THE REVENUE IMPACT OF ARIZONA'S TAX EXPENDITURES FISCAL YEAR 2019

PREPARED FOR: THE GOVERNOR AND THE LEGISLATURE

BY: OFFICE OF ECONOMIC RESEARCH AND ANALYSIS,

ARIZONA DEPARTMENT OF REVENUE

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The following report on Arizona's Tax Expenditures was prepared for the Governor and the Legislature in accordance with A.R.S. § 42-1005.

The preliminary 2019 report provides a broad range of information. The report contains sections for all taxes imposed by Arizona. However, the individual and corporate income tax sections contain data only on credits.

If you have questions or comments regarding this report, please contact the Office of Economic Research and Analysis at the Arizona Department of Revenue at (602) 716-6924.

SUMMARY ESTIMATED VALUE OF TAX EXPENDITURES [1] [2]
FISCAL YEARS 2015 - 2019

TAX TYPE	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	% change from FY2018
AIRCRAFT LICENSE TAX EXPENDITURES	$4,985,055	$5,032,946	$7,818,845	$4,319,375	$4,238,390	(1.9)%
AVIATION FUEL TAX EXPENDITURES	$149,151	$162,479	$186,795	$203,886	$145,457	(28.7)%
BINGO TAX EXPENDITURES	$70,960	$73,028	$54,015	$97,447	$71,769	(26.4)%
BOXING & MIXED MARTIAL ARTS TAX EXPENDITURES	$3,330	$3,510	$2,340	$2,430	$3,900	60.5%
CORPORATE INCOME TAX EXPENDITURES [3]	$506,809,000	$571,320,000	$558,921,000	***$127,524,118***	***$91,929,909***	(25.8)%
FIDUCIARY INCOME TAX EXPENDITURES [4]	$30,307,514	$53,703,660	$57,633,493	$51,369,459	$154,748,631	201.2%
FLIGHT PROPERTY TAX EXPENDITURES	$939,316	$2,536,654	$3,315,973	$2,869,558	$3,714,248	29.4%
IN LIEU PROPERTY TAX EXPENDITURES	$0	$0	$0	$0	$0	NA
INDIVIDUAL INCOME TAX EXPENDITURES [5]	$2,650,206,000	$2,502,049,000	$2,600,070,000	***$447,185,967***	***$505,397,361***	13.0%
INSURANCE PREMIUM TAX EXPENDITURES	$242,399,848	$241,218,934	$253,031,965	$268,204,774	$281,511,898	5.0%
JET FUEL EXCISE AND USE TAX	$6,635,958	$6,164,499	$6,134,819	$6,779,198	$7,119,598	5.0%

[1] Details for each tax type are included in the body of this report.
[2] Preliminary data is bold and in italics.
[3] Corporate Income Tax Expenditures shown for FY 2015 through FY 2017 includes all Corporate Income tax expenditures.
[4] Fiduciary Tax Expenditures for FY 2019 were volatile and may not be a good representation of the future value of these expenditures.
[5] Individual Income Tax Expenditures shown for FY 2015 through FY 2017 includes all Individual Income tax expenditures.

TAX TYPE	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	% change from FY2018
EXPENDITURES						
LUXURY TAX EXPENDITURES	$38,433,557	$14,597,098	$1,932,621	$12,174,235	$11,680,549	(4.1)%
MOTOR CARRIER FEE EXPENDITURES	NIA[6]	NIA	NIA	NIA	NIA	NA
MOTOR VEHICLE FUEL TAX EXPENDITURES	$10,974,015	$12,446,181	$11,759,017	$8,955,145	$9,830,062	9.8%
PARI-MUTUEL TAX EXPENDITURES	$4,016,340	$3,775,986	$2,105,316	$3,500,624	$3,383,589	(3.3)%
PRIVATE CAR PROPERTY TAX EXPENDITURES	$312,407	$384,354	$494,754	$410,629	$514,320	25.3%
PROPERTY TAX EXPENDITURES	$377,979,585	$403,693,834	$420,079,174	$415,725,376	$431,174,694	3.7%
SEVERANCE TAX EXPENDITURES	$24,862,000	$15,196,006	$18,377,156	$24,561,867	$17,251,505	(29.8)%
TRANSACTION PRIVILEGE AND USE TAX EXPENDITURES[7]	$12,212,283,076	$12,262,397,152	$12,000,474,483	$13,271,283,211	$16,803,312,824	26.6%
UNDERGROUND STORAGE TANK TAX EXPENDITURES	NIA	NIA	NIA	NIA	NIA	NA
UNEMPLOYMENT INSURANCE TAX EXPENDITURES	NIA	NIA	NIA	NIA	NIA	NA
USE FUEL TAX EXPENDITURES	$43,621,085	$45,731,318	$48,192,409	$55,998,637	$57,668,281	3.0%
VEHICLE LICENSE TAX EXPENDITURES	NIA	NIA	NIA	NIA	NIA	NA
WORKERS' COMPENSATION PREMIUM LIEU TAX EXPENDITURES	$1,809,939	$1,251,000	$5,596,060	$4,286,111	$4,001,141	(6.6)%
TOTAL	**$16,156,798,136**	**$16,141,737,639**	**$15,996,180,235**	***$14,705,452,047***	***$18,387,698,126***	**25%**

[6] No Information Available.

[7] The impact shown is a point in time measurement. Impacts for the same period measured at a later date could produce different results.

FISCAL YEAR 2019 ARIZONA TAX EXPENDITURE REPORT

EXECUTIVE SUMMARY

FISCAL YEAR 2019 STATE TAX REVENUE COLLECTED[8]: $15,439,333,640
TOTAL FY 2019 TAX EXPENDITURE: $18,387,698,126
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: 54%

The Arizona Tax Expenditure Report is a study prepared for the Governor and the Legislature by the Arizona Department of Revenue's Office of Economic Research and Analysis. The report is prepared in accordance with A.R.S. § 42-1005.

Tax expenditures[9] are provisions within the law designed to encourage certain kinds of activity or to aid taxpayers in certain categories. These provisions are generally known as exemptions, exclusions, deductions, subtractions, credits, or preferential rates. Such provisions result in a loss of tax revenues, thereby reducing the amount of revenues available for state (and, in some circumstances, local) programs. In effect, the fiscal impact of implementing tax expenditure would be similar to a direct expenditure of state funds. This report provides a list of tax expenditures and, whenever possible, details the approximate cost of exempting certain types of income, goods, services or property from its respective tax statutes. For several of the expenditures, the impact shown is a point in time measurement. Impacts for the same period measured at a later date could produce different results.

The purpose of this report is to provide a better understanding of impacts associated with existing tax exemptions, exclusions, deductions, subtractions and credits. There are sections on every tax imposed in Arizona. Each section contains statutory provisions for that specific tax type. The analysis includes an explanation of the provision as well as the approximate impacts of that provision where possible. Information in sections pertaining to tax types not administered by the Arizona Department of Revenue is submitted by the agency administering the tax. Any impact estimates presented are provided by that agency.

ASSUMPTIONS

This report does not contain any judgment regarding the merit, desirability, importance or usefulness of a tax expenditure. The Legislature and Governor determine the taxation environment they wish to create in Arizona and formulate law to create the corresponding policy. All tax expenditures were conscious public policy decisions at the time of enactment.

The impacts associated with the specific provisions are the estimated effect of that provision based upon the information available for the stated fiscal or calendar year. There is no consideration of

[8] Total State Revenue collected from the sources covered in this publication.
[9] A.R.S. § 42-1005 defines tax expenditure as any "tax provision in state law which exempts, in whole or in part, any persons, income, goods, services or property from the impact of established taxes including deductions, subtractions, exclusions, exemptions, allowances and credits."

altered demand resulting from the tax expenditure. There is also no consideration of dynamic fiscal impacts resulting from a reduced tax.

The summary page(s) at the end of each section provides a total value of the tax expenditure. ***This total value is a general guide and should not be used in isolation.*** In fact, the expenditures for a particular tax can often not be added to reach a total. The presence or absence of one expenditure for a tax type can directly affect the value of another expenditure for that same tax type.

TOTAL TAX EXPENDITURE BY TAX TYPE

The tables below display the total value of tax expenditures by each tax type and a 10-year history of total tax expenditures. Preliminarily, in FY 2019 the total value of tax expenditures was $18.4 billion, an increase of 25% from the prior fiscal year. Transaction privilege tax accounted for 91% of the tax expenditure, with individual income tax, property, insurance premium, and corporate income tax accounting providing the next largest totals, in descending order. In total, these five tax types account for 98.5% of the tax expenditures estimated in this report.

	Historical Total Tax Expenditures[10]	Year over year change
FY 2010	$12,282,375,164	14.33%
FY 2011	$11,012,624,554	(10.34)%
FY 2012	$12,569,692,108	14.14%
FY 2013	$13,170,304,273	4.78%
FY 2014	$13,738,355,104	4.31%
FY 2015	$13,457,066,136	(2.05)%
FY 2016	$13,574,041,639	0.87%
FY 2017	$13,373,300,235	(1.48)%
FY 2018	$14,705,452,047	9.96%
FY 2019	$18,387,698,126	25.04%

[10] Individual and Corporate Income Tax contain only credit data for each year in this comparison.

SUMMARY ESTIMATED VALUE OF TAX EXPENDITURES[11]
FISCAL YEAR 2019

TAX TYPE	VALUE OF FY 2019 EXPENDITURES	% change from FY 2018
AIRCRAFT LICENSE TAX EXPENDITURES	$4,238,390	(1.9%)
AVIATION FUEL TAX EXPENDITURES	$145,457	(28.7%)
BINGO TAX EXPENDITURES	$71,769	(26.4%)
BOXING & MIXED MARTIAL ARTS TAX EXPENDITURES	$3,900	60.5%
CORPORATE INCOME TAX EXPENDITURES[12]	$91,929,909	(27.9%)
FIDUCIARY INCOME TAX EXPENDITURES	$154,748,631	201.2%
FLIGHT PROPERTY TAX EXPENDITURES	$3,714,248	29.4%
IN LIEU PROPERTY TAX EXPENDITURES	$0	NA
INDIVIDUAL INCOME TAX EXPENDITURES[13]	$505,397,361	13.0%
INSURANCE PREMIUM TAX EXPENDITURES	$281,511,898	5.0%
JET FUEL EXCISE AND USE TAX EXPENDITURES	$7,119,598	5.0%
LUXURY TAX EXPENDITURES	$11,680,549	(4.1)%
MOTOR CARRIER FEE EXPENDITURES	NIA[14]	NA
MOTOR VEHICLE FUEL TAX EXPENDITURES	$9,830,062	9.8%
PARI-MUTUEL TAX EXPENDITURES	$3,383,589	(3.3%)
PRIVATE CAR PROPERTY TAX EXPENDITURES	$514,320	25.3%
PROPERTY TAX EXPENDITURES	$431,174,694	3.7%
SEVERANCE TAX EXPENDITURES	$17,251,505	(29.8%)
TRANSACTION PRIVILEGE AND USE TAX EXPENDITURES	$16,803,312,824	26.6%
UNDERGROUND STORAGE TANK TAX EXPENDITURES	NIA	NA
UNEMPLOYMENT INSURANCE TAX EXPENDITURES	NIA	NA
USE FUEL TAX EXPENDITURES	$57,668,281	3.0%
VEHICLE LICENSE TAX EXPENDITURES	NIA	NA
WORKERS' COMPENSATION PREMIUM LIEU TAX EXPENDITURES	$4,001,141	(6.6%)
TOTAL	**$18,387,698,126**	**25.0%**

[11] Details for each tax type are included in the body of this report.
[12] Corporate Income Tax Expenditures shown here is credit data for tax year 2017. The remainder of the Corporate Income Tax expenditures for FY 2019 will be included in the final version of this report.
[13] Individual Income Tax Expenditures shown here is credit data for tax year 2017. The remainder of the Individual Income Tax expenditures for FY 2019 will be included in the final version of this report.
[14] No Information Available.

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AIRCRAFT LICENSE TAX EXPENDITURES[15] - FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Transportation
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $4,121,315[16]
TOTAL FY 2019 TAX EXPENDITURE: $4,238,390
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: 51%

A license tax is imposed on aircraft operating in Arizona at the rate of 0.5% of the average fair market value of the particular make, model and year of the aircraft, but not less than $20. The proceeds from this tax are deposited into the state aviation fund.

AIRCRAFT LICENSE TAX EXEMPTIONS

A.R.S. § 28-8322: Aircraft operated by an airline company and regularly scheduled for the primary purpose of carrying persons or property for hire in interstate, intrastate or international transportation are exempt from tax. Aircraft owned by a nonresident who bases the aircraft in this state for a period of not more than 90 days in any one calendar year, if the aircraft is not engaged in interstate commercial activity, is also exempt from tax.

Calculating the tax value of these tax expenditures would require knowing the average fair market value of every aircraft carrying persons or property that stops at an airport in Arizona. Therefore, the value of this tax expenditure is not quantifiable.

A.R.S. § 28-8323: Aircraft owned and operated exclusively in the public service by the federal government, by Arizona or by any political subdivision of Arizona or by the civil air patrol is exempt from tax.

The average fair market value of aircraft owned by the federal government and operated in Arizona is unknown. It is known that there were 55 aircraft owned by the Arizona Department of Transportation, the Arizona Department of Public Safety, various Arizona counties and cities and the civil air patrol in FY 2019. The average fair market value of each aircraft is $270,344, which equates to a tax value of $36,542 for this tax expenditure.

A.R.S. § 28-8323(B): Aircraft owned and held by a bona fide aircraft dealer solely for the purpose of sale, as long as these aircraft are registered within 10 days of the dealer's purchase date are exempt from tax.

There were eight aircraft of this type registered by bona fide aircraft dealers in Arizona in FY 2019. The tax value of these aircraft was approximately $285,768.

PREFERENTIAL TAX RATES

A.R.S. § 28-8336: The license tax rate for a nonresident who bases his aircraft in Arizona for more than 90 days but less than 210 days in a given calendar year, provided that the aircraft is not engaged in any intrastate commercial activity, is equal to 0.1% of the average fair market value of the particular make, model and year of aircraft. This tax rate is 20% of the tax rate imposed on resident-owned aircraft.

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[15] Any figures presented for Aircraft License Tax Expenditures were provided by the Arizona Department of Transportation.

[16] Source: 2019 Tax Handbook, Joint Legislative Budget Committee

In FY 2019, there were 10 nonresident aircraft based in Arizona. The total aircraft license tax paid by nonresidents falling into this category was $6,230. The value of this expenditure is calculated by multiplying this figure by four, yielding the foregone tax collections allowed by the preferential rate of $24,920.

A.R.S. § 28-8337: Aircraft in storage or being repaired are charged a license tax of $20.

There are 276 aircraft which have been granted this license tax rate with a fair market value of $76,532,370. The tax value of this preferential license tax is $3,826,618, which is the total fair market value multiplied by 0.5% less $20 per aircraft.

A.R.S. § 28-8338: The annual license tax for a salvage aircraft that is in storage or that is being restored is $5.

There are 15 aircraft registered under this provision. Assuming no market value for salvage aircraft, the tax value of this tax expenditure is the difference between the $20 minimum license tax imposed on all other aircraft and the $5 minimum license tax imposed on these aircraft, or $225.

A.R.S. § 28-8339: There is a $20 license tax for an antique, classic, warbird, glider, experimental, homebuilt or balloon aircraft.

There are 4,359 aircraft registered in Arizona under this provision, with a total market value of $17,436,000. The tax value of this tax expenditure is the total market value multiplied by 0.5% less the $20 license tax paid per aircraft, or $0.

A.R.S. §§ 28-8340 and 28-8341: Maintenance aircraft owned by a nonresident and manufacturer's aircraft are required to pay an aircraft license tax of $20.

There are 64 nonresident-owned maintenance aircrafts and 20 manufacturers' aircraft registered in Arizona with a total market value of $13,119,400. The tax value of this tax expenditure can be calculated by multiplying the total market value by 0.5% and subtracting the $20 per aircraft tax paid, or $64,317.

SUMMARY OF AIRCRAFT LICENSE TAX EXPENDITURES – FISCAL YEAR 2019

AIRCRAFT LICENSE TAX EXEMPTIONS:

Aircraft operated for the primary purpose of carrying persons or property for hire	NIA[17]
Nonresident owned aircraft in Arizona for less than 90 days	NIA
Aircraft owned by a government or by the civil air patrol	$36,542
Aircraft owned by an aircraft dealer for sale	285,768
TOTAL VALUE OF AIRCRAFT LICENSE TAX EXPENDITURES	**$322,310**

PREFERENTIAL TAX RATES:

Preferential rate for nonresidents with aircraft in Arizona from 90 to 210 days	$24,920
Preferential rate for aircraft in storage or being repaired	3,826,618
Preferential rate for salvage aircraft in storage or being repaired	225
Preferential rate of antique, classic, warbird, etc. aircraft	0
Preferential rate for maintenance and manufacturer's aircraft	64,317
TOTAL VALUE OF PREFERENTIAL TAX RATES	**$3,916,080**

TOTAL QUANTIFIABLE AIRCRAFT LICENSE TAX EXPENDITURES[18] $4,238,390

[17] No Information Available.

[18] This amount represents foregone revenue to the state aviation fund.

AVIATION FUEL TAX EXPENDITURES[19] - FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Transportation
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $316,959[20]
TOTAL FY 2019 TAX EXPENDITURE: $145,457
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: 31.5%

An aviation fuel tax is imposed on every supplier for each gallon of aviation fuel processed, refined, manufactured, produced, blended or compounded in Arizona by the supplier or imported by the supplier, whether in the original package or container in which it was imported or otherwise. In order to qualify for exemptions on certain types of aviation fuel, the taxpayer must file for a refund. The fuel tax rate is 5¢ per gallon. Revenue from the aviation fuel tax is deposited in the Aviation Fund.

AVIATION FUEL TAX EXEMPTIONS

A.R.S. § 28-5610: Aviation fuel moving in interstate or foreign commerce, not destined or diverted to a point within Arizona is exempt from aviation fuel tax.

There is no requirement for reporting this information; therefore, the tax value of this exemption is unknown.

A.R.S. § 28-5610: Also exempt from aviation fuel tax is aviation fuel sold to the United States armed forces for use in ships or aircraft or for use outside of Arizona.

The amount of aviation fuel purchased by the United States armed forces is not reported so the tax value is unknown.

A.R.S. § 28-5610(A): Aviation fuel tax exported from Arizona is exempt from aviation fuel tax. The taxpayer must apply for a refund.

If such fuel were subject to taxation in FY 2019, an additional $145,301 in aviation fuel tax would have been received.

A.R.S. § 28-5611(A): Although not listed as an exemption, a taxpayer may request a refund for aviation fuel for use in applying seeds, fertilizer or pesticides.

Refunds made in FY 2019 were $156

A.R.S. § 28-5611(A): Also listed as an exemption, a taxpayer may request a refund for losses of fuel due to fire, theft or other accident.

No requests for refunds were made for this in FY 2019.

[19] Any figures presented for Aviation Fuel Tax Expenditures were provided by the Arizona Department of Transportation.

[20] Source: 2019 Tax Handbook, Joint Legislative Budget Committee

SUMMARY OF AVIATION FUEL TAX EXPENDITURES – FISCAL YEAR 2019

AVIATION FUEL TAX EXEMPTIONS AND OTHER REDUCTIONS:

Aviation fuel moving in interstate or foreign commerce	NIA[21]
Aviation fuel sold to the United States armed forces	NIA
Exported aviation fuel	$145,301
Aviation fuel for use in applying seeds, fertilizer or pesticide	156
Aviation fuel lost due to fire, theft or other accident	0
TOTAL VALUE OF AVIATION FUEL TAX EXEMPTIONS	**$145,457**

TOTAL QUANTIFIABLE AVIATION FUEL TAX EXPENDITURES[22] $145,457

[21] No Information Available.

[22] This amount represents foregone revenue to the state aviation fund.

BINGO TAX EXPENDITURES - FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Revenue
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $469,026[23]
TOTAL FY 2019 TAX EXPENDITURE: $71,769
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: 13.3%

The tax on state-licensed bingo operations is based on a multi-tiered licensing structure. There are three classes of bingo licenses, each of which has a different tax rate. Each class' tax rate is based on bingo receipts. All bingo tax collections are deposited into the general fund.

BINGO TAX EXEMPTIONS

A.R.S. § 5-414: Class A licensees (for whom gross receipts do not exceed $15,600 per year) are taxed at 2.5% of their adjusted gross receipts. Adjusted gross receipts equals gross receipts less the amount paid for prizes. Therefore, prize money is exempt from taxation for this class of bingo licensees.

In FY 2019, Class A licensees subtracted $2.87 million from gross receipts. At a 2.5% tax rate, the prize money represents $71,769 in forgone revenue.

PREFERENTIAL TAX RATES

Bingo receipts are taxed at one of three rates, dependent upon the level of gross receipts.

Class A	Gross receipts less than or equal to $15,600	2.5% of adjusted gross receipts
Class B	Gross receipts $15,601 to $300,000	1.5% of gross receipts
Class C	Gross receipts greater than $300,000	2.0% of gross receipts

This is a preferential rate structure because different tax rates are imposed on similar taxpayers based on criteria set in statute. This preferential rate structure allows taxpayers with lower gross receipts to be taxed at a lower rate.

The impact of taxing all bingo receipts at one of the three rates in use is possible but unrealistic. If a uniform rate were imposed, it is probable that the uniform rate would be an effective tax rate among all licensees, making the fiscal impact revenue neutral. Given that legislative action cannot be predicted, we will point out the preferential tax rate structure in law but will not attempt to attach a revenue impact.

SUMMARY OF BINGO TAX EXPENDITURES FISCAL YEAR 2019

Exemption of prize money from taxation for Class A licensees	$71,769

TOTAL QUANTIFIABLE BINGO TAX EXPENDITURES[24] **$71,769**

[23] Source: 2019 Tax Handbook, Joint Legislative Budget Committee
[24] These tax expenditures represent forgone revenue to the state general fund.

BOXING AND MIXED MARTIAL ARTS TAX EXPENDITURES[25]
FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Gaming
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $143,726
TOTAL FY 2019 TAX EXPENDITURE: $3,900
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: 2.7%

Any person who promotes a boxing or mixed martial arts (MMA) contest in Arizona must pay a 4% tax on the gross receipts of such match or exhibition, after deduction of city, state and federal taxes. The tax is paid to the Department of Gaming, which collects for the Arizona Boxing Commission. Gross receipts are defined as receipts from the face value of tickets sold.

BOXING AND MMA TAX EXEMPTIONS

A.R.S. § 5-104.02(A): Tickets issued as complimentary by the promoter of a boxing or MMA match are exempt from taxation as long as the number of complimentary tickets does not exceed 2% of the total number of tickets issued or 75 tickets, whichever is greater.

During FY 2019, nine Boxing events and 17 Mixed Martial Arts events were held. At each event, up to 75 complimentary tickets were issued with an average price of $50 each. Had the value of the estimated 1,950 tickets been taxable, an additional $3,900 would have been received.

SUMMARY OF BOXING AND MMA TAX EXPENDITURES – FISCAL YEAR 2019

Number of Complimentary tickets issued	**1,950**

TOTAL QUANTIFIABLE BOXING AND MMA TAX EXPENDITURES **$3,900**

[25] Any figures presented for Boxing and Mixed Martial Arts Tax Expenditures were provided by the Arizona Department of Gaming.

CORPORATE INCOME TAX EXPENDITURES – FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Revenue

FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $514,264,274[26]

TOTAL FY 2019 TAX EXPENDITURE: $91,929,909 (Only credits are included in this preliminary report.)

TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: 15%

With the exception of credits, no information is available on corporate income tax expenditures at this time. This publication will be updated as soon as the Corporate Income Tax Expenditures section is complete.

CORPORATE INCOME TAX CREDITS

A tax credit reduces corporate tax liability, as opposed to a subtraction which reduces taxable income. Most tax credits that currently exist in Arizona corporate tax law are nonrefundable; any credit amount greater than a firm's tax liability will not be refunded. The unused credit, in most cases, can then be carried forward for use in future tax years. The following corporate credits were in effect in tax year 2017.

A.R.S. § 43-1161: Enterprise zone credits are income tax credits provided for non-retail businesses located in an enterprise zone established under Arizona law that have a net increase in employment of qualified employees, as certified by the Arizona Commerce Authority. A maximum of $500 per each net new employee can be claimed in the first or partial year of employment. In the second year of continuous employment, a maximum of $1,000 per net new employee can be claimed. The limit in the third year of continuous employment is $1,500 per net new employee. A sunset date was set in statute of June 30, 2011. Carry forward is allowed for five years after that date.

A.R.S. § 43-1161: This statute now governs the new employment credit, which is for net increases in qualified employment positions. To qualify for the credit, the taxpayer must invest at least $5 million in capital investment and create at least 25 new qualified positions in an Arizona city or town with a population of 50,000 or more, or invest at least $1 million in capital investment and create at least five new qualified positions in any other Arizona location. The amount of credit is determined and authorized by the Arizona Commerce Authority.

A.R.S. § 43-1162: A healthy forest enterprise employment credit is allowed for businesses that enhance or sustain forest health, sustain or recover watershed or improve public safety, as certified by the Arizona Commerce Authority. The maximum credit per qualified employment position is $500 for the first year, $1,000 for the second year and $1,500 for the third year of continuous employment.

A.R.S. § 43-1162.01: A healthy forest enterprise may qualify for a nonrefundable credit for expenses to train new qualified employees in ecological restoration, as certified by the Arizona Commerce Authority. The credit is limited to $3,000 in each of the first three years of employment with no more than 200

[26] Source: Department of Revenue Annual Report, FY 2019

employees in a taxable year. This credit was repealed for taxable years from and after December 31, 2017. Carry forward is allowed for five years after that date.

A.R.S. § 43-1164: A credit is provided for installing one or more solar energy devices for commercial or industrial purposes in the taxpayer's trade or business. The credit is 10% of the installed cost of the device, not to exceed $25,000 per taxpayer per building or $50,000 total in a year. This credit must be approved by the Arizona Commerce Authority. The repeal date for taxable years from and after December 31, 2018 was set when the credit was enacted. Carry forward is allowed for five years after that date.

A.R.S. § 43-1164.01: A refundable credit is allowed for expanding or locating qualified renewable energy operations in Arizona. The credit is up to 10% of the taxpayer's total capital investment in Arizona if 1.5 new full-time employment positions are created for each $500,000 of new capital investment for manufacturing operations or one new full-time employment position is created for each $200,000 in capital investment for headquarters. For other qualifying renewable energy investment, the credit is 10% of $500,000 for each 1.5 new full-time employment positions created in manufacturing operations or 10% of $200,000 for each one full-time employment position created for headquarters, neither of which can exceed 10% of the taxpayer's total capital investment. Approval from the Arizona Commerce Authority is required. This credit was repealed for taxable years from and after December 31, 2017.

A.R.S. § 43-1164.02: The solar liquid fuel research and development credit is for increased research activities related to solar liquid fuel. The credit is 40% of the excess of Arizona qualified research expenses over a base amount. This credit was repealed for taxable years from and after December 31, 2017.

A.R.S. § 43-1164.03: A credit is allowed for production of electricity by a qualified energy generator that produces energy using solar light, solar heat, wind or biomass. Approval from the Arizona Department of Revenue is required to take the credit. No more than $20 million can be approved in a calendar year.

A.R.S. § 43-1164.04: A refundable credit is allowed for expanding or locating a new qualified facility in Arizona. A qualified facility is a facility that devotes at least 80% of the property and payroll at the facility to qualified manufacturing, qualified headquarters or qualified research. Approval from the Arizona Commerce Authority is required to take the credit. No more than $70 million (in conjunction with the renewable energy industry credit) can be approved in a calendar year and no more than $30 million per taxpayer.

A.R.S. § 43-1164.05: A credit is allowed for investment in new renewable energy facilities that produce energy for self-consumption using renewable energy resources if the power will be used primarily for International Operations Centers (IOC). The IOC must invest at least $100 million in renewable energy facilities by December 31, 2018. Approval from the Arizona Department of Revenue is required to take the credit. No more than $10 million can be approved in a calendar year with a $25 million lifetime maximum for an IOC.

A.R.S. § 43-1167: The military reuse zone credit is a tax credit for net increases in employment by the taxpayer of full-time employees working in a military reuse zone who are primarily engaged in manufacturing, assembling or fabricating aviation or aerospace products. The amount of the credit is determined by a dollar amount allowed for net new employee positions other than dislocated military base employees and by a dollar amount allowed for net new dislocated military base employee

positions. This credit was repealed for taxable years from and after December 31, 2017. Carry forward is allowed for five years after that date.

A.R.S. § 43-1167.01: A credit is allowed to each taxpayer whose employee is a member of the Arizona National Guard if the employee is placed on active duty. The amount of the credit is $1,000 for each employee placed on active duty.

A.R.S. § 43-1168: The research and development tax credit is calculated based on calculations done for the federal research and development tax credit. The amount of the credit is based on the excess of the qualified research expenses for the taxable year over a base amount. Beginning with tax year 2010, taxpayers employing fewer than 150 persons may have their research and development credit refunded, to the extent that it exceeds tax liability. Approval by Arizona Commerce Authority for the refundable credit is required. An additional credit for research payments made to a university under the jurisdiction of the Arizona Board of Regents, as certified by the Arizona Commerce Authority and the Department of Revenue.

A.R.S. § 43-1169: A tax credit is provided for expenses incurred in constructing a qualified environmental technology manufacturing, producing or processing facility. The amount of the credit is 10% of the amount spent during the taxable year to construct the facility.

A.R.S. § 43-1170: The pollution control device credit is a tax credit for expenses incurred to purchase real or personal property that is used in Arizona in the taxpayer's trade or business to control or prevent pollution. The amount of the credit is the lesser of 10% of the purchase price or $500,000.

A.R.S. § 43-1170.01: A credit is allowed for expenses that a taxpayer (involved in the commercial production of livestock, livestock products or agricultural, horticultural, viticulturally or floricultural crops or products) incurs to purchase tangible personal property that is primarily used in the taxpayer's trade or business in Arizona to control or prevent pollution.

A.R.S. § 43-1175: An income tax credit is allowed for net increases in qualified employment of recipients of temporary assistance for needy families who are Arizona residents. A maximum of $500 per each net new employee can be claimed in the first year of employment, $1,000 in the second year of employment and $1,500 in the third year.

