performed?

## Per Capita Tax Collections (1980-1990-2000-2010)

(Inflation Adjusted To 1980 \$)

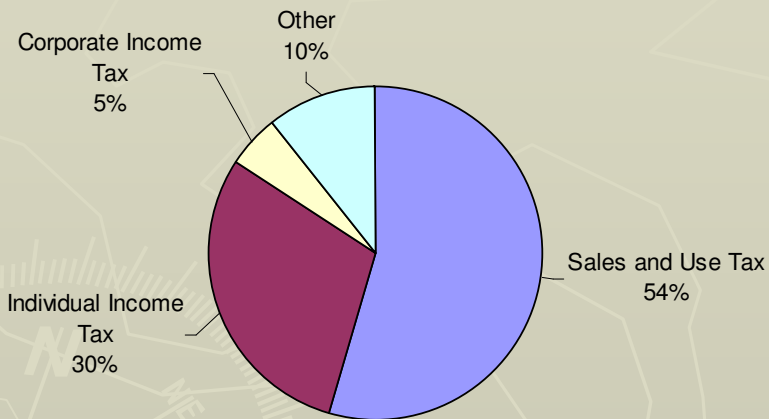
<b>Year</b>	<b>Per Capita</b>	<b>Decade Change</b>	<b>%</b>
1980	\$950.58		
1990	\$1,269.16	\$318.58	33.5%
2000	\$1,461.71	\$192.55	15.2%
2010	\$1,293.73	-\$167.98	-11.5%
<b>1980 to 2010 growth:</b>		<b>\$343.15</b>	<b>36.1%</b>

# Arizona's Tax System & The Three-Legged Stool

- ▶ The three legs of Arizona's tax stool also saw minimal change between 1980 and 2000:

	<b>1980</b>	<b>2000</b>	<b>2010</b>
Sales	38%	38%	38%
Property	32%	28%	36%
Income	17%	21%	14%

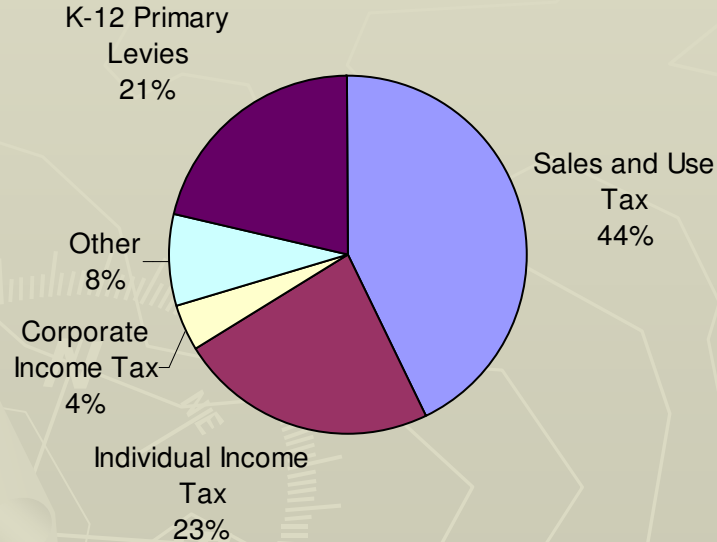
# FY 2011 General Fund Revenue



<b>Source</b>	<b>Revenue (Millions)</b>
Sales and Use Tax	4,519.7
Individual Income Tax	2,470.9
Corporate Income Tax	446.3
Other	871.1
<b>TOTAL REVENUE</b>	<b>8,308.0</b>



# FY 2011 General Fund Revenue (Includes K-12 Primary Levies)



<b>Source</b>	<b>Revenue (Millions)</b>
Sales and Use Tax	4,519.7
Individual Income Tax	2,470.9
Corporate Income Tax	446.3
Other	871.1
K-12 Primary Levies	2,263.0
<b>TOTAL REVENUE</b>	<b>10,571.0</b>

# National Rankings

## *Total State & Local Taxes*

### Total Tax Collections - State and Local FY2007

Per Capita

Per \$1,000  
of Income

State	Amount	Rank	Amount	Rank
<b>ARIZONA</b>	<b>3,589.85</b>	<b>33</b>	<b>116.98</b>	<b>22</b>
<b>U.S. Average</b>	<b>\$4,195.07</b>		<b>\$116.19</b>	

# National Rankings

## *Total State & Local General Sales Taxes*

<b>General Sales Tax Collections - State and Local</b>				
<b>FY2007</b>				
<b>Per Capita</b>			<b>Per \$1,000 of Income</b>	
<b>State</b>	<b>Amount</b>	<b>Rank</b>	<b>Amount</b>	<b>Rank</b>
<b>ARIZONA</b>	<b>1,440.83</b>	<b>5</b>	<b>46.95</b>	<b>6</b>
<b>U.S. Average</b>	<b>1,007.09</b>		<b>\$ 27.86</b>	

# National Rankings

## *Total State & Local Property Taxes*

<b>Property Tax Collections-State &amp; Local</b>				
<b>FY 2007</b>				
<b>Per Capita</b>			<b>Per \$1,000 of Income</b>	
<b>State</b>	<b>Amount</b>	<b>Rank</b>	<b>Amount</b>	<b>Rank</b>
<b>ARIZONA</b>	<b>957.08</b>	<b>36</b>	<b>31.19</b>	<b>29</b>
<b>U.S. Average</b>	<b>\$1,260.09</b>		<b>\$34.92</b>	

# National Rankings

## *Total State & Local Individual Income Taxes*

Individual Income Tax Collections-State & Local FY 2007				
Per Capita			Per \$1,000 of Income	
State	Amount	Rank	Amount	Rank
<b>ARIZONA</b>	576.51	40	18.79	40
<b>U.S. Average</b>	\$1,156.16		\$31.89	

# National Rankings

## *Total State & Local Corporate Income Taxes*

<b>Corporate Income Tax Collections</b>				
<b>FY 2007</b>				
<b>Per Capita</b>			<b>Per \$1,000 of Income</b>	
<b>State</b>	<b>Amount</b>	<b>Rank</b>	<b>Amount</b>	<b>Rank</b>
<b>ARIZONA</b>	<b>151.71</b>	<b>26</b>	<b>4.94</b>	<b>22</b>
<b>U.S. Average</b>	<b>\$196.12</b>		<b>\$5.42</b>	

# Snapshot of AZ's Tax System

## Average Overall Reliance

- High Sales Taxes
- Average Property Taxes
  - High Business Property Taxes
  - Low Homeowner Property Taxes
- Low Personal Income Taxes

# Property Tax

- Arizona's system is generally regarded as one of the most complex in the country
- Several aspects of the property tax system have created significant policy problems:
  - High Business Property Taxes
  - 1% Residential Cap
  - Accountability
- Several ATRA-backed reforms have improved the system over the last 16 years



# A Quick Review of the Basics:

- A 1980 property tax initiative established the framework for our current system:

**1. Unlimited (Secondary) Values**

**2. Limited (Primary) Values**

# Unlimited (Secondary) Values

- ▶ Property valued at its full cash (market) value
- ▶ No limit on annual growth in value
- ▶ State has experienced dramatic growth
  - *State's property tax base has more than doubled in last 10 years (138%)*

# Secondary NAV Growth

County	TY 2000	TY 2009	TY 2010	1-Year Change	10-Year Change
Apache	\$332,086,804	\$524,950,227	\$541,020,129	\$16,069,902	\$208,933,325
Cochise	\$503,459,048	\$1,060,241,909	\$1,111,756,015	\$51,514,106	\$608,296,967
Coconino	\$1,004,868,701	\$2,155,851,009	\$2,053,368,455	-\$102,482,554	\$1,048,499,754
Gila	\$316,076,473	\$649,743,734	\$600,837,768	-\$48,905,966	\$284,761,295
Graham	\$91,427,926	\$260,032,536	\$242,900,116	-\$17,132,420	\$151,472,190
Greenlee	\$168,773,033	\$485,792,424	\$269,703,589	-\$216,088,835	\$100,930,556
La Paz	\$115,292,908	\$244,805,893	\$245,133,007	\$327,114	\$129,840,099
Maricopa	\$20,877,715,546	\$57,984,051,718	\$49,707,952,123	-\$8,276,099,595	\$28,830,236,577
Mohave	\$960,138,646	\$3,058,629,631	\$2,526,548,121	-\$532,081,510	\$1,566,409,475
Navajo	\$558,264,740	\$1,100,568,483	\$1,116,355,302	\$15,786,819	\$558,090,562
Pima	\$4,236,070,095	\$9,860,980,900	\$9,342,561,193	-\$518,419,707	\$5,106,491,098
Pinal	\$671,060,458	\$3,398,761,197	\$2,673,415,335	-\$725,345,862	\$2,002,354,877
Santa Cruz	\$201,651,947	\$450,874,692	\$442,659,975	-\$8,214,717	\$241,008,028
Yavapai	\$1,247,635,912	\$3,824,935,514	\$3,350,111,921	-\$474,823,593	\$2,102,476,009
Yuma	\$552,869,545	\$1,477,891,304	\$1,418,967,607	-\$58,923,697	\$866,098,062
<b>Total</b>	<b>\$31,837,391,782</b>	<b>\$86,538,111,171</b>	<b>\$75,643,290,656</b>	<b>-\$10,894,820,515</b>	<b>\$43,805,898,874</b>

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Source: County adopted rate & levy sheets.

