Upcoming Changes to Select Arizona Tax Incentives: Part 2

by James G. Busby, Jr., CPA

In this month's state and local tax (SALT) column, Busby highlights important changes that will extend Arizona personal property tax incentives to qualifying personal property located within foreign trade or military reuse zones and changes to the state's mechanism for funding the cost of public infrastructure improvements that benefit manufacturing facilities.

Part I of this column focused on upcoming changes to Arizona tax credits for individuals, corporations and insurance companies that make qualifying investments in new jobs, facilities and research in Arizona. Such changes, required by S.B. 1416, will go into effect on January 1, 2018.

Beginning on the same date, S.B. 1416 also extends an important personal property tax incentive to qualifying property located within foreign trade or military reuse zones and changes the mechanism Arizona uses to fund the cost of public infrastructure improvements that benefit manufacturing facilities.

Accelerated Depreciation for Qualifying Personal Property

In 2011, the Arizona Legislature provided additional accelerated depreciation for specific types of business personal property purchased during or after tax year 2012. The incentive applied primarily to class 1 personal property used by manufacturers, shopping centers and golf courses, and to class 2 personal property used for agricultural purposes, or by particular types of nonprofit organizations or golf courses.

S.B. 1416 extends this incentive to personal property located in foreign trade and qualifying military reuse zones.

Funding Public Infrastructure Improvements for Manufacturing Facilities

In 2012, after a leading global manufacturing company was unexpectedly saddled with paying the cost of the public infrastructure improvements necessary to support its major investment in a new manufacturing facility, the Legislature passed legislation requiring the state to pay up to 80 percent of the cost of public infrastructure improvements constructed for the benefit of new manufacturing facilities.

This funding mechanism applies when a manufacturer agrees to make a minimum capital investment of $500 million in a county with a population of 800,000 or more, or a minimum investment of $50 million in a county with a population of less than 800,000.

The amount the state pays is limited to the amount of sales tax paid by contractors hired to construct the facility and any off-site improvements or

James G. Busby, Jr., CPA, is a state and local tax attorney at The Cavanagh Law Firm. Busby previously worked in the SALT departments at Arthur Andersen and Deloitte & Touche. Before entering private practice, Busby was in charge of all transaction privilege (sales) tax audits at the Arizona Department of Revenue. If you have any questions, please contact the author. He can be reached at (602) 322-4146 or JBusby@CavanaghLaw.com.

public infrastructure improvements constructed for the benefit of the facility, and capped at $50 million.

Prior to S.B. 1416, cities, towns and counties that were required to make public infrastructure improvements to support these types of major investments by a manufacturer only had to commit a minimum of 20 percent of their state-shared sales tax revenue from contracts to construct the facility and any off-site improvements or public infrastructure improvements constructed for the benefit of the facility to help pay for the public infrastructure improvements.

S.B. 1416 requires cities, towns and counties that are required to make public infrastructure improvements to support these types of major investments by a manufacturer to commit all of their state-shared sales tax revenue from such contracts to help pay for the public infrastructure improvements. ■