A.R.S. § 43-1176: A credit is allowed for costs incurred in installing an electric vehicle recharge outlet and for solar hot water plumbing stub outs in one or more houses in Arizona constructed by the taxpayer. The amount of the credit is equal to the lesser of $75 or the installation cost for each stub out or recharge outlet in each separate house or dwelling unit. This credit was repealed for taxable years from and after December 31, 2017. Carry forward is allowed for five years after that date.

A.R.S. § 43-1178: A credit is allowed for 30% of transaction privilege taxes paid on coal purchased in Arizona and consumed in generating electric power.

A.R.S. § 43-1181: The school site donation credit is for donation of real property and improvements to a school district or charter school for use as a school or a site for the construction of a school. The amount of the credit is 30% of the value of real property and improvements donated.

A.R.S. § 43-1183: A credit is allowed for cash contributions to a school tuition organization, as approved by the Arizona Department of Revenue.

A.R.S. § 43-1184: A credit is allowed for cash contributions to a school tuition organization for scholarships to students with disabilities or displaced students, as approved by the Arizona Department of Revenue.

A.R.S. § 43-1185: An income tax credit is allowed for employers with at least two but no more than 50 employees that provide qualified health plans or contributions to health savings accounts for its employees who are Arizona residents. The credit amount is $360 for every employee who is enrolled in the qualified health insurance plan. The repeal date was set when enacted for taxable years from and after December 31, 2014. Carry forward is allowed for three years after that date.

When reviewing the credit data, it is important to mention two points. First, corporate tax information for a given tax year will change over time. Late returns are filed, corporations are audited, amended returns are filed, retroactive legislation is enacted, etc. Therefore, figures stated here will change over time and figures cited in previous years will not match what is presented here. Second, information cannot be revealed about certain credits claimed without breaching confidentiality. If less than three firms claim a credit ***or*** if one firm owns more than 90% of the total credit amount claimed ***or*** if providing statistics on one credit would result in confidential information being divulged about other credits, then that information cannot legally be released.

Preliminary data for tax year 2017 is shown in the following table. For tax year 2017, corporations claimed 567 corporate income tax credits and used a total of $91.9 million in credits to offset taxes. Asterisks indicate instances in which release of information would breach confidentiality laws.

TYPE OF CREDIT	# OF CLAIMS	2017 $ USED
Enterprise zone	9	$32,130
New employment	29	9,613,689
Healthy forest enterprise employment	0	0
Healthy forest ecological restoration workforce training	0	0
Commercial and industrial solar energy	13	26,021
Renewable energy industry	0	0
Solar liquid fuel research and development	0	0
Renewable energy production	8	9,232,370
Qualified Facilities	5	2,744,000
Renewable energy investment for self-consumption	**	**
Military reuse zone	0	0
Employing National Guard members	**	**
Research and development	374	38,276,324
Refundable research and development	25[27]	3,777,456
Research and development for university research	**	**
Environmental technology facility	**	**
Pollution control device	10	1,876,118
Agricultural pollution control equipment	0	0
Employment of TANF recipients	4	88,915
Solar hot water heater plumbing stub outs and electric vehicle recharge outlets	0	0
Taxes paid for coal consumed in generating electrical power	**	**

[27] These taxpayers are already included in the research and development credit count.

TYPE OF CREDIT	# OF CLAIMS	2017 $ USED
School site donation	0	0
Contributions to school tuition organizations for low-income students	97	18,094,933
Contributions to school tuition organizations for disabled or displaced students	**	**
Qualified health insurance plans	0	0
TOTAL VALUE OF ALL CREDITS[28]	**567**	**$91,929,909**

[28] Figures for all credits are subject to change. The total value is for all credits, including those for which information cannot be divulged individually.

FIDUCIARY INCOME TAX EXPENDITURES – FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Revenue
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: NA[29]
TOTAL FY 2019 TAX EXPENDITURE: $154,748,631
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: NA

Arizona imposes fiduciary income tax on trusts and estates. The taxability of the income is determined by the residence of the fiduciary, beneficiary, or deceased taxpayer. For estates, the tax applies to the entire taxable income if the deceased taxpayer was an Arizona resident. The fiduciary or beneficiary residence is immaterial. In contract, for trusts, the tax applies to the entire taxable income when the fiduciary or beneficiary is an Arizona resident.

Arizona taxable income is calculated beginning with federal taxable income. By conforming Arizona law to the Internal Revenue Code, subtractions allowed under federal law in calculating federal taxable income are allowed under Arizona law. From federal taxable income, certain additions, subtractions and exemptions are allowed to reach Arizona taxable income. After calculating tax liability, fiduciary taxpayers may reduce their tax liability by using a credit for taxes paid to other state or countries or a clean elections credit.

Fiduciary income tax is deposited into the general fund. However, 15% of the tax is distributed to cities and towns two years after the year in which it was collected. For example, 15% of tax collected in FY 2017 will be distributed to incorporated cities and towns in FY 2019. Therefore, only 85% of the tax collected, or of the tax value of any expenditure, is actually available for the state's use. This fact should be kept in mind when reviewing the reported tax value of the various subtractions, exemptions and credits. **Please remember these figures are for tax year 2017.** All tax expenditures in this report refer to tax law in existence in 2017, filed in 2018.

SUBTRACTIONS ALLOWED IN THE CALCULATION OF FEDERAL TAXABLE INCOME

The starting point for calculating Arizona fiduciary income tax liability is federal taxable income as calculated on the federal form 1041 (U.S. Fiduciary Income Tax Return). The Arizona legislature must approve legislation to conform to the definition of federal taxable income each year. In conforming to the definition of federal taxable income, Arizona accepts the subtractions from gross income allowed by the federal government. These subtractions include:

- Deduction for interest paid by the estate or trust on amounts borrowed by the estate or trust or on debt acquired by the estate or trust. This includes an investment interest (subject to limitations), qualified residence interest, and any interest payable on any unpaid portion of the estate tax attributable to the value of a reversionary or remained interest in property.
- Deductible taxes, including state income tax or state and local general sales tax; real property tax; and generation-skipping transfer tax imposed on income distributions.
- Deductible fees paid to the fiduciary for administering the estate or trust during the tax year.
- Charitable deduction.

[29] Revenue from fiduciary income tax is included in the Individual Income Tax revenues.

- Attorney, accountant and return preparer fees.
- Other deductions, such as amortizable bond premiums, casualty and theft losses, net operating loss deduction, up to 6% of the fiduciary's share of qualified domestic production activities and the fiduciary's share of amortization, depreciation and depletion not claimed elsewhere.
- Miscellaneous itemized deductions in excess of 2% AGI.
- Net operating loss deduction.
- Income distribution deduction.
- Estate tax deduction.
- $600 exemption for estates. $300 exemption for trusts in which all income must be distributed currently. $100 exemption for all other trusts.

It is not possible to calculate the tax value of these subtractions. Information from the Internal Revenue Service would be required to determine the value and this information is not readily available.

ARIZONA SUBTRACTIONS FROM FEDERAL TAXABLE INCOME

The Arizona fiduciary income tax return lists the following specific items that can be subtracted from federal taxable income to reach adjusted gross income attributable to Arizona:

A.R.S. § 43-1332(1): A negative Arizona fiduciary adjustment from another estate or trust is used if Schedule K-1 indicates a negative difference between the federal and state distributable income.
A.R.S. § 43-1022(4): Interest income received on U.S. obligations less any interest on indebtedness or other related expenses, and deducted in arriving at Arizona gross income, which were incurred or continued to purchase or carry such obligations.

The remaining subtractions on the Arizona fiduciary tax form are entered in aggregate on the "other subtractions from federal taxable income" line. The following is a list of these:

A.R.S. § 43-1022(2): Benefits, annuities and pensions totaling not more than $2,500 received from any retirement system or plan established by federal law or the Arizona state retirement system and retirement plan, the corrections officer retirement plan, the public safety personnel retirement plan, the elected officials' retirement plan, an optional retirement program established by the Arizona Board of Regents, an optional retirement program established by an Arizona community college district board, or a retirement plan established for employees of a county, city or town in Arizona.
A.R.S. § 43-1022(14): The amounts authorized by A.R.S. § 43-1027 for converting to qualified wood stoves, wood fireplaces or gas-fired fireplaces.
A.R.S. § 43-1022(15): The amount by which a net operating loss carryover or capital loss carryover allowable pursuant to § 43-1029(F) exceeds the net operating loss carryover or capital loss carryover allowable pursuant to §1341(b)(5) of the IRC.
A.R.S. § 43-1022(8): The portion of any wages or salaries paid or incurred by the taxpayer equal to the amount of the federal work opportunity credit, the empowerment zone employment credit, the credit for employer-paid social security taxes on employee cash tips and the Indian employment credit that the taxpayer received under §§ 45A, 45B, 51(a) and 1396 of the IRC.

A.R.S. § 43-1022(7): The amount allowed by A.R.S. § 43-1025 for contributions of agricultural crops to charitable organizations.

A.R.S. § 43-1022(18): The amount authorized by A.R.S. § 43-1030 relating to holocaust survivors.

A.R.S. § 43-1022(19): The amount of depreciation allowable per § 167(a) of the IRC calculated as if bonus depreciation for eligible properties had not been claimed for federal purposes.

A.R.S. § 43-1022(20): For property sold or otherwise disposed of, a subtraction is allowed for the difference in basis for any asset for which federal bonus depreciation had been claimed.

A.R.S. § 43-1022(3): When the estate or trust is the beneficiary of another estate or trust, the beneficiary's share of the trust or estate income recognized under the IRC may be subtracted.

A.R.S. § 43-1022(5): The excess of a partner's share of income required to be included under §702(a)(8) of the IRC over income required to be included under chapter 14, article 2 of title 43.

A.R.S. § 43-1022(6): The excess of a partner's share of partnership losses determined pursuant to chapter 14, article 2 of title 43 over losses allowable under §702(a)(8) of the IRC.

A.R.S. § 43-1022(9): The amount of winnings less than $5,000 in a taxable year from any of the state lotteries.

A.R.S. § 43-1022(10): The amount of mining exploration expenses determined pursuant to §617 of the IRC, which have been deferred in a taxable year ending before January 1, 1990 and for which a subtraction has not been previously made.

A.R.S. § 43-1022(11): The amount of Social Security and railroad retirement benefits included in federal taxable income.

A.R.S. § 43-1022(12): To the extent not already excluded, compensation received for active service as a member of the U.S. armed forces for any month during any part of which the member service in a combat zone.

A.R.S. § 43-1022(13): The amount of unreimbursed medical and hospital costs, adoption counseling, legal and agency fees and other nonrecurring costs of adoption not to exceed $3,000.

A.R.S. § 43-1022(16): Any amount of qualified educational expenses distributed from a qualified state tuition program determined pursuant to §529 of the IRC and that is included in income.

A.R.S. § 43-1022(17): Any item of income resulting from an installment sale that has been properly subjected to tax in another state in a previous year and is included in Arizona gross income in the current taxable year.

A.R.S. § 43-1022(27): The amount of any net long-term capital gain included in federal adjusted gross income that is derived from an investment in an asset acquired after December 31, 2011. The subtraction is equal to 10% of the total net long-term capital gain for tax year 2013, 20% for tax year 2014 and 25% for tax year 2015 and thereafter.

A.R.S. § 43-1333: The income of the estate or trust which is to be distributed or credited during the year to any legatee, heir or beneficiary is allowed as a subtraction from federal taxable income.

A.R.S. § 43-1022(22): The amount contributed to §529 college savings plans up to $750.

A.R.S. § 43-1022(24): The amount of previously deferred discharge of indebtedness (DOI) included in gross income for the current year to the extent that the amount was previously added to Arizona income.

A.R.S. § 43-1022(23): The amount of original issue discount (OID) not allowed to be deducted in computing federal taxable income under IRC § 108(i).

A.R.S. § 43-1022(25): The net operating loss computed under § of the IRC in effect prior to enactment of special federal net operating loss rules per IRC § 172(b)(1)(H) for losses incurred during 2008 or 2009.

In tax year 2017, subtractions on fiduciary tax returns were reported in combination with additions to fiduciary income on the front of the tax return. Therefore, information is only available on the value of subtractions not entirely offset by additions to fiduciary income for a total of $57,017,988. Subtractions for a percentage of any net long-term capital gains from an investment in an asset acquired after December 31, 2011 would be reported on the front of the tax return for a total of $66,992,615.

PREFERENTIAL TAX RATES

Fiduciary income tax is calculated according to a graduated tax rate schedule, shown below:

At Least	But Less Than	
$ 0	$ 10,346	2.59% of taxable income
$ 10,346	$ 25,861	2.88% of taxable income less $30
$ 25,861	$ 51,721	3.36% of taxable income less $154
$ 51,721	$ 155,159	4.24% of taxable income less $609
$ 155,159	and over	4.54% of taxable income less $1,075

This is a preferential rate structure because different tax rates are imposed on similar taxpayers based on criteria set in statute. Taxpayers with higher incomes are taxed at a higher rate.

If a uniform rate were imposed, it is probable that the uniform rate would be an effective tax rate among all taxpayers, making the fiscal impact revenue neutral. Given that legislative action cannot be predicted, we will point out the preferential tax rate structure in law but will not attempt to attach a revenue impact.

FIDUCIARY INCOME TAX CREDITS

After fiduciary income tax liability is calculated, one credit can be subtracted. If the estate or trust is considered to be a resident of Arizona and also a resident of another state or country, the estate or trust will be allowed a tax credit against the Arizona income tax liability for taxes paid to the other state or country. In 2017, $30,738,028 was claimed as credit for taxes paid to other states or countries. This credit is a direct reduction to tax liability.

SUMMARY OF FIDUCIARY INCOME TAX EXPENDITURES – TAX YEAR 2017

SUBTRACTIONS ALLOWED IN CALCULATION OF FEDERAL TAXABLE INCOME:

Deduction for interest paid	NIA[30]
Deductible taxes	NIA
Deductible fiduciary fees	NIA
Charitable deduction	NIA
Attorney, accountant and return preparer fees	NIA
Other miscellaneous deductions	NIA
Net operating loss deduction	NIA
Miscellaneous itemized deductions in excess of 2% of AGI	NIA
Income distribution deduction	NIA
Estate tax deduction	NIA
$600/$300/$100 estate or trust exemption	NIA
TOTAL VALUE OF SUBTRACTIONS ALLOWING IN FEDERAL TAXABLE INCOME	**NIA**

ARIZONA SUBTRACTIONS FROM FEDERAL TAXABLE INCOME:

Negative Arizona fiduciary adjustment from another estate or trust	NIA
Interest income on U.S. obligations	NIA
U.S./State pensions not over $2,500	NIA
Qualified wood stoves and fireplaces	NIA
Excess operating loss carryover	NIA
Certain federal credits	NIA
Contribution of agricultural crops	NIA
Holocaust survivors	NIA
Recalculated Arizona depreciation	NIA
Basis adjustment for property sold or disposed	NIA
Federal income from other fiduciaries	NIA
Partner's share of income	NIA
Partner's share of loss	NIA
Sale of income-producing property	NIA
State lottery winnings	NIA
Mining exploration expenses	NIA
Social Security benefits	NIA
Compensation for armed forces active service	NIA
Adoption costs	NIA
Qualified educational expenses	NIA
Installment sale subject to tax in another state	NIA
Percentage of total net long-term capital gain from taxable assets acquired after December 31, 2011	$66,992,615
Arizona distribution to beneficiaries	NIA
Contributions to §529 college savings plan	NIA
Previously deferred discharge of indebtedness	NIA

[30] No Information Available.

ARIZONA SUBTRACTIONS FROM FEDERAL TAXABLE INCOME:

Original issue discount	NIA[31]
Other subtractions	57,017,988
TOTAL VALUE OF ARIZONA SUBTRACTIONS FROM FEDERAL TAXABLE INCOME	**$124,010,603**

FIDUCIARY INCOME TAX CREDITS:

Taxes paid to other states or countries	$30,738,028
TOTAL VALUE OF FIDUCIARY INCOME TAX CREDITS	**$30,738,028**

TOTAL QUANTIFIABLE FIDUCIARY INCOME TAX EXPENDITURES[32] [33] **$154,748,631**

[31] No Information Available.

[32] These expenditures represent forgone revenues to the state general fund and to the urban revenue sharing fund, which is distributed to incorporated cities and towns.

[33] Fiduciary expenditures during FY 2019 were volatile and may not be a good representation of the future value of these expenditures.

FLIGHT PROPERTY TAX EXPENDITURES – FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Revenue
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $11,728,981[34]
TOTAL FY 2019 TAX EXPENDITURE: $3,714,248
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: 24%

Airline companies in Arizona pay a tax on flight property within the state. The taxable value, or net assessed value, of the flight property is determined by multiplying the full cash value by an assessment ratio. The tax rate applied to the net assessed value is the statewide average tax rate, which was 12.62% in tax year 2018.

FLIGHT PROPERTY TAX EXEMPTIONS

A.R.S § 42-14254(C): Small flight property that is operated in this state in air commerce shall be valued at 30% of its original cost less depreciation and additional allowed obsolescence. "Small flight property" means all airline company aircraft of the types that are used in this state, not permanently removed from operations, with a maximum passenger capacity of less than 56 seats and a maximum payload capacity of less than 18,000 pounds. Had the taxable value been 100%, the state would have raised $221,347 more in FY 2019.

PREFERENTIAL ASSESSMENT RATIO

A.R.S § 42-14255: Arizona statute sets the assessment ratios to be used in determining the net assessed values of the various classes of property. These assessment ratios range from 18% to 5%. For flight property, the assessment ratio is equal to the ratios that the total net assessed valuation of all taxable property for primary and secondary tax purposes in class one and class six, paragraph 3 and personal property in class two bears to the total limited valuation used for primary tax purposes of such property.

For tax year 2018, the assessment ratio used for flight property was 14%. This is considered a preferential assessment ratio because it is an average of the ratio is several other classes of property. If flight property had an assessment ratio equal to the highest assessment ratio imposed, 18%, tax collections would have increased by $3,492,901.

[34] Source: Department of Revenue Annual Report, FY 2019

SUMMARY OF FLIGHT PROPERTY TAX EXPENDITURES – FISCAL YEAR 2019

FLIGHT PROPERTY TAX EXEMPTION:

Tax value at 30% for small airplanes	$221,347

FLIGHT PROPERTY PREFERENTIAL ASSESSMENT RATIO:

Preferential assessment ratio at 14%	$3.492,901

TOTAL QUANTIFIABLE FLIGHT PROPERTY TAX EXPENDITURES[35] $3,714,248

[35] This amount represents foregone revenue to the state aviation fund.

IN LIEU PROPERTY TAX EXPENDITURES – FISCAL YEAR 2019

TAX COLLECTED BY: County Treasurer's Offices
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: NA
TOTAL FY 2019 TAX EXPENDITURE: NIA
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: NA

Irrigation districts, power districts, electrical districts or agricultural improvement districts directly engaged in the sale of electric power or energy other than for irrigation purposes may elect to make voluntary contributions to Arizona and the political subdivisions thereof for property taxes. These districts are not legally liable for property taxes imposed by the state and the political subdivisions, so these voluntary contributions are known as in lieu property taxes. (However, per A.R.S. § 9-432(B), water may not be transported from remote municipal property by a city, town or political subdivision unless voluntary contributions have been paid.)

The Department of Revenue determines the full cash value of the district electing to make in lieu property tax payments. The county assessor of each county where district electric facilities are located computes the gross contribution to be made. The district may subtract certain amounts from this gross contribution figure.

IN LIEU PROPERTY TAX SUBTRACTIONS

A.R.S. § 48-242(C)(1): A subtraction is allowed for the contribution related to that portion of the electric system related to pumping water.

A.R.S. § 48-242(C)(2): A deduction of $10,000 is allowed from the gross contribution.

A.R.S. § 48-242(C)(3): Certain taxes or assessments paid to any political subdivision during the preceding calendar year may be deducted from the gross contribution.

A.R.S. § 48-242(C)(4): The annual average of the total water costs devoted to municipal use during the last three calendar years is deductible from the gross contribution.

The effect of these subtractions from the gross contribution amount is that the district in question pays a certain percentage of the gross contributions. The primary contributor, Salt River Project, paid approximately 82.80% of the tax that would have been levied in FY 2019 had they been legally bound to pay property tax. Given the repeal of the state rate, the dollar expenditure that previously appeared in this report is no longer applicable. However, because the exemptions filter through to the tax base at the local level, descriptions of the exemptions remain.

INDIVIDUAL INCOME TAX EXPENDITURES – FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Revenue
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $5,010,333,489[36]
TOTAL FY 2019 TAX EXPENDITURE: $505,397,361 for Individual, $154,748,631 for Fiduciary.
(Only credits are included in this preliminary report.)
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: 12%

No information is available on individual income tax expenditures at this time. At the final printing of this publication, all data will be included. The individual income tax information in the final report will be made available through the 2017 Individual Income Tax Simulation Model.

Additional information about Individual Income Tax Credits including the Credit History Report, the Public School Credit Report and the Report on School Tuition Organization Income Tax Credits, can be found on the department's website under Reports, Statistics and Legal Research section.

INDIVIDUAL INCOME TAX CREDITS

A tax credit differs from an exemption, subtraction or deduction in that it directly reduces tax liability rather than taxable income. A $100 deduction, for example, would reduce tax liability by $4.54 at most ($100 time the maximum tax rate of 4.54%). On the other hand, a $100 credit reduces tax liability by the full $100. The three credits identified below are claimed on separate lines of the Arizona income tax return or, in the case of the property tax credit and the increased excise taxes paid credit, can be claimed on a separate form without filing an income tax return.

A.R.S. § 43-1072: The property tax credit program provides tax relief to the state's low-income elderly. Under this program, full-year residents age 65 or older with a household income of less than $5,501 are eligible for credits ranging from $56 to $502. The property tax credit is refundable, meaning that those eligible for the credit receive money even if they had no income tax liability.

A.R.S. § 43-1072.01: A refundable credit is allowed against income tax to mitigate the increase in transaction privilege tax rates for education. To qualify, claimants must have federal adjusted gross income of $25,000 or less for married filing jointly or $12,500 or less for single filers. The credit shall not exceed $25 for each person who is a resident and for whom a personal or dependent exemption is allowed, with a maximum credit of $100 per household.

A.R.S. § 43-1073: Single and married filing separately filers with a federal adjusted gross of $10,000 or less, and married filing jointly filers with a federal adjusted gross income of $31,000 or less may claim the family tax credit. The amount of the credit is set at $40 per person in the household and is capped at $240 for married filing jointly and unmarried head of household filers, and $120 for single and married filing separately filers.

[36] Source: Department of Revenue Annual Report, FY 2019

Other credits are filed on a separate schedule with the total claimed reported on page two of the income tax return as nonrefundable or refundable credits. Most tax credits are nonrefundable; any credit amount greater than the individual's tax liability will not be refunded. The unused credit, in most cases, can then be carried forward for use in future tax years. The following individual credits were in effect in tax year 2017.

A.R.S. § 43-1071: The majority of the credits claimed in terms of dollars and volume are for taxes paid to other states or countries.

A.R.S. § 43-1074: Enterprise zone credits are income tax credits provided for non-retail businesses located in an enterprise zone established under Arizona law that have a net increase in employment of qualified employees, as certified by the Arizona Commerce Authority. A maximum of $500 per each net new employee can be claimed in the first or partial year of employment. In the second year of continuous employment, a maximum of $1,000 per net new employee can be claimed. The limit in the third year of continuous employment is $1,500 per net new employee. A sunset date was set in statute of June 30, 2011. Carry forward is allowed for five years after that date.

A.R.S. § 43-1074: This statute now governs the new employment credit which is for net increases in qualified employment positions. To qualify for the credit, the taxpayer must invest at least $5 million in capital investment and create at least 25 new qualified positions in an Arizona city or town with a population of 50,000 or more, or invest at least $1 million in capital investment and create at least five new qualified positions in any other Arizona location. The amount of credit is determined and authorized by the Arizona Commerce Authority.

A.R.S. § 43-1074.01: The research and development tax credit is calculated based on calculations done for the federal research and development tax credit. The amount of the credit is based on the excess of the qualified research expenses for the taxable year over a base amount. Beginning with tax year 2010, taxpayers employing fewer than 150 persons may have their research and development credit refunded, to the extent that it exceeds tax liability. Approval by Arizona Commerce Authority for the refundable credit is required. An additional credit for research payments made to a university under the jurisdiction of the Arizona Board of Regents, as certified by the Arizona Commerce Authority and the Department of Revenue.

A.R.S. § 43-1074.02: The credit for investments made in a qualified small business is based on a percentage of the investment amount and depends on the location or type of the qualified small business. The amount of credit is determined and authorized by the Arizona Department of Commerce.

A.R.S. § 43-1076: The recycling equipment credit was an income tax credit for businesses or individuals that acquire and place in service recycling equipment in the state. The credit was repealed for taxable years beginning on or after January 1, 2003 and only available to the extent that the taxpayer had unused carry forward from prior years.

A.R.S. § 43-1076: A healthy forest enterprise employment credit is allowed for businesses that enhance or sustain forest health, sustain or recover watershed or improve public safety, as certified by the Arizona Commerce Authority. The maximum credit per qualified employment position is $500 for the first year, $1,000 for the second year and $1,500 for the third year of continuous employment.

A.R.S. § 43-1076.01: A healthy forest enterprise may qualify for a nonrefundable credit for expenses to train new qualified employees in ecological restoration, as certified by the Arizona Commerce Authority.

The credit is limited to $3,000 in each of the first three years of employment with no more than 200 employees in a taxable year. This credit was repealed for taxable years from and after December 31, 2017. Carry forward is allowed for five years after that date.

A.R.S. § 43-1079: The military reuse zone credit is a tax credit for net increases in employment by the taxpayer of full-time employees working in a military reuse zone who are primarily engaged in manufacturing, assembling or fabricating aviation or aerospace products. The amount of the credit is determined by a dollar amount allowed for net new employee positions other than dislocated military base employees and by a dollar amount allowed for net new dislocated military base employee positions. This credit was repealed for taxable years from and after December 31, 2017. Carry forward is allowed for five years after that date.

A.R.S. § 43-1079.01: A credit is allowed to each taxpayer whose employee is a member of the Arizona national guard if the employee is placed on active duty. The amount of the credit is $1,000 for each employee placed on active duty.

A.R.S. § 43-1080: A tax credit is provided for expenses incurred in constructing a qualified environmental technology manufacturing, producing or processing facility. The amount of the credit is 10% of the amount spent during the taxable year to construct the facility.

A.R.S. § 43-1081: The pollution control device credit is a tax credit for expenses incurred to purchase real or personal property that is used in Arizona in the taxpayer's trade or business to control or prevent pollution. The amount of the credit is the lesser of 10% of the purchase price or $500,000.

A.R.S. § 43-1081.01: A credit is allowed for expenses that a taxpayer (involved in the commercial production of livestock, livestock products or agricultural, horticultural, viticultural or floricultural crops or products) incurs to purchase tangible personal property that is primarily used in the taxpayer's trade or business in Arizona to control or prevent pollution.

A.R.S. § 43-1083: A solar energy credit is provided for an individual who installs a solar energy device in his or her residence in Arizona. The credit for buying or installing such a device is 25% of the cost, including installation, or $1,000, whichever is less.

A.R.S. § 43-1083.01: A refundable credit is allowed for expanding or locating qualified renewable energy operations in Arizona. The credit is up to 10% of the taxpayer's total capital investment in Arizona if 1.5 new full-time employment positions are created for each $500,000 of new capital investment for manufacturing operations or one new full-time employment position is created for each $200,000 in capital investment for headquarters. For other qualifying renewable energy investment, the credit is 10% of $500,000 for each 1.5 new full-time employment positions created in manufacturing operations or 10% of $200,000 for each one full-time employment position created for headquarters, neither of which can exceed 10% of the taxpayer's total capital investment. Approval from the Arizona Commerce Authority is required. This credit was repealed for taxable years from and after December 31, 2017.

A.R.S. § 43-1083.02: A credit is allowed for production of electricity by a qualified energy generator that produces energy using solar light, solar heat, wind or biomass. Approval from the Arizona Department of Revenue is required to take the credit. No more than $20 million can be approved in a calendar year.

A.R.S. § 43-1083.03: A refundable credit is allowed for expanding or locating a new qualified facility in Arizona. A qualified facility is a facility that devotes at least 80% of the property and payroll at the facility to qualified manufacturing, qualified headquarters or qualified research. Approval from the Arizona Commerce Authority is required to take the credit. No more than $70 million (in conjunction with the

renewable energy industry credit) can be approved in a calendar year and no more than $30 million per taxpayer.

A.R.S. § 43-1083.04: A credit is allowed for investment in new renewable energy facilities that produce energy for self-consumption using renewable energy resources if the power will be used primarily for International Operations Centers (IOC). The IOC must invest at least $100 million in renewable energy facilities by December 31, 2018. Approval from the Arizona Department of Revenue is required to take the credit. No more than $10 million can be approved in a calendar year with a $25 million lifetime maximum for an IOC. This credit was repealed effective from and after December 31, 2019.

A.R.S. § 43-1084: A credit is allowed for expenses incurred by a taxpayer to purchase and install an agricultural water conservation system. The agricultural water conservation system must be primarily designed to substantially conserve water on land that is used to produce agricultural products, raise, harvest or grow tress, or sustain livestock. The amount of the credit is 75% of the qualifying expenses.

A.R.S. § 43-1085: A credit is provided for installing one or more solar energy devices for commercial or industrial purposes in the taxpayer's trade or business. The credit is 10% of the installed cost of the device, not to exceed $25,000 per taxpayer per building or $50,000 total in a year. This credit must be approved by the Arizona Commerce Authority.

A.R.S. § 43-1085.01: The solar liquid fuel research and development credit is for increased research activities related to solar liquid fuel. The credit is 40% of the excess of Arizona qualified research expenses over a base amount. This credit was repealed for taxable years from and after December 31, 2017.

A.R.S. § 43-1086: An income tax credit is available if a taxpayer makes cash donations to the Arizona Department of Veteran's Services Military Family Relief Fund. There is a $1 million cap on donations.

A.R.S. § 43-1087: An income tax credit is allowed for net increases in qualified employment of recipients of temporary assistance for needy families who are Arizona residents. A maximum of $500 per each net new employee can be claimed in the first year of employment, $1,000 in the second year of employment and $1,500 in the third year.

