

2007 Arizona Tax Conference

Thursday, September 27, 2007
Flagstaff, AZ

Business Community Forum

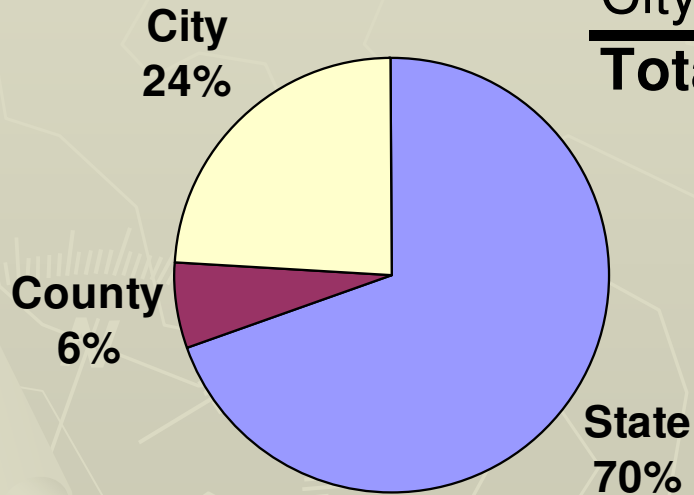
Moderator: Kevin McCarthy, ATRA

Sales & Use Taxes (TPT)

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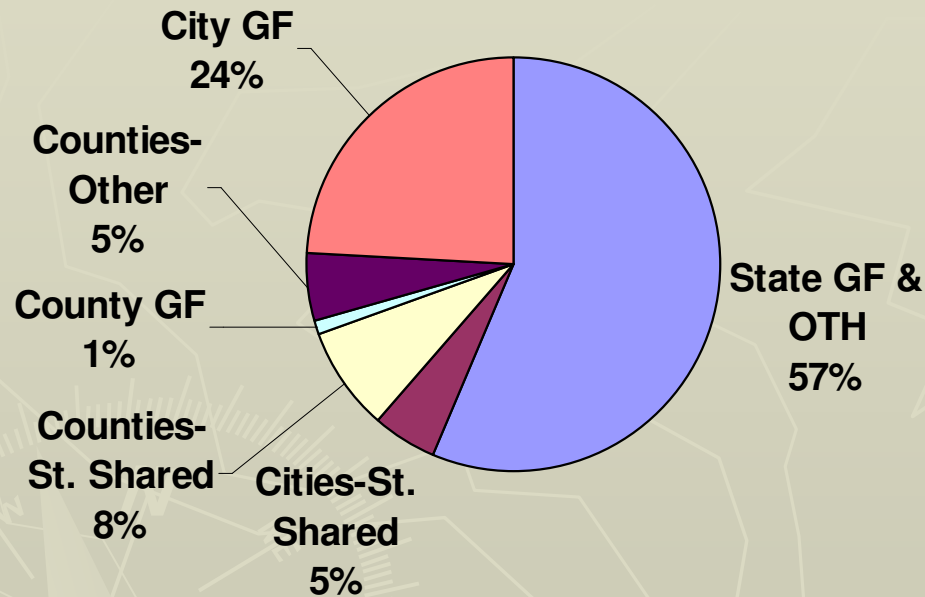
FY 2006 State and Local Sales Tax

| | |
|---------------------------|------------------------|
| State Collections: | \$6,098,267,976 |
| County Collections: | \$560,522,785 |
| City Collections | \$2,122,283,207 |
| Total Collections: | \$8,781,073,968 |



Source: Arizona Department of Revenue & Arizona Tax Research Association

FY 2006 State and Local Sales Tax Distributions



State

| | |
|---------------------|------------------------|
| State & Other | \$4,956,892,495 |
| Cities-St. Shared | \$435,580,692 |
| Counties-St. Shared | \$705,794,789 |
| State Total | \$6,098,267,976 |

Counties

| | |
|---------------------|----------------------|
| County General Fund | \$89,694,200 |
| Counties-Other | \$470,828,585 |
| County Total | \$560,522,785 |

Cities Total \$2,122,283,207

TOTAL \$8,781,073,968

Recent Changes

- ▶ Joint Audits
- ▶ Managed Audits
- ▶ BRITS - *Business Reengineering & Integrated Tax System*
- ▶ Prime Contracting

Current Issues

- ▶ State/City Conformity
- ▶ SSTP - *Streamlined Sales Tax Project*
- ▶ Sales Tax Incentives
- ▶ Sales Tax Rates

Average Sales Tax Rates

1980 - Retail

- State Rate = 4%
- Avg. City Rate = 1.2%
- **Total Avg. Rate = 5.2%**

1990 - Retail

- State Rate = 5%
- Avg. City Rate = 1.6%
- Avg. County Rate = 0.5%
- **Total Avg. Rate = 7.1%**

2007 - Retail

- State Rate = 5.6%
- Avg. City Rate = 2.4%
- Avg. County Rate = 0.7%
- **Total Avg. Rate = 8.7%**

2007 - Contracting

- State Rate = 5.6%
- Avg. City Rate = 2.8%*
- Avg. County Rate = 0.7%
- **Total Avg. Rate = 9.1%**

* 14 city contracting rates are now 4% to 5%, resulting in combined contracting rates as high as 11.3%.