# Limited (Primary) Values

Annual growth in value limited:

- No more than 10% over previous year's limited or primary value
- One-fourth of the difference between the new unlimited (secondary) value and the previous year's limited (primary) value
- Despite limit, Primary NAV more than doubled in last 10 years (138%)

# Primary NAV Growth

County	TY 2000	TY 2009	TY 2010	1-Year Change	10-Year Change
Apache	\$324,460,252	\$480,466,523	\$503,365,682	\$22,899,159	\$178,905,430
Cochise	492,396,096	\$986,677,834	\$1,042,041,186	\$55,363,352	\$549,645,090
Coconino	971,779,413	\$1,840,775,046	\$1,920,050,800	\$79,275,754	\$948,271,387
Gila	289,616,426	\$590,487,639	\$568,461,573	-\$22,026,066	\$278,845,147
Graham	87,843,540	\$221,874,583	\$217,455,207	-\$4,419,376	\$129,611,667
Greenlee	168,404,267	\$485,530,992	\$269,441,653	-\$216,089,339	\$101,037,386
La Paz	110,490,204	\$209,757,376	\$225,558,163	\$15,800,787	\$115,067,959
Maricopa	19,362,298,255	\$49,675,117,156	\$46,842,818,990	-\$2,832,298,166	\$27,480,520,735
Mohave	935,484,196	\$2,533,064,495	\$2,321,464,632	-\$211,599,863	\$1,385,980,436
Navajo	534,952,560	\$998,764,550	\$1,059,004,850	\$60,240,300	\$524,052,290
Pima	4,111,664,071	\$8,985,711,830	\$8,939,647,260	-\$46,064,570	\$4,827,983,189
Pinal	639,663,229	\$2,880,540,107	\$2,562,246,078	-\$318,294,029	\$1,922,582,849
Santa Cruz	197,130,189	\$389,942,563	\$411,470,857	\$21,528,294	\$214,340,668
Yavapai	1,181,301,079	\$3,274,078,347	\$3,187,559,879	-\$86,518,468	\$2,006,258,800
Yuma	536,651,463	\$1,223,205,142	\$1,301,330,388	\$78,125,246	\$764,678,925
<b>Total</b>	<b>\$29,944,135,240</b>	<b>\$74,775,994,183</b>	<b>\$71,371,917,198</b>	<b>-\$3,404,076,985</b>	<b>\$41,427,781,958</b>

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Source: County adopted rate & levy sheets.

# Arizona's Classification System (Tax Year 2010)

<b>Class</b>	<b>Description</b>	<b>Assessment Ratio</b>
1	Commercial, Industrial, Utilities & Mines	21%
2	Agricultural & Vacant Land	16%
3	Owner-occupied Residential	10%
4	Rental Residential	10%
5	Railroad, Private Car, Airline Flight	17%
6	Residential Historic, Enterprise & Foreign Trade Zones	5%
7	Commercial Historic	1%
8	Rental Residential Historic	1%
9	Possessory Interests	1%

\*The assessment ratio for class one property is declining to 20% in tax year 2011 and will remain so thereafter.

# Example

**FCV = \$150,000**

Class 1 – Commercial (21%)

NAV = \$31,500

Class 3 – Owner Occupied Home (10%)

NAV = \$15,000

# Levies

## **SECONDARY LEVIES:**

No overall limits

Self-limiting - voter approval required for most:

- 1. G.O. Bond Debt Service
- 2. Budget overrides
- 3. Special Districts

(some exceptions to the rule: flood & library districts, fire district assistance tax)



# Primary Levies

The hallmark of the 1980 reforms:

## **Constitutional Levy Limits**

Limits placed on the maintenance and operations (M&O) levies of:

- Counties
- Cities and Towns
- Community Colleges

# Levy Limit Structure

- ▶ 1980 levy became the base limit
- ▶ Limit increased annually by 2% plus net new construction
- ▶ Capacity generated by limit is maintained even if not accessed
- ▶ Updated by Prop 101 in 2006-pulled \$185 million in capacity out of system

# 1% Homeowner Cap

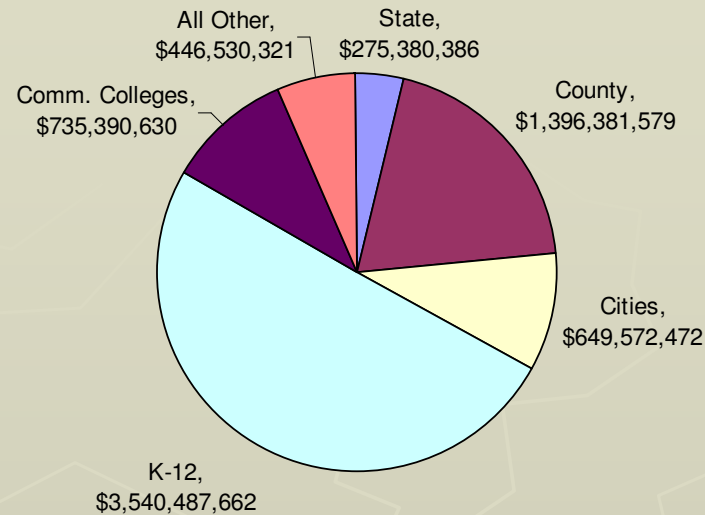
Constitutional maximum limit on homeowner primary property taxes:

***Primary taxes cannot exceed 1% of limited or primary value***

## **Example:**

- \$125,000 limited value
- \$1,250 total primary taxes

# Tax Year 2010 Total Levies

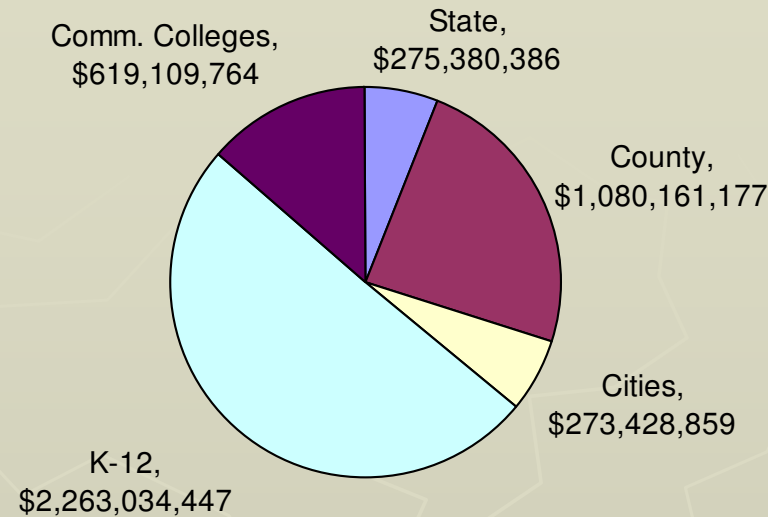


<b>Jurisdiction</b>	<b>2010 Total Levies</b>	<b>% of Total</b>
State	\$275,380,386	3.9%
County	\$1,396,381,579	19.8%
Cities	\$649,572,472	9.2%
K-12	\$3,540,487,662	50.3%
Comm. Colleges	\$735,390,630	10.4%
All Other	\$446,530,321	6.3%
<b>Totals</b>	<b>\$7,043,743,050</b>	<b>100.0%</b>