A.R.S. § 43-1087.01: An income tax credit is allowed for employers with at least two but no more than 50 employees that provide qualified health plans or contributions to health savings accounts for its employees who are Arizona residents. The credit amount is $360 for every employee who is enrolled in the qualified health insurance plan. The repeal date was set when enacted for taxable years from and after December 31, 2014. Carry forward is allowed for three years after that date.

A.R.S. § 43-1088: A credit is allowed for the amount of voluntary cash contributions to a qualifying charitable organization (QCO) that spends at least 50% of its budget on services to Arizona residents who received TANF benefits or low-income Arizona residents (income of less than 150% of the federal poverty level). For taxable years 2016 and later, the credit amount is up to $800 for married filing jointly taxpayers and $400 for all other taxpayers. For taxable years 2016 and later, a separate credit is allowed for voluntary cash contributions to a qualifying foster-care organization (QFCO) not to exceed $1,000 for married filing jointly taxpayers and $500 for all other taxpayers.

A.R.S. § 43-1089: The private school tuition organization credit is allowed for cash contributions to a school tuition organization up to $1,000 for married filing jointly filers and $500 for all other taxpayers. The credit amounts are adjusted annually for inflation.

A.R.S. § 43-1089.01: An income tax credit is allowed for the amount of fees paid to an Arizona public school for the support of extracurricular activities or character education programs. The credit is for up to $400 for married filing jointly taxpayers and $200 for all other taxpayers.

A.R.S. § 43-1089.02: The school site donation credit is for donation of real property and improvements to a school district or charter school for use as a school or a site for the construction of a school. The amount of the credit is 30% of the value of real property and improvements donated.

A.R.S. § 43-1089.03: The private school tuition organization "switcher" credit is allowed for cash contributions to a school tuition organization that exceed the original private school tuition organization credit (A.R.S. § 43-1089). The amount of the credit is capped at $1,000 for married filing jointly filers and $500 for all other taxpayers. The credit amounts are adjusted annually for inflation.

A.R.S. § 43-1089.04: A credit is allowed for a pro rata share of cash contributions to a school tuition organization pursuant to § 43-1183 (and § 43-1184 for scholarships to students with disabilities or displaced students) based on the individual's ownership in the S corporation. The aggregate contribution, as approved by the Arizona Department of Revenue, must be at least $5,000.

A.R.S. § 43-1090: A credit is allowed for costs incurred in installing an electric vehicle recharge outlet and for solar hot water plumbing stub outs in one or more houses in Arizona constructed by the taxpayer. The amount of the credit is equal to the lesser of $75 or the installation cost for each stub out or recharge outlet in each separate house or dwelling unit. This credit was repealed for taxable years from and after December 31, 2017. Carry forward is allowed for five years after that date.

Preliminary data for tax year 2017 is shown in the following table. Asterisks indicate instances in which release of information would breach confidentiality laws.

TYPE OF CREDIT	# OF CLAIMS	2017 $ USED
Property tax credit	19,794	$7,817,529
Credit for increased excise taxes paid	586,961	28,374,247
Family income tax credit	558,737	3,778,067
Credit for income taxes paid to other states or countries	76,370	178,356,886
Enterprise zone credit	**	**
New employment credit	19	734,358
Research and development credit	825	16,434,345
Refundable research and development credit	26[37]	387,419
Research and development for university research	0	0
Investment in qualified small business credit	213	652,369
Recycling equipment credit	0	0
Healthy forest enterprise employment credit	0	0
Healthy forest enterprise workforce training credit	0	0
Military reuse zone credit	0	0
Employing National Guard members credit	0	0
Environmental technology credit	**	**
Pollution control device credit	**	**
Agricultural pollution control equipment credit	0	0

[37] These taxpayers are already included in the research and development credit count.

TYPE OF CREDIT	# OF CLAIMS	2017 $ USED
Solar energy device credit	11,422	7,449,654
Renewable energy industry credit	0	0
Qualified facilities credit	3	26,000
Renewable energy for self-consumption credit	0	0
Renewable energy production credit	5	136,023
Agricultural water conservation system credit	105	2,614,803
Commercial and industrial solar energy credit	97	331,657
Solar liquid fuel research and development credit	0	0
Donations to the military family relief fund credit	3,092	996,134
Employment of TANF recipients credit	0	0
Qualified health insurance plans credit	**	**
Contributions to qualifying charitable organizations credit	165,525	68,594,148
Contributions to qualifying foster care organizations credit	33,839	21,502,241
Private school tuition organization credit	95,893	69,151,752
Private school tuition organization "switcher" credit	54,856	39,890,966
Corporate contributions to school tuition organization	574	11,571,012
Corporate contributions to school tuition organizations for disabled or displaced students	35	318,457
Public school fees and contributions credit	167,832	46,175,813
School site donation credit	20	56,735
Solar hot water heater plumbing stub outs and electric vehicle recharge outlet credit	247	18,150
TOTAL VALUE OF ALL CREDITS[38]	**1,776,474**	**$505,397,361**

[38] Figures for all credits are subject to change. The total value is for all credits, including those for which information cannot be divulged individually.

INSURANCE PREMIUM TAX EXPENDITURES[39] - FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Insurance
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $593,354,296[40]
TOTAL FY 2019 TAX EXPENDITURE: $281,511,898
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: 32%

Each admitted insurer doing business in the state is required to annually report its total direct premium income to the Arizona Department of Insurance.

A.R.S. § 20-224: Total direct premium income excludes "...applicable cancellations, returned premiums, the amount of reduction in or refund of premiums allowed to industrial life policyholders for payment of premiums direct to an office of the insurer, all policy dividends, refunds, savings coupons and other similar returns paid or credited to policyholders within this state and not reapplied as premiums for new, additional or extended insurance." Direct premium income also excludes "considerations received on annuity contracts," as well as the "unabsorbed portion of any premium deposit." No information is available on the value of these exclusions from direct premium income because insurers are not required to report this information to the Department of Insurance. However, there is data available for "*considerations received on annuity contracts."* Insurance companies (excluding fraternal benefit societies) reported $5.5 billion in these considerations which, if taxed at a two-percent rate, would have resulted in $109.3 million in revenues to the state in FY 2019.

A.R.S. §§ 20-674(b), 20-692(b): Insurers subject to Guaranty Fund assessments may offset their premium tax liabilities "in the amount of 20% of the assessment for the year of assessment and 20% of the assessment in each of the succeeding four years." During 2018, the Arizona Life and Disability Insurance Guaranty Fund levied assessments on insurers totaling $9.2 million for the Disability Account. No assessment was levied for the Administrative Account. Insurers offset their calendar year 2018 tax liabilities by a total of $1.9 million.

A.R.S. § 20-224.03: Allows a credit to a taxpayer who makes a required level of capital investment in Arizona and that has a minimum number of qualified employment positions (full-time employees for which the employer pays at least 65% of health benefit costs and to whom the employer pays at least the median wage by county computed by the Arizona Commerce Authority). A qualifying employer is permitted a tax credit of $3,000 for each qualified employment position for each of three years of continuous employment. For calendar year 2018, insurers used this credit to reduce their tax liabilities by an aggregate of $4.8 million.

A.R.S. §§ 20-224.06, 20-224.07: A tax credit is allowed for insurers that make voluntary contributions to school tuition organizations and exclude the credits from the retaliation calculation prescribed by A.R.S. § 20-230, described later. Insurers reduced their calendar year 2018 taxes by $30.4 million.

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[39] All information presented on the insurance premium tax was provided by the Arizona Department of Insurance.

[40] Source: 2019 Tax Handbook, Joint Legislative Budget Committee

A.R.S. §§ 20-224.05, 43-210: A tax credit is allowed to an insurer that issues health insurance coverage to individuals and small businesses certified by the Department of Revenue as meeting prescribed qualifications. The Act requires the Department of Revenue to limit certifications such that the aggregate credits to which insurers will be entitled shall not exceed $5 million. An insurer is owed a tax refund or tax credit carry-forward for unused credit issued pursuant to the Act. In the aggregate, insurers reduced their calendar year 2018 tax liability by $3.8 million with health insurance coverage credits.

The tax rates prescribed in A.R.S. § 20-224 that apply to life insurance premiums and non-fire property and casualty premiums will change from 2% to the following: For premiums written in 2016, 1.95%; in 2017, 1.90%, in 2018, 1.85%; in 2019, 1.80%, in 2020, 1.75%; in 2021 and after, 1.70%. [Chapter 358 (HB 2002, Laws 2016)] The revenue reduction will be mitigated by some increase in retaliation due pursuant to A.R.S. § 20-230 from foreign insurers whose domiciles charge Arizona-domiciled insurers taxes, fees and other obligations that exceed the taxes, fees and obligations that Arizona imposes upon those foreign insurers. During calendar year 2018, insurers transacted $11.7 billion in premium subject to the tax rate that changed from 2% to 1.85%. Had the tax rate remained at 2% Arizona would have received $17.5 million in additional tax revenue.

A.R.S. § 20-416: Surplus lines insurers do not remit ordinary premium tax. Instead, surplus lines brokers are responsible for remitting premium taxes collected from insureds when coverage is placed in the surplus lines market. The tax rate is 3% of gross premiums and fees less certain prescribed statutory reductions.

A.R.S. § 20-416: Surplus lines brokers are not required to collect and remit insurance premium tax on "...reinsurance, ocean marine and foreign trade insurance, insurance on subjects located, resident or to be performed wholly outside this state, insurance on vehicles or aircraft owned and principally garaged outside this state, or insurance on property or operations of railroads engaged in interstate commerce."

A.R.S. § 20-420(A): Surplus lines tax is not imposed on coverage provided to federally recognized Native American governments in accordance with Attorney General Opinion I95-13 (R95-11). Surplus lines tax is not imposed on coverage provided to the State of Arizona pursuant to A.R.S. § 41-621(F), which exempts the Department of Administration from the provisions of Title 20, Chapter 2, Article 5 -- the Article that, in part, imposes the surplus lines tax.

Excluding reinsurance and insurance on extra-state risks (which are excluded from taxation for admitted insurers), surplus line brokers reported $13.5 million in premiums exempted from premium taxes due in FY 2019. The tax on these premiums would have been $406,300 if they were taxed at the 3% rate at which non-exempt surplus lines premiums are taxed. Under some circumstances, surplus lines brokers may not be required to report tax-exempt premium; therefore, the total impact is not known. Fees charged by an insurance producer in connection with the transaction of surplus lines insurance will not be subject to tax. [Chapter 38 (HB 2149, Laws 2016)]

A.R.S. § 20-224(B): Insurers are required to pay a 2.2% tax on fire insurance premiums "... except that the tax on fire insurance premiums on property located in [qualified locations including] incorporated cities or towns that procure the services of private fire companies...." is 0.66%. The State Treasurer apportions 85% of fire insurance premium taxes to fire districts and municipalities for the retirement plans of firefighters A.R.S. §§ 20-224(C), 9-951, 9-952, 9-972]. The remaining 15% of fire insurance premium taxes are deposited with the General Fund (A.R.S. § 20-227). In calendar year 2018, insurers

wrote $3.8 million of taxable fire insurance premium for risks in *qualified* locations resulting in $25,000 in insurance premium tax paid during FY 2019 for those risks. If risks in qualified locations were subject to the 2.2% tax rate applied to other fire insurance premiums, insurers would have paid $83.7 thousand in FY 2019, a difference of $58.6 thousand. The effect of the tax rate difference may be mitigated by the retaliation calculation required by A.R.S. § 20-230, described later.

During 2018, Arizona enacted legislation requiring agency captive insurers that transact employer group term life insurance, employer group disability income insurance or reimbursement of employer health plan deductibles to pay insurance premium tax for policies for which the tax liability exceeds the license fee or renewal fee the insurer paid during the year. [Chapter 273 (SB 1101, Laws 2018)] Tax revenue was not affected during FY 2019; all other states that license captive insurers impose an insurance premium tax. The Director of Insurance has discretion over the license fees and renewal fees imposed upon captive insurers, and those fees are higher than the fees for other types of insurers licensed in Arizona and the fees captive insurers pay in some other states. Other states tax captive insurer premiums at lower tax rates than other types of insurer premiums, but tax nationwide premiums (rather than just intra-state premiums). The other states tax insurance and reinsurance (rather than only insurance). Vermont was one of the first states to license captive insurers and it has the most captive insurers licensed of any state. In total, Arizona captive insurers reported $9.2 billion in premiums exempted from calendar year 2018 premium tax. If Arizona applied Vermont's captive insurance tax structure, Arizona would have collected $4.4 million in captive insurance premium tax. During FY 2019, the department collected $0.7 million in license renewal fees from captive insurers. If Arizona adopted Vermont's tax and fee structure in place of the current $5,500 Arizona captive insurer renewal fee, Arizona would have collected an additional $3.8 million.

A.R.S. § 20-837: The premium tax for non-profit hospital, medical, dental and optometric service corporations does not apply to "any coverage concerning which the corporation's relationship is as administrative or fiscal agent for national, state or municipal government or any political subdivision body thereof and such tax shall not apply with respect to any premiums received from funds of national, state or municipal government or any political subdivision or body thereof.". The total of exempted net premiums in calendar year 2018 was $414.9 million and if the State were able to apply the 2% tax rate, the State would have collected $8.3 million in additional premium taxes in FY 2019.

42 U.S.C. § 1395w-24(q): "The Medicare Prescription Drug Improvement and Modernization Act of 2003" prohibits states from taxing Medicare Advantage premiums. In calendar year 2018, insurers reported a total of $3.2 billion subject to this preemption. If those premiums were subject to the Arizona 2% tax rate, the state would have collected $63.5 million in FY 2019.

5 U.S.C. §§ 8714 and 8909(f): Life and health insurance premiums paid by the Federal Employee Health Benefits Fund are exempt from taxation by the states. In calendar year 2018, the FEHB Fund paid $710.2 million to provide life and health coverage for Federal employees in Arizona. If Arizona were able to tax those premiums at a 2% rate, the state would have collected $14.2 million in FY 2019.

7 U.S.C. § 1511: Premiums for farm owners' multi-peril coverage reinsured by the Federal Crop Insurance Corporation are exempt from state insurance premium taxation. In calendar year 2018, insurers collected $96.7 million in premiums reinsured by the FCIC which, if taxed at a 1.85% rate, would have resulted in an additional $1.8 million and being collected in FY 2019.

A.R.S. § 20-2304(J): Small group health insurance policies written by accountable health plans from insurance premium tax are exempt. During calendar year 2018, insurers received $943.1 million in premiums for health benefits plans issued to small employers by accountable health plans. Had the 2% tax rate applied, an additional $18.9 million would have been deposited to the General Fund in FY 2019.

A.R.S. § 20-883: Fraternal benefit societies qualified under A.R.S. § 20-893 are exempted from insurance premium taxes (and from other state, county, district, municipal and school taxes). Fraternal benefit society premiums exempted from tax totaled $157.5 million for calendar year 2018. Had these premiums been subject to a 1.85% tax rate, the State would have collected $2.9 million more in FY 2019.

A.R.S. § 20-230: The Department of Insurance is required to impose on foreign and alien insurers the same taxes, fees, fines, penalties, licenses, deposit and other obligations that the laws of their domicile impose on Arizona insurers doing business in their state or country. Because the amount of retaliatory tax that foreign and alien insurers pay relies on the tax rates, fees, assessments, credits, etc. in the insurers' states of domicile, no method exists to calculate the exact effect Arizona would realize if the foregoing qualifications and exemptions of insurance premium taxes were not in place. Additionally, retaliation is extremely difficult to calculate because of differences in the ways that states tax each type of insurers or each class of insurance, and the variety of additional fees, credits and other obligations that apply to insurers in each state. Therefore, the tax expenditure estimates exclude the possible consequential effects on the retaliation calculation. It is fair to say, however, that retaliation revenues could fall if Arizona imposed additional taxes or fees, or eliminated tax credits that were part of the retaliation calculation. Conversely, with the implementation of tax rate reductions instituted pursuant to Chapter 358 (HB 2002, Laws 2016), retaliation revenues increase.

SUMMARY OF INSURANCE PREMIUM TAX EXPENDITURES
FISCAL YEAR 2019

SUBTRACTIONS FROM TOTAL PREMIUM INCOME:

Applicable cancellations	NIA[41]
Returned premiums	NIA
Reduction or refund for direct payment of industrial life insurance	NIA
Policy dividends	NIA
Refunds	NIA
Savings coupons	NIA
Other similar returns paid or credited to policyholders not reapplied as premiums	NIA
Considerations received on annuity contracts (excludes tax expenditures relating to considerations received by fraternal benefit societies)	$109,332,518
Unabsorbed portion of any premium debt	NIA
TOTAL VALUE OF SUBTRACTIONS	**$109,332,518**

AVAILABLE TAX CREDITS:

Insurance guaranty fund assessment tax credit	$1,897,151

[41] No Information Available.

Qualified jobs tax credit	4,779,000
School tuition organization contributions credits	30,358,497
Health insurance certificates for qualified persons	3,845,949
TOTAL VALUE OF CREDITS	**$40,880,597**

DECREASING TAX RATES

Tax rate reduction applicable to life and non-fire property and casualty premiums (starts in FY 2017)	$17,488,014

EXEMPTIONS FOR SURPLUS LINE INSURANCE:

Ocean marine and foreign trade insurance	NIA[42]
Insurance on property or operations of railroads engaged in interstate commerce	NIA
Insurance on federally reorganized Native American governments	NIA
Insurance on the State of Arizona	NIA
Insurance premiums exempt from taxation	$406,334
Fees charged by insurance producers in connection with transactions	NIA
TOTAL EXEMPTIONS FOR SURPLUS LINES INSURANCE	**$406,334**

PREFERENTIAL RATE ON QUALIFIED FIRE INSURANCE:

Preferential rate	$58,619

ABSENCE OF CAPTIVE INSURANCE PREMIUM TAX

Absence of tax	$3,755,312

GOVERNMENT PROGRAM EXEMPTIONS:

Hospital, medical, dental and optometric service corporation premiums paid by federal, state and municipal governments	$8,298,569
Medicare Advantage Plan premiums	63,523,538
Life and health insurance premiums paid by the Federal Employee Health Benefits Fund	14,203,032
Premiums for coverage reinsured by the Federal Crop Insurance Corporation	1,789,663
Accountable health plan group health insurance to small employers	18,862,316
Exempt fraternal benefit societies – annuities	1,628,534
Exempt fraternal benefit societies – other than annuities	1,284,852
TOTAL VALUE OF GOVERNMENT PROGRAM EXEMPTIONS	**$109,590,504**

TOTAL QUANTIFIABLE INSURANCE PREMIUM TAX EXPENDITURES[43] $281,511,898

[42] No Information Available.

[43] This amount represents foregone revenue to the state general fund.

JET FUEL EXCISE AND USE TAX EXPENDITURES – FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Revenue
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $4,956,396[44]
TOTAL FY 2019 TAX EXPENDITURE: $7,119,598
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: 49%

Arizona imposes a tax of 3.05¢ per gallon on the first 10 million gallons of jet fuel sold. Jet fuel is defined as being expressly manufactured and blended for operating jet or turbine powered aircraft. The jet fuel use tax rate is also a 3.05¢ per gallon and is levied on the first 10 million gallons of jet fuel stored, used or consumed. The use tax applies to purchasers who originally purchased jet fuel for resale but instead used or consumed the jet fuel and on which excise tax has not been paid. The excise tax does not apply to the sale or use of jet fuel that has already been taxed by another state unless the tax imposed by another state is less than Arizona's tax rate. The difference between Arizona's rate and the rate of the other state is what will be levied and collected.

PREFERENTIAL JET FUEL TAX RATES

Amounts of jet fuel sold over 10 million gallons are not subject to the excise or use tax. Fiscal year 1994 was the last year that amounts over 10 million gallons were taxed. In that year, 179.4 million gallons were taxed at the over 10 million-gallon tax rate of 1.05¢ per gallon. Using the same growth rate that has been experienced with jet fuel of less than 10 million gallons, an additional $7.1 million could have been generated in FY 2019 if sales of jet fuel over 10 million gallons were taxed at 3.05¢ per gallon.

JET FUEL TAX EXEMPTIONS

A.R.S. § 42-5354: Jet fuel sold to commercial airlines and used on flights that originate in Arizona and whose first outbound destination is outside of the United States is exempt from the jet fuel excise tax. Information is not available on this tax exemption.

[44] Source: Department of Revenue Annual Report, FY 2019

SUMMARY OF JET FUEL EXCISE AND USE TAX EXPENDITURES
FISCAL YEAR 2019

PREFERENTIAL TAX RATES:

Jet fuel over 10 million gallons	$7,119,598

JET FUEL EXEMPTIONS:

International flights which originated within the state	NIA[45]

TOTAL QUANTIFIABLE JET FUEL EXCISE AND USE TAX EXPENDITURES[46] $7,119,598

[45] No Information Available.

[46] This amount represents foregone revenue to the state general fund, counties and incorporate cities and towns.

LUXURY TAX EXPENDITURES – FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Revenue
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $366,993,534[47]
TOTAL FY 2019 TAX EXPENDITURE: $11,680,549
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: 3.1%

Luxury tax collected by the Arizona Department of Revenue totaled $367 million for FY 2019. Luxury tax revenues go to the state general fund, the Tobacco Tax and Health Care Fund, the Tobacco Products Tax Fund, the Drug Treatment and Education Fund, the Department of Corrections, Smoke Free AZ and the Early Childhood Development and Health Fund.

ALCOHOL TAXED AT A PREFERENTIAL RATE

Current Arizona law (A.R.S. §42-3052) provides for liquor to be taxed at four different rates: (1) spirituous liquor at the rate of $3.00 per gallon; (2) on each container of vinous liquor, except cider, of which the alcoholic content is not greater than 24% by volume, at the rate of $0.84 per gallon (3) on each container of vinous liquor of which the alcoholic content is greater than 24% by volume[48], containing eight ounces or less, $0.25; and (4) on each gallon of malt liquor or cider, $0.16. This is a preferential rate structure because different tax rates are imposed on similar taxpayers based on criteria set in statute.

The impact of taxing all alcohol at the same rate is possible but unrealistic. If a uniform rate were imposed, it is probable that the uniform rate would be an effective tax rate among all types of alcohol. Given that legislative action cannot be predicted, we will point out the preferential tax rate structure in law, but will not attempt to attach a revenue impact.

EXEMPTIONS FOR TOBACCO PRODUCTS

Several exemptions from luxury tax on tobacco products are allowed.

A.R.S. § 42-3052.06: Tobacco powder or tobacco products used exclusively for agricultural or horticultural purposes and unfit for human consumption are exempt from taxation. Since this is exempt from taxation, the Arizona Department of Revenue does not require this figure to be reported. Therefore, no tax value of this tax expenditure is available.

A.R.S. §42-3458: Discounts on cigarette stamps are allowed. The luxury tax on cigarettes is in the form of a stamp affixed to the cigarette package, which is obtained from the Department of Revenue at the following rate:

- 96.48% of face value of stamp.

If all stamps were purchased at face value, revenue would have increased by $11 million in FY 2019.

A.R.S. §§ 42-3460(A) and 42-3008(A)(2): A distributor may return *unused* tobacco product stamps for a refund. Luxury tax is also refunded if the cigarettes become unfit for sale due to breakage or spoilage.

[47] Source: Department of Revenue Annual Report, FY 2019
[48] The department has received no tax collections for this liquor type.

Most often, staleness is the reason for refund. If the state considered this to be a hazard of doing business and disallowed such refunds, an additional $677,874 in FY 2019 luxury revenues would have resulted.

A.R.S. § 42-3008(A): If proof is provided that cigarettes for which the stamps were purchased were exported from the state, luxury tax may be refunded. No information is available on the value of this exemption.

EXEMPTIONS FOR LIQUOR

A.R.S. §§ 42-3001.10(A), 3001.13 and 3001.14(C): Liquids containing less than 1/2% alcohol by volume are exempt from luxury tax. Since reporting is not required by this group of taxpayers, there is no available information on potential luxury tax collections.

A.R.S. §§ 42-3001.10(B), 3001.13 and 3001.14(C): Taxable liquors do not include medicines that are unsuitable for beverage purposes. No information is available on medicine, which includes liquor and is unsuitable for beverage purposes.

A.R.S. §42-3008(A): Luxury tax is refunded if (1) proof is provided that the liquor for which the stamps were purchased was exported from the state and (2) if the liquor becomes unfit for sale due to breakage or spoilage. No information is available on liquor for which stamps were purchased and were then exported from the state. Liquor unfit for sale due to breakage or spoilage includes beer or wine which has exceeded its shelf life of three to six months and containers damaged in such a way that the product's quality is uncertain. No information is available on destruction under this provision for FY 2019.

SUMMARY OF LUXURY TAX EXPENDITURES – FISCAL YEAR 2019

PREFERENTIAL TAX RATES:

Preferential rates on alcohol	NIA[49]

TOBACCO PRODUCT EXEMPTIONS AND REFUNDS:

Tobacco powder or products used exclusively for agricultural or horticultural purposes and unfit for human consumption	NIA
Discounts	$11,002,675
Breakage or spoilage	$677,874
Exported from state after cigarette stamps purchased	NIA
TOTAL VALUE OF TOBACCO PRODUCT EXEMPTIONS AND REFUNDS	**$11,680,549**

LIQUOR EXEMPTIONS AND REFUNDS:

Liquids containing less than ½% alcohol by volume	NIA
Liquor contained in medicines, unsuitable for beverage purposes	NIA
Liquor exported from state after stamps were purchased.	NIA
Breakage or spoilage refunds	NIA
TOTAL VALUE OF TOBACCO PRODUCT EXEMPTIONS AND REFUNDS	**NIA**

TOTAL QUANTIFIABLE LUXURY TAX EXPENDITURES[50] $11,680,549

[49] No Information Available.

[50] This amount represents foregone revenue to the state general fund, various Department of Correction's funds, the Tobacco Tax and Health Care Fund, the Tobacco Products Tax Fund, the Drug Treatment and Education Fund, Smoke Free AZ and the Early Childhood Development and Health Fund.

MOTOR CARRIER FEE TAX EXPENDITURES[51] – FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Transportation
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $45,812,078[52]
TOTAL FY 2019 TAX EXPENDITURE: NIA
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: NIA

Motor carriers are responsible for the following fees: motor carrier fee, commercial registration fee, gross weight fee, highway use fee, title fee and registration fee. Receipts from these fees go into the Highway User Revenue Fund and are distributed to the Department of Public Safety, Economic Strength Fund, state highway fund, counties and incorporated cities and towns. The basic motor carrier fee is set at amounts ranging from $64 to $800. The fees are flat amounts based on gross vehicle weight. The vehicle weight for this schedule ranges from 12,001 pounds to 80,000 pounds. During FY 2019, the value of this expenditure is currently unavailable.

PREFERENTIAL VEHICLE FEE RATES

A.R.S. § 28-5493(A): Lightweight motor vehicles with a declared gross weight of 12,000 or fewer pounds pay a flat rate of $64 per vehicle. Persons who pay the light motor vehicle fee are exempt from any transaction privilege tax or any similar tax imposed by any taxing authority in this state on transactions involving transporting for hire persons, freight or property. The value of this expenditure is currently unavailable.

A.R.S. § 28-5855: A reduced motor carrier fee of 7/10 of the full rate is applied against motor vehicles that pre-qualified for the reduced motor carrier fee with the department and travel under the following conditions: 45% or more of the mileage reported is either (1) without a load; (2) with equipment which makes a motor vehicle ready for the road, (3) with restraining equipment which makes the load safe, (4) with equipment normally carried with the motor vehicle and used for load or unloading, (5) with empty containers and boxes being returned to the point of shipment, or (6) with commodities or goods being returned to the point of shipment as a result of damage, spoilage, misfills, consignee rejections, or consignee returns. The value of this expenditure is unavailable.

A.R.S. § 28-5856: A reduced motor carrier fee of 7/10 of the full rate is applied against motor vehicles weighing 26,000 pounds or more. To qualify, the vehicle must begin and end its trip at the same point without adding to its load any items other than those listed in the previous paragraph and at the midway point of a qualifying trip; the load is less than 45% of the full load capacity of the vehicle. The tax value of this information is unavailable.

A.R.S. § 28-5857: A reduced motor carrier fee of 7/10 of the full rate applies to motor vehicles or lightweight motor vehicles if the vehicle is used only for transporting agricultural products. Agricultural products are crops, livestock, machinery or supplies used or produced in farming operations or products,

[51] Figures presented for Motor Carrier Fee Tax Expenditures were provided by the Arizona Department of Transportation.
[52] Source: 2019 Tax Handbook, Joint Legislative Budget Committee

crops or livestock in their unmanufactured or unprocessed states. The value of this expenditure is unavailable.

EXEMPT VEHICLES

A.R.S. § 28-5853: The following vehicles are exempt from the motor carrier fee:

- School bus.
- A motor vehicle used in the production of (a) motion pictures, including films to be shown in theaters and on television, (b) industrial, training and educational films, (c) commercials for television, (d) video discs, and (e) videotapes.
- Alternate vehicles when the vehicle is propelled by an alternate fuel and is a school bus or a motor vehicle used in the production of the items listed above.
- Church vehicles when used in religious associations or institutions.
- Leased school bus.
- Non-profit school vehicles not used or held for profit.

No information is available on the impact of these exemptions.

A.R.S. § 28-5432(C): The following motor vehicles are exempt from the Commercial Registration Fee as a result of the weight fee exemption established for certain circumstances:

- Religious vehicles operated by non-profit religious institutions and used exclusively for the transportation of property produced and distributed for charitable purposes.
- Non-profit school vehicles if used exclusively for transportation of pupils in connection with school curriculum, training of pupils or transportation of property for charitable purposes without compensation.
- Non-profit organization vehicles which can present a form approved by the director of the division of emergency management.
- Vehicles owned and operated by a foreign government, a consul or any other official representative of a foreign government, by the United States, by a state or political subdivision of a state or by an Indian tribal government.
- A motor vehicle that is privately owned and operated exclusively as a school bus pursuant to a contract with a school district.

No information is available on the impact of these exemptions.

