



2007 Legislative Summaries

**State of Arizona
Department
of Revenue**

**This document contains summaries of 2007 legislation from the
Forty-eighth Legislature – First Regular Session.**

2007 Legislative Summaries

The following is intended to give a brief summary of the 2007 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 is September 19, 2007. All legislation will have this effective date unless otherwise noted in the summary.

To go to the complete bill, click on the chapter number (hyperlink to Internet).

Income Tax

House Bill 2079 (Chapter [7](#))

Income tax credit review schedule

HB 2079 is the annual bill to update the income tax credit review schedule based on the recommendations of the Joint Legislative Income Tax Credit Review Committee. The bill has scheduled the following individual and corporate income tax credits for review in 2012.

Individual income

- 43-1073 Family tax credit
- 43-1089 Credit for contributions to school tuition organizations
- 43-1089.01 Tax credit; public school fees and contributions
- 43-1089.02 Credit for donation of school site

Corporate income

- 43-1181 Credit of donation of school site

House Bill 2084 (Chapter [112](#))

Income tax credit; other states

HB 2084 provides a credit for taxes paid to another state for taxpayers that are domiciled in Arizona, but considered a resident of another state under the laws of that other state. The credit may only be claimed for the amount of taxes paid on income derived from within the other state.

This bill will be effective retroactively to taxable years from and after December 31, 2001. Any claim for refund must be filed according to the four year statute of limitations.

House Bill 2322 (Chapter [225](#))

Tax credit accountability; motion picture

See summary under Multiple Tax Types

House Bill 2491 (Chapter [180](#))

Solar energy tax credit; application

See summary under Multiple Tax Types

House Bill 2784 (Chapter [258](#))

2007 tax reduction package

See summary under Multiple Tax Types

Senate Bill 1036 (Chapter [132](#))

Tax liabilities; suspension

See summary under Multiple Tax Types

Senate Bill 1157 (Chapter [1](#) E)

Income tax deadlines

See summary under Multiple Tax Types

Senate Bill 1233 (Chapter [160](#))

Recomputation of tax; final determination

A taxpayer is no longer required to submit an amended return at the time they file a federal amended return. Instead, the taxpayer is allowed to file 90 days after the final determination is made on their federal amended return. However, it does not prevent taxpayers from filing intermittent amended returns to make a payment to stop the accrual of interest.

SB1233 provides a statutory definition of *final determination* for Arizona income tax purposes:

- Final determination, occurs when the appeal rights of the Internal Revenue Service (IRS) and the taxpayer have been exhausted relative to the tax year.
- Stipulates that a partial agreement, closing agreements, jeopardy or advance payment assessment is part of the final determination and must be submitted to DOR.
- Specifies that partial, closing or other IRS agreements that would be final except for flow through adjustments are considered as a final determination when the taxpayer signs the agreement.
- Clarifies that flow through adjustments are finally determined when appeal rights have been exhausted.
- DOR is not required to issue refunds until the final determination has been made.

These changes are retroactive to final determinations issued by the United States Treasury Department from and after December 31, 2006.

Transaction Privilege Tax/ Use Tax

House Bill 2300 (Chapter [252](#))

Water district; Upper San Pedro

HB2300 allows the Upper San Pedro Water District and Board of Directors to be established if approved by qualified voters of the District. The bill outlines the powers, duties, responsibilities and limitation of the District and the Board. It also creates an Organizing Board to prepare organizational, financial, comprehensive and election plans for the District. For DOR purposes, this bill calls for the formation of the Upper San Pedro Water District and provides that District with the authority to impose a transaction privilege tax.

House Bill 2515 (Chapter [276](#))

Municipal sales tax incentives; prohibition

HB2515 penalizes certain Maricopa County and Pinal County municipalities that offer tax incentives to retail business facilities to locate or relocate into their city or town.

House Bill 2627 (Chapter [188](#))

Prime contracting; property owners

HB2627 changes the "prime contractor" definition under A.R.S. § 42-5075 retroactive to January 8, 1991 to generally exclude persons who might commonly be considered 'owner-developers': that is, persons who hire contractors to perform the modifications and who do not perform those activities themselves.

Any claim for refund must be filed no later than December 31, 2007. Failure to file a claim by this date constitutes a waiver of the claim. The aggregate amount of refunds may not exceed \$10,000.

House Bill 2784 (Chapter [258](#))

2007 tax reduction package

See summary under Multiple Tax Types

Senate Bill 1036 (Chapter [132](#))

Tax liabilities; suspension

See summary under Multiple Tax Types

Senate Bill 1592 (Chapter [174](#))

Contractors; violations; sales tax

SB1592 requires all contractors who have been convicted of a misdemeanor to pay their outstanding state, county and city transaction privilege taxes from the acts arising from the violation before they are determined eligible for probation or suspension of sentence.