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Source: ADOR Average Statewide Tax Rates, 2010 publication

# Tax Year 2010 Total Primary Levies

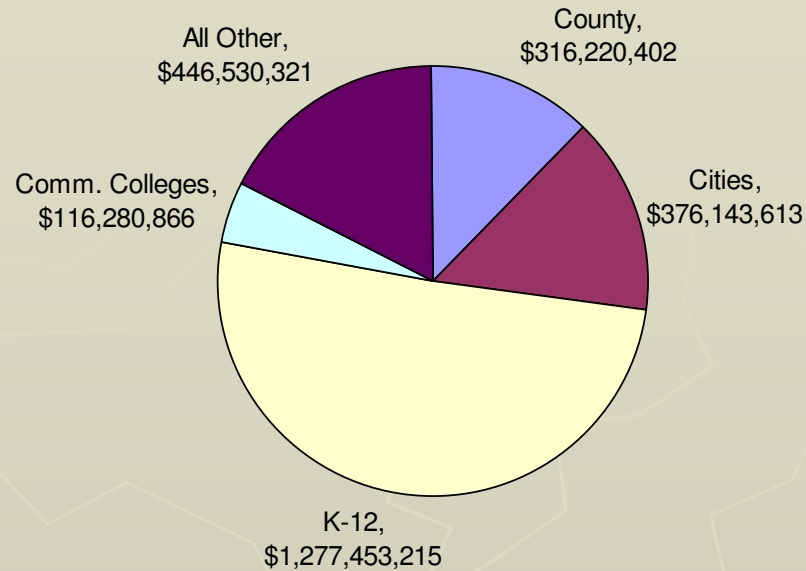


<b>Jurisdiction</b>	<b>2010 Primary Levies</b>	<b>% of Total</b>
State	\$275,380,386	6.1%
County	\$1,080,161,177	23.9%
Cities	\$273,428,859	6.1%
K-12	\$2,263,034,447	50.2%
Comm. Colleges	\$619,109,764	13.7%
<b>Totals</b>	<b>\$4,511,114,633</b>	<b>100.0%</b>

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Source: ADOR Average Statewide Tax Rates, 2010 publication

# Tax Year 2010 Total Secondary Levies



<b>Jurisdiction</b>	<b>2010 Secondary Levies</b>	<b>% of Total</b>
County	\$316,220,402	12.5%
Cities	\$376,143,613	14.9%
K-12	\$1,277,453,215	50.4%
Comm. Colleges	\$116,280,866	4.6%
All Other	\$446,530,321	17.6%
<b>Totals</b>	<b>\$2,532,628,417</b>	<b>100.0%</b>

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Source: ADOR Average Statewide Tax Rates, 2010 publication

# Property Taxes



Tax Year	Primary	Secondary	Total
<b>2010</b>	<b>\$4,511,114,633</b>	<b>\$2,532,628,417</b>	<b>\$7,043,743,050</b>
2009	\$4,581,475,317	\$2,658,502,527	\$7,239,977,844
2008	\$4,211,311,863	\$2,576,525,762	\$6,787,837,625
2007	\$3,937,551,943	\$2,362,403,961	\$6,299,955,904
2006	\$3,664,771,365	\$2,039,966,098	\$5,704,737,463
2005	\$3,594,330,633	\$1,834,242,380	\$5,428,573,013

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Source: Arizona Tax Research Association

# ATRA's Focus On Property Tax Reform Has Been Twofold

- ▶ Decrease inequities in current system
- ▶ Control growth in property tax levies
  - High business taxes
  - 1% cap problem



# Equity

## ► Some success:

- 2005 Legislation: 10-year phase down in class one assessment ratio to 20%
- 2007 Legislation: accelerated reduction to six years-assessment ratio reduced to 20% by 2011

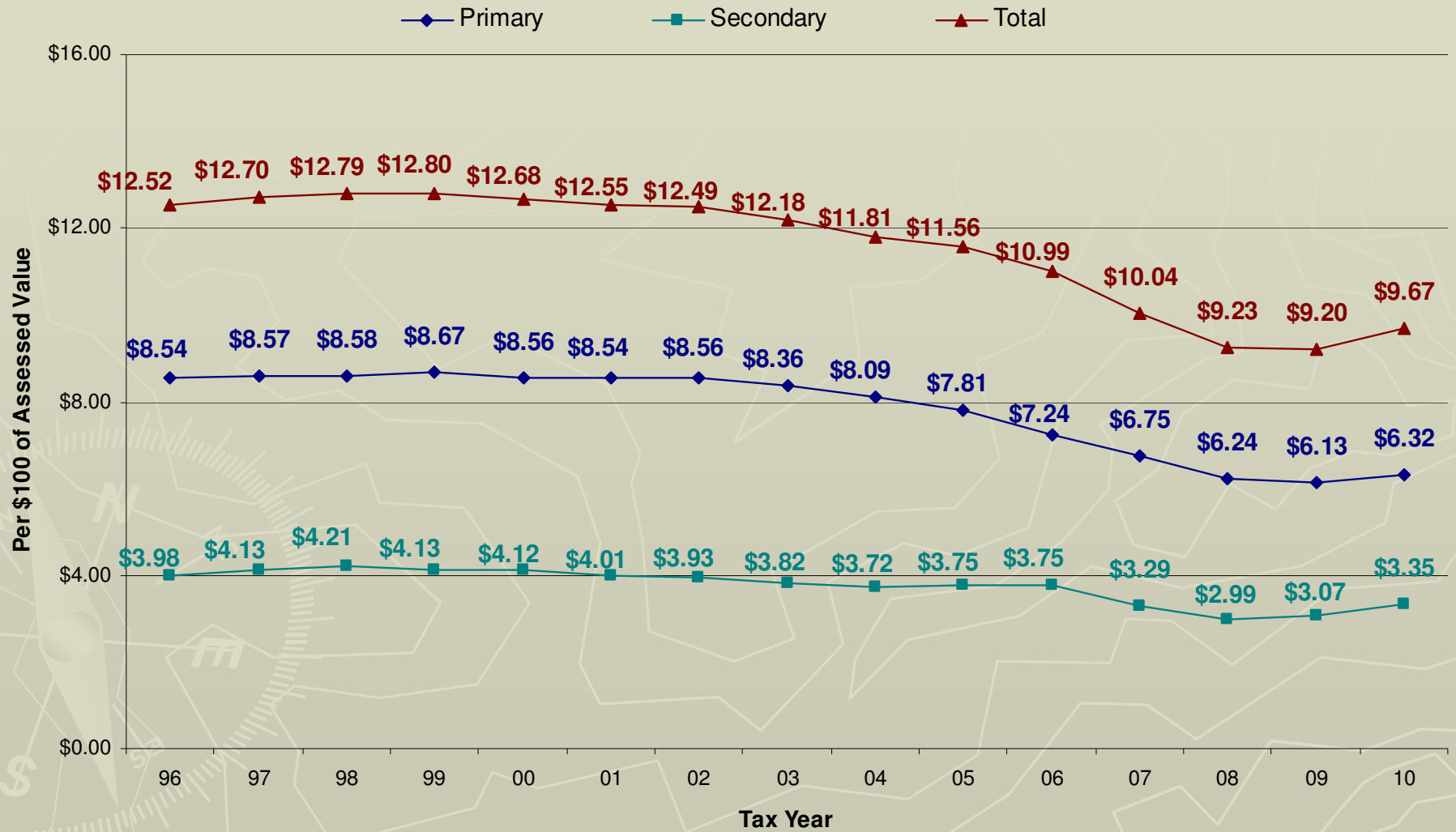
# Successful Efforts to Control Levy Growth

- ▶ 1996 property tax cuts
  - Elimination of state 47-cent tax rate
  - Reduction in the qualifying tax rate (QTR) for schools from \$4.72 to \$4.40
- ▶ 2006 reduction in county education rate
- ▶ Truth in Taxation (TNT) laws passed in 1996, 1997, & 1998
- ▶ On-going effort to eliminate or limit non-voter approved K-12 district levies (excess utilities, desegregation levies)

# Results

- ▶ Statewide average rate has fallen from a high of \$13.27 in 1995 to \$9.67 in 2010
- ▶ A decrease of \$3.60 (27%)

