

ATRA SUPPORTS HB2139

“Superweighting” the sales factor a good idea

Background

The current structure for the apportionment of multi-state corporate income is three-tiered, allocating a percentage to property, payroll, and sales. Arizona double weights the sales factor in the current formula as follows:

Income x [25% (property factor) + 25% (payroll factor) + 50% (sales factor)]

HB 2139 provides multi-state corporations with a second method for allocating income. This method would allow a multi-state corporation the option to use an 80% sales factor apportionment formula beginning in tax year 2007, phased in over a three-year period, in addition to the current double-weighted sales factor.

The optional apportionment formula is conditioned upon at least a \$1 billion investment in capital projects by participating corporations, to commence no later than December 15, 2007. In addition, the corporations agree to cooperate in an economic impact analysis conducted by the Joint Legislative Budget Committee (JLBC), which is required to produce a report on the economic impact of the program by July 1, 2011.

Basis for ATRA’s support

While most states originally taxed multistate corporate income by equally weighting property, payroll, and sales, the majority of states now give greater weight to sales in an effort to encourage business to expand payroll and property in their state. This change in corporate tax policy takes on an added importance in Arizona where business tax burdens are above average nationally and property taxes in particular are some of the highest in the country.

Addressing the impact that Arizona’s high business tax burdens have on economic development will be a difficult and time-consuming process. HB 2139 is an important and affordable step in our effort to improve Arizona’s tax climate.

ATRA URGES YOU TO VOTE *YES* ON HB2139



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