Property Tax

House Bill 2078 (Chapter [41](#))

Property Tax Commission; sunset continuation

The Property Tax Oversight Commission (PTOC) is intended to provide oversight of the budgeting and taxation process of counties, municipalities, school districts and community college districts. The PTOC was set to sunset on July 1, 2007, but this bill extends the sunset date until July 1, 2017.

House Bill 2091 (Chapter [8](#))

Parcel splits; taxing districts

HB2091 states that a special taxing district that submits proposed boundaries after November 1, 2007 must only include whole parcels, not partial parcels.

House Bill 2207 (Chapter [117](#))

County treasurers; property tax collection

HB2207 makes the following changes for the county treasurers in regard to collection of property taxes on mobile homes.

- Allows MVD to identify mobile homes with delinquent taxes by taxpayer ID number or Tax roll ID. Previously it was Tax roll ID only.
 - Establishes a method for the County Treasurer to allocate taxes between parcels that have been split or consolidated.
 - Eliminates the second deferral of taxes for the purchaser of a personal property mobile home subject to delinquent taxes.
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House Bill 2476 (Chapter [106 E](#))

Government property tax exemption; retroactivity

In 2006, A.R.S. § 42-11102 was amended to remove subsection D which specifically taxed a group of buildings in Tempe owned by SRP. HB2476 makes the 2006 legislation retroactive to September 18, 2003.

This bill had an emergency clause and went into effect on April 20, 2007 with the Governor's signature.

House Bill 2491 (Chapter [180](#))

Solar energy tax credit; application

See summary under Multiple Tax Types

House Bill 2657 (Chapter [203](#))

Property tax; electric generation valuation

HB2657 requires DOR to value the land used in operating electric generation facilities at "the cost to the current owner as of December 31 of the preceding calendar year".

This bill is retroactive to "valuation years beginning from and after December 31, 2006." This means that it is effective for the 2007 valuation year (2008 tax year). The revised land values were included in the preliminary valuation notices that were mailed on June 15, 2007.

House Bill 2784 (Chapter [258](#))

2007 tax reduction package

See summary under Multiple Tax Types

Senate Bill 1554 (Chapter [37](#))

Board of equalization; hearing officers

SB1554 increases the allowable pay for hearing officers employed by the State Board of Equalization.

Multiple Tax Types

House Bill 2322 (Chapter [225](#))

Tax credit accountability; motion picture

HB2322 adds new corporate and individual income tax credits for motion picture infrastructure projects (building studios, etc.) as well as making changes to the current motion picture production credit.

- The new infrastructure credits will be subject to the same cap limits as the motion picture production credits with 5% of the cap limit reserved for commercials and music videos.
- The infrastructure credit is based on 15% of the cost of the infrastructure project and the credit is transferable.
- Motion picture production credits were amended to increase the credits from 10-20% of costs to 20-30% of the costs.
- Credits may now be claimed on the first available timely filed return that is due after the final approval from the Department of Commerce as long as it is not earlier than the cap year when the credit was pre-approved. For example, if a taxpayer was pre-approved for a credit from the 2007-cap year and finishes the production and receive post-approval from DOC on 3/31/08, the taxpayer could claim the credit on their timely filed 2007 return that is due 4/15/08 rather than waiting for their 2008 return to be filed.

- Both credits now have provisions to allow the motion picture production company or the infrastructure company to request a limited managed audit of the credit. The audit would have to be done by an independent CPA paid for by the taxpayer and conducted pursuant to a limited managed audit agreement entered into with DOR. If DOR denies the outcome, then the taxpayer may appeal the denial in the same manner as any other protested audit. If DOR approves, then the taxpayer is issued a certification that the credit would not be subject to recapture from the transferees.
- Made changes regarding the expenses that qualify for the credits.
- Allows taxpayers to apply for post approval from DOC before a viewable copy of the production is available by submitting a letter of credit payable to DOR. If the DOC later determines that the motion picture does not qualify for the credit, DOR would draw on the letter of credit and hold the monies in an interest bearing account pending the outcome of any appeal.

House Bill 2491 (Chapter [180](#))

Solar energy tax credit; application

HB2491 amends the corporate and individual income tax credits available for installing or financing a solar energy device.

Provisions:

- Expands the credit to solar energy devices installed for any nonresidential application, not just for commercial or industrial purposes.
- Allows the device to be installed in the taxpayer's facility, which is broader than the taxpayer's trade or business location.
- Expands the credit to allow a taxable entity or an entity exempt from tax under Chapter 12 of Title 43 to transfer the credit to a third party organization that either installed, developed or

financed the solar energy device placed in service during the taxable year.

The change is retroactive to years beginning from and after 12/31/2005, which is when the original statute was effective.

