

Summary of 2020 Arizona Tax Legislation

Important Information About This Summary

This document briefly summarizes recent substantive changes to Arizona's tax laws. The bills addressed herein were approved by Arizona's Legislature and signed by Governor Ducey. Except as noted below, most of the bills were effective on the general effective date for the legislative session, August 25, 2020.

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

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A. Income Tax Legislation

HB 2494 and SB 1296: Internal Revenue Code; Conformity. Laws 2020, Chapters 24 and 40.

Provides for retroactive conformity to provisions of the Internal Revenue Code in effect on January 1, 2020 for tax years beginning January 1, 2010. Also provides that, for tax year 2019, Arizona conformed to the provisions of the Taxpayer First Act (P.L. 116-25) and that, for tax years 2016 through 2019, Arizona conformed to the provisions of the Further Consolidated Appropriations Act of 2020 (P.L. 116-94) that were retroactively effective during tax years 2016 through 2019. The Department of Revenue (the "Department") estimated that the fiscal impact of this bill on the state's general fund will be to decrease revenue by \$16.4 million in fiscal year 2020 and by \$13.1 million in fiscal year 2021, and to increase revenue by \$7.5 million in fiscal year 2022.

HB 2771: Tax Credits; Qualified Facilities; Extension. Laws 2020, Chapter 7.

Extends the deadline for capital investments to expand or locate qualifying manufacturing, headquarters, or research facilities in the state to a rolling deadline of not more than 36 months before taxpayers submit applications to get preapproved for the credit. Extends the termination date for these individual and corporate income tax credits from 2022 to 2030. (The amount of these credits is calculated as ten percent of the lesser of: (a) the total qualifying investment in the facility, or (b) \$200,000 for each net new full-time employment position that has duties associated with the facility.) Clarifies that, for purposes of the transaction privilege and use tax exemptions for electricity and natural gas used by certified "international operations centers" (minimum investment: \$1.25 billion in land, buildings and equipment within 10 years), such centers can be one facility or connected facilities under the same ownership. Prohibits international operations centers that are certified after December 31, 2018 from also taking the \$25 million credit for investments of at least \$100 million in new renewable energy facilities that produce energy for self-consumption using renewable sources that is used primarily for the international operations center. Extends the end date for the special calculation of Arizona's increased research and development credit for corporate income tax for an additional nine years, from December 31, 2021 to December 31, 2030. Reduces from fifteen years to ten years the number of years that this credit may be carried forward for credits generated in or after 2022. The Joint Legislative Budget Committee estimated that the changes implemented by this bill will permit one additional company to qualify for the credit for renewable energy facilities that produce energy for self-consumption and thereby reduce revenue to the state's general fund by \$5 million annually beginning in fiscal year 2021.

SB 1021: Department of Revenue; Electronic Signatures. Laws 2020, Chapter 60.

Provides that electronic signatures have the same force and effect as written signatures and that the Department shall accept, and may require, electronic signatures as the functional equivalent of written signatures on documents submitted to the Department. Identifies requirements for electronic signatures. Permits the Department to adopt rules prescribing the types of electronic signatures required and the manner and format in which signatures must be affixed to electronic records.

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SB 1100: STO Report. Laws 2020, Chapter 60.

Requires the Department to post annual reports filed by school tuition organizations ("STOs") on the Department's website. The reports must contain information related to total contributions to and total distributions from each STO and details regarding the percentage and total dollar amounts of distributions to students whose family incomes are within certain parameters as well as details regarding the total number and dollar amounts of scholarships awarded to each school and the names, job titles, and salaries of the three employees at each STO with the highest annual salaries.

SB 1295: Department of Revenue; Continuation. Laws 2020, Chapter 39.

Terminates the Department effective July 1, 2028.

SB 1348: Tax Corrections Act of 2020. Laws 2020, Chapter 43.

Makes numerous technical corrections and some substantive changes to Arizona's tax laws. Substantive changes to Arizona's income tax laws include: (1) taxpayers may not claim deductions for contributions for which credits are allowed under Arizona's income tax laws even if the contribution is treated as a payment of state income tax, and (2) repealed corporate income tax credits for construction costs for agricultural pollution control equipment, for employment by healthy forest enterprises, and for donations of school sites. This bill included a savings clause for the income tax credits it repealed, assuring the continuing validity of amounts carried forward from previous taxable years for application against subsequent tax liabilities as allowed by prior law. Some of the changes in this bill were retroactive. (Also affects Arizona sales and property tax laws as summarized below.)

B. Transaction Privilege ("Sales") and Use Tax Legislation**Important Information About This Section**

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

SB 1021: Department of Revenue; Electronic Signatures. Laws 2020, Chapter 60.

