

Summary of 2014 Arizona Tax Legislation

Important Information About This Summary

This document briefly summarizes recent substantive changes to Arizona's tax laws. The bills addressed herein were approved by Arizona's Legislature and signed by Governor Brewer. Except as noted below, most of the bills were effective on the general effective date for the legislative session, July 24, 2014.

To limit the size of this document, the descriptions of these bills are brief and not intended to be comprehensive. If you believe that one or more of the following bills may impact the amount of tax that you, your clients, or the company that you work for must pay, you should carefully review the bill and/or contact a state and local tax professional for assistance.

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A. Income Tax Legislation

SB 1081: Tax Credit; Excise; SSN. Laws 2014, Chapter 68.

Requires persons claiming the income tax credit for increased excise taxes paid, which is limited to \$25 per person and \$100 per household, to provide a valid social security number or taxpayer identification number when claiming the credit.

SB 1300: Internal Revenue Code Conformity. Laws 2014, Chapter 223.

Provides for retroactive conformity to most provisions in the Internal Revenue Code in effect on January 1, 2014. However, some additions and subtractions created in prior years when Arizona did not fully conform to I.R.C. changes for issues such as bonus depreciation are still in place.

SB 1301: 2014 Tax Corrections. Laws 2014, Chapter 245.

Makes numerous technical corrections, and some substantive changes, to Arizona's tax laws. Income tax provisions include changes too numerous to list to the additions and subtractions to Arizona gross income necessary to arrive at Arizona adjusted gross income (for individuals) and Arizona taxable income (for corporations). Requires administrators of long-term health care savings accounts to make annual reports to the Arizona Department of Revenue ("ADOR"). (Also affects Arizona's sales tax laws as summarized below.)

SB 1326: State Parks; Donations; Fund; Transportation. Laws 2014, Chapter 120.

Establishes the Sustainable State Parks and Roads Fund and allows taxpayers to contribute any portion of their refund, or to make a separate contribution, to the fund.

SB 1484: Tax Credit; Manufacturers; Renewable Energy. Laws 2014, Chapter 8.

Adds non-refundable individual and corporate income tax credits that may be carried forward for up to five years for manufacturers, and lessors who lease qualifying facilities to manufacturers, that invest at least \$300 million in new renewable energy facilities that produce electricity used in the companies' own manufacturing processes. The amount of the credit is \$1 million per facility per year for five years; no taxpayer may claim more than \$5 million in credit per year; ADOR may not authorize more than \$10 million in credits per calendar year on a first-come, first-served basis; and taxpayers may not claim both this credit and the credit for renewable energy production.

HB 2046: Disaster Recovery; Businesses; Tax; Regulation. Laws 2014, Chapter 43.

Provides that persons and businesses from out-of-state that come to Arizona on a temporary basis solely to assist with disaster recovery efforts from a declared disaster during a disaster period are not required to file, remit, withhold, or pay Arizona income tax for or during the disaster period. Effective January 1, 2015. (Also affects Arizona's sales and property tax laws as summarized below.)

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HB 2272: Tax Credits; Capital Investments; Employment. Laws 2014, Chapter 168.

Requires individuals and corporations to obtain approval from the Arizona Commerce Authority before they can claim income tax credits for increased research activities, effective January 1, 2015. Extends the life of the individual income tax credit for those who invest in qualifying small businesses (i.e., the "Angel Investor Credit") for an additional five years, extends the time period for qualifying investors to apply for the credit to 90 days from 30 days after making a qualified investment, and doubles the maximum investment eligible for a tax credit for any one investor from \$250,000 to \$500,000. Amends the individual and corporate income tax credits for net increases in full-time employees in qualifying employment positions (i.e., the "Quality Jobs Tax Credit") to allow taxpayers to claim the credit in years two and three when an employee in a qualifying position leaves but is replaced with another qualifying employee, retroactive to January 1, 2014. (Also amends Arizona's premium tax laws as summarized below.)

HB 2283: TPT; Postmark; Filing By Mail. Laws 2014, Chapter 139.

Provides that any report, claim, tax return, statement, payment, deposit, or other material dealing in any way or manner with taxation, other than petitions or notices of appeal, that is required or authorized to be filed with or made to Arizona or any agency or political subdivision thereof but does not contain a postmark or other official mark of the United States Post Office stamped thereon shall be considered timely if "performed by the taxpayer" (perhaps "performed by the taxpayer" means "delivered?") within five business days after the due date of the filing. Effective January 1, 2015. (Also affects Arizona sales, property, and other tax laws as summarized below.)

HB 2328: STOs; Grants; Corporate Tax Credit. Laws 2014, Chapter 278.

Allows more disabled students, and those who have been placed in foster care, to qualify for school tuition organization scholarships funded by tax credit-eligible contributions from corporations and insurance companies. Retroactive to July 1, 2014.