# Statewide Average Tax Rate



# 2007 Effective Tax Rates

Class	Description	Total Taxable Full Cash Value	Percent of Total	Total Yield	Percent of Total	Effective Rate
1	Commercial, Industrial, Utilities, & Mines	97,073,398,842	17.08%	2,120,216,908	36.41%	2.18%
2	Agricultural & Vacant Land	42,353,525,829	7.45%	495,928,282	8.52%	1.17%
3	Owner-occupied Residential	372,022,532,872	65.44%	2,697,511,539	46.33%	0.73%
4	Rental Residential	51,777,461,130	9.11%	460,547,049	7.91%	0.89%
5	Railroad, Private car, airline flight	1,485,829,675	0.26%	29,809,718	0.51%	2.01%
6	Residential historic, Enterprise & Foreign Trade Zones	3,682,589,996	0.65%	17,775,286	0.31%	0.48%
7	Commercial Historic	33,064,304	0.01%	494,240	0.01%	1.49%
8	Rental Residential Historic	13,406,107	0.00%	105,245	0.00%	0.79%
9	Possessory Interests	25,740,472	0.00%	18,450	0.00%	0.07%
<b>Total</b>		<b>568,467,549,227</b>	<b>100.00%</b>	<b>5,822,406,715</b>	<b>100.00%</b>	<b>1.02%</b>

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Source: Arizona Tax Research Association – Tax Year 2007 Property Tax Model

**\$25,000,000 Land and Building**  
**\$12,500,000 Machinery and Equipment**  
**\$10,000,000 Inventories \$2,500,000 Fixtures**

Industrial Property Taxes Payable 2007				Industrial Property Taxes Payable 2008				Industrial Property Taxes Payable 2009			
Rank	State	NET TAX	ETR	Rank	State	NET TAX	ETR	Rank	State	NET TAX	ETR
1	South Carolina	1,864,900	3.730%	1	South Carolina	1,947,900	3.896%	1	South Carolina	1,538,879	3.078%
2	Michigan	1,724,404	3.449%	2	Michigan	1,658,568	3.317%	2	Michigan	1,480,031	2.960%
3	Indiana	1,470,297	2.941%	3	Texas	1,261,850	2.524%	3	Texas	1,261,850	2.524%
4	Mississippi	1,291,050	2.582%	4	Mississippi	1,242,554	2.485%	4	Mississippi	1,242,554	2.485%
<b>5</b>	<b>Arizona</b>	<b>1,264,650</b>	<b>2.529%</b>	5	Kansas	1,169,583	2.339%	5	Missouri	1,150,676	2.301%
6	Texas	1,264,358	2.529%	6	Missouri	1,116,103	2.232%	6	Kansas	1,141,163	2.282%
7	Kansas	1,121,475	2.243%	7	Indiana	1,104,315	2.209%	7	Indiana	1,090,901	2.182%
8	Missouri	1,111,255	2.223%	8	Iowa	1,095,133	2.190%	8	Iowa	1,087,622	2.175%
9	Iowa	1,069,372	2.139%	9	Tennessee	1,008,207	2.016%	9	Tennessee	1,046,277	2.093%
10	Tennessee	1,033,544	2.067%	<b>10</b>	<b>Arizona</b>	<b>996,842</b>	<b>1.994%</b>	10	Pennsylvania	1,029,057	2.058%
11	New York	988,045	1.976%	11	New York	993,271	1.987%	11	Louisiana	1,026,584	2.053%
12	Connecticut	949,440	1.899%	12	Connecticut	980,760	1.962%	12	New York	976,546	1.953%
13	Pennsylvania	911,994	1.824%	13	D.C.	903,275	1.807%	13	D.C.	935,725	1.871%
14	DC	903,738	1.807%	14	Pennsylvania	893,737	1.787%	14	Connecticut	881,326	1.763%
15	West Virginia	833,234	1.666%	15	Louisiana	890,381	1.781%	<b>15</b>	<b>Arizona</b>	<b>843,417</b>	<b>1.687%</b>
<b>AVERAGE</b>		<b>745,139</b>	<b>1.490%</b>	<b>AVERAGE</b>		<b>725,151</b>	<b>1.450%</b>	<b>AVERAGE</b>		<b>729,805</b>	<b>1.460%</b>

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Source: Minnesota Taxpayer's Association

# Sales Tax

## (Transaction Privilege Tax)

- ▶ Tax on the privilege of doing business in Arizona
- ▶ Measured by gross receipts, gross income, or gross proceeds of sales
- ▶ Tax not on activities themselves but on the act of engaging in business
- ▶ Presumed that all gross proceeds comprise the tax base until the contrary is established

# Taxable Business Classifications (State)

- Retail
- Transporting
- Utilities
- Telecommunications
- Publication
- Job Printing
- Pipeline
- Private Car
- Transient Lodging
- Personal Prop Rental
- Mining
- Amusement
- Restaurant
- Prime Contracting
- Owner Builder Sales
- Commercial Lease



# Use Tax

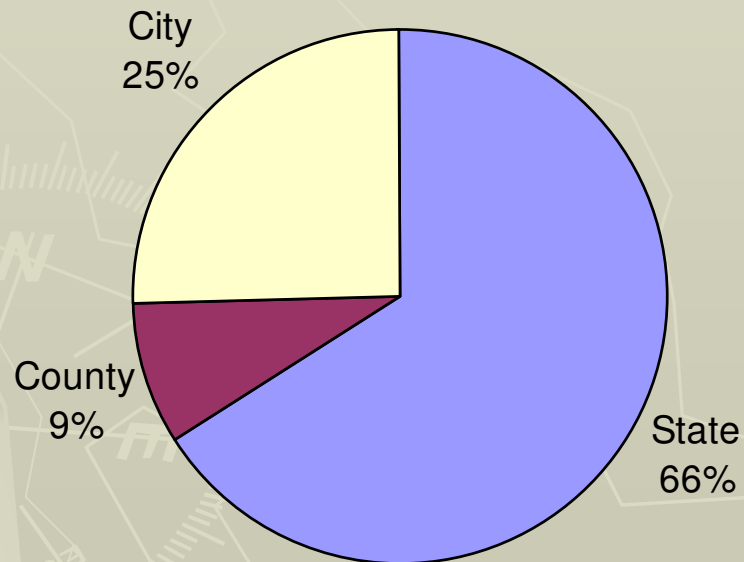
- ▶ Imposed on the storage, use or consumption of tangible personal property purchased from a retailer or utility business
- ▶ Complement to retail and utility classifications
- ▶ Measured by purchase price

# Model City Tax Code

- ▶ Arizona is one of a few states in the country that allows for an independent, municipal sales tax system
- ▶ The tax **base** at the city level does not mirror the state base
- ▶ Examples: Advertising, Speculative Builders, Rental Occupancy, Food, Commercial Leases
- ▶ Interpretation of exemptions a major issue
- ▶ Independent municipal system has created significant administrative and compliance issues for taxpayers in Arizona

# FY 2010 State and Local Sales Tax

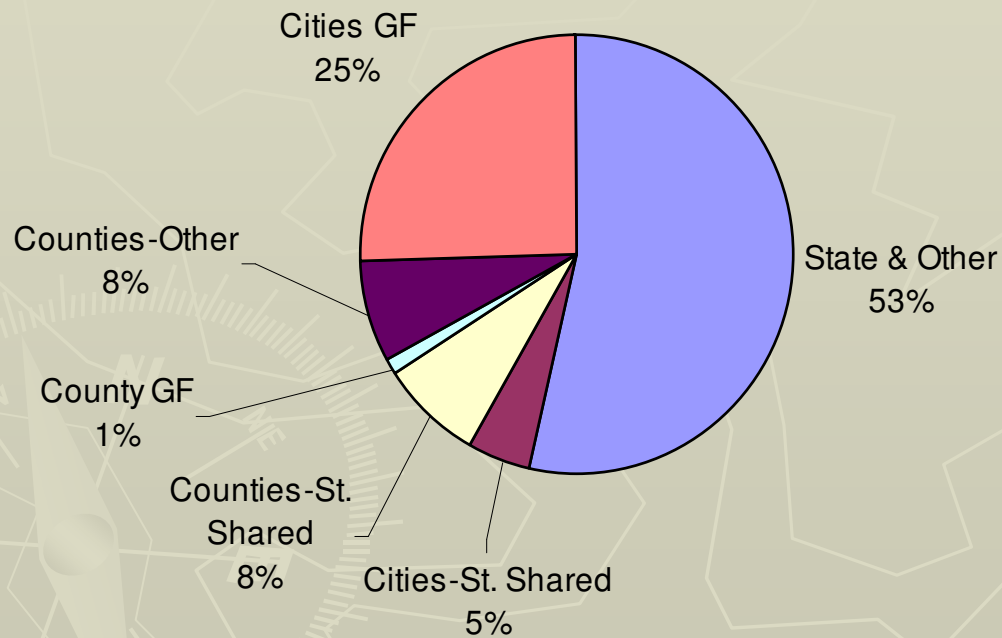
State Collections	\$4,858,187,467
County Collections	\$628,514,114
City Collections	\$1,877,382,261
<b>Total Collections</b>	<b>\$7,364,083,842</b>