Property Taxes

Chris Kelling









**Lead Tax Analyst, State & Local
Tax Services**

Tucson Electric Power

Property Taxes

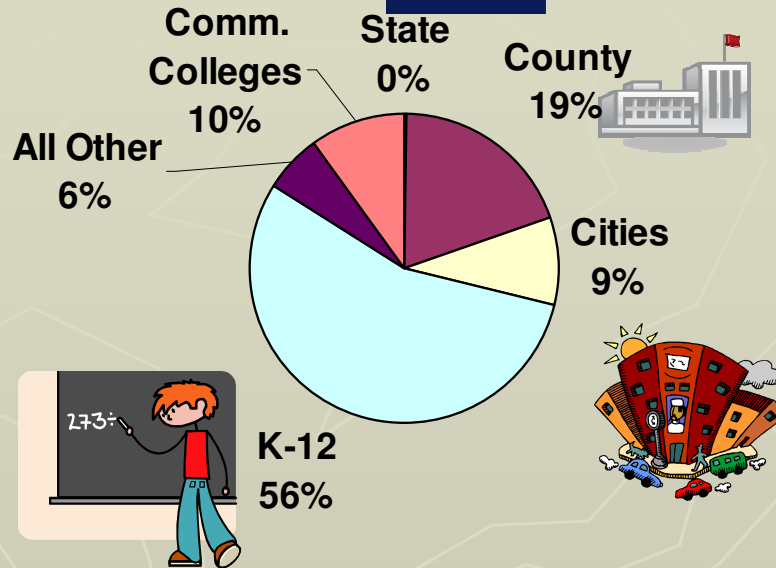
- ▶ Where Does The Tax Come From (Who Pays It)?
- ▶ Where Does It Go?
- ▶ Recent Policy Changes
- ▶ Current Issues – What Does The Future Hold?

2006 Effective Tax Rates

| | Total Taxable | Percent of | Percent of | Effective | |
|---|------------------------|-------------------|----------------------|------------------|--------------|
| Class | Full Cash Value | Total | Total Yield | Rate | |
|  1 | 86,634,673,011 | 21.07% | 2,111,348,298 | 39.84% | 2.44% |
|  2 | 31,972,041,127 | 7.77% | 437,306,341 | 8.25% | 1.37% |
|  3 | 251,178,576,879 | 61.08% | 2,295,136,072 | 43.31% | 0.91% |
|  4 | 37,878,963,302 | 9.21% | 411,038,786 | 7.76% | 1.09% |
|  5 | 1,396,524,613 | 0.34% | 32,301,894 | 0.61% | 2.31% |
|  6 | 2,131,510,807 | 0.52% | 11,975,551 | 0.23% | 0.56% |
|  7 | 28,325,074 | 0.01% | 514,928 | 0.01% | 1.82% |
|  8 | 2,970,378 | 0.00% | 37,355 | 0.00% | 1.26% |
| 9 | 16,854,284 | 0.00% | 10,488 | 0.00% | 0.06% |
| Total | 411,240,439,475 | 100.00% | 5,299,669,714 | 100.00% | 1.29% |