HB 2377: Income Tax Brackets; Inflation Index. Laws 2014, Chapter 10.

Provides that Arizona's income tax brackets for tax year 2015 will be indexed for inflation.

B. Transaction Privilege ("Sales") and Use Tax Legislation

Important Information About This Section

Most of the following changes are applicable to Arizona's sales and use tax laws, and to the county excise taxes that "piggy back" Arizona's sales taxes. Unless otherwise specified below, Arizona municipalities have not adopted these changes. However, sooner or later, Arizona municipalities often adopt changes to their municipal tax codes that parallel changes to the state's sales and use tax laws.

SB 1301: 2014 Tax Corrections. Laws 2014, Chapter 245.

Makes numerous technical corrections, and some substantive changes, to Arizona's tax laws. Sales tax provisions include: (1) guidance regarding exemption certificates that contractors must obtain, beginning January 1, 2015, for each project where they are entitled to purchase building materials tax free because the prime contractor's proceeds from the project are subject to state and local prime contracting tax (but, note the differences between the provisions in this bill and HB 2389); (2) clarification that destination management companies are subject to tax on proceeds from transactions that are not part of a qualified contract for destination management services; and (3) an extension of the exemption from state and local taxes on proceeds from renting real property for leases between affiliated companies, business, persons or reciprocal insurers to include leases between members of an individual's family or persons who have ownership or control of a business entity. (Also affects Arizona's income tax laws as summarized above.)

SB 1331: Model City Tax Code; Changes. Laws 2014, Chapter 121.

Provides that any change to a municipality's sales tax code that is not reflected in the official copy maintained by ADOR is void and of no effect. Retroactive to July 1, 1988.

SB 1413: Taxes; Manufacturers' Electricity Sales; Exemption. Laws 2014, Chapter 7.

Provides state sales and use tax exemptions for electricity and natural gas used by businesses principally engaged in manufacturing or smelting operations if they use at least fifty-one percent of the electricity or natural gas in manufacturing or smelting operations. For purposes of these exemptions, "manufacturing" does not include processing, fabricating, job printing, mining, generating electricity, or operating a restaurant; and "principally engaged" means at least fifty-one percent of the business is a manufacturing or smelting operation. Arizona municipalities may, but do not have to, add these exemptions to their tax codes as well. Effective August 1, 2014.

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HB 2046: Disaster Recovery; Businesses; Tax; Regulation. Laws 2014, Chapter 43.

Provides that out-of-state businesses that are in Arizona on a temporary basis solely to assist with disaster recovery efforts from a declared disaster during a disaster period are not required to pay state or local use tax on any infrastructure brought temporarily into Arizona for or during the disaster period. Effective January 1, 2015. (Also affects Arizona's income tax laws as summarized above, and Arizona's property tax laws as summarized below.)

HB 2283: TPT; Postmark; Filing By Mail. Laws 2014, Chapter 139.

Eliminates the separate delinquency date for taxpayers electing to pay state and local sales and use taxes by mail that was tied to being postmarked by the twenty-fifth day of the month. Provides that any report, claim, tax return, statement, payment, deposit, or other material dealing in any way or manner with taxation, other than petitions or notices of appeal, that is required or authorized to be filed with or made to Arizona or any agency or political subdivision thereof but does not contain a postmark or other official mark of the United States Post Office stamped thereon shall be considered timely if "performed by the taxpayer" (perhaps "performed by the taxpayer" means "delivered?") within five business days after the due date of the filing. Effective January 1, 2015. (Also affects Arizona's income tax laws as described above, and Arizona's property and other tax laws as summarized below.)

HB 2285: Refined Coal Transfer; Tax Exemptions. Laws 2014, Chapter 54.

Clarifies that the transfer of title or possession of coal from an owner or operator of a power plant to a person engaged in the business of refining coal is not a sale of coal for purposes of Arizona's state and local sales taxes on proceeds from retail transactions if the coal is transferred back to the owner or operator of the power plant after completion of the coal refining process. Provides that such transactions are not subject to Arizona state and local use taxes or Arizona's sales tax on proceeds from mining, quarrying, or producing nonmetalliferous products for sale either. Retroactive to January 1, 2014.

HB 2288: Sales Tax; Reduced Reporting Requirements. Laws 2014, Chapter 141.

Allows taxpayers whose estimated annual sales and use tax liability is less than \$2,000 to report and pay state and local sales taxes on an annual basis (the previous threshold was \$500), and allows taxpayers whose estimated annual sales and use tax liability is between \$2,000 and \$8,000 to report and pay state and local sales taxes on a quarterly basis (the previous range was between \$500 and \$1,250). Effective January 1, 2015. (Also applies to severance taxes, telecommunication service excise tax, the tax on water use, jet fuel excise and use taxes, and the prepaid wireless telecommunications E911 excise tax.)