Arizona Tax Research Association

Source: Arizona Department of Revenue & Arizona Tax Research Association

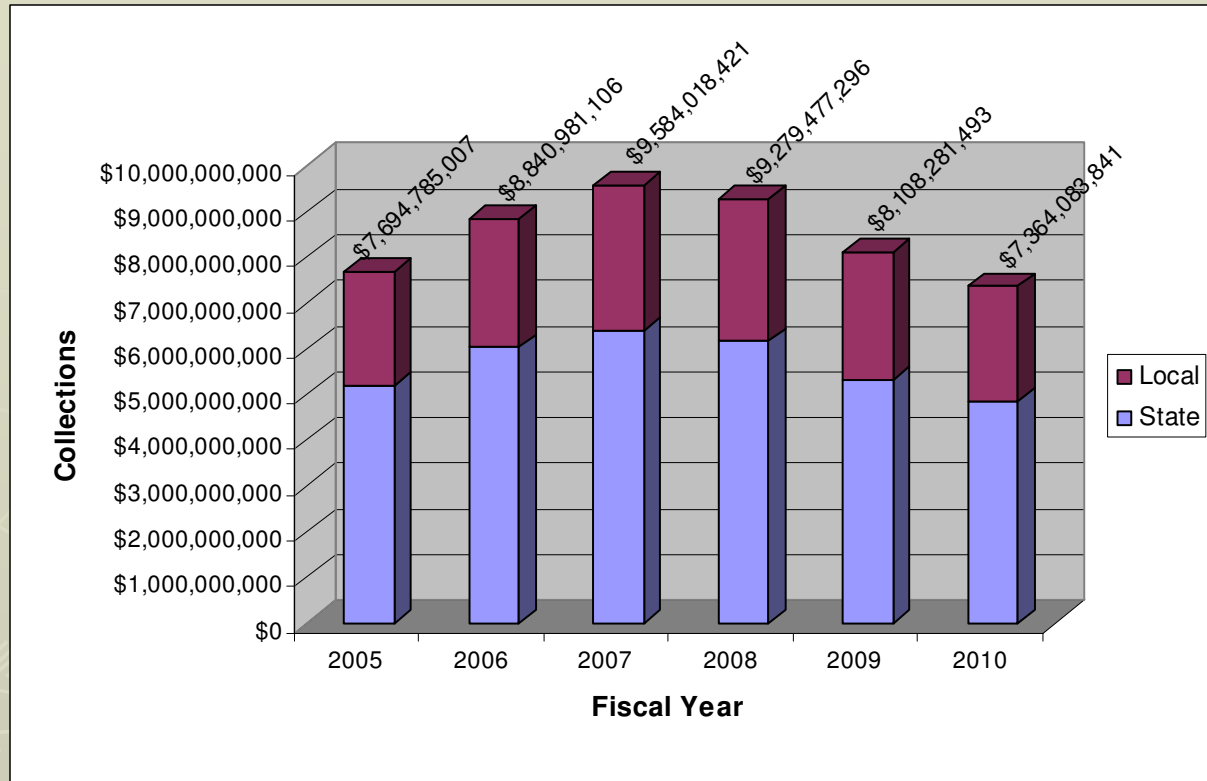
# FY 2010 State and Local Sales Tax Distributions



<b>State</b>	
State & Other	\$3,922,710,528
Cities-St. Shared	\$356,997,763
Counties-St. Shared	\$578,479,176
<b>State Total</b>	<b>\$4,858,187,467</b>
<b>Counties</b>	
County General Fund	\$73,184,403
Counties-Other	\$555,329,711
<b>County Total</b>	<b>\$628,514,114</b>
<b>Cities Total</b>	<b>\$1,877,382,261</b>
<b>TOTAL</b>	<b>\$7,364,083,842</b>

Source: Arizona Department of Revenue & Arizona Tax Research Association

# Sales Taxes



Fiscal Year	State	Local	Total
<b>2010</b>	<b>\$4,858,187,466</b>	<b>\$2,505,896,375</b>	<b>\$7,364,083,841</b>
2009	\$5,332,018,695	\$2,776,262,798	\$8,108,281,493
2008	\$6,154,253,758	\$3,125,223,538	\$9,279,477,296
2007	\$6,386,638,633	\$3,197,379,788	\$9,584,018,421
2006	\$6,033,153,861	\$2,807,827,245	\$8,840,981,106
2005	\$5,184,904,828	\$2,509,880,179	\$7,694,785,007

Arizona Tax Research Association

Source: Arizona Department of Revenue

# Average Sales Tax Rates

## 1980 - Retail

- State Rate = 4%
- Avg. City Rate = 1.2%
- **Total Avg. Rate = 5.2%**

## 1990 - Retail

- State Rate = 5%
- Avg. City Rate = 1.6%
- Avg. County Rate = 0.5%
- **Total Avg. Rate = 7.1%**

## 2010 - Retail

- State Rate = 6.6%
- Avg. City Rate = 2.4%
- Avg. County Rate = 0.7%
- **Total Avg. Rate = 9.7%**

# Major Issues

- ▶ On-going challenge to create greater uniformity in state and city sales tax bases
- ▶ Continued movement of cities out of the state collection system creating higher compliance costs
- ▶ The League of Cities and Towns encouraging cities to leave state system and contract out collection and audit function to Revenue Discovery Systems (RDS)
- ▶ Approaching upward limit on rates?

