DATE: October 7, 2005

TO: President Ken Bennett
Speaker James P. Weiers

THRU: Richard Stavneak, Director

FROM: Brian Cary, Principal Economist

SUBJECT: INTEL’S SECOND LETTER – CORPORATE SALES FACTOR

Intel Corporation has transmitted a letter, received September 30, 2005, notifying JLBC Staff and the Governor’s Office of Strategic Planning and Budgeting that construction commenced on its Fab 32 project in Chandler on August 2, 2005. Intel’s previous letter, dated July 25, 2005, notified us of its intent to invest approximately $3 billion in this project. Copies of both letters are attached.

This announcement will enable Intel and other corporations to qualify for an alternative method of calculating their Arizona corporate income tax liability. Rather than using the existing formula that assigns a 50% weight to sales within the state, they may elect to use a sales factor that increases from 60% in 2007 to 70% in 2008 and to 80% in 2009 and subsequent years. The bill is effective January 1, 2008, retroactive to January 1, 2007.

Pursuant to Laws 2005, Chapter 289, Arizona corporate income taxpayers are eligible to use the enhanced sales factor formula if the following two conditions are met. First, one or more corporations must publicly announce on or after June 1, 2005 their intent to invest $1 billion or more in capital projects within the state. These projects may take the form of new construction, expansion, installation of new equipment, tooling or retooling. The first letter dated July 25, 2005 meets this provision. Second, no later than December 15, 2007, the corporations must publicly notify JLBC and OSPB that these projects have commenced as evidenced by the actual start of new construction, or installation of new equipment. The second letter received September 30, 2005 meets this provision.

Next Steps

In addition to the $1 billion minimum investment threshold and the requirement to notify JLBC and OSPB, Chapter 289 includes several key provisions listed below.

- JLBC and OSPB must jointly publish a list in 2006, 2007, and 2008 of corporations and qualified projects pursuant to the law.
By the ends of 2005, 2006, 2007, and 2008, respectively, corporations with qualifying projects must make a written report on each project’s status. The reports must include: projected completion costs; amounts spent to date; and, changes and updates to the projects.

Corporations selecting the enhanced sales factor must agree to participate in an economic impact analysis conducted by JLBC. JLBC is required to complete this analysis by July 1, 2011.