HB 2389: Transaction Privilege Tax Changes. Laws 2014, Chapter 263.

Allows ADOR to accept digital electronic signatures on tax returns, statements and other documents, effective October 1, 2014. Requires taxpayers to renew state and local sales tax licenses annually, and imposes a \$25 penalty for each jurisdiction in which a taxpayer fails to timely renew a municipal sales tax license. Provides guidance regarding exemption certificates that contractors must obtain, beginning January 1, 2015, for each project where they are entitled to purchase

building materials tax free because the prime contractor's proceeds from the project are subject to prime contracting tax (but, note the differences between the provisions in this bill and SB 1301). Requires taxpayers conducting business in two or more locations or under two or more business names to file their sales tax returns electronically. Establishes a state and local sales tax exemption for restaurants' proceeds from selling food and drinks at low or reduced prices to eligible elderly, disabled, or homeless persons under the Supplemental Nutrition Assistance Program. Clarifies that all appeals of assessments "initiated" by a municipality before January 1, 2015 shall be heard by the Municipal Tax Hearing Office, and that appeals of all subsequent assessments shall be administered via ADOR's procedures. Provides that all municipal refund claims for tax periods ending prior to January 1, 2015 shall be administered by the tax collector for the city or town to which the tax was originally paid. Effective January 1, 2015, except as noted above.

HB 2415: Waste Facility; Prime Contracting Deduction. Laws 2014, Chapter 228.

Adds an Arizona sales tax deduction for proceeds from constructing mixed solid waste processing facilities located at municipal landfills for the purpose of recycling solid waste or producing renewable energy from the landfill waste. Retroactive to January 1, 2013.

HB 2522: Reviser's Technical Corrections; 2014. Laws 2014, Chapter 211.

This technical correction bill blends conflicting statutory changes from previous legislative sessions. Some of the changes are retroactive, some were effective on the general effective date, and some will go into effect on January 1, 2015.

HB 2546: Alarm Businesses; Alarm Agents; Regulation. Laws 2014, Chapter 174.

Prohibits municipalities from imposing sales tax on proceeds from alarm system monitoring services.

HB 2667: Persons With Disabilities. Laws 2014, Chapter 215.

Replaces the terms "disabled" and "handicapped" with the term "person(s) with disabilities" throughout Arizona's statutes, including Arizona's sales and use tax statutes, and requests state agencies to revise their rules, publications, orders, actions, programs, policies, and signs with such terminology when updates are otherwise necessary.

HB 2701: TPT; Health Sciences Institutions; Exemption. Laws 2014, Chapter 276.

Adds state and local sales and use tax exemptions for sales of tangible personal property to qualifying health sciences education institutions by retailers, persons engaged in the business of publishing newspapers, magazines, and other periodicals, and by persons engaged in the business of job printing, engraving, embossing and copying. The state publication and job printing exemptions were effective on the general effective date, but the state retail, use tax, and all municipal tax exemptions will be effective on January 1, 2015.

C. Property Tax Legislation

SB 1352: Property Tax Roll; Corrections. Laws 2014, Chapter 249.

Permits county assessors to send amended notices of valuation within 60 days of mailing the original notices of valuation if the assessor discovers that property characteristic data applicable to a grouping of properties delineated by neighborhood or classification resulted in an incorrect opinion of value. Sets the interest rate for overpayments of property tax at the rate ADOR pays, which is the same rate the IRS pays, which may vary from quarter to quarter. Clarifies that tax rolls may be adjusted to prorate the value of properties that are destroyed after the lien date from the lien date to the date of destruction. Alters some procedures related to notices of proposed correction and notices of claim.

HB 2046: Disaster Recovery; Businesses; Tax; Regulation. Laws 2014, Chapter 43.

Provides that out-of-state businesses that are in Arizona on a temporary basis solely to assist with disaster recovery efforts from a declared disaster during a disaster period are not subject to property tax on any property brought temporarily into Arizona for or during the disaster period. Effective January 1, 2015. (Also affects Arizona's income and sales tax laws as summarized above.)

HB 2141: County Assessor; Common Area Consolidation. Laws 2014, Chapter 133.

Requires county assessors to automatically consolidate common area parcels located within the same taxing district.

HB 2283: TPT; Postmark; Filing By Mail. Laws 2014, Chapter 139.

Provides that any report, claim, tax return, statement, payment, deposit, or other material dealing in any way or manner with taxation, other than petitions or notices of appeal, that is required or authorized to be filed with or made to Arizona or any agency or political subdivision thereof but does not contain a postmark or other official mark of the United States Post Office stamped thereon shall be considered timely if "performed by the taxpayer" (perhaps "performed by the taxpayer" means "delivered?") within five business days after the due date of the filing. Effective January 1, 2015. (Also affects Arizona's income, sales, and property tax laws as described above, and other tax laws as summarized below.)