GROSS WEIGHT FEE

The gross weight fee is set at amounts ranging from $7.50 to $918, dependent upon vehicle weight. The vehicle weight for this schedule ranges from up to 8,000 pounds to 80,000 pounds. Vehicles in excess of 80,000 pounds are subject to special permits. Total gross weight fee collections for Arizona-based vehicles during FY 2019 were $684,825.

A $4 commercial registration fee is added to the gross weight fee for each registered vehicle. Commercial registration fees collected for Arizona-based vehicles during FY 2019 are not available.

A.R.S. § 28-5436: If a motor vehicle is used for seasonal agricultural work, the annual fee will be reduced by 1/12th for each month the vehicle is not in use. The reduced fee is for a period of at least 90 days but less than a full year. The value of this expenditure is currently unavailable.

A.R.S. § 28-5432: If a privately owned school bus is temporarily operated for purposes other than providing transportation of children to and from school, the owner must pay 1/10th of the annual gross weight fee. The value of this expenditure is currently unavailable.

A.R.S. § 28-5432(C): The following motor vehicles, trailers and semitrailers are exempt from the gross weight fee:

- Motor vehicles, trailers or semitrailers owned and operated by non-profit religious institutions and used exclusively for the transportation of property produced and distributed for charitable purposes.
- Motor vehicles, trailers or semitrailers owned and operated by non-profit schools that are recognized as being tax exempt by the federal or state government if used exclusively for transportation of pupils in connection with school curriculum, training of pupils or transportation of property for charitable purposes without compensation.
- Motor vehicles, trailers and semitrailers owned by a non-profit organization that can present a form approved by the director of the division of emergency management.
- A vehicle owned and operated by a foreign government, a consul or any other official representative of a foreign government, by the United States, by a state or political subdivision of a state or by an Indian tribal government.
- A motor vehicle that is privately owned and operated exclusively as a school bus pursuant to a contract with a school district.

No information is available on the impact of these exemptions.

HIGHWAY USE FEES

The highway use fee is set at amounts ranging from $50 to $2,217, depending upon vehicle weight and age. Vehicle weight for this schedule ranges from 0 to 80,000 pounds. Highway use fees collected for Arizona-based vehicles totaled $5,336,584 during FY 2019. Vehicles in excess of 80,000 pounds are subject to special permits.

A.R.S. § 28-5471: If the model year of the vehicle is 1978 or older, the use fee schedule is lower, ranging from $50 to $1,095. The value of this expenditure is unknown.

A.R.S. § 28-5473(D): A farm vehicle that is issued a farm vehicle license plate is exempt from highway use fees. No information is available on this tax exemption.

FOREIGN BASED CARRIERS

Due to reporting practices, the Department of Transportation is unable to split out foreign based motor carrier fee collections. The values of these expenditures are unavailable.

SUMMARY OF MOTOR CARRIER FEE TAX EXPENDITURES – FISCAL YEAR 2019

MOTOR CARRIER PREFERENTIAL FEES:

Same motor carrier fees for all Arizona-based vehicles	NIA[53]
Reduced motor carrier fee for lighter loads	NIA
Reduced motor carrier fee for trips starting and ending at the same point with a lighter load midway	NIA
Reduced motor carrier fee for agricultural loads	NIA
Commercial Registration Fee	NIA
TOTAL VALUE OF MOTOR CARRIER PREFERENTIAL FEES	**NIA**

GROSS WEIGHT PREFERENTIAL FEES:

Same gross weight fees for all Arizona-based vehicles	NIA
Reduced gross weight fee for seasonal agricultural vehicles	NIA
Reduced gross weight fee for privately owned school buses	NIA
TOTAL VALUE OF GROSS WEIGHT PREFERENTIAL FEES	**NIA**

HIGHWAY USE PREFERENTIAL FEES:

Same use fees for all Arizona-based vehicles	**NIA**

VEHICLE FEE EXEMPTIONS:

Motor carriers owned by religious institutions and used for charitable purposes	NIA
Motor carriers owned by nonprofit schools	NIA
Motor carriers owned by non-profit organizations with a division of emergency maintenance form	NIA
Motor carriers owned by governments	NIA
Farm vehicles	NIA
TOTAL VALUE OF VEHICLE FEE EXEMPTIONS	**NIA**

FOREIGN BASED CARRIERS:

Same fees for all Arizona-based vehicles	**NIA**

TOTAL QUANTIFIABLE MOTOR CARRIER FEE EXPENDITURES[54] **NIA**

[53] No Information Available.

[54] This amount represents foregone revenue to the state highway fund, counties and incorporated cities and towns.

MOTOR VEHICLE FUEL TAX EXPENDITURES[55] – FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Transportation
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $541,215,864 [56]
TOTAL FY 2019 TAX EXPENDITURE: $9,830,062
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: 2%

There is a tax of 18¢ per gallon on each gallon of motor vehicle fuel possessed, refined, manufactured, produced, blended or compounded by the supplier or imported by the supplier, whether in the original package or container in which it was imported or otherwise. All suppliers are required to pay tax on all fuel received.

During FY 2019, motor vehicle fuel tax collected from licensed suppliers was $540.5 million. The proceeds of this tax go into the Highway User Revenue Fund, the off-highway vehicle recreation fund and the state lake improvement fund. The Highway User Revenue Fund revenues are distributed to the Department of Public Safety, Economic Strength Fund, state highway fund, counties and incorporate cities and towns.

EXEMPTIONS FROM THE MOTOR VEHICLE FUEL TAX
In order to qualify for an exemption, the taxpayer must file for a refund.

A.R.S. § 28-5610(A)(1) and (2): Motor vehicle fuel purchased in Arizona, for which proof of export is available and either exported by a supplier or sold by a supplier to a distributor for immediate export is exempt from motor vehicle fuel tax. Requests for refunds against import liability in the amount of $7.4 million were received in FY 2019.
A.R.S. § 28-5610(A)(3): Motor vehicle fuel that is sold within an Indian Reservation to an enrolled member of the Indian tribe is excluded from taxation. The total amount refunded for this provision during FY 2019 was $1.1 million.
A.R.S. § 28-5610(A)(4): Motor vehicle fuel used solely and exclusively as fuel to operate a motor vehicle on highways in this state if the motor vehicle is leased to or owned by and is being operated for the sole benefit of an Indian tribe for governmental purposes only. No information is available on this tax expenditure.
A.R.S. § 28-5611(A)(4): Anyone who purchases motor vehicle fuel and loses such fuel due to fire, theft or other accident may request a refund for the tax paid on this fuel. No refunds of this type were requested for FY 2019.
A.R.S. § 28-5610(A)(5): Motor vehicle fuel moving in interstate or foreign commerce, not destined or diverted to a point within this state is exempt from the motor vehicle fuel tax. No information is available on this tax expenditure.

[55] All information presented for Motor Vehicle Fuel Tax Expenditures was provided by the Arizona Department of Transportation.
[56] Source: 2019 Tax Handbook, Joint Legislative Budget Committee

A.R.S. § 28-5610(A)(6): Motor vehicle fuel sold to the United States or an instrumentality or agency of the United States is exempt from the motor vehicle fuel tax. During FY 2019, $1.2 million was refunded for this exemption.

A.R.S. § 28-5611(A): A person who purchases and uses motor vehicle fuel other than in motor vehicles upon the highways of Arizona, and other than in watercraft upon the waterways in Arizona, and other than in motor vehicles operating on a transportation facility or toll road shall be repaid the motor vehicle fuel tax paid. In FY 2019, $69,852 in motor vehicle fuel tax was refunded based on this exemption.

SUMMARY OF MOTOR VEHICLE FUEL TAX EXPENDITURES
FISCAL YEAR 2019

MOTOR VEHICLE FUEL TAX EXEMPTIONS:

Motor vehicle fuel purchased for export	$7,389,132
Motor vehicle fuel sold to Native Americans on reservations	1,147,669
Motor vehicle fuel for motor vehicles leased to or owned by and operated for the sole benefit of a Native American tribe for governmental purposes	NIA[57]
Motor vehicle fuel lost due to fire, theft or other accident	0
Motor vehicle fuel moving in interstate or foreign commerce	NIA
Motor vehicle fuel sold to the United States or an instrumentality or agency of the United State	1,223,409
Motor vehicle fuel used other than in motor vehicles, watercraft and motor vehicles operating on a transportation facility or toll road	69,852
TOTAL VALUE OF MOTOR VEHICLE FUEL TAX EXPENDITURES	**$9,830,062**

TOTAL QUANTIFIABLE MOTOR VEHICLE FUEL TAX EXPENDITURES[58] $9,830,062

[57] No Information Available.

[58] This amount represents foregone revenue to the state highway fund, the off-highway vehicle recreation fund, the state lake improvement fund, counties and incorporated cities and towns.

PARI-MUTUEL TAX EXPENDITURES[59] – FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Gaming
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $242,683[60]
TOTAL FY 2019 TAX EXPENDITURE: $3,383,589
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: NA

HORSE OR HARNESS RACING PREFERENTIAL RATES

A.R.S. § 5-111(D): For horse or harness races, the state receives 2% of the gross amount of the first $1 million wagered on live races in pari-mutuel pools and 5% of the gross amount exceed $1 million. If the state received 5% of all dollars wagered in horse or harness live races, the state would have received an additional $324,906 in FY 2019.

PARI-MUTUEL TAX EXEMPTIONS

A.R.S. § 5-111(D): Moneys handled in a pari-mutuel pool for wagering on simulcasts of out-of-state horse or harness races are exempt from tax. The state share of the pari-mutuel tax was reduced by $3,335,260 in FY 2019 due to this exemption.

A.R.S. § 5-111(E): Any county fair racing association may have one race meeting each year. All such racing meetings are exempt from the state tax on horse or harness live racing. If county fair racing meetings were not exempt from the tax, the state would have received an additional $29,828 in pari-mutuel revenues during FY 2019.

A.R.S. § 5-111(F): Moneys from charity racing days are exempt from state tax. Taxation of these events would have raised an additional $7,534 in pari-mutuel revenues during FY 2019.

A.R.S. § 5-111.03.A: The percentage paid to the state for greyhound racing and for horse or harness racing shall be reduced by 1% of the total amount wagered in counties with a population of 500,000 or more and by 2% in all other counties for those permittee's who make capital improvements to existing race tracks. There were no operational tracks that used the capital improvements tax credit in FY 2019.

A.R.S. § 5-111.I: The percentage decrease in pari-mutuel wagering between the base year and the previous fiscal year determines a permittee's eligibility for a hardship tax credit. The state share of the pari-mutuel tax for greyhound racing and for horse or harness racing was reduced by the amount equal to the amount of the hardship tax credit. The state share of the pari-mutuel tax was reduced by $10,967 in hardship tax credits in FY 2019.

[59] All information presented for Pari-Mutuel Tax Expenditures was provided by the Arizona Department of Gaming, Racing Division.
[60] Source: 2019 Tax Handbook, Joint Legislative Budget Committee

SUMMARY OF PARI-MUTUEL TAX EXPENDITURES – FISCAL YEAR 2019

HORSE OR HARNESS RACING PREFERENTIAL TAX RATES:

Preferential rates on horse or harness racing	$324,906

PARI-MUTUEL TAX EXEMPTIONS:

Reduction in pari-mutuel tax on simulcast out-of-state races	$3,335,260
County fair racing association meetings	29,828
Charity racing days	7,534
Reduction in pari-mutuel tax for capital improvements to race tracks	0
Reduction in pari-mutuel tax for hardship tax credit	10,967
TOTAL VALUE OF PARI-MUTUEL TAX EXEMPTIONS	**$3,383,589**

TOTAL QUANTIFIABLE PARI-MUTUEL TAX EXPENDITURES[61] $3,383,589

[61] These expenditures represent foregone revenues to the Racing Regulation Fund.

PRIVATE CAR PROPERTY TAX EXPENDITURES – FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Revenue
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $2,027,884 [62]
TOTAL FY 2019 TAX EXPENDITURE: $514,320
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: 20%

Businesses that operate furnish or lease railroad cars to be used for transporting or accommodating persons or freight over railroad lines not owned, leased or operated by the business are subject to a private car property tax in Arizona. The taxable value, or net assessed value, of the private car property is determined by multiplying the full cash value of the property by an assessment ratio. The tax rate that is applied to the net assessed value is equal to the average primary and secondary property tax rates in the taxing districts of the state, which was $12.62 in 2018.

A.R.S. § 42-14308: Arizona statutes set out the assessment ratios to be used in determining the net assessed values of the various classes of property. These assessment ratios range from 18% to 5%. For private car property, the assessment ratio is equal to the ratio which the total net assessed valuation of all taxable property in class one, class six paragraph three and personal property in class two bears to the total full cash value of such property. For tax year 2018, the assessment ratio used for private car property was 14%. This is considered to be a preferential assessment ratio because it is an average of the assessment ratios in several other classes of property. If private car property had an assessment ratio equal to the highest assessment ratio imposed, 18%, tax collections would have increased by $514,320.

SUMMARY OF PRIVATE CAR PROPERTY TAX EXPENDITURES
FISCAL YEAR 2019

PREFERENTIAL ASSESSMENT RATIO:

Preferential assessment ratio for private cars at 18%	$514,320

TOTAL QUANTIFIABLE PRIVATE CAR PROPERTY TAX EXPENDITURES[63] $514,320

[62] Source: Department of Revenue Annual Report, FY 2019
[63] This amount represents forgone revenue to the state general fund.

PROPERTY TAX EXPENDITURES – FISCAL YEAR 2019

TAX COLLECTED BY: County Treasurers' Offices
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $0[64]
TOTAL FY 2019 TAX EXPENDITURE: $431,174,694
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: NA

The property tax system in Arizona has many components. These components are intertwined, making it difficult to address the impact of tax expenditures on one component in isolation. The state no longer levies a property tax per $100 of net assessed value on primary values, so state revenues are affected by exemptions from property tax in three ways.

First, basic state aid, or a basic level of funding for education per student statewide, is provided through the state, the county and school districts. The school district's responsibility is determined by multiplying a uniform tax rate by assessed valuation. If this amount is less than the basic level of funding, additional revenues are received from the state, funded by the education equalization rate, which is currently $0.4566 per $100 of assessed value. If education equalization revenues cannot bring the school district to its basic level of funding, the state provides the balance of the basic state aid. Therefore, exemptions reduce the property tax base, which may increase the state's portion of basic state aid funding.

The second method concerns the taxation of homeowner property. Frequently, if a political subdivision sees a decline in property values, the tax rate imposed by that subdivision increases so that a consistent revenue stream is provided from the property tax. The same is true if the political subdivision sees its taxable base decrease through exemptions from the property tax. Through a program called additional state aid (commonly known as homeowner's rebate), the state pays 47.190% of a homeowner's school district tax bill, up to $600. If a homeowner's school taxes increase due to higher tax rates, the state will be required to pay a larger amount of money.

Finally, the state pays that part of a homeowner's primary tax bill that exceeds 1% of the limited property value. Higher tax rates could mean a larger state payment.

PROPERTY TAX EXEMPTIONS

Article IX of the Arizona Constitution exempts:

- Property owned by widows and widowers subject to limitations.
- Property owned by disabled persons, subject to limitations.
- All federal, state, county and municipal property.
- Property of educational, charitable and religious associations or institutions not used or held for profit.
- Household goods owned by the user and used solely for noncommercial purposes.
- Stocks of raw or finished materials, unassembled parts, work in process or finished products constituting the inventory of a retailer or wholesaler located within the state and principally

[64] The State no longer levies a property tax.

engaged in the resale of such materials, parts or products, whether or not for resale to the ultimate consumer.

There are also exemptions from property taxation that are listed in the Arizona Revised Statutes.

A.R.S. § 42-11104(A): Libraries, colleges, school buildings and other buildings used for education, with furniture, libraries and equipment, and the lands appurtenant to and used with such buildings, as long as they are used for the purpose of education and not used or held for profit.
A.R.S. § 42-11104(B): Property and buildings leased from a school district or a community college district pursuant to a lease or lease-purchase agreement.
A.R.S. § 42-11104(C): Property and buildings, including land, improvements, furniture and equipment, owned by a nonprofit organization recognized under section 501(c)(3) of the IRC and that operates as a charter school pursuant to section 15-183 or trap and shooting clubs if the property and buildings are used for educational purposes and not used or held for profit.
A.R.S. § 42-11105(A): Hospitals for relief of the indigent or afflicted, appurtenant land and their fixtures and equipment to such buildings, as long as they are not used or held for profit.
A.R.S. § 42-11105(B): Property used for operation of a health care institution which provides medical, nursing or health-related services to handicapped persons or persons 62 years of age or older and which is not used or held for profit.
A.R.S. § 42-11105(C): Property used for qualifying community health care centers which is not used or held for profit.
A.R.S. § 42-11105(D): Property owned by a health care provider, recognized under section 501(c)(3) of the IRC and organized as a nonprofit corporation if the property is used to provide health care services and not used or held for profit.
A.R.S. § 42-11106(1): Property used for the operation of a residential apartment housing facility which is not used or held for profit, is structured for handicapped persons or persons 62 years of age or older, located adjacent to a property exempted from taxation and which is owned and operated by the same persons or associations as such other adjacent property.
A.R.S. § 42-11106(2): Property used for the operation of a residential apartment housing facility which is not used or held for profit, which is structured for handicapped persons or persons 62 years of age or older and for which a subsidy or payment is given by federal, state or local government or by nonprofit organizations in a substantial amount in relation to the amount given or the total annual operating expenses to pay for principal, interest and operating expenses as long as that organization was not created or operating for the primary purpose of providing the subsidy or payment.
A.R.S. § 42-11107: Property of charitable institutions for relief of the indigent or afflicted, including the lands appurtenant to such property, with fixtures, equipment and other reasonably required property, as long as such institutions and property are not held or used for profit.
A.R.S. § 42-11108: Grounds and buildings owned by agricultural societies, as long as they are used for those purposes only, and not used or held for profit.
A.R.S. § 42-11109(A): Property or buildings used or held primarily for religious worship, including furniture and equipment, and the land and improvements appurtenant to and used with such buildings, as long as the property is not used or held for profit.

A.R.S. § 42-11110: Cemeteries set apart and used for interring the dead, except such portions that are used or held for profit.

A.R.S. § 42-11111: Property of widows, widowers and disabled persons subject to specified conditions and limitations.

A.R.S. § 42-11112: Observatories maintained for astronomical research and education for the public welfare, together with all property used in the work or maintenance of observatories, including property held in trust, as long as the observatories and other property are used for such purposes only and not used or held for profit.

A.R.S. § 42-11113: Grounds and buildings belonging to societies for the prevention of cruelty to animals and for sheltering, caring for and controlling animals, as long as the grounds and buildings are used for those purposes only and not held or used for profit.

A.R.S. § 42-11114(A): Property held by a charitable organization for transfer to this state or a political subdivision of this state to be used as parkland if no rent or valuable consideration is received by the charitable organization.

A.R.S. § 42-11115: Property held by a charitable organization to preserve and protect scientific, biological, geological, paleontological, natural or archaeological resources.

A.R.S. § 42-11116: Property of musical, dramatic, dance and community arts groups, botanical gardens, museums and zoos as long as the property is used for those purposes and not used or held for profit.

A.R.S. § 42-11117: Property belonging to a volunteer fire department if the property is used exclusively for fire suppression and prevention activities and is neither used nor occupied by or for the benefit of any person.

A.R.S. § 42-11118(A): Property that is owned by a volunteer nonprofit organization that is operated exclusively to promote social welfare and provide community quasi-governmental services in an unincorporated area of a county.

A.R.S. § 42-11119: Property that is owned by a volunteer nonprofit organization, used exclusively for the purpose of performing roadway cleanup and beautification on a gratuitous basis, not used or held for profit and not used or occupied by or for the benefit of any person.

A.R.S. § 42-11120: Property that is owned by a U.S. Veterans' Organization that qualifies as a charitable organization and is recognized under either section 501(C)(3) or 501(C)(19) of the IRC if the property is used predominantly for those purposes and not used or held for profit.

A.R.S. § 42-11121: Property that is not used or held for profit and is owned by a community service organization the mission of which is to serve a population that includes persons who are indigent or afflicted and that qualifies as a charitable organization and is recognized under §501(C)(3) of the IRC if the organization is primarily engaged in delivering services on that property consisting of fitness programs, camping programs, health and recreation services, youth programs, child care, senior citizen programs, individual and family counseling, employment and training programs, services for individuals with disabilities, meals, feeding programs or disaster relief.

A.R.S. § 42-11122: A commodity that is consigned for resale in a warehouse in this state in or from which the commodity is deliverable on a contract for future delivery subject to the rules of a commodity market regulated by the U.S. commodity futures trading commission.

A.R.S. § 42-11123: Animal and poultry feed, including salts, vitamins and other additives, for animal or poultry consumption.

A.R.S. § 42-11124: Possessory interest of property and improvements subject to a lease of the state or political subdivision of the state used by an association or institution for the purpose of educational or charitable activities.

A.R.S. § 42-11125: Stocks of raw or unfinished materials, unassembled parts, work in progress or finished products constituting the inventory of a retailer, wholesaler or manufacturer located in this state and principally engaged in reselling the materials, parts or products.

A.R.S. § 42-11126: Livestock and poultry as defined in section 3-1201, aquatic animals defined in section 3-2901, and colonies of bees.

A.R.S. § 42-11127: Commercial and agricultural personal property subject to specified conditions and limitations.

A.R.S. § 42-11128(A and B): Personal property moving through Arizona or consigned to a warehouse in Arizona from a point outside Arizona for storage or assembly in transit to a final destination outside this state is considered property-in-transit or futures contract property.

A.R.S. § 42-11129: Property that is owned by a fraternal society or organization that is devoted exclusively to religious, charitable, scientific, literary, educational or fraternal purposes and if no portion of the property is used for the sale of food or beverages to the general public or the consumption of alcoholic beverages by nonmembers or is used or held for profit.

A.R.S. § 42-11130: Property that is owned by an organization whose mission is to provide supplemental financial support to public libraries, that qualifies as a charitable organization and that is not used or held for profit.

A.R.S. § 42-11131: Property owned and operated by a federally recognized Indian tribe or its tribally designated housing authority subject to the following requirements: (1) that it is used exclusively for the charitable purpose of providing low-income rental housing and related facilities for the use of Indians; (2) that it is not used, held or operated for profit; (3) no part of the earnings of the housing authority may "inure to the benefit of any private shareholder or individual"; and (4) the housing was designed and constructed using federal financial assistance pursuant to the Native American Housing Assistance and Self-Determination Act, or using tribal monies. An Indian tribe or tribal housing authority may make voluntary contributions in lieu of property taxes to a county, city, town, school district or other political subdivision for providing services, improvements or facilities for the benefit of a low-income housing project owned and operated by the tribe or housing authority.

A.R.S. § 42-11132(A): Property, buildings and fixtures that are leased to a nonprofit charter school and that are used for educational instruction in any grade or program through grade twelve shall be Class Nine.

A.R.S. § 42-11132(B): Property, buildings and fixtures that are owned by an educational, a religious or a charitable organization, institution or association and leased to a nonprofit educational organization, institution or association if the property is used for educational instruction in any grade or program through grade 12.

A.R.S. § 42-11132.01(B): Property, buildings and fixtures owned by an educational, religious or charitable organization, institution or association that are leased to a nonprofit church, religious assembly or religious institution and that are primarily used for religious worship.

A.R.S. § 42-11133(A): Property used exclusively for rental housing and related facilities if the property is not used or held for profit; is owned and operated by, or a wholly owned subsidiary of, a charitable

fund, foundation or corporation, including a limited partnership in which the managing general partner is an eligible nonprofit corporation; the acquisition, rehabilitation, development or operation of the property, or any combination of the two is financed with tax exempt mortgage revenue bonds or general obligation bonds or is financed by local, state or federal loans or grants and the rents of the occupants do not exceed those prescribed by deed restrictions or regulatory agreements pursuant to the financing or financial assistance term; the owner of the property is eligible for and receives tax credits for low-income housing established under §42 of the IRC; the property is used as an assisted living facility for low-income elderly residents and the facility does not exceed 200 residents.

A.R.S. § 48-3472 (A): Property owned or used by special taxing districts for the purpose of irrigation water delivery when used for district purposes.

2019 ADDITIONAL STATE AID TO EDUCATION

Pursuant to A.R.S. § 15-972, a report indicating the amount of additional State Aid to Education is prepared each year. This additional aid is the amount referred to as the "Homeowner's Rebate." (The state pays 47.190% of a homeowner's school district tax bill, up to $600.) The summary at the end of this section shows the Additional State Aid to Education tax roll that was billed in 2019, including additional amounts that were billed for legal class three property on the personal property tax roll.

ADDITIONAL STATE AID TO EDUCATION

County	County Total
Apache	$484,869
Cochise	7,138,792
Coconino	8,040,412
Gila	3,074,761
Graham	1,381,974
Greenlee	112,190
La Paz	170,531
Maricopa	275,314,725
Mohave	11,247,302
Navajo	3,383,470
Pima	70,704,938
Pinal	22,518,245
Santa Cruz	2,278,094
Yavapai	17,469,853
Yuma	7,825,741
Total	**$431,145,898**

SUMMARY OF PROPERTY TAX EXPENDITURES – TAX YEAR 2019

ADDITIONAL STATE AID TO EDUCATION:

Additional state aid to education	$431,174,694

TOTAL QUANTIFIABLE PROPERTY TAX EXPENDITURES[65] $431,174,694

[65] This amount represents foregone revenue to the state general fund.

SEVERANCE TAX EXPENDITURES – FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Revenue
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $17,251,505[66]
TOTAL FY 2019 TAX EXPENDITURE: $17,251,505
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: 50%

Persons engage in the business of mining or timbering in Arizona are subject to a severance tax. Mining severance is taxed at the rate of 2.5% (A.R.S. § 42-5202(C)) and is levied upon the net severance base. The net severance base is defined as 50% of the difference between the gross value of production and the production costs (A.R.S. § 42-5204).

The timber severance tax was levied on the timber products derived from timbering activity [A.R.S. § 42-5202(D)] through October 31, 2006. Beginning November 1, 2006, the timber severance tax was repealed. Total mining and timbering severance tax collections in FY 2019 totaled $17.3 million.

PREFERENTIAL SEVERANCE TAX RATES

Until October 31, 2006, timber severance was taxed depending on the type of timber product. The tax rate for ponderosa pine timber products was $2.13 per thousand board feet and the tax rate for all species except ponderosa pine was $1.51 per thousand board feet. The tax rate for all other species except ponderosa pine is a preferential rate over the ponderosa pine rate. During FY 2019, no tax was received for timber severance.

SEVERANCE TAX CREDITS

A.R.S. § 42-5017(A): A credit is allowed against severance tax imposed for accounting and reporting expenses incurred by the taxpayer. The credit equals 1% of the amount of tax due, not to exceed $10,000 in any calendar year. In FY 2019, information about the value of the severance tax accounting credit was unavailable.

MINING SEVERANCE TAX EXCLUSIONS

A.R.S. § 42-5204: The net severance base is 50% of the difference between the gross value of production and the production costs. Both the 50% factor and the value of production costs are exclusions from severance taxation. Taxing the net severance base at 100% would have generated an additional $17.3 million in FY 2019. The tax value of the production costs is unknown.

[66] Source: Department of Revenue Annual Report, FY 2019

SUMMARY OF SEVERANCE TAX EXPENDITURES – FISCAL YEAR 2019

PREFERENTIAL SEVERANCE TAX RATES:

Preferential timber severance tax rate for other timber products	$0

SEVERANCE TAX CREDITS:

Accounting credit	NIA[67]

SEVERANCE TAX CREDITS:

50% factor	$17,251,505
Production costs	NIA
TOTAL VALUE OF SEVERANCE TAX EXEMPTIONS	**$17,251,505**

TOTAL QUANTIFIABLE SEVERANCE TAX EXPENDITURES[68] $17,251,505

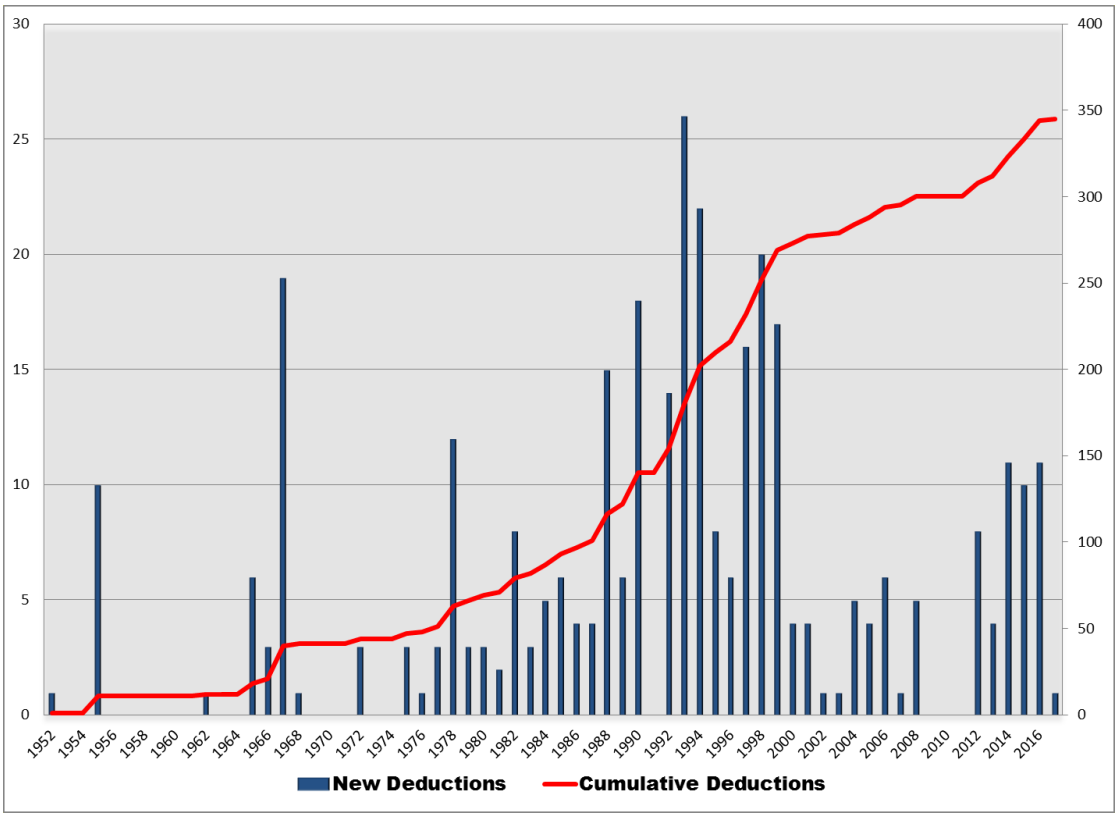
[67] No Information Available.