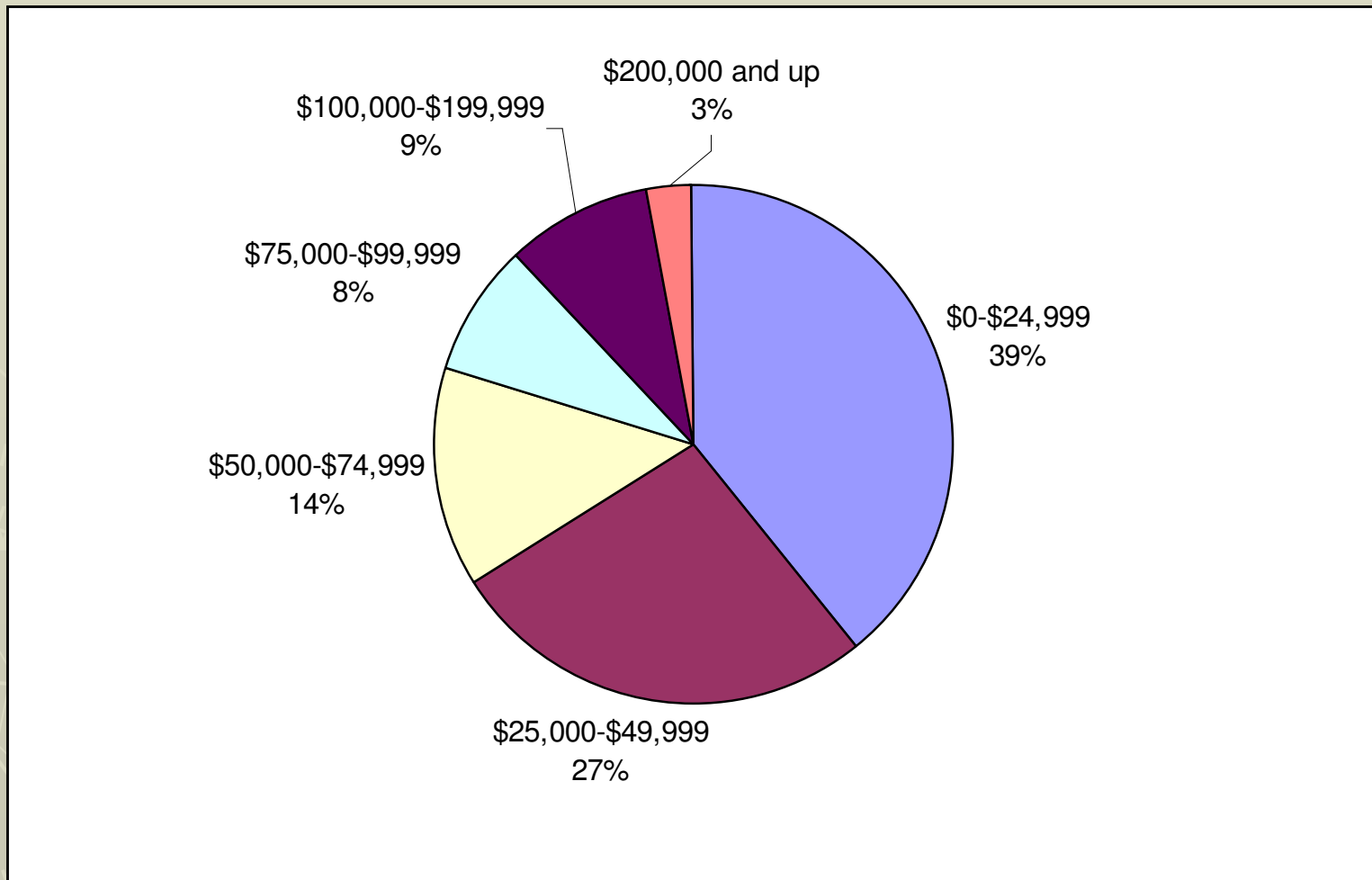
# Individual and Corporate Income Tax

## Where it comes from:

- ▶ Per FY 2010 ADOR Annual Report
- ▶ 2,423,046 Resident Personal Income Tax filings in Tax Year 2007
- ▶ 211,401 Nonresident/Part Year Personal Income Tax filings in Tax Year 2007
- ▶ 50,538 Corporate Income Tax filings in Tax Year 2007



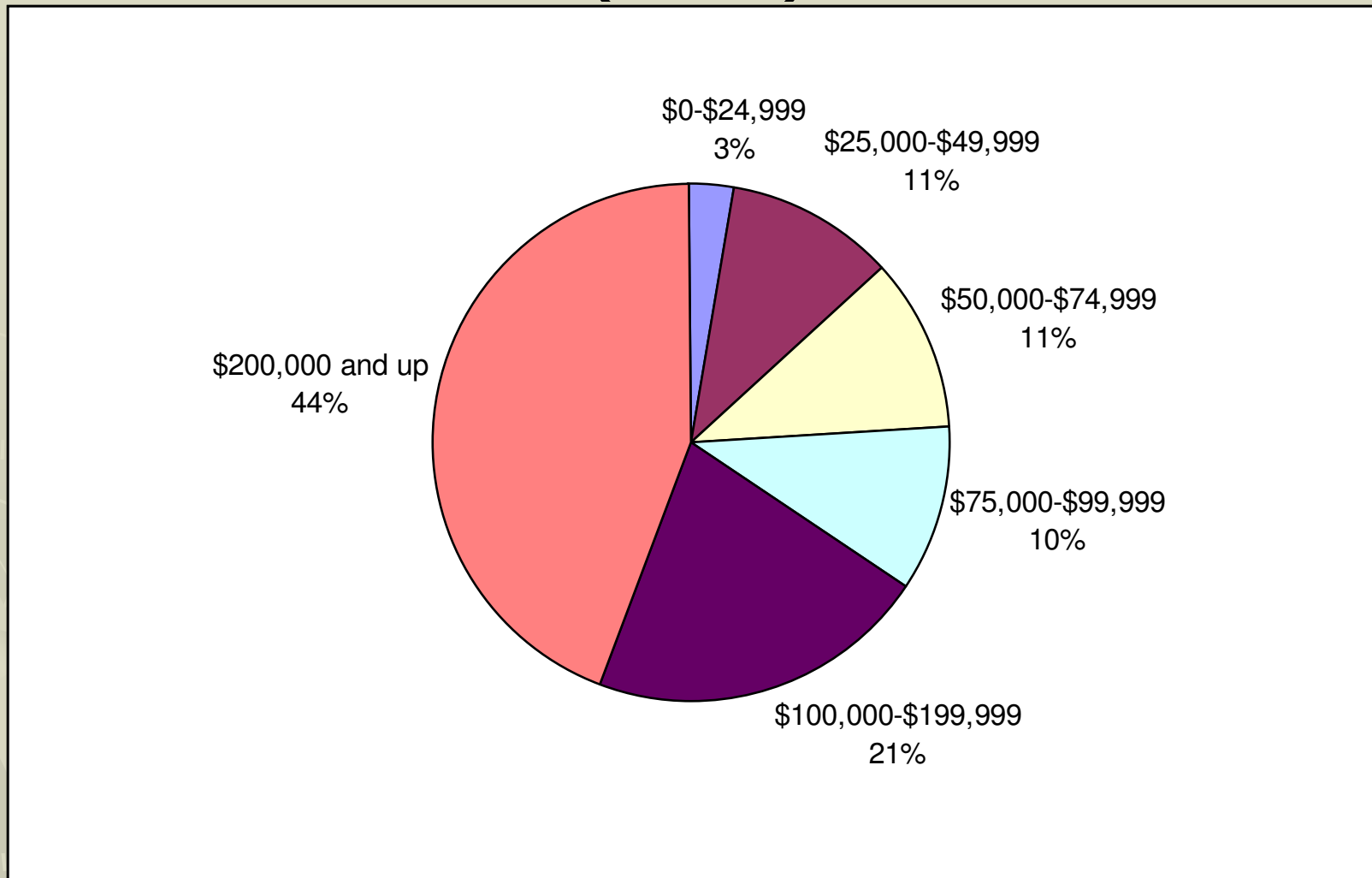
# Percentage of Individual Income Tax Filers by Category (2007)



Arizona Tax Research Association

Source: Arizona Department of Revenue

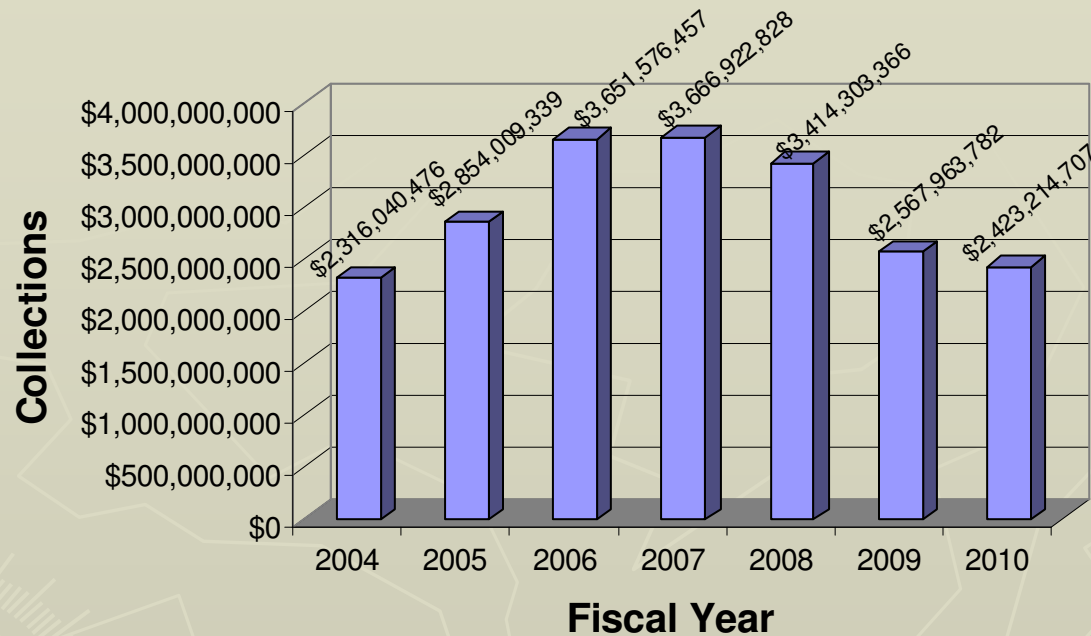
# Individual Income Tax Liability by Category (2007)