Source: Arizona Tax Research Association – Tax Year 2006 Property Tax Model

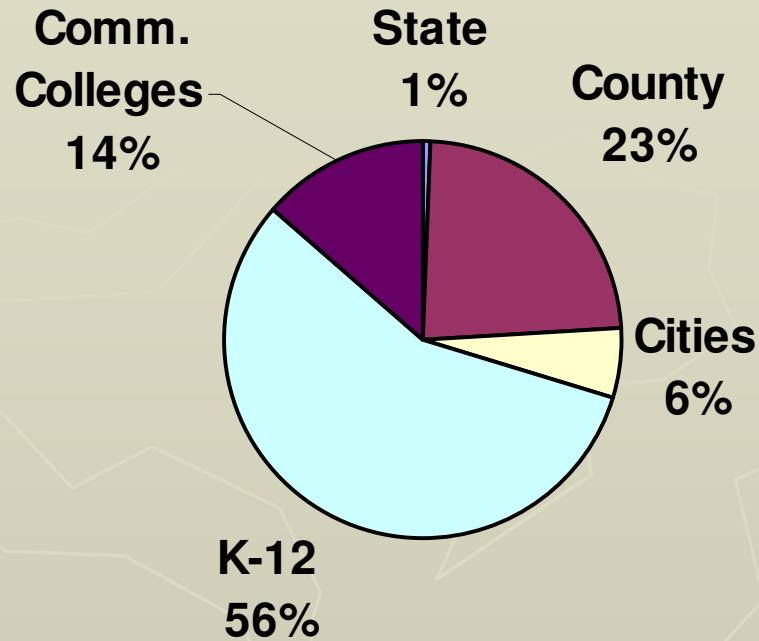
2007 Total Levies



| Jurisdiction | 2007 Total Levies | % of Total |
|----------------|------------------------|---------------|
| State | \$20,427,985 | 0.3% |
| County | \$1,219,491,080 | 19.4% |
| Cities | \$585,007,416 | 9.3% |
| K-12 | \$3,453,659,782 | 54.8% |
| All Other | \$384,308,253 | 6.1% |
| Comm. Colleges | \$637,813,033 | 10.1% |
| Totals | \$6,300,707,549 | 100.0% |

Source: Arizona Department of Revenue & Arizona Tax Research Association

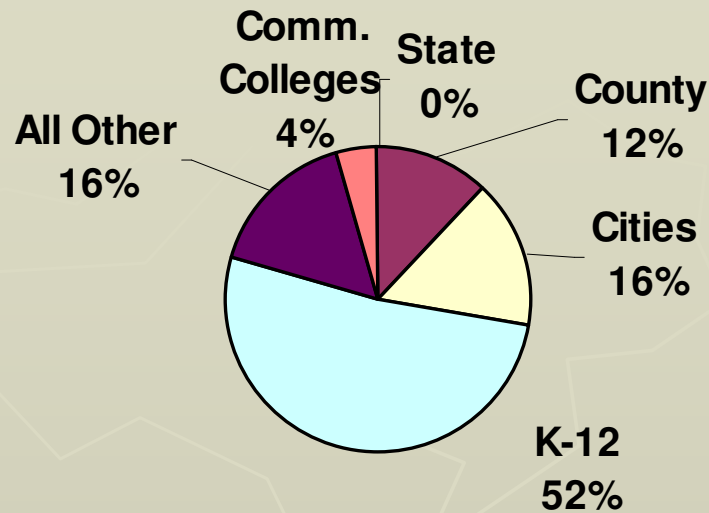
2007 Total Primary Levies



| Jurisdiction | 2007 Primary Levies | % of Total |
|---------------------|----------------------------|-------------------|
| State | \$20,427,985 | 0.5% |
| County | \$929,898,108 | 23.6% |
| Cities | \$217,886,558 | 5.5% |
| K-12 | \$2,235,991,358 | 56.8% |
| Comm. Colleges | \$533,347,997 | 13.5% |
| Totals | \$3,937,552,006 | 100.0% |

Source: Arizona Department of Revenue & Arizona Tax Research Association



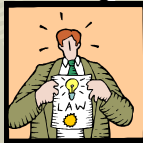

2007 Total Secondary Levies




| Jurisdiction | 2007 Secondary Levies % of Total | |
|---------------------|---|---------------|
| State | \$0 | 0.0% |
| County | \$289,592,972 | 12.3% |
| Cities | \$367,120,858 | 15.5% |
| K-12 | \$1,217,668,424 | 51.5% |
| All Other | \$384,308,253 | 16.3% |
| Comm. Colleges | \$104,465,036 | 4.4% |
| Totals | \$2,363,155,543 | 100.0% |

Source: Arizona Department of Revenue & Arizona Tax Research Association

Recent Policy Changes

- ▶ Lowering of Class 1 Assessment Ratio – 1% a year from 24% in 2007 to 20% in 2011 
- ▶ Accelerated Depreciation Increase for Locally Assessed Property 
- ▶ Temporary Elimination of State Property Tax Rate 
- ▶ Passage of Proposition 101 