[68] This amount represents foregone revenue to the state general fund, counties and incorporated cities and towns.

TRANSACTION PRIVILEGE AND USE TAX EXPENDITURES
FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Revenue
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $6,565,135,610[69]
TOTAL FY 2017/18 TAX EXPENDITURE: $16,803,312,824
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: 72%

Total number of TPT deductions has grown from 1 in 1952 to 345 in 2017



Transaction privilege and use tax (TPT) gross collections in FY 2019 totaled $6.6 billion. Of that amount, $1.5 billion was distributed to the counties and cities. The remaining $5.1 billion was deposited into the state general fund.

This report provides information about some of the preferential tax rates, credits, exemptions and deductions from Transaction Privilege and Use Tax using both data from taxpayers and outside data. In

[69] Source: Department of Revenue Annual Report, FY 2019

total, the quantifiable exemptions discussed in this report represent potential tax collections of $13.3 billion. Lost revenues due to preferential tax rates, e.g., those items taxed at a rate below 5%, total $511 million while credits totaled $30.3 million. The estimated value of the services portion of exemptions is $6 billion, while the estimated tax value of deductions is $10.8 billion.

With regard to TPT deductions, ADOR has transitioned from accepting deductions under a miscellaneous category to requiring specific deduction codes to be used for each statutory exemption. The process began in 2015 with additional validations added throughout FY2016 and into FY2017. As a result, taxpayer behavior has changed, providing ADOR with a more complete picture of the value of the deductions taken. Compliance has improved, reducing the value of undefined deductions, which had been significant in the past. The added validations in addition to increased scrutiny are expected to reduce the opportunities for taxpayers to take invalid deductions in the future. The impact shown is a point in time measurement. Impacts for the same period measured at a later date could produce different results.

The Proposition 301 - Education Tax, collected $761 million at the 0.6% rate. While the two taxes are collected on roughly the same tax base, the Proposition 301 monies are dedicated to education-related funds. We continue to present the value of exemptions at the 5% rate. The effect of these exemptions on Proposition 301 can be estimated by taking 12% of the amounts shown later in this section. For FY 2019, the value of the exemptions on the Proposition 301 Education funds was $2 billion.

PREFERENTIAL TRANSACTION PRIVILEGE TAX RATES

In most categories, sales in Arizona are taxed at a 5% rate. Two categories of taxable activities, however, are currently taxed at a lower rate. These activities and the corresponding tax rates are as follows:

CODE	TAXABLE ACTIVITIES	RATE
2	Non-Metal Mining, Oil & Gas Production	3.125%
13	Commercial Lease[70]	0%

If the activities in these categories had been taxed at a 5% rate in FY 2019, additional transaction privilege tax of $511 million would have been collected.

TRANSACTION PRIVILEGE AND USE TAX CREDIT

A.R.S. § 42-5017: A credit is allowed against transaction privilege tax imposed for accounting and reporting expenses incurred by the taxpayer. During FY 2019, the credit equals 1% of the amount of tax due, not to exceed $10,000 in any calendar year for taxpayers filing paper returns and 1.2% of the amount of tax due for taxpayers filing electronically, not to exceed $12,000. In FY 2018, the value of the accounting credit equaled $30.3 million.

TRANSACTION PRIVILEGE AND USE TAX EXEMPTIONS

[70]The tax rate for this class changed to 0% from 1.0% effective July 1, 1997.

Certain types of income or sales by businesses are exempt from transaction privilege and use tax. Some of these businesses have taxable sales as well as exempt sales; some have no taxable sales at all. In the case of those businesses that have both taxable and exempt sales, there is some information on the value of the exemption. Those businesses that only have exempt sales generally do not file transaction privilege tax returns; therefore, no figures are reported for the value of the exempt business. They may, however be captured in the analysis covering the value of Services.

Beginning in calendar year 2015, the department began using a specific deduction code for each deduction from transaction privilege tax. During 2016 and 2017, the department began validating deduction usage at the time returns were filed. The following information lists all exemptions identified in the Arizona Revised Statutes, whether information was available on the tax value of the exemption or not.

A.R.S. § 42-5061(A)(1) and (A)(2): The primary type of business exempt from transaction privilege tax in Arizona is the business of providing a service. The U.S. Census Bureau provides information about the value of services in Arizona through the Economic Census. The 2012 Economic Census Service is the basis for the following analysis of the tax value of some services. *Please note that some portion of the value of these services may already be taxable.* For example, the sale of hair shampoo products at a Beauty Salon is taxable but the service of cutting and styling hair is not. The receipts reported in the Economic Census would include both the retail sale of products and the provision of the service. No attempt has been made to determine these *non-taxable* portion of the receipts.

The list of services in this report is a ***sample*** of services and is not intended to be a comprehensive list. The categories shown are defined by the Census Bureau, not by the preparers of this report. For a complete look at the service industry in Arizona, refer to the several reports comprising the 2012 Economic Census of Arizona, available at the U.S. Census Bureau website, www.census.gov .

Several major categories as defined by the U.S. Census Bureau are shown in the sample of services: (1) professional, scientific and technical; (2) health care; (3) administrative and business support; (4) personal care; (5) educational; (6) finance and (7) other services. Examples of each of these service categories are listed at the end of this section. A summary of potential transaction privilege tax revenue from the Sample of Services in these major categories is as follows[71]:

Professional, Scientific and Technical	$1,076,612,385
Health Care	2,169,586,069
Administrative and Business Support	765,246,547
Personal Care	86,717,505
Educational	65,365,103
Finance	1,008,306,722
Other Services	281,294,372

[71] This summary is not intended to be a comprehensive analysis of potential transaction privilege tax revenue for services. Some portion of the value of these services may already be taxable.

Total transaction privilege tax revenue available from these businesses is $5.5 billion. Although the estimate of potential tax collections provided here does not include estimates for all services, the majority have been captured.

A.R.S. § 42-5061(V)(3): (Deduction Code 503) The business of selling tangible personal property at wholesale, by definition, is not taxable. During FY 2019, wholesale trade was estimated to be $110 billion. If taxed at a 5% rate, collections from this category would be $5.5 billion. Another measure of this type of activity is the deduction for sales for resale. In FY 2019, it is estimated that businesses deducted $108 billion for sales for resale. At 5%, these transactions would have generated $5.4 billion.

A.R.S. §§ 42-5001(5) and 5001(6): (Deduction Codes 708 and 711) The transaction privilege and use tax is levied upon the gross income or the gross proceeds of sales. Gross proceeds of sales do not include *cash discounts* allowed. The value of merchandise traded in on the purchase of new merchandise when the *trade-in* allowance is deducted from the sales price of the new merchandise before completion of the sale is exempt. In FY 2019, it is estimated that businesses deducted $3.1 billion[72] for this purpose. Had those sales been taxable, they would have generated $155 million in tax at the 5% rate.

A.R.S. §§ 42-5002(2): (Deduction Code 549) Services rendered in addition to selling tangible personal property at retail are not subject to transaction privilege tax. In FY 2019, it is estimated that businesses deducted $9.5 billion from their gross sales for this purpose. At 5%, these transactions would have generated $475 million.

(Deduction Code 570) Business activity for Enrolled Native American or Tribal entity that occurs on a Reservation is exempt from transaction privilege tax. In FY 2019, it is estimated that businesses deducted $274 million for this purpose. Had those transactions been taxable, they would have generated $13.7 million at a 5% rate.

(Deduction Code 716) Sales of Postage stamps at face value are not subject to transaction privilege tax. In FY 2019, it is estimated that businesses deducted $4.1 million for this purpose. Had those sales been taxable, they would have generated about $208,000 in tax at the 5% rate.

(Deduction Code 777) Sales to foreign diplomats holding a valid US Department of State card authorizing the purchase are not subject to transaction privilege tax. In FY 2019, it is estimated that businesses deducted $2.7 million for such sales. Taxing these sales at a 5% rate would have resulted in collections of about $136,000 in tax.

A.R.S. § 42-5061(A)(3): (Deduction Code 542) Sales of warranty or service contracts are exempt from transaction privilege tax. In FY 2019, it is estimated that businesses deducted $1.1 billion for such contracts. Taxing these contracts at a 5% rate would have resulted in collections of $54.4 million.

A.R.S. §§ 42-5061(A)(4), 42-5074(B)(6), 42-5159(A)(15)(a): (Deduction Code 725) Sales of tangible personal property by any nonprofit organization and operated exclusively for charitable purposes and recognized by the department and the United States Internal Revenue Service as such a nonprofit organization for charitable purposes are exempt from transaction privilege and use tax. In FY 2019, businesses took an estimated $21.3 million in deductions for this purpose. At a 5% rate, these transactions would have generated $1 million in tax.

A.R.S. §§ 42-5061(A)(5): (Deduction Code 507) Sales to persons engaged in business classified under the restaurant classification of articles used for food, drink or condiment are not subject to transaction

[72] It is likely that these deductions are under reported.

privilege tax. In FY 2019, it is estimated that businesses deducted $106 million for such sales. Had those transactions been taxable, they would have generated $5.3 million in tax at a 5% rate.

A.R.S. § 42-5061(A)(7): (There is no deduction code for this deduction) The sale of stocks and bonds is not subject to transaction privilege tax in Arizona. No information is available on this tax expenditure.

A.R.S. §§ 42-5061(A)(8), 42-5159(A)(16): (Deduction Code 536) Items required by prescription, such as prescription drugs and medical oxygen, are exempt from transaction privilege tax. In FY 2019, it is estimated that businesses took $18.3 billion in deductions for prescriptions and medical oxygen. Had these purchases been taxed at a rate of 5%, collections would be $917 million.

A.R.S. §§ 42-5061(A)(9), 42-5159(A)(17): (Deduction Code 559) Prosthetic appliances prescribed or recommended by a physician, dentist or other professional are exempt from transaction privilege tax. In FY 2019, it is estimated that deductions of $445 million were taken for these items. Had they been taxed, collections would have been $22.2 million.

A.R.S. §§ 42-5061(A)(10), 42-5159(A)(18): (Deduction Code 533) Insulin, syringes, and glucose test strips are exempt from transaction privilege tax. The data is not releasable for FY 2019 usage of this exemption.

A.R.S. §§ 42-5061(A)(11), 42-5159(A)(19): (Deduction Code 590) Prescription eyeglasses or contact lenses are exempt from transaction privilege tax. In FY 2019, it is estimated that deductions of $50.9 million were taken for these items. Had they been taxed, collections would have been $2.5 million.

A.R.S. §§ 42-5061(A)(12), 42-5159(A)(20): (Deduction Code 594) Hearing aids as defined in section 36-1901 are exempt from transaction privilege tax. In FY 2019, it is estimated that deductions of $40.2 million were taken for these items. Had they been taxed, collections would have been $2 million.

A.R.S. §§ 42-5061(A)(13), 42-5159(A)(21): (Deduction Code 526) Some durable medical equipment is exempt from transaction privilege tax. In FY 2019, it is estimated that deductions of $511 million were taken for these items. Had they been taxed, collections would have been $25.5 million.

A.R.S. § 42- 1(A)(14): (Deduction Code 541. This deduction was revised during FY 2015) Sales of motor vehicles to nonresidents of Arizona for use outside Arizona if the dealer ships or delivers the motor vehicle outside of the state are exempt from transaction privilege tax. It is estimated that in FY 2019 a total of $1.5 billion was deducted for this purpose. Were these transactions taxable, an additional $74.9 million would have been collected.

A.R.S. §§ 42-5061(A)(15 and 16), 42-5159(A)(22 and 23): (Deduction Codes 506 and 513) Food for home consumption was exempted from transaction privilege and use tax effective July 1980. This includes items purchased with food stamps. In FY 2019, it is estimated that deductions of $15.4 billion were taken for these items. A 5% tax on these would have brought in $768 million in additional revenues.

A.R.S. §§ 42-5061(A)(17), 42-5159(A)(28): (Deduction Code 505) Textbooks sold by any bookstore that are required by any state university or community college are not subject to the transaction privilege or use tax. Deductions estimated to be $54.2 million were taken for this exemption in FY 2019. At a rate of 5%, these deductions would have generated $2.7 million had they been taxable.

A.R.S. §§ 42-5061(A)(18), 42-5159(A)(24): (Deduction Code 568) Meals provided to employees of restaurants are exempt from transaction privilege and use taxation. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. §§ 42-5061(A)(19), 42-5159(A)(26): (Deduction Code 569) No transaction privilege or use tax is applied to food, drink or condiment purchased for school lunches. In FY 2019, it is estimated that

businesses deducted $55 million for this purpose. At a 5% tax rate, this would have generated $2.7 million.

A.R.S. §§ 42-5061(A)(20), 42-5159(A)(27): (Deduction Code 521) Arizona lottery ticket sales are not taxable, In FY 2019 an estimated $322 million was deducted for those sales. Additional tax collections of $16 million would have been received if the sales were taxed at a 5% rate.

A.R.S. § 42-5061(A)(21): (Deduction Codes 567 and 601) The sale of precious metal bullion and monetized bullion to the ultimate consumer is exempt from transaction privilege tax. Precious metal bullion is defined as precious metal, including gold, silver, platinum, etc., which has been smelted or refined so that its value depends on its contents and not on its form. Monetized bullion means coins and other forms of money which are manufactured from gold, silver, etc., and which have been used as a medium of exchange. In FY 2019, businesses took an estimated $91.1 million in deductions for this purpose. Had these transactions been taxable, they would have generated $4.6 million in tax at a 5% rate.

A.R.S. § 42-5061(A)(22): (Deduction Code 515) The sale of vehicle fuel and aviation fuel which are subject to another tax are exempt from transaction privilege tax. In FY 2019, deductions of $10.6 billion were taken. Had they been taxed at 5%, $532 million would have been collected.

A.R.S. § 42-5061(A)(23): (Deduction Code 571) The sale of tangible personal property to a person engaged in the business of leasing or renting such property under the personal property rental classification if the property is to be leased or rented by such person is not subject to transaction privilege tax. In FY 2019, it is estimated that deductions of $133 million were taken. At a 5% tax rate, they would have generated $6.7 million in tax.

A.R.S. § 42-5061(A)(24): (Deduction Code 504) The sale of tangible personal property in interstate or foreign commerce if prohibited from being so taxed by the Constitution of the United States or the constitution of this state. In FY 2019, estimated deductions of $9.3 billion were taken for this purpose. Had these transactions been taxable at the 5% rate, $467 million in taxes would have been generated.

A.R.S. §§ 42-5061(A)(25)(a, b, c, d), 42-5063(C)(3), 42-5065(B)(2), 42-5066(B)(3), 42-5067(B)(2), 42-5074 (B)(8), 42-5159 (A)(13)(a, b ,c, d, e, j): (Deduction Codes 545, 546, 572, and 574) Tangible personal property sold to a qualifying hospital or a qualifying health care organization used by the organization solely to provide health and medical related educational and charitable services and tangible personal property sold to or purchased by qualifying community health centers and health care organizations are exempt from transaction privilege and use tax. In FY 2019, deductions of an estimated $1.3 billion were taken for these exemptions. Had they been taxed at 5%, $67.3 million would have been collected.

A.R.S. §§ 42-5061(A)(25)(e), 42-5159(A)(13)(k): (Deduction Code 544) Sales of tangible personal property to a nonprofit charitable organization that regularly serves meals to the needy and indigent on a continuing basis at no cost is exempt from the transaction privilege and use tax. During FY 2019, businesses deducted an estimated $20.5 million for this exemption. At 5%, this would have raised about $1 million had it been taxable.

A.R.S. §§ 42-5061(A)(25)(f), 42-5159(A)(13)(m), 42-5075(B)(12): (Deduction Code 573) Sales of tangible personal property to a nonprofit charitable organization that provides residential apartment housing for low income persons over 62 years of age in a facility that qualifies for a federal housing subsidy, is exempt from the transaction privilege and use tax. The gross proceeds of sales from a contract for construction of a residential apartment housing facility that qualifies for a federal housing subsidy for low income persons

over 62 years of age and that is owned by a nonprofit charitable organization is exempt from the prime contracting classification of transaction privilege tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5061(A)(25)(g): (Deduction Code 699) Tangible personal property sold to a qualifying health sciences educational institution as defined in 42-5001 is exempt from the transaction privilege tax. In FY 2019, it is estimated that businesses deducted $1.3 million for this purpose. At a 5% tax rate, this would have generated $64,000.

A.R.S. §§ 42-5061(A)(26), 42-5065(A)(2), 42-5159(A)(29): (Deduction Code 602) No transaction privilege or use tax is charged on magazines or other periodicals or other publications by this state to encourage tourist travel. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. §§ 42-5061(A)(27)(a), 42-5061(A)(51), 42-5072(B), 42-5075(B)(6), 42-5159(A)(13)(g), 42-5159(A)(47) and ACRR R15-5-1839: (Deduction Codes 552 and 589) Sales of articles to a contractor with a transaction privilege tax license for incorporation or fabrication under a construction contract or used in environmental response or remediation activities. In FY 2019, an estimated $318 million was taken for these deductions. Had they been taxed at 5%, $16 million would have been collected.

A.R.S. §§ 42-5061(A)(27)(B), 42-5072(B), 42-5159(A)(13)(h): (Deduction Code 584) Tangible personal property sold to a person that is not subject to tax under 42-5075 and that has been provided a copy of a certificate under section 42-5009 (L) if the property sold is incorporated or fabricated by the person into the real property, structure, project, development or improvement described in the certificate. In FY 2019, an estimated $8.2 million was taken for this deduction. Had these transactions been taxable, they would have generated $411,600 in tax at a 5% rate.

A.R.S. § 42-5061(A)(28)(a): (Deduction Code 580) The sale of a motor vehicle is exempt from transaction privilege tax if the buyer is a nonresident of this state and the state of residence does not allow a corresponding use tax exemption and if the nonresident has secured a special thirty-day nonresident vehicle registration, the transaction is not taxable. In FY 2019, an estimated $8.1 million was deducted for this exemption. Had these transactions been taxable, an additional $404,000 would have been collected.

A.R.S. § 42-5061(A)(28)(b): (Deduction Code 530) The sale of a motor vehicle is exempt from transaction privilege tax if the buyer is an enrolled member of an Indian tribe who resides on the Indian reservation established for that tribe, no tax can be imposed. In FY 2019, an estimated total of $195.6 million was deducted for this exemption. An additional $9.8 million would have been collected at the 5% rate.

A.R.S. §§ 42-5061(A)(29), 42-5159(A)(13)(f): (Deduction Code 575) Tangible personal property purchased or leased by a nonprofit charitable organization that engages in and uses such property exclusively for training, job placement or rehabilitation programs or testing for mentally or physically handicapped persons is exempt from the transaction privilege and use tax. In FY 2019, an estimated total of $1.6 million was deducted for this exemption. An additional $78,000 would have been collected at the 5% rate.

A.R.S. §§ 42-5061(A)(30 and 32), 42-5073(A)(5 and 6), 42-5074(B)(4 and 5), 42-5159(A)(15)(b and c): Deduction Codes 762, 763) Tangible personal property sold and sales under the amusement and restaurant classifications by a nonprofit organization if the organization is associated with a major league baseball team or a national touring professional golf association is not subject to transaction privilege or use tax. Similar qualified organizations which sponsor or operate a rodeo featuring primarily

farm and ranch animals are also exempt from the transaction privilege and use tax. No information is available for this expenditure for FY 2019.

A.R.S. §§ 42-5061(A)(31), 42-5159(A)(14): (Deduction Code 583) Sales of commodities, as defined by title 7 United States Code § 2, that are consigned for resale in a warehouse in or from which the commodity is deliverable on a contract for future delivery subject to the rules of a commodity market are exempt from transaction privilege and use tax. Data is not releasable for these expenditures for FY 2019.

A.R.S. §§ 42-5061(A)(33), 42-5159(A)(9): (Deduction Code 537) There is no transaction privilege or use tax on the sale of seeds, seedlings, roots, bulbs, cuttings and other propogative material to persons who use those items to commercially produce agricultural, horticultural, viticultural or floricultural crops in Arizona. In FY 2019, an estimated $29.4 million was deducted for this exemption. Had it been taxable, $1.5 million would have been collected.

A.R.S. §§ 42-5061(A)(34), 42-5159(A)(34): (Deduction Code 525) Machinery, equipment and certain supplies used to assist the physically or developmentally disabled or those persons with head injuries are exempt from transaction privilege and use tax. In FY 2019, an estimated $50 million was deducted for this exemption. Had it been taxable, $2.5 million would have been collected.

A.R.S. §§ 42-5061(A)(35), 42-5063(B)(2) 42-5159(A)(33): (Deduction Code 509) Sales of natural gas or liquefied petroleum gas used to propel a motor vehicle are exempt from transaction privilege and use tax. In FY 2019, an estimated $169 million was deducted for this exemption. Had it been taxed at the 5% rate, an additional $8.5 million would have been received.

A.R.S. §§ 42-5061(A)(36), 42-5159(A)(30): (Deduction Code 586) Paper machine clothing sold to a paper manufacturer and directly used or consumed in paper manufacturing is exempt from transaction privilege and use tax. No information is available for this expenditure for FY 2019.

A.R.S. §§ 42-5061(D), 42-5063(C)(4), 42-5071(A)(5), 42-5075(B)(5): (Deduction Code 607) The gross proceeds of sales or gross income derived from sales of machinery, equipment, utility product, materials and other tangible personal property used directly to construct a qualified environmental technology manufacturing, producing or processing facility as described in A.R.S. § 41-1514.02 are deducted from transaction privilege tax base. Use tax does not apply to the storage, use or consumption in Arizona of machinery, equipment, materials or other tangible personal property if use directly to construct a qualified environmental technology manufacturing, producing or processing facility. Data is not releasable for FY 2019.

A.R.S. §§ 42-5061(A)(37), 42-5159(A)(31): (Deduction Code 511) Sales of coal, petroleum, coke, natural gas, virgin fuel oil and electricity to an environmental technology manufacturer, producer or processor and that are directly used or consumed in the generation or provision of on-site power or energy are exempt from transaction privilege and use tax. In FY 2019, businesses deducted an estimated $2 million for this purpose. Had those transactions been taxable, they would have generated about $102,000 in tax at a 5% rate.

A.R.S. §§ 42-5061(A)(38), 42-5159(A)(35): (Deduction Code 510) Sales of liquid, solid or gaseous chemicals used in manufacturing, processing, fabricating, mining, refining, metallurgical operations or research and development are exempt from transaction privilege and use tax if the chemicals are used for the purpose of causing or permitting a chemical or physical change to occur in the materials as a part of the production process. In FY 2019, an estimated $249 million was deducted for this exemption. At a rate of 5%, $12 million would have been collected.

A.R.S. §§ 42-5061(A)(40), 42-5074(B)(9), 42-5159(A)(36): (Deduction Code 514) Under the retail classification and the restaurant classification, sales of food, drink or condiment for consumption within the premises of any jail or prison or any other institution under the jurisdiction of the county sheriff, DOC, DPS, or DYTR are exempt from transaction privilege and use tax. During FY 2019, $61 million was estimated to be deducted for this exemption. Had this been taxed at 5%, about $3 million would have been collected.

A.R.S. §§ 42-5061(A)(41), 42-5159(A)(37): (Deduction Code 528) Motor vehicles and any repair and tangible personal property that becomes a part of the motor vehicles sold to a licensed motor carrier subject to a fee under title 28, chapter 9, article 6 that lease or rent the property are not subject to transaction privilege or use tax. In FY 2019, an estimated $143 million was deducted for this exemption. Had it been taxable, $7.1 million would have been collected.

A.R.S. § 42-5061(A)(42), 42-5159(A)(8): (Deduction Code 520) Sales of livestock and poultry feed, salts, vitamins for livestock or poultry consumption, not including fertilizers, herbicides and insecticides, sold to persons engaged in producing livestock, poultry or products are exempt from transaction privilege tax. In FY 2019, an estimated $430 million was deducted for this exemption. Had it been taxable, $21.5 million would have been collected.

A.R.S. §§ 42-5061(A)(43), 42-5159(A)(7): (Deduction code 516) There is no transaction privilege or use tax on the sale or purchase of implants used as growth promotants and injectable medicines for livestock and poultry owned by persons engaged in producing or feeding livestock or poultry. In FY 2019, businesses deducted an estimated $2.8 million for this purpose. Had those transactions been taxable, they would have generated about $142,000 in tax at a 5% rate.

A.R.S. § 42-5061(A)(44): (Deduction Code 529) Sales of motor vehicles at auction to nonresidents of this state for use outside this state if the vehicles are shipped or delivered outside of the state are exempt from the transaction privilege tax. During FY 2019, an estimated total of $29 million was deducted for this exemption. Were these transactions taxable, an additional $1.4 million would have been collected.

A.R.S. §§ 42-5061(A)(45), 42-5159(A)(13)(l): (Deduction Codes 534 and 566) Transaction privilege and use tax does not apply to sales of tangible personal property to persons engaged in business under the transient lodging classification if the property is personal hygiene products or articles used for drink or condiment, except alcoholic beverages, which are furnished to and to be consumed by the transient during his occupancy. Data is not releasable for FY 2019 usage of these deductions.

A.R.S. §§ 42-5061(A)(46), 42-5159(A)(42), 42-5063(B)(3): (Deduction Code 587) Sales or purchases of alternative fuel to a used oil fuel burner who is permitted under §49-426 or §49-480 to burn used oil or used oil fuel are exempt from transaction privilege and use tax. Data is not releasable for FY 2019 usage of these deductions.

A.R.S. §§ 42-5061(A)(47), 42-5159(A)(12): (Deduction Code 519) Printed, photographic, electronic or digital media materials for use in libraries funded with public moneys in Arizona, are exempt from transaction privilege and use tax. In FY 2019, businesses deducted an estimated $8.1 million for this purpose. Had those transactions been taxable, they would have generated $405,000.

A.R.S. §§ 42-5061(A)(48), 42-5074(C), 42-5159(A)(43): (Deduction Code 512) Under the retail classification and the restaurant classification, tangible personal property sold to or purchased by a commercial airline that consist of food, beverages and condiments and accessories used for serving, if

the items are provided without additional charge, are exempt from transaction privilege and use tax. No information is available for this expenditure for FY 2019.

A.R.S. §§ 42-5061(A)(49), 42-5159(A)(44): (Deduction Code 592) Sales of new alternative fuel vehicles, as defined in A.R.S. § 43-1086, if the vehicle was manufactured as a diesel fuel vehicle and converted to operate on alternative fuel, and equipment that is installed in a conventional diesel fuel motor vehicle to convert the vehicle to operate on an alternative fuel. No information is available for this expenditure for FY 2019.

A.R.S. § 42-5061(A)(50): (Deduction Code 588) Sales of any spirituous, vinous or malt liquor by a person that is licensed in this state as a wholesaler by the Arizona Department of Liquor Licenses and control. Data is not releasable for FY 2019 usage of these deductions.

A.R.S. § 42-5061(A)(52), 42-5159(A)(48), 42-5073(A)(9): (Deduction Code 764) Sales of tangible personal property by a nonprofit organization if the organization produces, organizes or promotes cultural or civic related festivals or events and no part of the organization's net earnings inures to the benefit of any private shareholder or individual. In FY 2019, businesses deducted an estimated $9.1 million for this purpose. Had the transactions been taxable at a 5% rate, they would have generated $457,000 in tax.

A.R.S. § 42-5061(A)(53), 42-5159(A)(50), 42-5064(A)(2): (Deduction Code 596) Application services that are designed to assess or test student learning or to promote curriculum design or enhancement purchased by or for any school district, charter school, community college or state university. In FY 2019, businesses deducted an estimated $10.9 million for this purpose. Had the transactions been taxable at a 5% rate, they would have generated $546,000 in tax.

A.R.S. § 42-5061(A)(54), 42-5159(A)(51): (Deduction Code 598) Sales of motor vehicle fuel and use fuel to a healthy forest business for off-road use in harvesting, processing or transporting forest products is exempt from transaction privilege tax. Data is not releasable for the value of this tax expenditure for FY 2019.

A.R.S. § 42-5061(A)(55), 42-5159(A)(52): (Deduction Code 603) Sales of repair parts installed in equipment used directly by a healthy forest business in harvesting, processing or transporting forest products removed from qualify projects are exempt from tax. No information is available on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5061(A)(56), 42-5159(A)(53), 42-5063(B)(5): (Deduction Code 604) Sales or other transfers of renewable energy credits or any other unit created to track energy derived from renewable energy resources is exempt. In FY 2019, businesses deducted an estimated $28.8 million for this purpose. Had the transactions been taxable at a 5% rate, they would have generated $1.4 million in tax.

A.R.S. § 42-5061(A)(57); 42-5159(A)(54): (Deduction Code 565) Computer data center equipment purchased by the owner, operator or qualified colocation tenant of the computer data center or an authorized agent of the owner, operator or qualified colocation tenant during the qualification period for use in a computer data center that is certified by the Arizona Commerce Authority under section 41-1519. In FY 2019, businesses deducted an estimated $29 million for this purpose. Had the transactions been taxable at a 5% rate, they would have generated about $1.5 million in tax.

A.R.S. § 42-5061(A)(58): (Deduction Code 582) Sales of orthodontic devices dispensed by a dental professional who is licensed under title 32, chapter 11 to a patient as part of the practice of dentistry. No information is available on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5061(A)(59): (Deduction Code 712) Sales of tangible personal property incorporated or fabricated into a project described in 42-5075(O) that is located within the exterior boundaries of an Indian reservation for which the owner of the project is an Indian tribe or an affiliated Indian. In FY 2019, businesses deducted an estimated $9.1 million for this purpose. Had the transactions been taxable at a 5% rate, they would have generated $456,000 in tax.

A.R.S. § 42-5061(A)(60): (Deduction Code 773) Sales of works of fine art, as defined in section 44-1771, at an art auction or gallery in this state to nonresidents of this state for use outside this state if the vendor ships or delivers the work of fine art to a destination outside this state. In FY 2019, businesses deducted an estimated $6.7 million for this purpose. Had the transactions been taxed at the 5% rate, they would have generated $337,000.