Provides that electronic signatures have the same force and effect as written signatures and that the Department shall accept, and may require, electronic signatures as the functional equivalent of written signatures on documents submitted to the Department. Identifies requirements for electronic signatures. Permits the Department to adopt rules prescribing the types of electronic signatures required and the manner and format in which signatures must be affixed to electronic records.

SB 1121: Model City Tax Code; Procedures. Laws 2020, Chapter 71.

Clarifies that the Department maintains the official version of the Model City Tax Code ("MCTC"), must post it on the Department's website, and that any changes not reflected in the official version of the MCTC are void and of no effect. Requires the Department to post all proposed MCTC amendments and all meeting notices and agendas for all Municipal Tax Code Commission ("MTCC") meetings at least thirty days before any informational public hearing, and at least sixty days before any MTCC meeting that could result in a vote on a proposed amendment to the MCTC. Clarifies that all Arizona cities and towns must implement all changes adopted by the MTCC and that cities and towns may not implement changes to their tax codes, other than tax rate changes, unless they were adopted by the MTCC. Requires cities and towns that adopt new or different tax rates, including the adoption or repeal of model or local options that increase the amount of tax that a taxpayer must pay, to notify the Department and the MTCC within ten days of passing the ordinance.

SB 1295: Department of Revenue; Continuation. Laws 2020, Chapter 39.

Terminates the Department effective July 1, 2028.

SB 1348: Tax Corrections Act of 2020. Laws 2020, Chapter 43.

Makes numerous technical corrections and some substantive changes to Arizona's tax laws. Substantive changes to Arizona's sales tax laws include: (1) taxpayers required to make estimated payments must pay them electronically by June 30 each year, and (2) the exemption from the personal property rental classification that applies when taxes were paid on the purchase of tangible personal property that is subsequently leased from a parent corporation to a subsidiary of the same corporation, or from one subsidiary of a corporation to another subsidiary of the same corporation, is extended to all types of business entities with "subsidiary" defined as a business entity of which at least eighty percent of the voting shares are owned by the parent business entity. (Also affects Arizona income tax laws as summarized above and Arizona property tax laws as summarized below.)

C. Property Tax Legislation**SB 1021: Department of Revenue; Electronic Signatures. Laws 2020, Chapter 60.**

Provides that electronic signatures have the same force and effect as written signatures and that the Department shall accept, and may require, electronic signatures as the functional equivalent of written signatures on documents submitted to the Department. Identifies requirements for electronic signatures. Permits the Department to adopt rules prescribing the types of electronic signatures required and the manner and format in which signatures must be affixed to electronic records.

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SB 1099: Tax Deed Land Sales; Proceeds. Laws 2020, Chapter 70.

Requires county treasurers to distribute the balance of funds, if any, from sales of real property held by the state either because a tax lien investor failed to redeem the lien they purchased or because nobody purchased the lien, to the owner of the property dispossessed by the sale after payment of all outstanding taxes, interest, penalties, fees, and costs.

SB 1113: Mortgaged Property; Tax Statements; Information. Laws 2020, Chapter 11.

Identifies the information that must be included in property tax statements mailed by county treasurers each year before November 1 as: (a) the amount of primary taxes and secondary taxes applicable to the property due to each taxing jurisdiction for the current and the previous tax year, and (b) if applicable, the amount of additional state aid provided to school districts (for class 3 residential properties) for the current and the previous tax year.

SB 1295: Department of Revenue; Continuation. Laws 2020, Chapter 39.

Terminates the Department effective July 1, 2028.

SB 1348: Tax Corrections Act of 2020. Laws 2020, Chapter 43.

Makes numerous technical corrections and some substantive changes to Arizona's tax laws. The substantive change to Arizona's property tax laws expands the provision that requires that limited property values for properties that were split or consolidated between January 1 and September 30 of the valuation year to be established at a level or percentage of full cash value that is comparable to that of other properties of the same or a similar use or classification to apply to properties that were subdivided within that timeframe, except in cases that resulted from an action initiated by a government entity. (Also affects Arizona income and sales tax laws as summarized above.)

D. Other Tax & Tax-Related Legislation**SB 1021: Department of Revenue; Electronic Signatures. Laws 2020, Chapter 60.**

Provides that electronic signatures have the same force and effect as written signatures and that the Department shall accept, and may require, electronic signatures as the functional equivalent of written signatures on documents submitted to the Department. Identifies requirements for electronic signatures. Permits the Department to adopt rules prescribing the types of electronic signatures required and the manner and format in which signatures must be affixed to electronic records.

SB 1295: Department of Revenue; Continuation. Laws 2020, Chapter 39.

Terminates the Department effective July 1, 2028.