Current and Future Issues

- ▶ Permanent Elimination of State Property Tax Rate 

- ▶ Limitations on Special District Secondary Property Taxes 

- ▶ Voter Approval for All Special Districts 

- ▶ Approve Amounts for School Overrides Instead of Percentage of Budget 

- ▶ Arizona Tax Revolt 

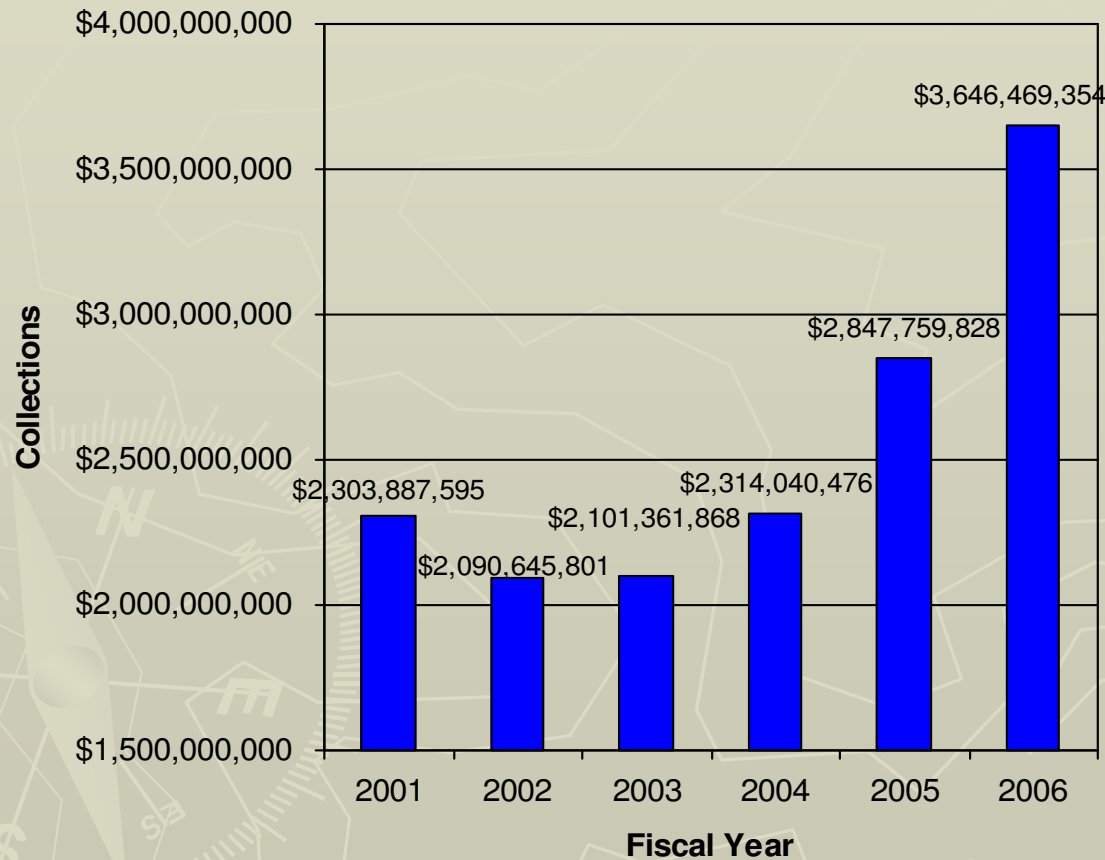
Personal & Corporate Income Taxes

**Steve Barela, State & Local
Tax Manager
*Arizona Public Service Co.***

Where it comes from:

- ▶ Per FY 2006 ADOR Annual Report
- ▶ 2,030,166 Resident Personal Income Tax filings in Tax Year 2003
- ▶ 189,841 Nonresident/Part Year Personal Income Tax filings in Tax Year 2003
- ▶ 51,143 Corporate Income Tax filings in Tax Year 2003