A.R.S. §§ 42-5061(B)(1), 42-5159(B)(1): (Deduction Code 522) Machinery or equipment used directly in manufacturing, processing, fabricating, job printing, refining or metallurgical operations is not subject to transaction privilege or use tax. During FY 2019, an estimated $2 billion was deducted for this exemption. A 5% tax on this machinery would have brought in $100 million in additional revenues.

A.R.S. §§ 42-5061(B)(2 and 10), 42-5159(B)(2 and 10): (Deduction Codes 523 and 579) Sales of machinery or equipment used in mining directly in the process of extracting ores or minerals from the earth for commercial purposes and sales of machinery or equipment used in drilling for or extracting oil or gas from the earth are not taxed. During FY 2019, an estimated $487 million was deducted for this exemption. A 5% tax on this machinery would have brought in $24 million in additional revenues.

A.R.S. §§ 42-5061(B)(3), 42-5159(B)(3): (Deduction Code 539) Tangible personal property sold to persons engaged in business under the telecommunications classification, consisting of central office switching equipment, switchboards, private branch exchange equipment, microwave radio equipment and carrier equipment including optical fiber, coaxial cable and other transmission media which are components of carrier systems are exempt from the transaction privilege and use tax. In FY 2019, businesses deducted an estimated $4.5 million for this purpose. Had the transactions been taxable, they would have generated $227,000 in tax at the 5% rate.

A.R.S. §§ 42-5061(B)(4), 42-5159(B)(4): (Deduction Code 524) Machinery, equipment or transmission lines used directly in producing or transmitting electrical power, but not including distribution is exempt from the transaction privilege and use tax. Transformers and control equipment used in transmission substation sites are included in this exemption. During FY 2019, $207 million was estimated to have been deducted for this exemption. Had this been taxable, an additional $10.3 million would have been collected.

A.R.S. §§ 42-5061(B)(5), 42-5159(B)(5): (Deduction Code 605) Neat animals, horses, asses, sheep, swine or goats used or to be used as breeding or production stock are not subject to the transaction privilege or use tax. During FY 2019, $5.2 million was estimated to have been deducted for this exemption. Had this been taxable, an additional $260,000 would have been collected.

A.R.S. §§ 42-5061(B)(6), 42-5159(B)(6): (Deduction Code 535) There is no transaction privilege or use tax on pipes or valves four inches in diameter or larger used to transport oil, natural gas, artificial gas, water or coal slurry. In FY 2019, $7.5 million was estimated to have been deducted for this exemption. Had this been taxable, $376,000 would have been collected.

A.R.S. §§ 42-5061(B)(7), 42-5159(B)(7): (Deduction Code 508) Aircraft, navigational and communication instruments sold to (a) a person holding a federal certificate of public convenience and necessity or foreign

air carrier permit for air transportation in intrastate, interstate or foreign commerce, (b) any foreign government for use outside of Arizona, or (c) nonresidents who will not use such property in Arizona other than in removing such property from Arizona are not subject to the transaction privilege and use tax. During FY 2019, it was estimated that $200 million was deducted for this exemption. Had it been taxable, $10 million would have been collected.

A.R.S. §§ 42-5061(B)(8), 42-5159(B)(8): (Deduction Code 532) Machinery, tools, equipment and related supplies used or consumed directly in repairing, remodeling or maintaining aircraft, aircraft engines or aircraft component parts by or on behalf of a certified or licensed carrier of persons or property are exempt from tax. In FY 2019, businesses deducted an estimated $8.2 million for this purpose. Had the transactions been taxable, they would have generated $409,000 in tax at a 5% rate.

A.R.S. §§ 42-5061(B)(9), 42-5159(B)(9): (Deduction Code 576) Railroad rolling stock, rails, ties and signal control equipment used directly to transport persons or property in intrastate or interstate transportation for hire is exempt from the transaction privilege and use tax Data is not releasable for the value of this tax expenditure for FY 2019.

A.R.S. §§ 42-5061(B)(11), 42-5159(B)(11): (Deduction Code 606) Transaction privilege and use tax do not apply to sales of buses or other urban mass transit vehicles which are used directly to transport persons or property for hire or pursuant to a governmentally adopted and controlled urban mass transportation program and which are sold to bus companies holding a federal certificate of convenience and necessity. In FY 2019, businesses deducted an estimated $50.5 million for this purpose. Had the transactions been taxable, they would have generated $2.5 million in tax at a 5% rate.

A.R.S. §§ 42-5061(B)(12), 42-5075(B)(2), 42-5159(B)(12): (Deduction Code 581) Groundwater measuring devices and their installation required under A.R.S. §45-604 are exempt from transaction privilege and use tax. Data is not releasable on the value of these devices for FY 2019.

A.R.S. §§ 42-5061(B)(13), 42-5159(B)(13): (Deduction Code 585) New machinery and equipment (never sold at retail pursuant to leases or rentals which do not total two years or more) used for commercial production of agricultural, horticultural, viticultural and floricultural crops in Arizona are exempt from transaction privilege and use tax. This equipment consists of tractors, tractor-drawn implements, self-powered implements and drip irrigation lines. In FY 2019, businesses deducted an estimated $157 million for this purpose. Had the transactions been taxable, they would have generated $7.9 million in tax at a 5% rate.

A.R.S. §§ 42-5061(B)(14), 42-5159(B)(14): (Deduction Code 553) Transaction privilege and use tax does not apply to sales of machinery or equipment used in research and development. Research and development mean basic and applied research in the sciences and engineering, and designing, developing or testing prototypes, processes or new products, including research and development of computer software that is embedded in or an integral part of the prototype or new product or that is required for machinery or equipment to function effectively. In FY 2019, an estimated total of $92.4 million was deducted for this exemption. At a rate of 5%, the value of the exemption is $4.6 million.

A.R.S. §§ 42-5061(B)(15), 42-5159(B)(15), 42-5064(B)(4): (Deduction Code 591) Tangible personal property used by any direct broadcast satellite television or data transmission service or facility to receive, store, convert, produce, generate, decode, encode, control or transmit telecommunications information is exempt from transaction privilege and use tax. The broadcast satellite television or data transmission service or facility must operate within federal regulations. Sales of services by direct broadcast satellite

television services that operate within federal regulation are not taxable under the telecommunications classification. Data is not releasable on the value of these devices for FY 2019.

A.R.S. §§ 42-5061(B)(16), 42-5159(B)(16), 42-5075(B)(11): (Deduction Code 595) Clean rooms that are used for manufacturing, processing, fabrication or research and development of semiconductor products are exempt from transaction privilege and use taxes. This includes the integrated systems, fixtures, piping, movable partitions, lighting and property that is necessary for control of the clean room. The income derived from the installation, assembly, repair or maintenance of the clean rooms is also exempt from taxation under the contracting classification. In FY 2019, an estimated total of $78 million was deducted for this exemption. At a rate of 5%, the value of the exemption is $3.9 million.

A.R.S. §§ 42-5061(B)(17), 42-5159(B)(17): (Deduction Code 577) Machinery and equipment used directly in the feeding of poultry, the environmental control of housing for poultry, the movement of eggs within a production and packaging facility or the sorting or cooling of eggs. No information is available on the value of this tax expenditure for FY 2019.

A.R.S. §§ 42-5061(B)(18), 42-5159(B)(18): (Deduction Code 597) Machinery or equipment, including related structural components that is employed in connection with manufacturing, processing, fabricating, job printing, refining, mining, natural gas pipelines, metallurgical operations, telecommunications, producing or transmitting electricity or research and development and that is used directly to meet or exceed rules or regulations adopted by the federal energy regulatory commission, the United States Environmental Protection Agency, the United States Nuclear Regulatory Commission, the Arizona Department of Environmental Quality or a political subdivision of this state to prevent monitor, control or reduce land, water or air pollution. No information is available on the value of this tax expenditure for FY 2019.

A.R.S. §§ 42-5061(B)(19), 42-5159(B)(19): (Deduction Code 599) Machinery and equipment that are sold to a person engaged in the commercial production of livestock, livestock products or agricultural, horticultural, viticultural or floricultural crops or products in this state and that are used directly and primarily to prevent, monitor, control or reduce air, water or land pollution. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. §§ 42-5061(B)(20), 42-5159(B)(20): (Deduction Code 578) Machinery or equipment that enables a television station to originate and broadcast or to receive and broadcast digital television signals and that was purchased to facilitate compliance with the telecommunications act of 1996. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5061(B)(21): (Deduction Code 554) Qualifying equipment purchased by a qualifying business for harvesting or the initial processing of qualifying forest products removed as part of the Healthy Forests program are exempt from transaction privilege and use tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5061(E): (Deduction Code 609) The portion of the sales price of heavy trucks and trailers that reflect the federal luxury excise tax are exempt from transaction privilege tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5061(I)(1), 42-5071(B)(2)(c): (Deduction Code 547) Sales made directly to the United States government or its departments or agencies by a manufacturer, modifier, assembler or repairer are not subject to transaction privilege tax. In FY 2019, businesses deducted an estimated $734 million for this deduction. Had the transactions been taxable, they would have generated $37 million in tax.

A.R.S. § 42-5061(I)(2), 42-5061(I)(4), 42-5072(B): (Deduction Code 543) Sales made directly to a manufacturer, modifier, assembler or repairer if such sales are of any ingredient or component part of products sold directly to the United States government or its departments or agencies by the manufacturer, modifier assembler or repairer are not subject to the transaction privilege tax. In FY 2019, businesses deducted an estimated $212 million for this deduction. Had the transactions been taxable, they would have generated $10.6 million in tax.

A.R.S. § 42-5061(I)(3), 42-5159(A)(39): (Deduction Code 611) Overhead materials or other tangible personal property that is used in performing contract between the United States government and a manufacturer, modifier, assembler or repairer, including property used in performing a subcontract with a government contractor to which title passes to the government under the terms of the contract or subcontract are not subject to transaction privilege tax. In FY 2019, businesses deducted an estimated $2 million for this deduction. Had the transactions been taxable, they would have generated $100,000 in tax.

A.R.S. § 42-5061(J): (Deduction Code 548) Fifty percent of the gross proceeds from any sale of tangible personal property made directly to the United States government is not subject to transaction privilege tax. In FY 2019, businesses deducted an estimated $191 million for this deduction. Had the transactions been taxable, they would have generated $9.6 million in tax.

A.R.S. § 42-5061(L)(1 and 2): (Deduction Codes 501 and 613) The gross proceeds of sales or gross income derived from a manufacturer's cash rebate on the sales price of a motor vehicle if the buyer assigns the buyer's right in the rebate to the retailer; or the waste tire disposal fee imposed pursuant to A.R.S. § 44-1302. No data is available on the tax value of the waste tire disposal fee. During FY 2019, an estimated $554 million was deducted for the manufacturer's cash rebate. At a rate of 5%, the tax value of this exemption is $27.7 million.

A.R.S. §§ 42-5061(M):[73] (Deduction Code 538) Sales of solar energy devices are to be deducted from the tax base, but the deduction is not to exceed $5,000 for each device. In FY 2019, an estimated total of $366 million was deducted for this exemption. At a rate of 5%, the value of the exemption is $18 million.

A.R.S. §§ 42-5061(N): (Deduction Code 614) Sales of wireless telecommunication equipment to a person who holds the equipment for sale or transfer to a customer as an inducement to enter into or continue a contract for telecommunications services taxable under A.R.S. §42-5064 is considered a sale for resale under the transaction privilege and use taxes. In addition, the gross proceeds of sales or gross income do not include the sales commissions received as a result of a customer entering or continuing a contract. In FY 2019, businesses deducted an estimated $7.3 million. Had the transactions been taxable, they would have generated $363,000 in tax.

A.R.S. § 42-5061(U): (Deduction Code 531) For the sale of a motor vehicle to a nonresident of Arizona, the tax base for the sale takes into consideration the tax rate that is charged by the other state and reduces the tax base so that the amount of transaction privilege tax paid is equal to the amount that would be imposed by the other state. In FY 2019, an estimated total of $168.7 million was deducted for this exemption. Had the transactions been taxable, they would have generated $8.4 million in tax.

A.R.S. § 42-5062(A)(1)(a and b): (Deduction Code 715) Transporting for hire persons, freight or property by motor carriers or light motor vehicles subject to a fee under title 28 is not subject to transaction

[73] This deduction is no longer available under the Prime Contracting classification.

privilege tax. In FY 2019, businesses deducted an estimated $43.8 million for this deduction. At a 5% rate, these transactions would have generated $2.2 million.

A.R.S. § 42-5062(A)(1)(c and d): (Deduction Code 772) Transporting for hire persons, freight or property by transportation network companies subject to a fee prescribed pursuant to section 28-9552. Transportation network company drivers on transactions involving transportation network services as defined in section 28-9551. Data is not releasable for FY 2019.

A.R.S. § 42-5062(A)(1)(e and f): (Deduction Code 778) Transporting for hire persons, freight or property by vehicle for hire companies that are issued permits pursuant to section 28-9503 or vehicle for hire drivers operating under a company permit issued pursuant to section 28-9503 on transactions involving vehicle for hire services. Data is not releasable for FY 2019.

A.R.S. § 42-5061(A)(2): (Deduction Code 615) Transporting for hire persons traveling in air commerce by aircraft is not subject to transaction privilege tax if taxation of the business is preempted by federal law. Data is not releasable for FY 2019.

A.R.S. § 42-5062(A)(3): (No deduction code for this exemption) Ambulances or ambulance services provided under Title 48 or certified pursuant to Title 36, chapter 21.1 or provided by a city or town in a county with a population of less than 150,000 is not subject to taxation under the transporting classification of the transaction privilege tax. No information is available about the value of this exemption.

A.R.S. § 42-5062(A)(4): (No deduction code for this exemptions) The transporting classification of the transaction privilege tax excludes public transportation services for the dial-a-ride programs and special needs transportation services. No information is available on the tax value of this exemption.

A.R.S. § 42-5062(A)(5): (Deduction Code 616) The transporting classification of the transaction privilege tax also excludes transporting freight or property for hire by a railroad operating exclusively in this state if the transportation comprises a portion of a single shipment of freight or property, involving more than one railroad, either from a point in this state to a point outside this state or from a point outside this state to a point in this state. Data is not releasable for FY 2019.

A.R.S. § 42-5062(A)(6): (No deduction code for this exemption) The transporting classification of the transaction privilege tax does not apply to arranging transportation as a convenience or service the business is not otherwise engaged in the business of transporting persons, freight or property for hire. No information is available on the tax value of this exemption.

A.R.S. § 42-5062(B)(1): (Deduction Code 620) The gross proceeds of sales or gross income derived from transporting for hire persons, freight or property by a railroad pursuant to a contract with another railroad is exempt from transaction privilege tax if the other railroad has already paid the transaction privilege tax on the transporting of goods. No information is available about the value of this exemption.

A.R.S. § 42-5062(B)(2), 42-5070(C), 42-5073(B)(5)(a): (Deduction Code 640) The gross proceeds of sales or gross income derived from business activity that is properly included in any other business classification and that is taxable to the person engaged in that classification is not subject to transaction privilege tax under these sections. In FY 2019, businesses deducted an estimated $10 million for this deduction. Had these transactions been taxable, they would have generated $500,000 at a 5% rate.

A.R.S. § 42-5062(B)(3), 42-5073(B)(5)(b): (Deduction Code 612) The gross proceeds of sales or gross income derived from a business activity that is arranged by the person that is subject to tax and who is

not taxable to the person conducting the activity due to an exclusion, exemption or deduction is not subject to transaction privilege tax under these sections. In FY 2019, businesses deducted an estimated $29 million for this deduction. Had these transactions been taxable, they would have generated $1.5 million in tax.

A.R.S. § 42-5061(B)(4), 42-5073(B)(5)(c): (Deduction Code 702) The gross proceeds of sales or gross income derived from business activity that is arranged by a person who is subject to tax and that is taxable to another person who conducts the activity is not subject to transaction privilege tax under these sections. In FY 2019, businesses deducted an estimated $4.1 million for this deduction. Had these transactions been taxable, they would have generated $203,000.

A.R.S. § 42-5062(B)(5): (Deduction Code 625) The gross proceeds of sales or gross income derived from transporting fertilizer by a railroad from a point in this state to another point in this state is exempt from transaction privilege tax if the other railroad has already paid the transaction privilege tax on the transporting of goods. No data is available on the tax value of this exemption.

A.R.S. § 42-5063(B)(4): (Deduction Code 617) Sales of ancillary services, electric distribution services, electric generation services, electric transmission services and other services that are related to providing electricity to a retail electric customer who is located outside this state for use outside this state if the electricity is delivered to a point of sale outside this state. No data is available on the tax value of this exemption.

A.R.S. § 42-5063(B)(6), 42-5064(A)(3), 42-5069(C)(17), 42-5071(A)(9): (Deduction Code 759) The leasing or renting of space to make attachments to utility poles is exempt from transaction privilege tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5063(C)(5): (Deduction Code 618) The portion of gross proceeds of sales attributable to transfers of electricity by any retail electric customer owning a solar photovoltaic energy generating system to an electric distribution system if the electricity transferred is generated by the customer's system is exempt from transaction privilege tax. No data is available on the tax value of this exemption.

A.R.S. §§ 42-5063(C)(1), 42-5159(F)(1): (Deduction Code 621) Revenues received by a municipally owned utility in the form of fees charged to persons constructing residential, commercial or industrial developments or connecting residential, commercial or industrial developments to a municipal utility system if the fees are segregated and used only for capital expansion, system enlargement or debt service of the utility system are excluded from the taxable base under the utilities classification of transaction privilege tax. Data is not releasable on the tax value of this exemption in FY 2019.

A.R.S. §§ 42-5063(C)(2), 42-5159(F)(2): (Deduction Code 626) Revenues received by any person owning a utility system in the form of reimbursement or contribution compensation for property and equipment installed to provide utility access to, on or across the land of an actual utility consumer if the property and equipment become the property of the utility are excluded from the taxable base under the utilities classification of the transaction privilege tax. Data is not releasable on the tax value of this exemption in FY 2019.

ACRR R15-5-2014: Interstate sales of electricity, natural gas and water are exempt from transaction privilege tax. Information is not available for this expenditure at this time.

A.R.S. § 42-5064, 42-5064(C)(5): (Deduction Code 643) Income from interstate telecommunication services is not taxable under the telecommunications classification of transaction privilege tax. In FY

2019, businesses deducted an estimated $7.2 million for this purpose. Had the transactions been taxable, they would have generated $358,000 in tax at a 5% rate.

A.R.S. § 42-5064(A)(1): (No deduction code assigned) Sales of intrastate telecommunications services by a cable television system or by a microwave television transmission system that transmits television programming to multiple subscribers are not subject to transaction privilege tax. No data is available on the tax value of this exemption.

A.R.S. § 42-5064(A)(2, 42-5064(C)(4)): (Deduction Code 517) Sales of internet access services to subscribers and customers. In FY 2019, businesses deducted an estimated $30.5 million for this purpose. Had the transactions been taxable they would have generated $1.5 million in tax at a 5% rate.

A.R.S. § 42-5064(B)(1): (Deduction Code 619) A direct broadcast satellite television or data transmission service that operates pursuant to 47 Code of Federal Regulations part 25 for use in its direct broadcast satellite television or data transmission operation by a facility described in 42-5061(B)(15)(b) is not subject to transaction privilege tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5064(B)(2 and 3): (Deduction Codes 641 and 627) End user common line charges and carrier access charges established by federal communications regulations are exempt from transaction privilege tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5064(B)(4): (Deduction Code 633) Sales of direct broadcast satellite television services pursuant to 47 Code of Federal Regulations parts 25 and 100 by a direct broadcast satellite television service that operates pursuant to 47 Code of Federal Regulations parts 25 and 100. Data is not releasable for deductions made for this purpose in FY 2019.

A.R.S. § 42-5064(B)(5): (Deduction Code 649) Telecommunications services purchased with a prepaid calling card, or a prepaid authorization number are exempt from transaction privilege tax. Data is not releasable for deductions made for this purpose in FY 2019.

A.R.S. § 42-5065(A)(1): (No deduction code exists for this exemption) he gross proceeds from manufacturing or publishing books are exempt from transaction privilege tax. No data is available on the tax value of this exemption.

A.R.S. § 42-5065(B)(1): (Deduction Code 628) The gross income derived from advertising is excluded from the tax base for the publication classification under transaction privilege tax. The value of this deduction is included in the Services section under the Advertising, Public Relations category.

A.R.S. § 42-5066(B)(1): (Deduction Code 630) The gross proceeds of sales to a person in Arizona who has a transaction privilege tax license and who distributes printing, engraving, embossing or copying without consideration in connection with the publication of a newspaper or magazine are not included in the taxable base under the job printing classification of the transaction privilege tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5066(B)(2): (Deduction Code 637) Sales of job printing, engraving, embossing, and copying for use outside the state if the materials are shipped or delivered out of the state, regardless of where title to the materials passes or their free on board point are exempt from the job printing classification. In FY 2019, businesses deducted an estimated $128 million for this purpose. Had these transactions been taxable, they would have generated $6.4 million in tax at a 5% rate.

A.R.S. § 42-5066(B)(4): (Deduction Code 561) Sales of postage and freight except that the amount deducted shall not exceed the actual postage and freight expense that is paid to the United States postal

service or a commercial delivery service are exempt from the job printing classification. During FY 2019, an estimated $25.4 million was deducted from transaction privilege tax returns. At a tax rate of 5%, $1.3 million would have been collected.

A.R.S. § 42-5070(B)(2): (Deduction Code 629) Leasing or renting a mobile home or house trailer at a fixed location for more than a 29-day period. During FY 2019, an estimated $38.4 million was deducted for this purpose. At a rate of 5%, this would have generated $1.9 million.

A.R.S. § 42-5070(B)(3): (Deduction Code 636) Leasing or renting four or fewer rooms of an owner-occupied residential home, furnishing no more than a breakfast meal, with no more than 50% average annual occupancy rate is not subject to the transaction privilege tax under the transient lodging classification. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5070(C)(2): (Deduction Code 775) Gross income received by an online lodging operator from any online lodging transactions for which the online lodging operator has received documentation that the online lodging marketplace has remitted the applicable tax is not subject to tax under the transient lodging classification. During FY 2019, an estimated $10.9 million was deducted from transaction privilege tax returns. At a tax rate of 5%, $544,000 would have been collected.

A.R.S. § 42-5070(D)(1): (Deduction Code 704) Activities that are not limited to transients and that would not be taxable if engaged in by a person not subject to tax under the transient lodging classification are not subject to transaction privilege tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5070(D)(2): (Deduction Code 701) Activities that are not limited to transients and that would not be taxable if engaged in by a person subject to taxation under the Transporting or Amusement classifications due to an exclusion, exemption or deduction are not subject to transaction privilege tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5070(D)(3): (Deduction Code 648) Commissions paid to a person that is engaged in transient lodging business by a person providing services or property to the customers of the person engaging in the transient lodging business are not subject to transaction privilege tax. In FY 2019, businesses deducted an estimated $4.7 million for this purpose. Had these transactions been taxable, they would have generated $234,000 in tax at a 5% rate.

A.R.S. § 42-5070(F): (Deduction Code 718) Obtaining lodging space or the use of lodging space for more than 29 days is not subject to transaction privilege tax. In FY 2019, businesses deducted $49.4 million for this purpose. Had these transactions been taxable, they would have generated $2.5 million at a 5% rate.

A.R.S. § 42-5071(A)(1): (Deduction Code 784) Leasing or renting films, tapes or slides used by theaters or movies, which are engaged in business under the amusement classification, or use by television stations or radio stations is not subject to the transaction privilege tax under the personal property rental classification. No information is available on the value of this exemption.

A.R.S. §§ 42-5071(A)(2), 42-5073(A)(3): (Deduction Code 785) Events sponsored by the Arizona Coliseum and Exposition Center Board are not subject to transaction privilege tax. Information about this exemption is not available.

A.R.S. § 42-5071(A)(3): (Deduction Code 631) Leasing or renting tangible personal property by a parent corporation to a subsidiary corporation or by a subsidiary corporation to another subsidiary of the same parent corporation if taxes were paid on the initial sale of the tangible personal property are not subject

to transaction privilege tax. In FY 2019, businesses deducted $20.3 million for this purpose. Had these transactions been taxable at a 5% rate, they would have generated $1 million.

A.R.S. § 42-5071(A)(4): (Deduction Code 786) Operating coin operated washing, drying and dry cleaning machines or coin operated car washing machines at establishments for the use of such machines are not subject to transaction privilege tax. In FY 2019, businesses deducted an estimated $3 million for this purpose. Had these transactions been taxable, they would have generated $153,000 in tax at a 5% rate.

A.R.S. § 42-5071(A)(6): (Deduction Code 787) Leasing or renting aircraft, flight simulators or similar training equipment to students or staff by nonprofit, accredited educational institutions that offer associate or bachelor's degrees in aviation or aerospace related fields. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5071(A)(7): (Deduction Code 651) Leasing or renting photographs, transparencies or other creative works used by this state on internet web sites, in magazines or in other publications that encourage tourism. No information is available on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5071(A)(8): (There is no deduction code for this exemption) Leasing or renting certified ignition interlock devices installed pursuant to the requirements prescribed by section 28-1461. No data is available on the value of this exemption.

A.R.S. § 42-5071(A)(10): (Deduction Code 774) Leasing or renting billboards that are designed, intended or used to advertise or inform and that are visible from any street, road or other highway. No data is available on the value of this exemption.

A.R.S. § 42-5071(B)(1): (Deduction Code 656) Reimbursements by a lessee to the lessor of a motor vehicle for payments by the lessor of the applicable fees and taxes to the extent that such amounts are separately identified as fees and taxes and are billed to the lessee are not subject to transaction privilege tax. In FY 2019, businesses deducted $4.2 million for this purpose. At a 5% rate, this would have generated $212,000.

A.R.S. § 42-5071(B)(4): (Deduction Code 660) Leasing or renting a motor vehicle subject to and on which the fee has been paid under title 28 is not subject to transaction privilege tax. In FY 2019, businesses deducted $156 million for this purpose. At a 5% rate, this would have generated $7.8 million

A.R.S. § 42-5071(B)(5): (Deduction Code 556) Amounts received by a motor vehicle dealer for the first month of a lease payment if the lease and the lease payment for the first month of the lease are transferred to a third party leasing company are deducted from the tax base. During FY 2019, an estimated $4.6 million was deducted from transaction privilege tax returns. At a tax rate of 5%, $231,000 would have been collected.

A.R.S. § 42-5071(D): (Deduction Code 680) The gross proceeds of sales or gross income from the lease or rental of a motor vehicle does not include any amount attributable to the car rental surcharge under 5-839, 28-5810 or 48-4234. No information is available on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5072(C): (Deduction Code 652) Freight charges included in the sales price of any nonmetalliferous mineral product are subtracted from the taxable base under the mining classification of the transaction privilege tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5072(E): (Deduction Code 658) Process costs included in the sales price of any nonmetalliferous mineral product are subtracted from the taxable base under the mining classification of the transaction privilege tax when the product is shipped out of state. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5073(A)(2): (Deduction Code 657) Private or group instructional activities including performing arts, martial arts, gymnastics and aerobic instruction are not subject to transaction privilege tax. In FY 2019 businesses deducted $31.1 million for this purpose. At a 5% rate this would have generated $1.5 million.

A.R.S. § 42-5073(B)(1): (Deduction Code 527) The gross proceeds of sales or gross income derived from membership fees, which provide for the right to use a health or fitness establishment or a private recreational establishment for 28 days or more are exempt from transaction privilege tax. In FY 2019, businesses deducted $202 million for this purpose. At a 5% rate, this would have generated $10.1 million.

A.R.S. § 42-5073(A)(4): (There is no deduction code for this exemption) A musical, dramatic or dance group or a botanical garden, museum or zoo that qualified as a nonprofit charitable organization is exempt from transaction privilege tax under the amusements classification. Information about this exemption is not available.

A.R.S. § 42-5073(A)(7): (There is no deduction code for this exemption.) Sales of admissions to intercollegiate football contests if the contests are operated by a nonprofit organization are exempt from transaction privilege tax. Information about this exemption is not available.

A.R.S. § 42-5073(A)(8): (There is no deduction code for this exemption) Fees and assessments received by a homeowners organization from members or guests of members are not taxable under the amusement classification. The value of this exemption is not available.

A.R.S. § 42-5073(A)(10): Arranging an amusement activity as a service to a person's customers if that person is not otherwise engaged in the business of operating or conduction an amusement is not taxable under the Amusements classification. The value of this exemption is not available.

A.R.S. § 42-5073(B)(2): (Deduction Code 661) All of the amounts received in a pari-mutel pool are exempt from transaction privilege tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5073(B)(3): (Deduction Code 666) The gross proceeds of sales or gross income derived from membership fees that provide for the right to use a transient lodging recreational establishment for 28 days or more are not subject to transaction privilege tax. Information about this exemption is not available.

A.R.S. § 42-5073(B)(4): (Deduction Code 670) The gross proceeds of sales or gross income derived from sales under the transient lodging classification for amusement sales to another person are not subject to the transient lodging transaction privilege tax. In FY 2019, businesses deducted $6.1 million for this purpose. At a 5% rate, this would have generated $307,000.

A.R.S. § 42-5073(B)(6)(b): (Deduction Code 735) The gross proceeds of sales or gross income derived from entry fees paid by participants for events that are operated or conducted by nonprofit organizations that are exempt from taxation under section 501(c)(3) of the internal revenue code and of which no part of the organization's net earnings inures to the benefit of any private shareholder or individual, if the event consists of a run, walk, swim or bicycle ride or a similar event, or any combination of these events. In FY 2019, businesses deducted an estimated $7.1 million for this purpose. Had the transactions been taxable, they would have generated $354,000 in tax at a 5% rate.

A.R.S § 42-5074: (Deduction Code 724) Gratuities distributed 100% to servers or service employees are not subject to transaction privilege tax under the Restaurant classification. In FY 2019, businesses

deducted an estimated $96.6 million for this purpose. Had the transactions been taxable, they would have generated $4.8 million in tax at a 5% rate.

A.R.S. § 42-5074(B)(2): (Deduction Code 744) Under the restaurant classification of transaction privilege tax, sales by a congressionally chartered veterans organization of food or drink prepared for consumption on the premises leased, owned or maintained by the organization are exempt from tax. In FY 2019, businesses deducted $1.9 million for this purpose. At a 5% rate, this would have generated $93,000.