HB 2287: County Treasurer; Lien; Sale. Laws 2014, Chapter 205.

Allows county sheriffs to sell personal property to the highest bidder when personal property taxes remain unpaid even if the bid is not sufficient to pay the outstanding taxes. Requires parties who bring an action to foreclose the right to redeem real property tax liens to name the county treasurer as a party to the action.

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HB 2403: Property; Valuation; Renewable Energy; Equipment. Laws 2014, Chapter 264.

Defines terms employed in the statutory formula used to value renewable energy equipment for property tax purposes. Sets a limit on the value of certain types of real property leased by the owner to a tenant that utilized renewable energy equipment on the property but then defaulted on the lease and abandoned the equipment.

HB 2667: Persons With Disabilities. Laws 2014, Chapter 215.

Replaces the terms "disabled" and "handicapped" with the term "person(s) with disabilities" throughout Arizona's statutes, including Arizona's property tax statutes, and requests state agencies to revise their rules, publications, orders, actions, programs, policies, and signs with such terminology when updates are otherwise necessary.

D. Other Tax & Tax-Related Legislation

SB 1180: Luxury Privilege Tax; Cider; Definition. Laws 2014, Chapter 110.

Expands the definition of "cider" for luxury privilege tax purposes such that vinous liquor made from the fermentation of the juice from pears and other pome fruits is subject to luxury privilege tax.

SB 1397: Liquor Omnibus. Laws 2014, Chapter 253.

Defines "farm winery" and "microbrewery" for purposes of the luxury privilege tax that applies to certain sales of liquor by such parties, and extends the tax to certain sales of liquor by "craft distillers," as that term is defined in the bill.

HB 2272: Tax Credits; Capital Investments; Employment. Laws 2014, Chapter 168.

Amends the premium tax credit for net increases in full-time employees in qualifying employment positions (i.e., the "Quality Jobs Tax Credit") to allow insurance companies to claim the credit in years two and three when an employee in a qualifying position leaves but is replaced with another qualifying employee. Retroactive to January 1, 2014. (Also amends Arizona's income tax laws as described above.)

HB 2283: TPT; Postmark; Filing By Mail. Laws 2014, Chapter 139.

Eliminates the separate deadline for taxpayers electing to pay certain state and local taxes (including sales and use taxes, severance taxes, telecommunication service excise tax, the tax on water use, jet fuel excise and use taxes, and the prepaid wireless telecommunications E911 excise tax) by mail that was tied to being postmarked by the twenty-fifth day of the month. Provides that any report, claim, tax return, statement, payment, deposit, or other material dealing in any way or manner with taxation, other than petitions or notices of appeal, that is required or authorized to be filed with or made to

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Arizona or any agency or political subdivision thereof but does not contain a postmark or other official mark of the United States Post Office stamped thereon shall be considered timely if “performed by the taxpayer” (perhaps “performed by the taxpayer” means “delivered?”) within five business days after the due date of the filing. Effective January 1, 2015. (Also affects Arizona’s income, sales, and property tax laws as described above.)

HB 2288: Sales Tax; Reduced Reporting Requirements. Laws 2014, Chapter 141.

Allows taxpayers whose estimated qualifying annual tax liability is less than \$2,000 to report and pay the tax on an annual basis (the previous threshold was \$500), and allows taxpayers whose estimated annual qualifying tax liability is between \$2,000 and \$8,000 to report and pay the tax on a quarterly basis (the previous range was between \$500 and \$1,250). Qualifying taxes include state and local sales and use taxes, severance tax, telecommunication service excise tax, the tax on water use, jet fuel excise and use taxes, and the prepaid wireless telecommunications E911 excise tax. Effective January 1, 2015.

HB 2378: Municipal Taxes and Fees; Prohibition. Laws 2014, Chapter 169.

Prohibits municipalities from levying or assessing municipality-wide taxes or fees against property owners based on the size or value of their property, except for property taxes, which are subject to the limitations and protections afforded by Arizona’s Constitution and statutes, and except for Paradise Valley’s parcel tax -- which was grandfathered. Retroactive to January 1, 2014.

HB 2674: Tobacco Settlement Agreement. Laws 2014, Chapter 160.

Makes changes to the penalties that apply when a person subject to luxury privilege tax fails to report or pay the tax in the manner required by Arizona’s statutes. Defines terms and changes some existing definitions of terms used in Arizona’s luxury tax statutes and alters numerous provisions in Arizona’s luxury privilege tax statutes -- mainly as they apply to tobacco products. Most of these changes were effective on the general effective date, except the changes to bonding requirements for cigarette distributors, which are retroactive to April 1, 2012.