Individual Income Tax Collections



FY 2006 \$3,646,469,354

FY 2005 \$2,847,759,828

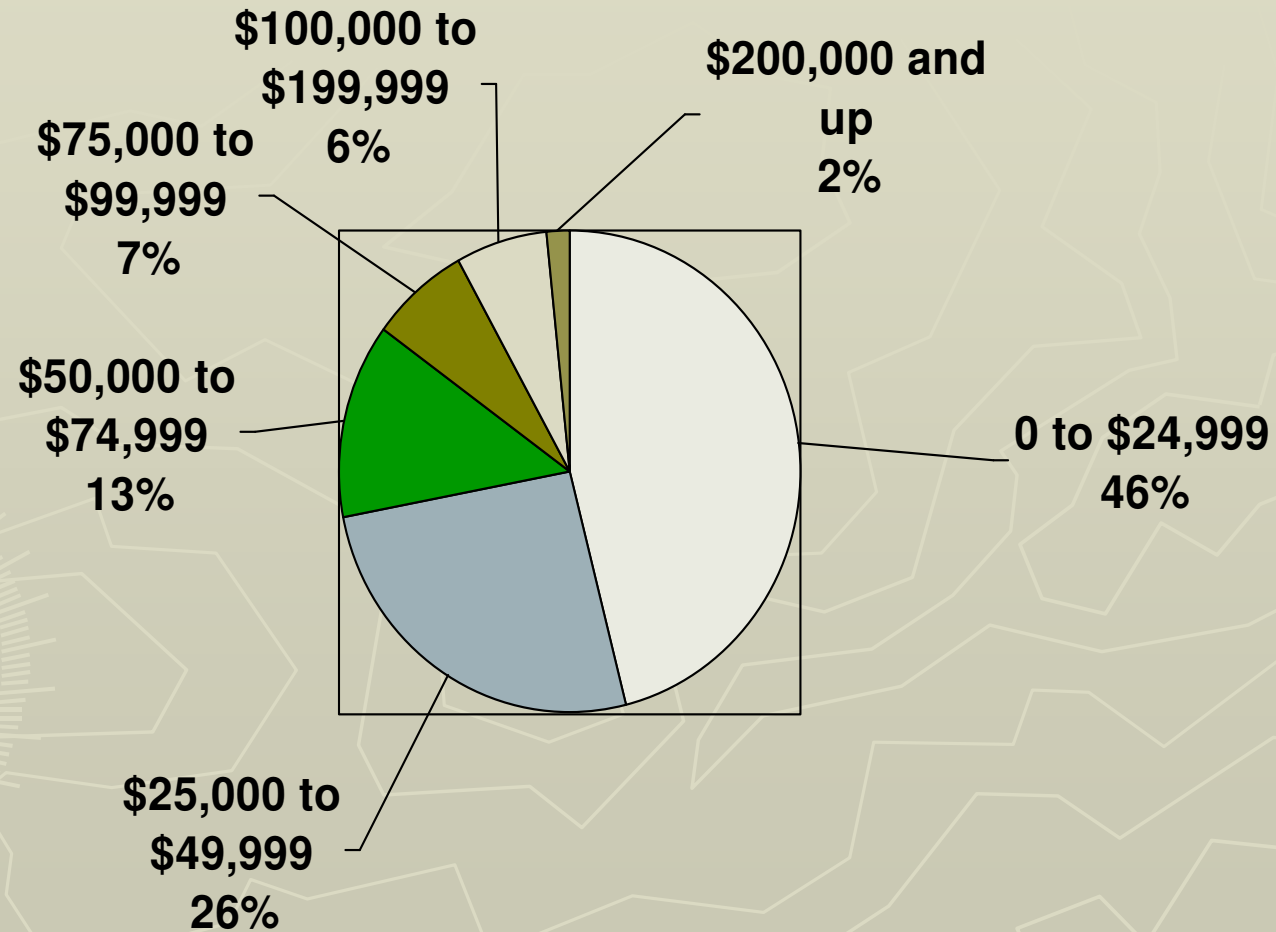
FY 2004 \$2,314,040,476

FY 2003 \$2,102,361,863

FY 2002 \$2,090,645,801