A.R.S. § 42-5074(B)(3): (There is no deduction code for this exemption) Sales by churches, fraternal benefit societies and other nonprofit organizations which do not regularly engage or continue in the restaurant business for the purpose of fund raising are exempt from transaction privilege tax. No information is available on the value of this tax expenditure.

A.R.S. § 42-5074(B)(11) and 42-5159(A)(49): (Deduction Code 662) Food sales to a school district or charter school by a restaurant are exempt from transaction privilege tax. Data is not releasable on the value of this tax expenditure for FY 2019.

(Deduction Code 681) Prime Contracting income from out of state projects is not subject to transaction privilege tax. In FY 2019, businesses deducted an estimated $310 million for this purpose. Had these transactions been taxable, they would have generated $15.5 million in tax at a 5% rate.

A.R.S. § 42-5075(A): (Deduction Code 562) The sale of a used manufactured building is not taxable Prime Contracting. In FY 2019, an estimated $5.9 million was deducted for this purpose. Had these transactions been taxable, they would have generated $296,000 in tax at a 5% rate.

A.R.S. § 42-5075(A): (Deduction Code 668) Sales for resale to another manufactured building dealer are not subject to transaction privilege tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5075(B): (Deduction Code 502) While income from prime contracting is taxable, the wages and salaries paid for any labor employed in construction are not taxable. In order to accomplish this, the transaction privilege tax is imposed on 65% of the gross proceeds. During FY 2019, an estimated $7.3 billion was deducted for the 35% deduction. Had this been taxable, they would have generated $364 million in tax at the 5% rate.

A.R.S. § 42-5075(B)(8): (Deduction Codes 608, 622, 623, 624, 632, 635, 639, 644, 645, 646, 653, 654, 665, 672, 674, 675, 676, 677, 678, 679, 685, 691, 697, 706, 799) The gross proceeds or sales or gross income attributable to the purchase of machinery, equipment or other tangible personal property is exempt or deductible from other transaction privilege tax classifications is also exempt from Prime Contracting. In FY 2019, businesses deducted an estimated $966.7 million for these purposes. At a 5% rate, these would have generated $48 million in tax.

A.R.S. § 42-5075(B)(1): (Deduction Code 518) The sale price of land included in the income from prime contracting is not subject to transaction privilege tax. In FY 2019, an estimated $813 million was deducted for this purpose. At a 5% rate, these would have generated $40.7 million in tax.

A.R.S. § 42-5075(B)(3): (Deduction Code 663) The sale price of furniture, furnishings, fixtures, appliances and attachments that are not incorporated as component parts of or attached to a manufactured building or the setup site. **The sale of such items may be subject to the taxes imposed under other transaction privilege tax classifications.** Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5075(B)(4): (Deduction Code 667) The gross proceeds of sales or gross income received from a contract entered into for the construction, alteration, repair, addition, subtraction, improvement, movement, wrecking or demolition of any building, highway, road, railroad, excavation or other structure, project, development or improvement located in a military reuse zone for a manufacturer, assembler or fabricator of aviation or aerospace products is exempt from transaction privilege tax under the prime contracting classification. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5075(B)(7): (Deduction Code 600) The gross proceeds of sales that are from a contract entered into for the installation, assembly, repair or maintenance of machinery or other tangible personal property that is deducted under the retail classification A.R.S. §42-5061B and that does not become permanently attached to the structure or project is exempt from the prime contracting classification of transaction privilege tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5075(B)(9): (Deduction Code 683) Income from a contract for the construction of an environmentally controlled facility for the raising of poultry for the production of eggs and the sorting, cooling and packaging of eggs is exempt from the prime contracting classification of transaction privilege tax. In FY 2019, businesses deducted an estimated $17.4 million for this purpose. Had the transactions been taxable, they would have generated $871,000 in tax.

A.R.S. § 42-5075(B)(14): (Deduction Code 698) Income from a contract entered into for the construction of a launch site, as defined in 14 Code of Federal Regulations section 401.5. No information about this expenditure is available.

A.R.S. § 42-5075(B)(15): (Deduction Code 673) Income from a contract entered into for the construction of a domestic violence shelter that is owned and operated by a nonprofit charitable organization. No information about this expenditure is available.

A.R.S. § 42-5075(B)(16): (Deduction Code 686) Gross proceeds of sales or gross income derived from contracts to perform post-construction treatment of real property for termite and general pest control, including wood destroying organisms. In FY 2019, businesses deducted an estimated $13.2 million for this purpose. Had the transactions been taxable, they would have generated $661,000 in tax.

A.R.S. § 42-5075(B)(17): (Deduction Code 696) Gross proceeds of sales or gross income derived from contracts to build certain state university research infrastructure projects. No information is available on the value of this tax exemption.

A.R.S. § 42-5075(B)(18): (Deduction Code 555) Gross proceeds of sales or gross income received from a contract for the construction of any building, or other structure, project, development or improvement owned a by a qualified Healthy Forest business. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5075(B)(19): (Deduction Code 560) Any amount of the gross proceeds of sales or gross income from a contract that constitutes development or impact fees paid to the state or a local government to offset governmental costs of providing public infrastructure, public safety and other public services to a development. In FY 2019, $133 million was estimated to be deducted for this exemption. At a 5% state rate, this would have generated $6.7 million in tax.

A.R.S. § 42-5075(B)(20): (Deduction Code 719) The gross proceeds of sales or gross income derived from a contract entered into for the construction of a mixed waste processing facility that is located on a municipal solid waste landfill and that is constructed for the purpose of recycling solid waste or

producing renewable energy from landfill waste is not subject to transaction privilege tax. No information is available on the value of this tax exemption for FY 2019.

A.R.S. § 42-5075(D): (Deduction Code 550) Subcontractors or others who perform modification activities are not subject to tax if they can demonstrate that the job was within the control of a prime contractor or contractors or a dealership of manufactured buildings and that the prime contractor or dealership is liable for the tax on the gross income, gross proceeds of sales or gross receipts attributable to the job and from with the subcontractors or others were paid. In FY 2019, businesses deducted an estimated $11.6 billion for this purpose, the equivalent of $579 million in tax. **These activities, by definition, are subject to tax by another taxpayer.**

A.R.S. § 42-5075(I): (Deduction Code 689) The gross proceeds of sales or gross income derived from a contract for lawn maintenance services are not subject to tax if the contract does not include landscaping activities. In FY 2019, businesses deducted an estimated $54.3 million for this purpose. At a 5% tax rate, this would have generated $2.7 million in tax.

A.R.S. § 42-5075(K): (Deduction Code 557) The portion of gross proceeds of sales or gross income attributable to the actual direct costs of providing architectural or engineering services that are incorporated in a contact is not subject to tax under the prime contracting classification. In FY 2019, businesses deducted an estimated $130 million for this purpose. At a 5% rate, this would have generated $6 million in tax.

A.R.S. § 42-5075(M)(3): (Deduction Code 694) Sales of manufactured buildings that are delivered to a setup site that is outside this state are not subject to transaction privilege tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5075(N): (Deduction Code 690) The gross proceeds of sales or gross income attributable to a written contract for design phase services or professional services, executed before modification begins and with terms, conditions and pricing of all these services separated stated in the contract from those for construction phase services, is not subject to tax under Prime Contracting. In FY 2019, businesses deducted an estimated $78.2 million for this purpose. Had this been taxable, it would have generated $3.9 million in tax.

A.R.S. § 42-5075(O): (Deduction Code 500) The gross proceeds of sales or gross income derived from a contract with the owner of real property or improvements to real property for the maintenance, repair, replacement or alteration of existing property is not subject to tax under the Prime Contracting classification. Deductions taken in FY 2019 were $4.5 billion for this purpose. At a 5% rate, this would have generated $223 million in tax.

A.R.S. § 42-5076(D): (Deduction Code 794) The tax base for the online lodging marketplace classification does not include the gross proceeds of sales or gross income derived from charges attributed to lodging at a property that is classified as Class 1 property for property tax purposes. Those sales would be reported under the Transient Lodging classification. Though only effective for part of the year, in FY 2019, businesses deducted $123 million for this purpose. Had this been taxable, it would have generated $6.2 million in tax.

A.R.S. § 42-5159(A)(2): (Deduction Code 684) Tangible personal property the sale or use of which has already been subjected to an excise tax at a rate equal to or exceeding the tax imposed by this article under the laws of another state of the United States is not subject to transaction privilege tax. For excise taxes imposed by another state is at a rate less than the tax imposed by Arizona, the tax imposed

by Arizona is reduced by the amount of the tax already imposed by the other state. Deductions taken in FY 2019 were $29.2 million for this purpose. At a 5% rate, this would have generated $1.5 million in tax.

A.R.S. § 42-5159(A)(4): (Deduction Code 687) Tangible personal property that directly enters into and becomes an ingredient or component part of any manufactured, fabricated or processed article, substance or commodity for sale in the regular course of business is not subject to transaction privilege tax. In FY 2019, businesses deducted an estimated $61.5 million for this purpose. Had this been taxable, it would have generated $3.1 million in tax.

A.R.S. § 42-5159(A)(10): (Deduction Code 693) Use tax does not apply for tangible personal property not exceeding $200 in any one month purchased by an individual at retail outside the continental limits of the United States for personal use and enjoyment. No data is available on the value of this exemption.

A.R.S. § 42-5159(A)(11): (Deduction Code 688) Advertising supplements that are intended for sale with newspapers published in this state and that have already been subjected to an excise tax under the laws of another state in the United States that equals or exceeds the tax imposed by this article is not subject to transaction privilege tax. No data is available on the value of this exemption.

A.R.S. § 42-5159(A)(13)(i): (Deduction Code 695) Tangible personal property purchased by a nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code if the property is purchased from the parent or an affiliate organization that is located outside this state is not subject to transaction privilege tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5159(A)(32): (Deduction Code 703) Motor vehicles that are removed from inventory and are provided to charitable or educational institutions or state universities or their affiliated organizations are exempt from use tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5159(A)(38): (Deduction Code 705) Use tax does not apply to tangible personal property that is or directly enters into and becomes an ingredient or part of cards used as prescription plan identification cards. Information is not available on this in FY 2019.

A.R.S. § 42-5159(A)(45): (Deduction Code 563) Use tax does not apply to liquefied natural gas used to fuel compressor equipment. Information is not available on this in FY 2019.

A.R.S. § 42-5159(A)(46): (Deduction Code 707) Tangible personal property purchased to be incorporated or installed as part of environmental response or remediation activities under prime contracting is not subject to transaction privilege tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5159(D)(2): (Deduction Code 709) The purchase price of electricity bought by a retail electric customer from a utility is not subject to use tax if the transaction was subject to tax under the utilities classification. No data is available on the value of this exemption.

A.R.S. § 42-5159(G)(1), 42-5063(C)(6): (Deduction Code 710) Purchases of electricity or natural gas by a business that is principally engaged in manufacturing or smelting operations and that uses at least 51% of the electricity or natural gas in the manufacturing or smelting operations are not subject to use tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5159(G)(2), 42-5063(C)(7): (Deduction Code 783) Purchases of electricity or natural gas by a business that operates an international operations center in this state and that is certified by the Arizona Commerce Authority pursuant to section 41-1520 is not subject to use tax. Information is not available on this exemption for FY 2019.

A.R.S. § 42-5167: (Deduction Code 692) Sales by an out of state vendor to a Direct Pay permit holder are not subject to use tax. Data is not releasable on the value of this tax expenditure for FY 2019.

A.R.S. § 42-5402(B): (Deduction Code 564) The seller of a prepaid wireless telecommunications product is allowed to retain 3% of the amount of tax collected before remitting the tax to the department. In FY 2019, businesses deducted $4.6 million for this purpose. Had this been taxable, it would have generated $229,000 in tax.

A.R.S. § 42-6004(A)(11): (Deduction Code 634) Leasing real property between affiliated companies, businesses, persons or reciprocal insurers. In FY 2019, businesses deducted $120 million for this purpose. Had this been taxable, it would have generated $6.0 million in tax.

R15-5-1503: (Deduction Code 593) Gross receipts from leasing or renting tangible personal property are not taxable if the property is shipped or delivered outside of the state and intended, at the inception of the lease, for use exclusively outside of the state. In FY 2019, businesses deducted $114 million for this purpose. Had this been taxable, it would have generated $5.7 million in tax.

SUMMARY OF TRANSACTION PRIVILEGE AND USE TAX EXPENDITURES - FISCAL YEAR 2019

PREFERENTIAL TAX RATES:

Nonmetalliferous Mining; Oil and Gas Production	$3,076,241
Commercial lease	507,889,249
TOTAL VALUE OF PREFERENTIAL TAX RATES	**$510,965,490**

CREDITS:

Accounting credit	$30,277,931

TRANSACTION PRIVILEGE AND USE TAX EXEMPTIONS – SAMPLE OF SERVICES:

PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES:

Legal	$187,298,681
Accounting, Tax Preparation, Bookkeeping and Payroll Services	83,034,922
Architectural and Engineering	208,292,004
Specialized Design Services	13,036,895
Computer System Design and Related Services	288,133,705
Management Consulting Services	108,414,349
Environmental Consulting Services	9,824,174
Other Scientific and Technical Consulting Services	17,590,514
Scientific Research and Development	47,468,746
Advertising, Public Relations and Technical Services	41,774,711
Other Professional, Scientific and Technical Services	71,743,685
TOTAL VALUE OF PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES	**$1,076,612,385**

HEALTH CARE SERVICES:

Physicians	$473,890,145
Dentists	127,281,780
Chiropractors	14,258,613

Optometrists	11,835,392
Mental Health Practitioners	7,247,955
Physical, Occupational and Speech Therapists	25,120,051
All Other Health Practitioners	15,550,342
Outpatient Care Centers	127,608,790
Medical and Diagnostic Labs	61,011,106
Home Health Services	56,764,652
Other Ambulatory Health Services	98,801,975
General Medical and Surgical Hospitals	845,621,499
Nursing Care Facilities	65,632,725
Residential Intellectual and Developmental Disability, Mental Health, and Substance Abuse Facilities	35,395,833
Continuing Care Retirement Facilities and Assisted Living Facilities	60,177,899
Other Residential Care Facilities	6,889,221
Individual and Family Services	78,351,998
Community Food and Housing, and Emergency and Other Relief Services	35,061,806
Child Day Care Services	23,084,288
TOTAL VALUE OF HEALTH CARE SERVICES	**$2,169,586,069**

ADMINISTRATIVE AND BUSINESS SUPPORT SERVICES:

Office Administrative	$48,873,898
Facilities Support	34,656,050
Employment Services	234,707,948
Business Support	87,317,781
Travel Arrangement and Reservation	72,764,581
Investigation and Security	56,083,399
Services to Building and Dwellings	129,214,428
Other Support Services	35,347,920
Waste Collection	40,566,190
Waste Treatment and Disposal	9,778,264
Remediation and other waste management services	15,936,087
TOTAL VALUE OF ADMINISTRATIVE AND BUSINESS SUPPORT SERVICES	**$765,246,547**

PERSONAL CARE SERVICES:

Barber	$590,492
Beauty Salons	19,777,860
Nail Salons	3,383,092
Diet and Weight Reducing Centers	2,483,741
Other Personal Care	5,717,541
Death Care Services	9,833,271
Personal and Laundry Services	24,382,979
Pet Care (not Veterinary)	3,705,296
Photofinishing	896,162
Parking lot/Garages	11,668,999
Other Personal Services	4,278,072
TOTAL VALUE OF PERSONAL SERVICES	**$86,717,505**

EDUCATIONAL SERVICES:

Business School/Computer/Management Training	$9,379,953
Technical and Trade Schools	31,779,850
Other Schools and Instruction	14,755,571
Education Support Services	9,449,728
TOTAL VALUE OF EDUCATIONAL SERVICES	**$65,365,103**

FINANCIAL SERVICES:

Credit Unions	$47,109,486
Sales Financing	102,315,612
Mortgage and Nonmortgage Loan Brokers	10,621,957
Financial Transaction Processing and Clearing	70,733,850
Other Activities Related to Credit Intermediation	15,283,561
Securities Brokerage	126,171,435
Portfolio Management	51,191,242
Investment Advice	38,414,353
Other Financial Investment Activities	546,465,225
TOTAL VALUE OF FINANCIAL SERVICES	**$1,008,306,722**

OTHER SERVICES:

Automotive Repair and Maintenance	$111,372,138
Electronic and Precision Repair and Maintenance	14,362,681
Commercial, Industrial Machinery Repair and Maintenance	29,197,626
Personal and Household Goods Repair and Maintenance	5,960,080
Religious, Grantmaking, Civic, Professional and similar Organizations	120,401,846
TOTAL VALUE OF OTHER SERVICES	**$281,294,372**

TRANSACTION PRIVILEGE AND USE TAX EXEMPTIONS – ALL OTHER:

Wholesale trade (503)	$5,380,875,404
Cash discounts (708)[74]	29,534,955
Trade-ins (711)	125,769,111
Services provided by a retailer (549)	474,708,914
Business activity on a Reservation for a Enrolled Native American or Tribal entity (570)	13,719,997
Sale of postage stamps at face value (716)	207,726
Sales to Foreign diplomats (777)	135,987
Sale of warranty or service contracts (542)	54,370,461
Sale of tangible personal property by a nonprofit organization (725)	1,065,280
Sale of an aircraft sold to a carrier, government or nonresident (507)	5,320,521
Sale of stocks and bonds (no deduction code)	NIA[75]
Prescription drugs and medical oxygen (536)	916,700,911
Prosthetic appliances (559)	22,231,537

[74] It is likely that this deduction is under reported.
[75] No Information Available.

Insulin, insulin syringe and glucose test strips (533)	DNR[76]
Prescription eyeglasses and contact lenses (590)	2,546,952
Hearing aids (594)	2,008,426
Durable medical equipment (526)	25,538,113
Sales to nonresidents for use outside Arizona if the property is shipped or delivered outside the state (541)	74,935,158
Food for home consumption (506 and 513)	768,236,745
Textbooks that are required by any state university or community college (505)	2,710,845
Meals provided to Employee of restaurants (568)	DNR
Food used in school lunches (569)	2,733,363
Sale of Arizona lottery tickets (521)	16,109,175
Precious metal bullion and monetized bullion (567 and 601)	4,554,497
Sales of vehicle fuel and aviation fuel (515)	531,915,610
Tangible personal property sold to Personal property leasing business to lease (571)	6,672,942
Tangible personal property sold in interstate or foreign commerce (504)	467,291,417
Tangible personal property sold to a qualifying hospital or a qualifying health care organization or sold to or purchased by qualifying community health centers and health care organizations (545, 546, 572, 574)	67,269,437
Tangible personal property sold to a nonprofit organization which regularly serves meals to the needy and indigent (544)	1,026,785
Tangible personal property sold to a nonprofit organization which provides housing for low-income persons over 62 years of age (573)	DNR
Tangible personal property sold to Qualifying Health Sciences Educational Institution (699)	63,920
Magazines or other periodicals or publications to encourage tourist travel (602)	DNR
Sale of articles to a contractor for incorporation or fabrication under a contract or for environmental response or remediation (552 and 589)	15,921,313
Tangible personal property sold to a Subcontractor for incorporation into a Prime Contracting project (584)	411,645
Exempt motor vehicle sales for certain nonresidents (580)	404,236
Exempt motor vehicle sales for Native Americans (530)	9,780,200
Tangible personal property purchased by a nonprofit charitable organization that uses such property for training, etc., for mentally or physically handicapped persons (575)	77,998
Tangible personal property sold by a nonprofit organization associated with a major league baseball team or a national touring professional golf association (762)	NIA[77]
Tangible personal property sold by a nonprofit organization associated with a rodeo featuring primarily farm and ranch animals (763)	NIA
Sales of commodities under futures contracts consigned to a warehouse for resale (583)	DNR
Seeds, seedlings, etc., to commercially produce agricultural, horticultural, viticultural or floricultural crops in Arizona (537)	1,468,341

[76] Data Not Releasable.
[77] No Information Available.

Machinery, equipment and certain supplies used to assist the physically or developmentally disabled or those persons with head injuries (525)	2,519,182
Sales of natural gas or liquefied petroleum gas used to propel a vehicle (509)	8,451,407
Paper machine clothing used or consumed in paper manufacturing (586)	NIA[78]
Machinery, equipment, utility product, materials and other tangible personal property used to construct a qualified environmental technology facility (607)	DNR
Sales of coal, petroleum, coke, natural gas, virgin fuel oil and electricity to an environmental technology facility (511)	102,309
Sales of liquid, solid or gaseous chemicals used in manufacturing, processing, fabricating, mining, refining, metallurgical operations or research or development (510)	12,436,979
Sales of food or drink consumed on the premises of a jail or prison (514)	3,049,931
Motor vehicles and any tangible personal property or repair that becomes a part of the motor vehicles sold to a licensed motor operator that lease or rent the property (528)	7,143,135
Livestock, poultry feed, salts, vitamins for livestock or poultry consumption (520)	21,509,780
Sale or purchase of implants used as growth promotants and injectable medicine (516)	142,337
Sales of motor vehicles at auction to nonresidents of Arizona for use outside Arizona (529)	1,433,252
Personal hygiene products which are furnished to and to be consumed by hotel occupants (534 and 566)	DNR[79]
Sales or purchases of alternative fuel to a used oil fuel burner (587)	DNR
Printed, photographic, electronic or digital media materials for use in publicly funded libraries (519)	404,687
Tangible personal property consisting of food, beverages and condiments sold to or purchase by a commercial airline (512)	NIA
Sale of new alternative fuel vehicles and conversion equipment (592)	NIA
Sale of spirituous, vinous or malt liquor by a liquor wholesaler (588)	DNR
Tangible personal property by a nonprofit that produces, organizes or promotes cultural or civic related festivals (764)	456,746
Application services designed to assess or test student learning (596)	546,407
Sale of motor vehicle fuel and use fuel to a Healthy Forest business (598)	DNR
Sale of repair parts in equipment used by a Healthy Forest business (603)	NIA
Sales or transfer of renewable energy credits (604)	1,438,546
Sales of computer data equipment for use in a certified computer data center (565)	1,452,477
Sales of orthodontic devices dispensed by a dental professional (582)	NIA
Property sold to a Contractor for a MRRA project on an Indian Reservation (712)	456,025
Works of fine art sold to nonresidents and used outside of the state (773)	336,849
Machinery or equipment used directly in manufacturing, processing, fabricating, job printing, refining or metallurgical operations (522)	99,818,446
Sale of machinery or equipment used in mining and in drilling for or extracting oil or gas from the earth (523 and 579)	24,334,812

[78] No Information Available.

[79] Data Not Releasable.

Certain equipment used in the telecommunications industry (539)	227,106
Machinery, equipment or transmission lines used directly in producing or transmitting electrical power (524)	10,350,467
Neat animals, horses, asses, sheep, swine or goats used or to be used as breeding or production stock (605)	260,377
Pipes or valves 4" in diameter used to transport oil, natural gas, artificial gas, water or coal slurry (535)	375,759
Certain aircraft, navigational and communication instruments (508)	10,004,101
Machinery, tools, equipment used in repairing, remodeling or maintaining aircraft, aircraft engines or aircraft component parts (532)	408,627
Railroad rolling stock, rails, ties and signal control equipment used to transport persons or property for hire (576)	DNR[80]
Buses or other urban mass transit vehicles used to transport persons for hire or pursuant to a governmentally adopted and controlled urban mass transportation program (606)	2,522,686
Certain groundwater measuring devices and their installation (581)	DNR
New machinery and equipment used for commercial production of agricultural, horticultural, viticultural and floricultural crops (585)	7,866,639
Machinery or equipment used in research and development (553)	4,621,670
Tangible personal property used by an direct broadcast satellite television or data transmission service or facility (591)	DNR
Clean rooms used for manufacturing, processing, fabrication or research and development (595)	3,908,468
Machinery or equipment for poultry and egg production (577)	NIA[81]
Machinery and equipment used by agriculture to prevent, monitor, control or reduce pollution (597)	NIA
Machinery and equipment to prevent pollution for farming and ranching (599)	DNR
Digital television machinery and equipment purchases for compliance with the Telecommunications Act of 1996 (578)	DNR
Machinery and equipment sold or rented to a healthy forest certified business (554)	DNR
Federal luxury excise tax on heaving trucks and trailers (609)	DNR
Sales made to the U S Government by a manufacturer, modifier, assembler or repairer (547)	36,664,572
Sales of component parts made to a manufacturer, modifier, assembler or repairer for sale to the U S Government (543)	10,591,137
Sales of overhead materials used in a contract between the U S Government and a manufacturer, modifier, assembler or repairer (611)	100,000
50% of retail sales made to U S Government; 100% of Use Tax (548)	9,564,779
Gross income from motor vehicle manufacturer's cash rebates if assigned to the retailer (501)	27,369,635
Gross income derived from the waste tire disposal fee (613)	319,141
Sales of solar energy devices[82] (538)	18,291,905

[80] Data Not Releasable.
[81] No Information Available.

Sales of wireless telecommunication equipment as an inducement to enter into or continue a contract for telecommunication services or sales commissions received (614)	363,192
Sales of motor vehicle to a nonresident from a state with a lower tax rate (531)	8,436,569
Transportation by vehicles subject to fees paid to MVD (715)	2,189,570
Transportation network company's income or fees or driver's income (772)	DNR[83]
Vehicle for hire company's income or driver's income (778)	DNR
Transportation of persons by air if taxation is prohibited by Federal Law (615)	DNR
Ambulances or ambulance services (no deduction code)	NIA[84]
Public transportation services for dial-a-ride programs and special needs transportation services (no deduction code)	NIA
Gross proceeds for transporting freight or property by an exclusively Arizona railroad for portions of single shipments involving other railroads (616)	DNR
Gross proceeds for arranging transportation as a convenience or service to a customer if the business is not engaged in the transportation business (no deduction code)	NIA
Gross proceeds of sales or gross income derived from transporting for hire persons, freight or property by a railroad pursuant to a contract with another railroad (620)	NIA
Sales taxed under another business code (640)	499,798
Sales of transportation or amusement activities arranged by another business that is exempt (612)	1,454,692
Sales of transportation or amusement activities arranged and taxed by another (702)	202,732
Gross proceeds of sales or gross income derived from transporting fertilizer by a railroad from a point in Arizona to another point in Arizona (625)	NIA
Sales of electric services to a retail electric customer who is located outside Arizona for Delivery and use outside Arizona (617)	NIA
Rental of space on utility poles (759)	DNR
Sales from transfer of electricity by a retail electric customer to an electric distribution system (618)	NIA
Development fees charged by a municipally owned utility (621)	DNR
Revenue received by any person owning a utility system in the form of reimbursement or compensation for property and equipment installed to provide utility access to, on or across land of any actual utility consumer (626)	DNR
Interstate sales of electricity, natural gas and water	NIA
Interstate telecommunications services (643)	358,457
Sales of intrastate telecommunications services by a cable television system or by a microwave television transmission system (no deduction code)	NIA
Sales of internet access services (517)	1,526,121
Sales of intrastate telecommunications services to a direct broadcast satellite television or data transmission service (619)	DNR

[82] This deduction is no longer available under the Prime Contracting classification.
[83] Data Not Releasable.
[84] No Information Available.

End-user common line charges and carrier access charges established by federal communications regulations (641 and 627)	DNR[85]
Sales of direct broadcast satellite television services (633)	DNR
Telecommunications services purchased with a prepaid calling card (649)	DNR
Manufacturing or publishing books (no deduction code)	NIA[86]
Gross income of publications derived from advertising (628)	Included in services
Sales to a person distributing printing, engraving, embossing or copying without consideration in connection with the publication of a newspaper or magazine (630)	DNR
Sales of job printing, engraving, embossing and copying for use outside Arizona if the materials are shipped or delivered out of the state (637)	6,379,377
Sales of postage and freight (561)	1,268,532
Leasing a mobile home for more than 29 days (629)	1,917,603
Online Lodging Operator Income from registered Online Lodging Marketplace (775)	544,483
Leasing or renting 4 or fewer rooms of an owner-occupied residence bed and breakfast with less than 50% average annual occupancy (636)	DNR
Transient lodging sales or activities that are exempt (704)	DNR
Transient lodging sales or activities that are exempt under the Amusement or Transporting classifications (701)	DNR
Commissions paid in the Transient Lodging classification (648)	233,715
Transient lodging sales for lodging for more than thirty days (718)	2,467,669
Leasing films, tapes or slides used by theaters or movies or used by television stations or radio stations (784)	NIA
Amusement activities sponsored by the Arizona exposition and state fair board (785)	NIA
Lease of tangible personal property by a parent to a subsidiary or by a subsidiary to another subsidiary (631)	1,016,940
Operating coin-operated washing, drying and dry cleaning machines or car washing machines (786)	153,056
Leasing or renting aircraft or training equipment by a nonprofit school offering aviation and aerospace degrees (787)	DNR
Leasing or renting photographs, transparencies, etc. used by Arizona on the internet, in magazines or other publications encouraging tourism (651)	NIA
Leasing for billboards that are visible from any street (774)	NIA
Leasing or renting certified ignition interlock devices (no deduction code)	NIA
Vehicle registration fee reimbursements (656)	212,146
Leasing or renting a motor vehicle if the motor carrier fee has been paid (660)	7,784,826
Amounts received by a motor vehicle dealer for the 1st month of a lease payment if the lease is transferred to a third party (556)	230,941
Car rental surcharge charges (680)	NIA
Freight charges relating to nonmetalliferous mineral products (652)	DNR
Process cost on nonmetalliferous mineral products shipped out of state (658)	DNR

[85] Data Not Releasable.
[86] No Information Available.