Arizona Tax Research Association

Source: Arizona Department of Revenue

# Individual Income Tax Collections

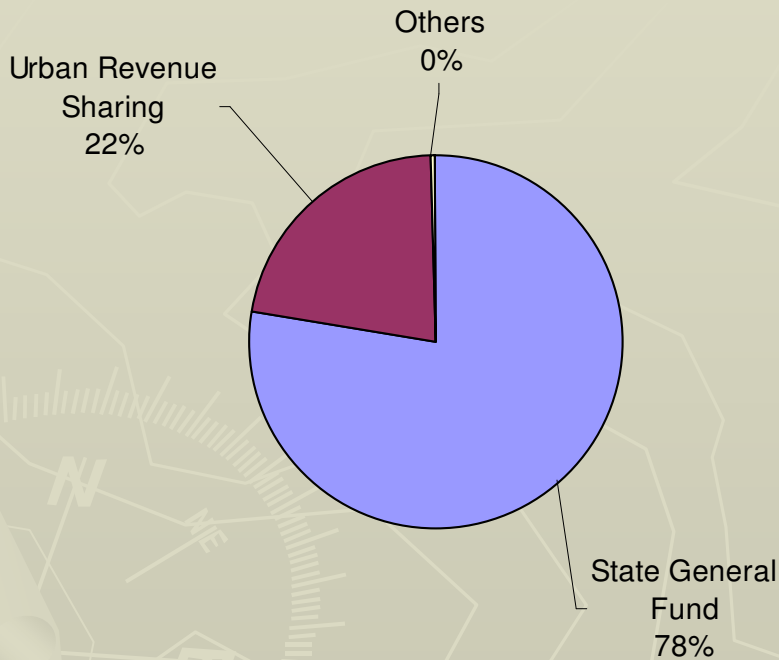


<b>FY 2010</b>	<b>\$ 2,423,214,707</b>
FY 2009	\$ 2,575,453,334
FY 2008	\$ 3,414,303,366
FY 2007	\$ 3,666,922,828
FY 2006	\$ 3,651,576,457
FY 2005	\$ 2,847,759,828
FY 2004	\$ 2,314,040,476

Arizona Tax Research Association

Source: Arizona Department of Revenue

# FY 2010 Income Tax Distributions



State General Fund	\$2,200,844,986
Urban Revenue Sharing	\$628,644,630
Others	\$6,918,398
<b>FY 2010 Total</b>	<b>\$2,836,408,014</b>
<b>FY 2009</b>	<b>\$3,167,610,587</b>
<b>FY 2008</b>	<b>\$4,198,811,676</b>
<b>FY 2007</b>	<b>\$4,648,239,549</b>
<b>FY 2006</b>	<b>\$4,520,688,826</b>
<b>FY 2005</b>	<b>\$3,549,619,113</b>

**Note:** Cities and towns receive a percentage of total income tax revenue based on the net income tax collections two years earlier. The money distributed for FY 2010 was based on collections in FY 2008.

# Individual Income Tax Rate – 2007

## (Married Filing Jointly)

<u>Taxable Income</u>	<u>Tax Rates</u>
\$0 - \$20,000	2.59% of Taxable Income
\$20,001 - \$50,000	\$518 plus 2.88%
\$50,001 - \$100,000	\$1,382 plus 3.36%
\$100,001 - \$300,000	\$3,062 plus 4.24%
\$300,001 and over	\$11,542 plus 4.54%

# Individual Income Tax Rate Differences (1992-2007)

<u>1992 Tax Rates</u>	<u>2007 Tax Rates</u>	<u>% Decrease</u>
3.80%	2.59%	-31.8%
\$760 plus 4.40%	\$518 plus 2.88%	-34.6%
\$2,080 plus 5.25%	\$1,382 plus 3.36%	-36%
\$4,705 plus 6.50%	\$3,062 plus 4.24%	-34.8%
\$17,705 plus 7.00%	\$11,542 plus 4.54%	-35.1%

# Major Issues – Individual Income Tax

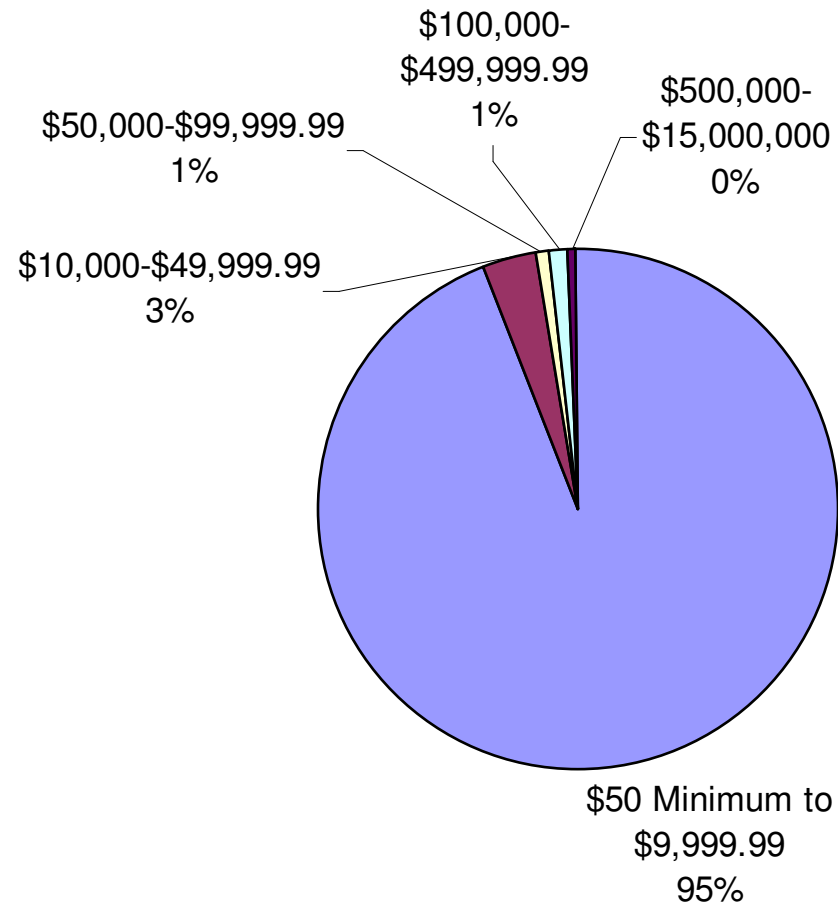
- ▶ As shown, individual income taxes are the second largest contributor to General Fund
- ▶ With a top rate of 4.54%, AZ is at the low end of state rates
  - Average of all state tax rates is 5.69%, with the median at 6.0%
  - Eliminating states with no individual income tax, average tax rate is 6.6%, with the median at 6.35%

# Major Issues – Individual Income Tax, cont'd

- ▶ Effort to decrease or eliminate personal income taxes will shift taxes to sales and property where the system can least afford shifts
- ▶ Effort to decrease or eliminate personal income taxes also causes a tax benefit for the federal government, as AZ taxpayers who itemize pay incrementally higher federal taxes due to reduced state income tax deductions