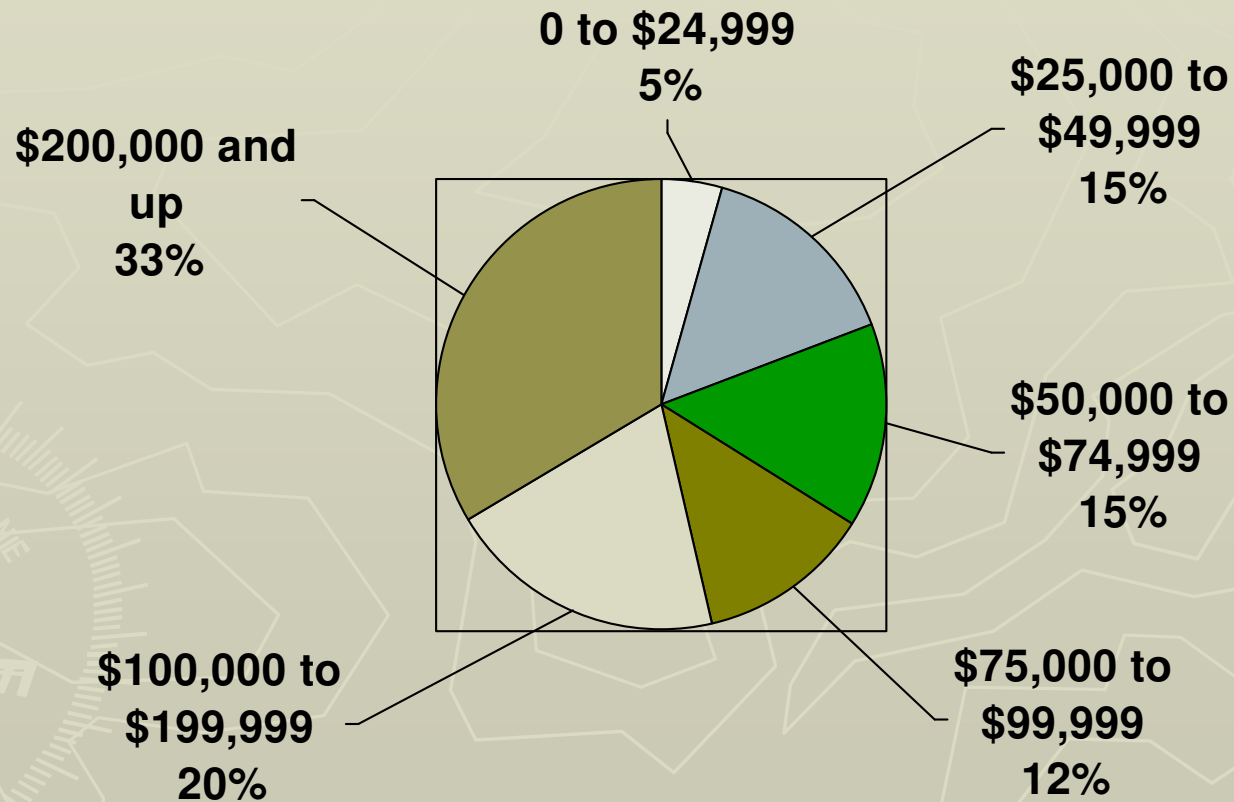
FY 2001 \$2,303,887,595

Percentage of Income Tax Filers by Category (2003)



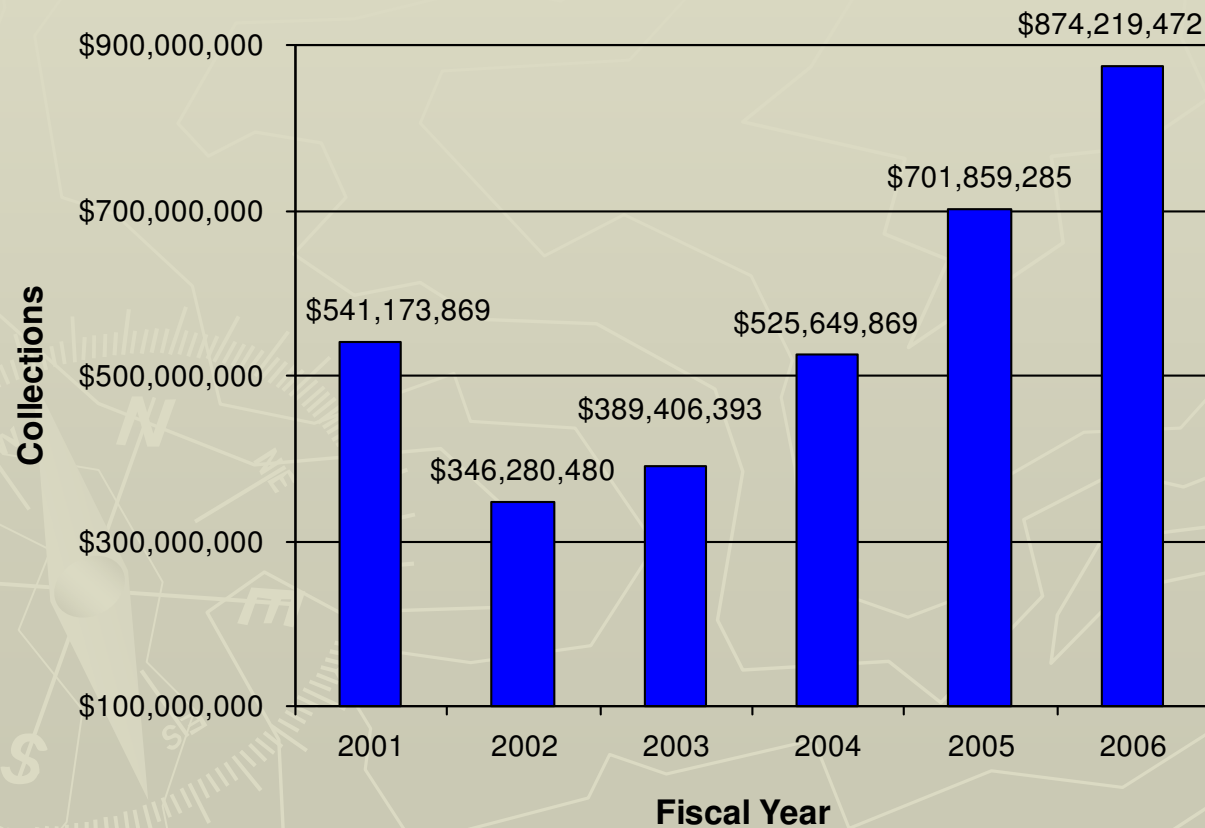
Source: Arizona Department of Revenue

Income Tax Liability By Category (2003)