Private or group instructional activities (657)	1,554,218
Monthly membership fees (527)	10,098,845
Musical, dramatic or dance groups or a botanical garden, museum or zoo that qualifies as a nonprofit charitable organization (no deduction code)	NIA[87]
Sales of admissions to intercollegiate football contests (no deduction code)	NIA
Fees and assessments received by a homeowners organization (no deduction code)	NIA
Arranging an amusement activity as a service to a person's customers (no deduction code)	NIA
Pari-mutuel and purse monies (661)	DNR[88]
Transient Lodging recreational establishment membership fees (666)	NIA
Sale to transient lodging business for resale (670)	307,223
Entry fees for 501c3 organizations' run, walk, swim, ride, or similar events (735)	354,373
Gratuities distributed to servers or service employees (724)	4,831,221
Sales by Congressionally-chartered veterans organization of food or drink (744)	93,392
Sales by churches, fraternal benefit societies and other nonprofit organizations which don't regularly engage or continue in the restaurant business for the purpose of fund raising (no deduction code)	NIA
Restaurant sales to a school district (662)	DNR
Prime Contracting income from out of state projects (681)	15,505,723
Sale of used manufactured buildings (562)	295,831
Sale for resale to another manufactured building dealer (668)	DNR
35% Deduction from Prime Contracting Base (502)	363,568,795
Purchase by a Prime Contractor of machinery, equipment or other tangible personal property by a that is exempt under another classification (608, 622, 623, 624, 632, 635, 639, 644, 645, 646, 653, 654, 665, 672, 674, 675, 676, 677, 678, 679, 685, 691, 697, 706, 799)	48,333,672
Land Deduction (518)	40,654,937
Furniture and Appliances not incorporated into a Manufactured building (663)	NIA
Contracting in a military reuse zone for a manufacturer, assembler or fabricator of aviation or aerospace products (667)	DNR
Gross proceeds of sales from a contract to install, assemble, repair or maintain machinery that does not become permanently attached (600)	DNR
Income from contracts for construction of facilities for raising egg producing poultry or the production and packaging of eggs (683)	870,588
Income from contracts for construction of a launch site (698)	NIA
Income from contracts for construction of a domestic violence shelter (673)	NIA
Gross proceeds from contracts to perform post-construction treatment of real property for termite and general pest control (686)	661,085
Gross proceeds from contracts to certain state university research infrastructure projects (696)	NIA
Gross proceeds from construction contracts for healthy forest business (555)	DNR
Gross proceeds from development or impact fees (560)	6,655,460

[87] No Information Available.
[88] Data Not Releasable.

Gross proceeds from construction of a mixed waste processing facility located on a municipal solid waste landfill (719)	NIA[89]
Subcontracting income (550)	579,484,599
Lawn maintenance services (689)	2,713,494
Cost of architectural or engineering service (557)	6,013,048
Manufactured building delivered out of state (694)	DNR[90]
Construction Design phase or professional services (690)	3,912,222
Maintenance, repair, replace or alteration contract with a property owner (500)	223,205,391
Online Lodging Marketplace revenue from Class 1 property (794)	6,194,007
Credit for tax paid to an equivalent jurisdiction (684)	1,458,674
Component parts for a manufactured product for resale (687)	3,077,388
Tangible personal property not exceeding $200 purchased by an individual at retail outside the continental U.S. – USE TAX ONLY (693)	NIA
Advertising Supplements (688)	NIA
Tangible personal property purchased by a nonprofit charitable organization from the parent or affiliate organization located out of state – USE TAX ONLY (695)	DNR
Motor vehicles removed from inventory and provided to charitable or educational institutions or state universities or their affiliated organization – USE TAX ONLY (703)	DNR
Tangible personal property which directly enters into or becomes an ingredient or part of cards used as prescription plan identification cards – USE TAX ONLY (705)	NIA
Liquefied natural gas used to fuel compressor equipment – USE TAX ONLY (563)	NIA
Tangible personal property exempt under the Utility classification (707)	DNR
Purchase price of electricity bought by a retail electric customer from a utility when tax is paid under utility classification (709)	NIA
Purchase price of electricity or natural gas by a manufacturer or smelting operations (710)	DNR
Purchase price of electricity or natural gas by a business that operates an international operations center that is certified by the Arizona Commerce Authority (783)	NIA
Sales to Direct Pay permit holder (692)	DNR
3% of tax collected for 911 tax on prepaid wireless products (564)	228,755
Leasing between affiliated companies (634)	5,988,381
Rentals of personal property shipped & used exclusively out-of-state (593)	5,703,394

[89] No Information Available.
[90] Data Not Releasable.

Total "Data Not Releasable" (533, 534, 554, 555, 566, 568, 573, 576, 578, 581, 583, 587, 588, 591, 598, 599, 600, 602, 607, 609, 615, 616, 619, 621, 626, 627, 630, 633, 636, 641, 649, 652, 658, 661, 662, 667, 692, 668, 694, 695, 701, 703, 704, 707, 710, 759, 772, 778, 787)	84,137,273
TOTAL VALUE OF ALL OTHER TRANSACTION PRIVILEGE AND USE TAX EXEMPTIONS	**$10,808,940,700**[91]

TOTAL QUANTIFIABLE TRANSACTION PRIVILEGE AND USE TAX EXPENDITURES[92]

$16,803,312,824

Value of exemptions from the Proposition 301 – Education Tax **$2,016,397,539**

[91] Includes the value of exemptions that were not releasable.

[92] This amount represents foregone revenue to the state general fund, counties and incorporated cities and towns.

UNDERGROUND STORAGE TANK TAX EXPENDITURES[93]
FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Environmental Quality
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $32,804,131
TOTAL FY 2019 TAX EXPENDITURE: NIA
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: NA

An underground storage tank tax is imposed by A.R.S. § 49-1031. For purposes of this tax, it is presumed until proven differently that all regulated substances which are motor vehicle fuel, aviation fuel and diesel and which are refined, manufactured, produced, compounded or blended in Arizona, or imported into the state, will be place in an underground storage tank from which the fuel is dispensed to users who consume the fuel and do not further distribute it. The tax is levied at the rate of 1¢ per gallon of regulated substance. Revenue from this tax is deposited into the Arizona Department of Environmental Quality Assurance Account, used for corrective action projects.

UNDERGROUND STORAGE TANK TAX EXEMPTIONS

A.R.S. § 49-1031(C): This tax does not apply to underground storage tanks operated by the United States or Arizona and its agencies. Currently, there are 70 federal tanks in use with an average tank capacity of 10,545 gallons. There are 64 state tanks currently in use with an average tank capacity of 11,156 gallons. The Department of Environmental Quality does not require the owners/operators of these tanks to report the total number of times they are refueled. Therefore, there is no information on the tax value of this tax expenditure.

A.R.S. § 49-1031(C): Underground storage tanks used for the purpose of storing, handling or distributing naphtha-type jet fuel or kerosene-type jet fuel are exempt from the underground storage tank tax. Currently, there are 73 of these jet fuel tanks in use with an average tank capacity of 15,370 gallons. As with the underground storage tanks owned by the federal government and the state of Arizona, the owner/operators of these types of underground storage tanks are not required to report the number of times their tanks are refueled. Due to the lack of information, there is no way to calculate the impact of this tax expenditure.

A.R.S. § 49-1031: Above-ground storage tanks are not subject to this tax. The owners/operators of these types of tanks are not required to register their tanks with the Department of Environmental Quality nor with the State Fire Marshal. Municipalities regulate these types of tanks in their own city. Thus, due to the lack of information, it is not possible to determine the impact.

[93] Any information for Underground Storage Tank Tax Expenditures was provided by the Arizona Department of Environmental Quality.

SUMMARY OF UNDERGROUND STORAGE TANK TAX EXPENDITURES
FISCAL YEAR 2019

UNDERGROUND STORAGE TANK TAX EXEMPTIONS:

Underground storage tanks operated by the U.S. or Arizona	NIA[94]
Tanks used for Naphtha-type or kerosene-type jet fuel	NIA
Above-ground storage tanks	NIA
TOTAL VALUE OF VEHICLE FEE EXEMPTIONS	**NIA**

TOTAL QUANTIFIABLE UNDERGROUND STORAGE TANK TAX EXPENDITURES[95] NIA

[94] No Information Available.
[95] This amount represents foregone revenue to the ADEQ Assurance Account.

UNEMPLOYMENT INSURANCE TAX EXPENDITURES[96]
FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Economic Security
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $444,743,565[97]
TOTAL FY 2019 TAX EXPENDITURE: NIA
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: NA

Unemployment insurance taxes are paid by liable employers on the first $7,000 in gross wages they pay to each of their employees during the calendar year.

UNEMPLOYMENT INSURANCE TAX EXEMPTIONS

A.R.S. § 23-622: The following are exemptions from the definition of taxable wages:

- That part of the remuneration in excess of $7,000 paid in a calendar year to an individual by an employer with respect to employment during the calendar year, unless that part of the excess remuneration is subject to a tax, under federal law, against which credit may be taken for contributions required to be paid into a state unemployment fund by employers subject to the federal law.
- The amount of any payment, including monies paid by an employer for insurance or annuities, made to or on behalf of an employee or his/her dependents under a plan or system established by an employer which makes provision for the employees generally on account of sickness or accident disability, medical or hospitalization expenses in connection with sickness or accident disability or death.
- The payment by an employer, without deduction from the remuneration of the employee, of the tax imposed upon an employee under §3101 of the IRC relating to federal insurance contributions with respect to remuneration paid to an employee for domestic service in a private home or for agricultural labor.
- Any payment on account of sickness or accident disability, or medical or hospitalization expenses in connection with sickness or accident disability, made by an employing unit to an employee after the expiration of six calendar months following the last calendar month in which the employee worked for such employing unit.
- Any payment made to an employee or his/her beneficiary:
  (1) from or to a trust described in §401(a) of the IRC relating to qualified pension, profit sharing and stock bonus plans which tax-exempt under §501(a) of the IRC;
  (2) under or to an annuity plan which is a plan described in §403(a) of the IRC;
  (3) under a simplified employee pension as defined in §408(k)(1) of the IRC other than contributions described in §408(k)(6) of the IRC;
  (4) under or to an annuity contract described in §403(b) of the IRC;

[96] Any information for Unemployment Insurance Tax Expenditures was provided by the Arizona Department of Economic Security.
[97] Source: 2019 Tax Handbook, Joint Legislative Budget Committee

(5) under or to an exempt governmental deferred compensation plan; as defined in §3121(v)(3) of the IRC;
(6) to supplement pension benefits under a plan or trust described in this paragraph to take into account some portion of the increase in the cost of living since retirement;
(7) or under a cafeteria plan within the meaning of §125 of the IRC if such a payment would not be treated as wages without regard to such plan.

- Remuneration paid in any medium other than cash to an employee for service not in the course of the employing unit's trade or business.
- Remuneration paid for agricultural labor performed in any medium other than cash.
- Any tip, gratuity or service charge received by an employee, with certain exceptions.
- Remuneration which the individual receives for drill, training or other national guard or reserve activity which occurs on not more than one weekend per month.
- Remuneration paid to an employee if at the time of the payment it is reasonable to believe that a corresponding deduction is allowable under §217 of the IRC relating to moving expenses.
- Any contribution, payment or service provided by an employer which may be excluded from gross income under §120 of the IRC.
- Any payment made or benefit furnished to an employee if it is reasonable to believe that the employee will be able to exclude the payment or benefit from income under §127, relating to educational assistance, or §129, relating to dependent care assistance, of the IRC.
- The value of meals or lodging furnished by the employer if reasonable to believe that the employee will be able to exclude these items from income under §119 of the IRC.
- Any payment made by an employer to a survivor or the estate of a former employee after the calendar year in which the employee died.
- Any benefit provided to an employee if reasonable to believe that the employee will exclude the benefit from income under §74(c) relating to employee achievement awards, §117 relating to qualified scholarships or §132 relating to certain fringe benefits of the IRC.

A.R.S. §§ 26-613.01(A and B), 26-613.01(H): An employee is an individual who performs services for an employing unit and who is subject to the direction, rule or control of the employing unit as to both the method of performing the services and the result to be accomplished. This definition does not include:

- An individual who performs services as an independent contractor, business person, agent or consultant, or in a capacity characteristic of an independent profession, trade, skill or occupation.
- An individual subject to the direction, rule, control or subject to the right of direction, rule or control of an employing unit solely because of a provision of law regulating the employing unit.
- An individual or class of workers by adding language regarding affirmative treatment by the Internal Revenue Service regarding independent contractor relationship.
- An individual whose services the employing unit demonstrates are performed in the same manner as a similarly situated class of workers whose services have been exempted by the Internal Revenue Service from Federal Unemployment Tax.
- An individual or class of workers that have previously been found not to be employees in prior audits by the department, but have currently been found to be employees due to prior audit

errors, will not be treated as employees by the department for any previous time, but the employer will be required to begin reporting those workers during the next quarter.

- An individual or class of workers regarding service of a medical/healthcare professional contracting with a medical practice group/hospital that is in exempt employment if 3 criteria's are met.
- An individual or class of workers regarding services of home care providers who may or may not be in exempt employment (at the election of the employer). The services of the behavioral health services, however, are not included.
- Prohibiting the department from making a determination on the following factual bases absent additional employment related facts; sole proprietorship, intellectual property, and client/customer standards.

A.R.S. § 23-614): Employing unit: temporary services employer: professional employer organization: definitions.

- Amended definitional section (1) (2) to apply to a temporary services employer who contracts to supply workers in more than one industry.

A.R.S. § 23-615(6)(d): Employment means any service of whatever nature performed by an employee for an employer. The following services are excluded from this definition of employment:

- Services performed in the employ of a church or convention or association of churches, or an organization operated primarily for religious purposes and which is operated, supervised, controlled or principally supported by a church or convention or association of churches.
- Services performed by a duly ordained, commissioned, or licensed minister of a church in the exercise of his or her ministry; or by a member of a religious order in the exercise of duties required by such order.
- Services performed in the employ of a governmental entity by an elected official, member of the legislature or judiciary of this state or a political subdivision, in the exercise of his or her duties.
- Services performed in the employ of a governmental entity as a member of the state National Guard or Air National Guard.
- Services performed in the employ of a governmental entity as an employee on a temporary basis in case of a fire, storm, snow, earthquake, flood or similar emergency.
- Services in the employ of a governmental entity in a position which is designated pursuant to state law as a major non tenured policy-making or advisory position, or a policy-making or advisory position of which the duties ordinarily do not require more than 8 hours per week.
- Services performed by impaired individuals who cannot be readily absorbed into the competitive labor market in a facility conducted for the purpose of providing a program of rehabilitation for such individuals.
- Services performed by an individual in an unemployment work relief or work training program financed in part or in whole by a governmental entity.
- Services performed by an inmate of a custodial or penal institution.

A.R.S. § 23-617: Types of exempt employment are as follows:

- Agricultural labor unless 10 or more individuals were employed for some portion of a day in 20 different weeks in a calendar year, or total cash wages of $20,000 or more were paid in a calendar quarter.
- Domestic service in a private home, local college club or local chapter of a college fraternity or sorority, unless total cash wages of $1,000 or more were paid in a calendar quarter.
- Service performed on or in connection with a vessel or aircraft not an American vessel or American aircraft, if the employee is employed on or in connection with such vessel or aircraft when outside the United States.
- Service performed by an individual in the employ of his/her children or spouse, and service performed by an individual under the age of 21 in the employ of a parent.
- Service performed in the employ of another state, or any political subdivision of another state, or an instrumentality of one or more thereof which is wholly owned by one or more other states or political subdivisions and which exercises only governmental functions, and service performed in the employ of any political subdivision of this or any other state to the extent the instrumentality, with respect to such service, is exempt under the U.S. Constitution from tax imposed by §3301 of the IRC.
- Service with respect to which unemployment compensation is payable under an unemployment compensation system established by an act of Congress.
- Service performed in a calendar quarter in the employ of an organization exempt from income tax under §501(a) or §521 of the IRC, if the remuneration for the services is less than $50.
- Service performed in the employ of a school, college or university, if the service is performed by a student enrolled and regularly attending classes at the school, college or university, or by the spouse of such a student.
- Service performed in the employ of a corporation, community chest fund or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of a private shareholder or individual and with further qualifications.
- Services performed by a student nurse in the employ of a hospital or a nurses' training school by an individual enrolled and regularly attending classes, and service performed as an intern in the employ of a hospital by an individual who has completed a four years' course in a medical school.
- Service performed by an individual for an employing unit as an insurance agent, if paid solely by commission.
- Service performed by an individual under the age of 18 in the delivery or distribution of newspapers or shopping news, with qualifications.
- Service performed by an individual for an employing unit as a licensed real estate broker or licensed cemetery broker or a licensed real estate salesman or licensed cemetery salesman, if paid solely by commission.
- Service performed in the employ of a foreign government including service as a consular or other officer or employee or a non-diplomatic representative.

- Service performed in the employ of an instrumentality wholly owned by a foreign government if certain qualifications are met.
- Service covered by an arrangement between the department and agency charged with the administration of any other state or federal unemployment compensation law pursuant to which all services performed by an individual for an employing unit is deemed to be performed entirely within such agency's state.
- Casual labor not in the course of the employer's trade or business.
- Service performed by an individual for an employing unit as a securities salesman, if paid solely by commission.
- Service performed in the employ of a hospital if such service is performed by a patient of the hospital.
- Service performed by individuals solely to the extent that the compensation includes commissions, overrides or profits realized on sales primarily resulting from the in-person solicitation of orders for or making sales of consumer goods in the home.
- Services performed by an individual for an employing unit in the preparation of tax returns and related schedules and documents if all such services are performed for remuneration solely by way of commission.

There is no requirement for reporting wages or remuneration for the exemptions mentioned above, therefore, no information is available on the value of these tax expenditures.

SUMMARY OF UNEMPLOYMENT INSURANCE TAX EXPENDITURES
FISCAL YEAR 2019

UNEMPLOYMENT INSURANCE TAX EXEMPTIONS:

Exemptions from the definition of taxable wages	NIA[98]
Exemptions from the definition of employee	NIA
Exemptions from the definition of employment	NIA
TOTAL VALUE OF UNEMPLOYMENT INSURANCE TAX EXEMPTIONS	**NIA**

TOTAL QUANTIFIABLE UNEMPLOYMENT INSURANCE TAX EXPENDITURES[99] NIA

[98] No Information Available.
[99] These expenditures represent forgone revenues to the state unemployment insurance fund.

USE FUEL TAX EXPENDITURES[100] – FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Transportation
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $218,817,526[101]
TOTAL FY 2019 TAX EXPENDITURE: $57,668,281
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: 21%

Arizona has a two-tiered use fuel (diesel fuel) tax rate. There is a use fuel tax rate of 26¢ per gallon on use fuel used in the propulsion of a use class motor vehicle on any highway within Arizona (A.R.S, § 28-5060 (B)(2)), with the exception of clean burning use fuel, and a use fuel tax rate of 18¢ per gallon of use fuel used in the propulsion of a light class motor vehicle or exempt use class motor vehicle (A.R.S. § 28-5606 (B)(1)). A tax of 26¢ is collected by licensed suppliers.

During FY 2019, total use fuel tax collected was $273,857,018. The primary source of revenue is from licensed suppliers. The proceeds of this tax go into the Highway User Revenue Fund and are distributed to the Department of Public Safety, Economic Strength Fund, state highway fund, counties, and incorporated cities and towns.

PREFERENTIAL USE FUEL TAX RATES

A.R.S. § 28-5614: For purposes of convenience the use fuel sold to light class motor vehicles and exempt use class motor vehicles by vendors is charged the 18¢ per gallon. Subsequently a vendor may request a refund for the 8¢ differential for the sales to light class motor vehicles and exempt use class motor vehicles. The amount of refunds issued for FY 2019 was $17,564,592. Liquid use fuel, used for export purposes is taxed at a $0.26 per gallon rate. The amount refunded for this type of use fuel during FY 2019 was $17,564,692.
A.R.S. § 28-5728: There is a $0.02 per gallon credit for all use fuel purchased in Arizona and used outside of the state. The total amount refunded for this type of purchase during FY 2019 was $277,608.
A.R.S. § 28-5606: Fuel used on use class motor vehicles used to transport forest products in compliance with § 41-1516 is taxed at $0.13 per gallon. This tax is perfected by the approved companies filing a refund request. Refunds for FY 2019 were $27,906.

EXEMPTIONS TO THE USE FUEL TAX

A.R.S. § 28-5610(A)(8)(a and b): Dyed diesel sold for Off-Highway uses, Farm tractors and implements of husbandry designed primarily for or used in agricultural operations and only incidentally operated or moved upon a highway are exempt from use fuel tax. Road rollers or vehicles which are designed and used primarily for grading, paving, earth moving and other construction work on highways and which are not designed or used primarily for transportation of persons or property and which are incidentally operated or moved over the highway are also exempt from use fuel tax. Refunds granted for these types of exemptions together totaled $9.2 million in FY 2019.

[100] Any information for Use Fuel Tax Expenditures was provided by the Arizona Department of Transportation.
[101] Source: 2019 Tax Handbook, Joint Legislative Budget Committee

A.R.S. § 28-5610 (A)(7): Taxable use fuel that has been accidently contaminated so as to be unsalable as highway fuel as proved by proper documentation is exempt. No refunds of this type were requested for FY 2019.

A.R.S. § 28-5610 (A)(3): Liquid use fuel sold within an Indian reservation to an enrolled member of the tribe is excluded from taxation. The total amount refunded for this provision during FY 2019 was $182,398.

A.R.S. § 28-5610 (A)(4): Use fuel used solely and exclusively as fuel to operate a motor vehicle on highways in Arizona when the motor vehicle is leased or owned by an Indian tribe and being operated for the sole benefit of an Indian tribe and used only for governmental purposes. No information is available on this tax expenditure.

A.R.S. § 28-5610 (A)(6): Use fuel sold to the United States or an instrumentality or agency of the United States is exempt from the motor vehicle fuel tax. During FY 2019, $285,518 was refunded for this exemption.

A.R.S. § 28-5751: Each supplier that properly remits use fuel tax may retain 4/10 of 1% of the tax imposed to cover the costs of administration of the tax. This amount would have been collected by the state if this provision were not in effect. The value of this provision for FY 2019 is $2.1 million.

A.R.S. § 28-5708 (A)(2): All clean burning fuels are no longer taxed. Since taxpayers who consume alternative fuels are not required to report their use information to the department, no information is available on this exemption.

A.R.S. § 28-5703 (B)(1): International Fuel Tax Agreement (IFTA) tax distributed to other states for FY 2019 is $25.5 million.

SUMMARY OF USE FUEL TAX EXPENDITURES – FISCAL YEAR 2019

USE FUEL PREFERENTIAL TAX RATES:

Light class and exempt vehicles use rate	$17,564,692
Liquid use fuel used for export	2,522,740
Fuel purchased in Arizona and used outside the state	277,608
Fuel used to transfer forest products	27,906
TOTAL VALUE OF USE FUEL TAX PREFERENTIAL TAX RATES	**$20,392,946**

USE FUEL TAX EXEMPTIONS:

Farm tractors, implements of husbandry or vehicles designed and used for grading, paving, earth moving and other construction	$9,223,229
Native American refunds	182,398
Administration exemption for use fuel suppliers	2,080,190
Exemption for clean burning fuels	NIA[102]
Use fuel sold to the United States or an instrumentality or agency of the United States	285,518
IFTA tax distribution to other states	25,504,000
TOTAL VALUE OF USE FUEL TAX PREFERENTIAL TAX RATES	**$37,275,335**

TOTAL QUANTIFIABLE USE FUEL TAX EXPENDITURES[103] $57,668,281

[102] No Information Available.

[103] This amount represents foregone revenue to the state highway fund, counties and incorporate cities and towns.

VEHICLE LICENSE TAX EXPENDITURES[104] – FISCAL YEAR 2019

TAX COLLECTED BY: Arizona Department of Transportation
FISCAL YEAR 2019 TOTAL STATE REVENUE COLLECTED: $1,045,019,207[105]
TOTAL FY 2019 TAX EXPENDITURE: NIA
TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: NA

Arizona imposes a vehicle license tax at the rate of $2.95 for each $100 in vehicle value during the first 12 months of life of the vehicle. During the succeeding periods, the tax rate is $3.04. The vehicle value is set at 60% of the manufacturer's base retail price in the first year and declines by 16.25% each year thereafter. The minimum vehicle license tax is $10. The proceeds of this tax are distributed to the state highway fund, counties, incorporated cities and towns and the state general fund.

PREFERENTIAL VEHICLE LICENSE TAX RATES

A.R.S. §§ 28-5804, 28-5806, 28-5805: Three classes of motor vehicles pay lower vehicle license tax rates. Privately owned motor vehicles which are exclusively operated as a school bus, privately owned ambulances and fire fighting vehicles, and motor vehicles powered by alternative fuels have a vehicle value in the first year of 1% of the manufacturer's base retail price. The minimum tax for these vehicles is $5.00. The information on this tax expenditure is not available at this time.

EXEMPT MOTOR VEHICLES

Any vehicle, which is not required to be registered in Arizona, is not required to pay a vehicle license tax. Vehicles which are exempt from registration are:

- *A.R.S. § 28-2153(D)(1):* Farm tractors.
- *A.R.S. § 28-2153(D)(2):* Trailers used solely in the operation of a farm for transporting unprocessed fiber or forage products of a farm or any implement of husbandry designed primarily for or used in agricultural operations and only incidentally operated or moved upon a highway.
- *A.R.S. § 28-2153(D)(3):* Road rollers or road machinery, including power sweepers, temporarily operating or moved upon the highway.
- *A.R.S. § 28-2153(D)(4):* Vehicles operated by an owner under special provisions relating to lienholders, manufacturers, dealers and nonresidents.
- *A.R.S. § 28-2153(D)(5):* Motorized or nonmotorized equipment designed primarily for and used in mining operations and only incidentally operated or moved on a highway.
- *A.R.S. § 28-2153(D)(6):* A motor vehicle towed by a tow truck which has been registered.
- *A.R.S. § 28-2153(D)(7):* A golf cart or other motor vehicle used in the operation of a golf course and only incidentally operated or moved on a highway.
- *A.R.S. § 28-2153(D)(8):* Wheeled equipment, such as compressors, forklifts, portable cement mixers, tow dollies, tar pots, water trailers, welders, etc.

[104] Any information for Vehicle License Tax Expenditures was provided by the Arizona Department of Transportation.
[105] Source: 2019 Tax Handbook, Joint Legislative Budget Committee

- *Arizona Constitution, Article 9, Section 2:* A vehicle in the name and owned by a government agency such as the Federal, State, County or Municipalities.
- *Arizona Constitution, Article 9, Section 2:* A vehicle that is the property of educational, charitable and religious associations or institutions not used or held for profit.
- *Arizona Constitution, Article 9, Section 2:* A school vehicle that is the property of educational, charitable and religious associations not used or held for profit.
- *Arizona Constitution, Article 20, Section 5:* A vehicle owned by an enrolled member of a Native America tribe who resides on the reservation.
- *Arizona Constitution, Article 9, Section 2:* A vehicle owned by a widow or widower.
- *A.R.S. § 28-5802:* A vehicle that is acquired by financial aid from the Veteran's Administration and that is owned by a veteran.
- *A.R.S. § 28-5802:* A vehicle owned by a 100% disabled veteran.
- *Soldiers and Sailors Civil Relief Act of 1940:* A vehicle owned by a nonresident military member or officer of Public Health Service.
- *A.R.S. § 28-5811:* An Arizona resident who is a member of the U.S. armed forces, including a National Guard or Reserve Unit who is deployed in support of a worldwide contingency operation may register a newly acquired vehicle or renew the registration of a motor vehicle for one year without payment of registration and vehicle license tax fees.
- *A.R.S. § 28-5803(A):* A vehicle owned by a recipient of public monies as a disabled individual under Title 16 of the Social Security Act.

SUMMARY OF VEHICLE LICENSE TAX EXPENDITURES – FISCAL YEAR 2019

VEHICLE LICENSE PREFERENTIAL TAX RATES:

School buses	NIA[106]
Ambulances and fire fighting vehicles	NIA
Motor vehicles operated by alternative fuel	NIA
TOTAL VALUE OF VEHICLE LICENSE TAX PREFERENTIAL TAX RATES	**NIA**

VEHICLE LICENSE TAX EXEMPT MOTOR VEHICLES:

Farm tractors	NIA
Trailers used solely in the operation of a farm for transporting the unprocessed fiber or forage products of a farm o any implement of husbandry designed primarily for or used in agriculture	NIA
Road rollers or road machinery	NIA
Any owner permitted to operate a vehicle under special provisions relating to lienholders, manufacturers, dealers and nonresidents	NIA
Motorized or nonmotorized equipment designed primarily for and used in mining operations	NIA
Motor vehicles being towed by a truck	NIA
Golf carts or other motor vehicles on a golf course	NIA
Wheeled equipment	NIA
Vehicles purchased by Native Americans residing on the reservation	NIA
Vehicles owned by a government or by a nonprofit organization with a form approved by the division of emergency management	NIA
Vehicles owned by certain veterans	NIA
Vehicles owned by disabled individuals	NIA
TOTAL VALUE OF VEHICLE LICENSE TAX EXEMPT VEHICLES	**NIA**

TOTAL QUANTIFIABLE VEHICLE LICENSE TAX EXPENDITURES[107] **NIA**

[106] No Information Available.

[107] This amount represents foregone revenue to the state highway fund, the state general fund, counties and corporate cities and towns.

WORKERS' COMPENSATION PREMIUM LIEU TAX EXPENDITURES[108] CALENDAR YEAR 2018

TAX COLLECTED BY: Arizona Industrial Commission

CALENDAR YEAR 2018 TOTAL STATE REVENUE COLLECTED: $19,581,591

TOTAL FY 2019 TAX EXPENDITURE: $4,001,141

TAX EXPENDITURE AS A PERCENT OF TOTAL REVENUE: NIA

Workers' compensation premiums are taxed at a rate up to 1.75% on all premiums collected during the calendar year.

WORKERS' COMPENSATION PREMIUM LIEU TAX DEDUCTIONS

A.R.S. § 23-961 (J): Certain deductions are allowed from total premiums. These deductions are for applicable cancellations, returned premiums, and policy dividends or refunds paid or credited to policyholders within Arizona and not reapplied as premiums for new, additional or extended insurance. During calendar year 2018 the deductions from premiums totaled $4,001,141 and returns of tax overpayments by the Industrial Commission totaled $957,854.

SUMMARY OF WORKERS' COMPENSATION PREMIUM LIEU TAX EXPENDITURES CALENDAR YEAR 2018

Certain deductions	$4,001,141

TOTAL QUANTIFIABLE WORKERS' COMPENSATION PREMIUM LIEU TAX EXPENDITURES[109]

$4,001,141

[108] Any information presented for Workers' Compensation Premium Lieu Tax Expenditures were provided by the Industrial Commission of Arizona.

[109] This amount represents foregone revenue to the administrative and special funds of the Industrial Commission.