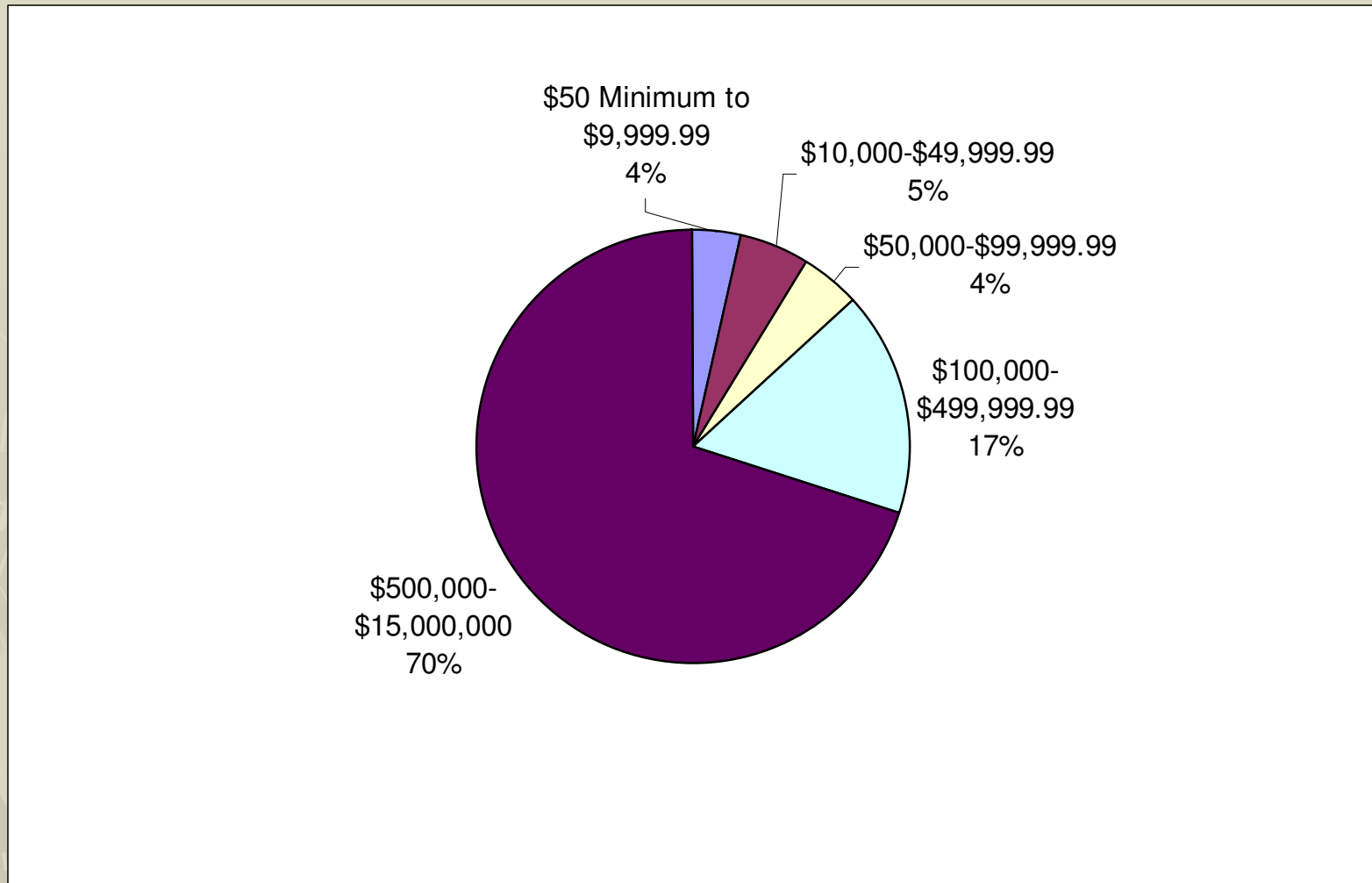
# Percentage of Corporate Income Tax Filers by Category (2007)



Arizona Tax Research Association

Source: Arizona Department of Revenue

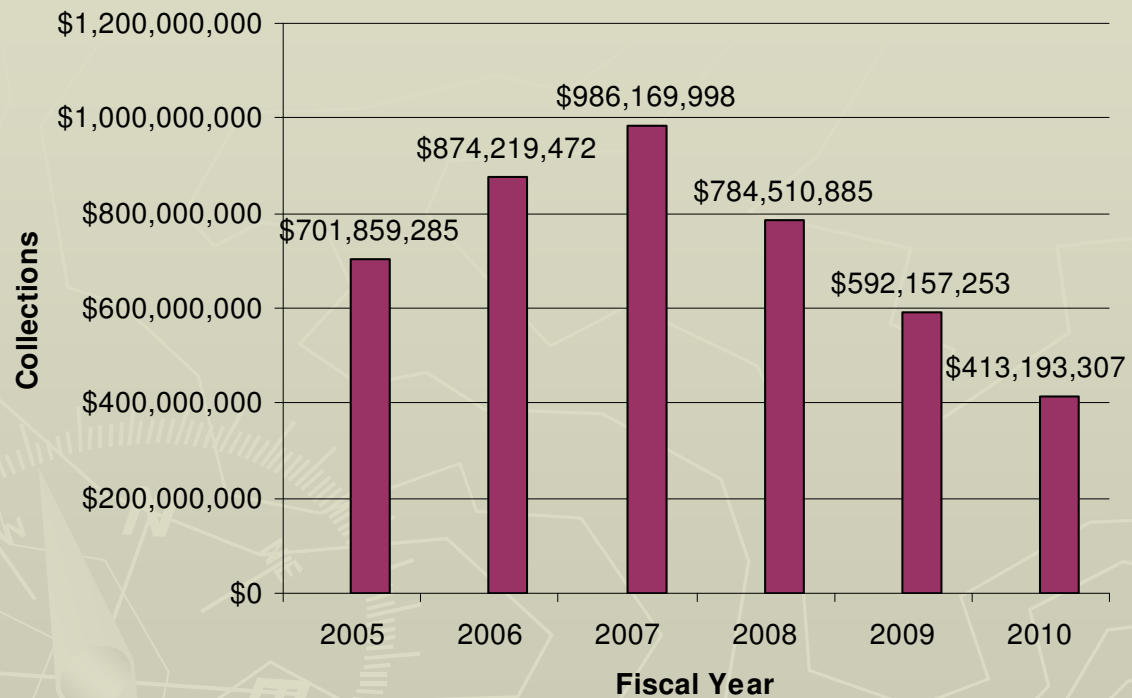
# Corporate Income Tax Liability by Category (2007)



Arizona Tax Research Association

Source: Arizona Department of Revenue

# Corporate Income Tax Collections



<b>FY 2010</b>	<b>\$413,193,307</b>
FY 2009	\$592,157,253
FY 2008	\$784,510,885
FY 2007	\$986,169,998
FY 2006	\$874,219,472
FY 2005	\$701,859,285

Arizona Tax Research Association

Source: Arizona Department of Revenue

# Corporate Rate Decreases

- ▶ 1990 – 9.3%
- ▶ 1997 – 9.0%
- ▶ 1998 – 8.0%
- ▶ 2000 – 7.968%
- ▶ 2001 – 6.968%

Note: \$50 minimum tax

# Major Issues – Corporate Income Tax

- ▶ Corporate rate differential with personal income tax rates penalizes businesses that incorporate as a Subchapter C Corporation
- ▶ Subchapter C Corporations are taxed as entities and their shareholders are taxed on dividends issued. Flow-through entities, such as partnerships, LLCs and Subchapter S Corporations, are generally taxed only once, and that is at the partner, member or shareholder level

# Major Issues – Corporate Income Taxes, cont'd

## ▶ Apportionment

- National trend in corporate income tax is to move apportionment ratio for multistate corporations to single sales factor
- AZ apportionment ratio is property, payroll and double-weighted sales, with an election option to 80% sales
- States also use special industry formulas. AZ only does so for airlines

# Major Issues – Corporate Income Taxes, cont'd

## ▶ Sales Factor Sourcing

- National trend is to move state sourcing of sales of other than tangible personal property to market sourcing, which is generally the state where the buyer receives the benefit or is located
- AZ uses cost of performance, which attributes sales of other than tangible personal property to the state based on the location of the income producing activity. If that activity is in multiple states, the sales are sourced based upon where the greater proportion of the activity occurs, based upon cost of performance, which is direct cost under GAAP

# Major Issues – Corporate Income Taxes, cont'd

- ▶ The state-to-state conflict between market sourcing and cost of performance sourcing can create situations where more than 100% of a taxpayer's sales are sourced to the states, or it can cause "nowhere income"



# Major Issues – Corporate Income Taxes, cont'd

- In order to file a combined return of affiliated companies, the group must meet a unitary test. AZ courts have rejected tests used in other states such as three unities, contribution/dependency and flow of value in favor of operational integration at the revenue producing level. As a result, groups that are unitary in other states may not be unitary in AZ, including those in the same line of business.

# Major Issues – Corporate Income Taxes, cont'd

- ▶ With a five year net operating loss (NOL) carryforward, AZ is one of only six states with such a short loss utilization period. Many states follow the federal government in utilizing a 20-year carryforward period, which allows companies making significant business investment to recoup that investment against future income.