Source: Arizona Department of Revenue

Corporate Income Tax Collections



FY 2006 \$874,219,472

FY 2005 \$701,859,285

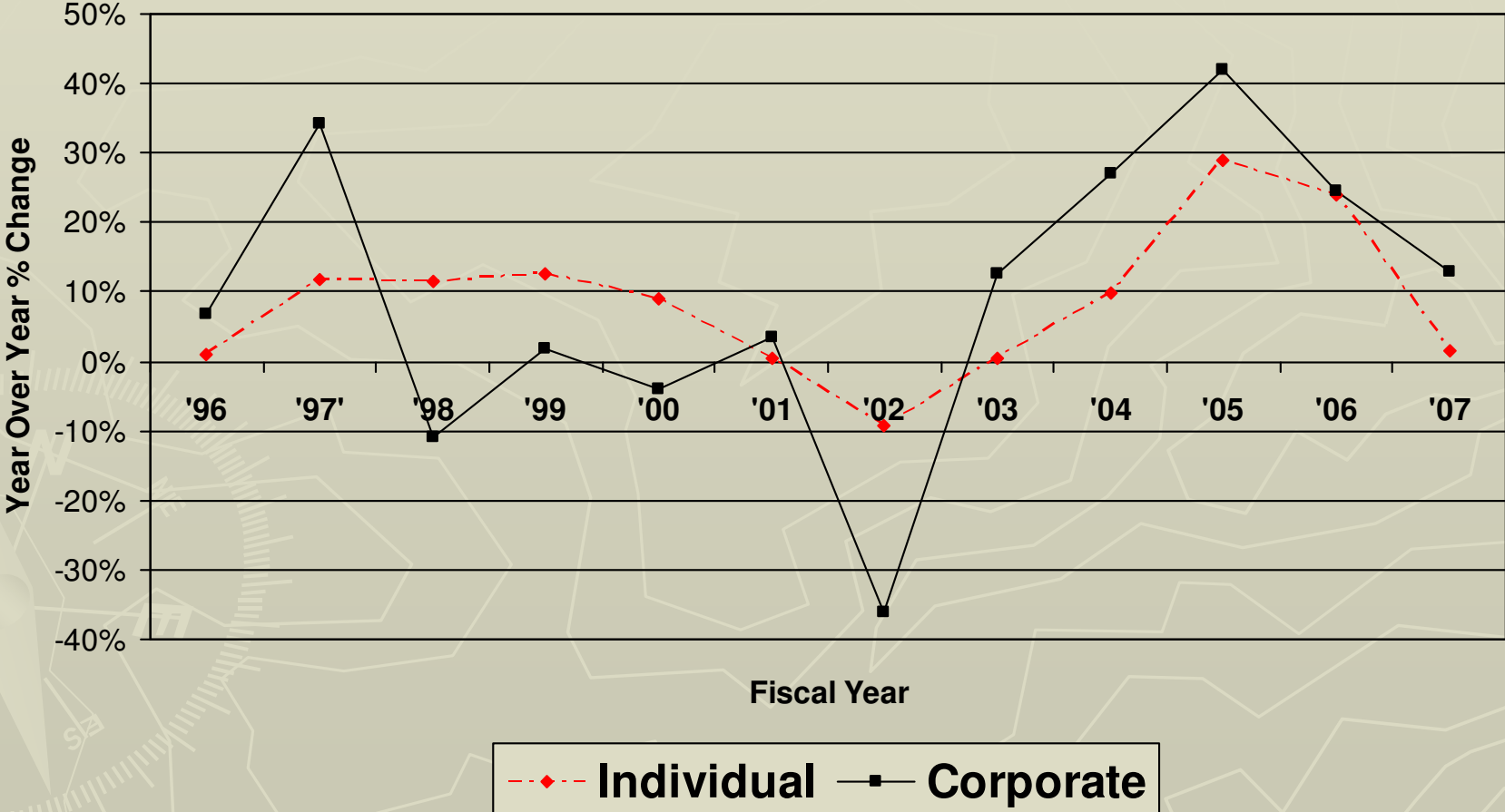
FY 2004 \$525,649,869

FY 2003 \$389,406,393

FY 2002 \$346,280,480

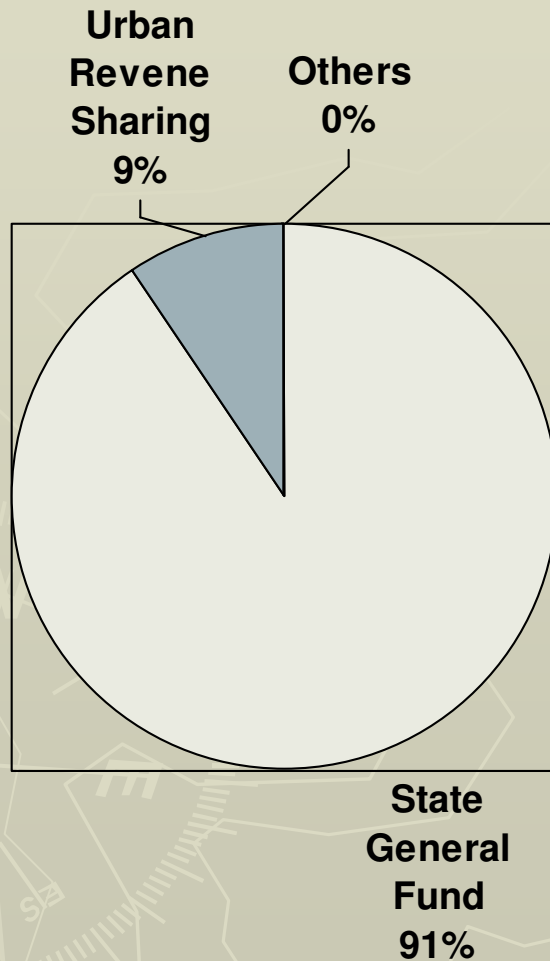
FY 2001 \$541,173,869

Volatility of the Individual & Corporate Income Tax Over the Last Ten Years



Source: Joint Legislative Budget Committee

FY 2006 Income Tax Distributions



| | |
|------------------------------|------------------------|
| State General Fund | \$4,089,641,855 |
| Urban Revenue Sharing | \$425,228,927 |
| Others | \$5,818,044 |
| FY 2006 Total | \$4,520,688,826 |

| | |
|----------------|------------------------|
| FY 2005 | \$3,549,619,113 |
| FY 2004 | \$2,839,690,345 |
| FY 2003 | \$2,491,768,256 |
| FY 2002 | \$2,436,926,281 |
| FY 2001 | \$2,845,061,464 |

Note: Cities and towns receive a percentage of total income tax revenue based on the net income tax collections two years earlier. The money distributed for FY 2006 was based on collections in FY 2004.

Personal Income Tax Rate – 2007

(Married filing Jointly)

| <u>Taxable Income</u> | <u>Tax Rates</u> |
|-----------------------|-------------------------|
| \$0 - \$20,000 | 2.59% of Taxable Income |
| \$20,001 - \$50,000 | \$518 plus 2.88% |
| \$50,001 - \$100,000 | \$1,382 plus 3.36% |
| \$100,001 - \$300,000 | \$3,062 plus 4.24% |
| \$300,001 and over | \$11,542 plus 4.54% |

Personal Income Tax Rate Differences (1997-2007)

| <u>1997 Tax Rates</u> | <u>2007 Tax Rates</u> | <u>% Decrease</u> |