House Bill 2784 (Chapter [258](#))

2007 tax reduction package

Provisions:

Military Relief Fund

- Establishes the Military Family Relief Fund. The money in the fund must be used to provide financial assistance to family members of military personnel who were killed or wounded in the line of duty and who were deployed from a military base in Arizona or who were members of the Arizona Army or Air National Guard.
- Administered by the Arizona Department of Veterans' Services.
- Contributions made to the fund may qualify for an income tax credit, however, donations to the fund that exceed a combined total of one million dollars in any calendar year do not qualify for the credit.
- The credit is the amount contributed to the fund by the taxpayer during the taxable year, up to \$200 for a single person or head of household and \$400 for a married couple filing a joint return. Married taxpayers that file separate returns may each claim only one-half of the tax credit that would have been allowed on a joint return.
- The credit cannot exceed the taxpayer's tax liability for the taxable year. For a taxpayer to be eligible for the credit, the taxpayer must have received receipt from the Department of Veterans' Services that indicates the donation was within the one million dollar total annual limit for the credit, shows the taxpayer's name, address, last four digits of the taxpayer's social security number and

whether the donation qualifies under the limits. The Department of Veterans' Services must furnish a copy of each receipt to DOR.

- This credit is effective for taxable years beginning from and after December 31, 2007 with an automatic repeal on December 31, 2012.

Business Personal Property

- Changes the schedule of additional depreciation allowed for Legal Class 1 and 2 business personal property that are initially classified during or after tax year 2008.
- Allows a higher percentage of additional depreciation, and also extends the number of years that property receives additional depreciation from 4 to 5 years.

Class One Property

- Speeds up the reduction of the assessment ratio for Legal Class 1 and Legal Class 6.4 (Enterprise Zone Full Cash Value) so that a 20% assessment ratio is reached in 2010 rather than 2014. To accomplish this, the rate will decrease 1% per year instead of the current ½% per year.

College Savings Plan

- Provides individuals with a subtraction from Arizona gross income for the amount contributed to a college savings plan established pursuant to I.R.C. § 529, to the extent that the contributions were not deducted in computing federal adjusted gross income.
- The subtraction is limited to \$750 for a single individual or a head of household and \$1,500 for a married couple filing a joint return. If a husband and wife file separate returns, the subtraction can be taken by either taxpayer, or may be divided between them, but may not exceed \$1,500.
- Requires a recapture of subtracted amounts when such amounts are used for unqualified purposes.

- The subtraction is effective for taxable years beginning from and after December 31, 2007 with an automatic repeal on December 31, 2012.

NBA All-Star TPT Exemption

- Provides a TPT exemption for admission sales to the 2009 NBA All-Star game and other related events with a conditional enactment that requires the City of Phoenix to provide a municipal TPT exemption for the same events if it is chosen as the host city.

Senate Bill 1036 (Chapter [132](#))

Tax liabilities; suspension

SB1036 allows the director to grant a filing extension and penalty and interest relief for a period of up to one year to taxpayers eligible for disaster relief under I.R.C. § 7508A and taxpayers affected by a state of emergency declared by the Governor.

This legislation will grant relief to all tax types administered under Title 42.

Senate Bill 1157 (Chapter [1](#) E)

Income tax deadlines; conformity

SB1157 conforms the starting point for computing Arizona taxable income for 2006 to include the federal changes made to the Internal Revenue Code during 2006. The bill also conforms the starting point for computing Arizona taxable income in 2007 to the current Internal Revenue Code.

Retroactive to December 31, 2006 the filing or payment of income tax is considered timely filed on the next business day that is not a Saturday, Sunday or legal holiday, if the original deadline falls on one of those days.

Defines legal holiday to include legal holidays in the State of Arizona or as determined by the U.S. Secretary of the Treasury relating to due dates established by the IRS.

This bill had an emergency clause and went into effect on April 4, 2007 with the Governor's signature.

Miscellaneous

House Bill 2681 (Chapter [218](#))

Utility assistance; qualified fuel fund

HB 2681 repeals the statutes governing the Utility Assistance Fund (UAF) and requires a utility to transfer annually all abandoned deposits to a qualified fuel fund entity for the purposes of assisting eligible Arizona residents in making deposits, repairs, and replacement of utility related appliances or systems.

House Bill 2786 (Chapter [260](#))

Budget reconciliation; general revenues

Provisions related to the Department of Revenue and the Unclaimed Property Statutes:

- Decreases the abandonment period for corporate debt instruments from five to three years.
- Creates a three year abandonment period for corporate debt instruments from five to three years.
- Eliminates requirement for DOR to pay appreciation to claimants if securities are sold prior to the three year holding period after the holder delivers the securities to DOR.
- Entitles claimants to the net proceeds from the sale of securities.
- Requires all proceeds from the sales of securities in FY 2007-08 be deposited into the state General Fund.

House Bill 2789 (Chapter [263](#))

Budget reconciliation; health and welfare

Amends the current language of the Health Insurance Premium Tax Credit found in A.R.S. § 43-210.

The bill:

- Requires the application for a certificate of eligibility to contain a written declaration made under the penalty of perjury; and
- Requires the applicant to obtain health insurance within ninety days for the certificate to remain valid for one year rather than apply for health insurance within 30 days.

These changes become effective with the general effective date of September 19, 2007 with a retroactivity provision to September 21, 2006 when the Health Insurance Premium Tax Credit began.