|-----------------------|-----------------------|-------------------|
| 2.90% | 2.59% | -10.7% |
| \$580 plus 3.30% | \$518 plus 2.88% | -12.7% |
| \$1,570 plus 3.90% | \$1,382 plus 3.36% | -13.8% |
| \$3,520 plus 4.80% | \$3,062 plus 4.24% | -11.7% |
| \$13,120 plus 5.17% | \$11,542 plus 4.54% | -12.2% |

Personal Income Tax Rate Differences (1992-2007)

| <u>1992 Tax Rates</u> | <u>2007 Tax Rates</u> | <u>% Decrease</u> |
|-----------------------|-----------------------|-------------------|
| 3.80% | 2.59% | -31.8% |
| \$760 plus 4.40% | \$518 plus 2.88% | -34.6% |
| \$2,080 plus 5.25% | \$1,382 plus 3.36% | -36% |
| \$4,705 plus 6.50% | \$3,062 plus 4.24% | -34.8% |
| \$17,705 plus 7.00% | \$11,542 plus 4.54% | -35.1% |

Corporate Rate Decreases

- ▶ 1990 – 9.3%
- ▶ 1997 – 9.0%
- ▶ 1998 – 8.0%
- ▶ 2000 – 7.968%
- ▶ 2001 – 6.968%

Note: \$50 minimum tax

Income Tax Credit Facts

- ▶ 1993: 7 Individual Credits Available
- ▶ 2007: 31 Individual Credits Available

- ▶ 1993: 3 Corporate Credits Available
- ▶ 2007: 27 Corporate Credits Available

Current Issues & Changes

- ▶ IRC Conformity

Reduces both state administrative costs and taxpayer compliance costs

- ▶ However, conformity can have a negative effect on state income tax revenues

Recent example: Job Creation and Workers Assistance Act of 2002 – Bonus Depreciation

Current Issues & Changes

- Sales Factor – Law Passed in 2005
- Allows multi-state corporations to elect an enhanced sales factor formula
- Option 1 – Existing double weighted (50%) sales factor
- Option 2 – 80% sales factor, to be phased in 60% in 2007, 70% in 2008, 80% in 2009