Revenue and Budget Update

Arizona Tax Research Association

November 21, 2025

JLBC

Key Points

- The October 9th Finance Advisory Committee (FAC) update revised General Fund revenue and expenditure projections through FY 29.
- The projected cash balance is positive in each year after accounting for statutory funding formula growth.
- The lowest ending balance in the 3-year budget projection determines the dollars available for discretionary purposes.
- The lowest ending balance is $67 M in FY 28.

$67 M Balance Insufficient to Continue FY 26 One-Time Projects

- These Largest One-Time Projects Cost $580 M

		$ in M
1)	State Employee Health Insurance Subsidy (Ongoing One-Time)	195
2)	School Facility Repairs (Ongoing One-Time)	183
3)	K-12 Low Income/Additional Assistance	66
4)	ADC Private Prison Support (Expires After FY 27)	54
5)	DES Child Care	45
6)	ADC Correctional Officer 4% Bonus Stipends	21
7)	University Promise Scholarship (In-State/Pell-Eligible)	16

$67 M Balance Insufficient to Address $1.1 B of H.R. 1 Tax Impacts

- Arizona conforms a portion of its state income tax to the federal forms.
- H.R. 1, the federal budget legislation of this summer, made numerous changes to federal income tax laws effective as of January 2025.
- The state has the choice of how many H.R. 1 federal tax provisions to incorporate into state law.
- If we conform to all federal changes, the projected General Fund revenue loss is $(438) M in FY 26, $(336) M in FY 27 and $(372) M in FY 28.
- The fiscal impact may change depending on the results of Department of Revenue statistical model runs.

$67 M Balance Insufficient to Address H.R. 1 Admin Spending
- But Border Security Funding Could Defray H.R. 1 Impacts

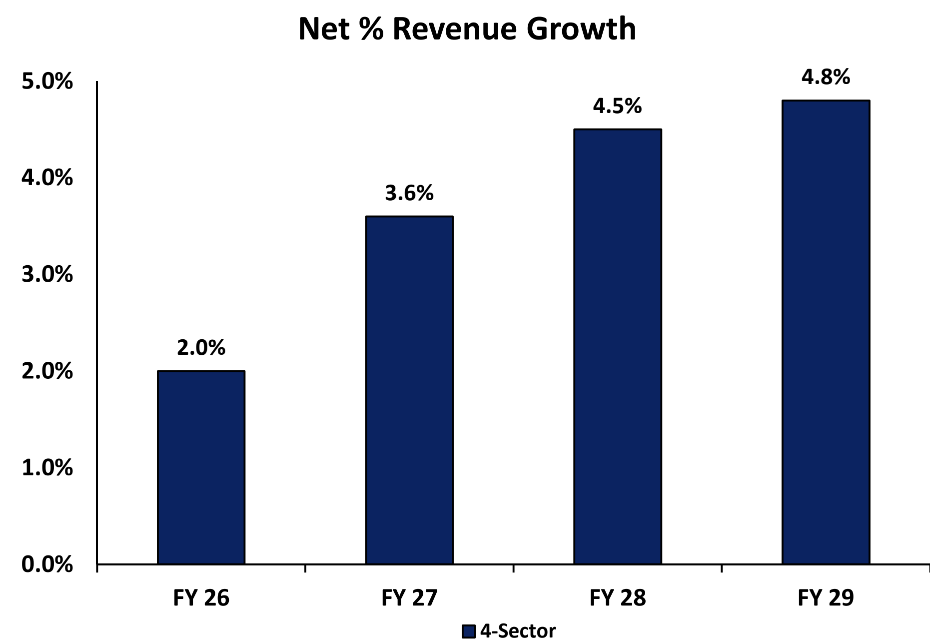
	$ in M
• DES SNAP (Food Stamps) FY 26-FY 28 administrative cost to lower error rate ($ = DES request)	62
• AHCCCS FY 26-FY 28 administrative cost to implement new work program & semiannual eligibility checks ($ = AHCCCS request)	50

- H.R. 1 provided $10 B to reimburse states for border security costs since 2021.
  - Arizona has requested $750 M
  - State statute requires this reimbursement to be deposited into the General Fund and could be used as directed in the budget.

Forecasting State Revenues

4-Sector: Slow 2.0% Growth In FY 26
- With Gradual Improvement From FY 27 Through FY 29

4-Sector Components
- Finance Advisory Committee
- UA model – base forecast
- UA model – more cautious
- JLBC Staff



Excludes balance forward, fund transfers and urban revenue sharing

See Appendix A and B

What Are the Factors Behind 2.0% Growth in FY 26?

- Year-to-Date Revenue Growth Through September Is 1.9%

- Tax Categories Projected to Grow 3.2%:
  - Sales Tax 2.8%
  - Individual Income Tax 5.5%
  - Corporate Income Tax (5.8)%
  - Insurance Premium Tax 10.9%
- Non-Tax Revenue Forecast to Decline (14.6)%:
  - Interest earnings are projected to decline from $287 M to $220 M as the Federal Reserve is expected to continue to reduce its federal funds rate
  - General Fund Lottery revenue is forecasted to decline – a portion of FY 2026 distribution is based on FY 2025 ticket sales, which declined by (8.2)%.

Spending Adjustments

Baseline Spending Projections

- Reflects changes to active statutory/other funding formulas.
  - ADE, Medicaid and the Community Colleges.
- Annually adjusts federal Medicaid matching rates. H.R. 1 sets 2 new federal-state matching rates in the SNAP program.
  - State share of SNAP admin expenses increases from 50% to 75% = $33 M FY 27 cost
  - State share of SNAP benefits increases from 0% to 10% due to AZ's error rate in administering the program. Cost = $139 M in FY 28
- Follows guidance of the enacted budget 3-year plan by reducing one-time spending from $1.1 B in FY 26 to $290 M in FY 27 spending

FY 27 Baseline Spending Projected To Decrease By $(66) M

FY 27 Ongoing Spending Changes	
	$ in M
ADE – K-12 Formula	234
DES – Medicaid Formula	226
AHCCCS – Medicaid Formula	191
DES – SNAP Admin. Formula	33
Other	39
Total	**723**

Total Spending Changes	**$(66) M**
Total Spending	**$17.54 B**
% Change	**(0.4)%**

FY 27 One-Time Spending Changes	
	$ in M
Backfill AHCCCS Hospital Assessment Shift	100
State Employee Health Insurance	(195)
K-12 Building Renewal Grants	(183)
DES Housing/Services Funding	(128)
K-12/ADE Funding	(84)
Transportation/Capital Projects	(106)
Other Agency Spending	(193)
Total	**(789)**

Baseline Includes $216 M in FY 28 for Key Issues
- As Required by the FY 26 Budget's Long-Term Plan

- $66 M for the ongoing cost of K-12 additional assistance and low-income weight funding that was suspended for FY 27.
- $76 M for the I-10 widening in the West Valley between SR 85 and Citrus Road.
  - Project also funded with $27 M in FY 26 and $30 M in FY 27
- $49 M for the construction of an overpass at SR 347 and Riggs Road near the Maricopa and Pinal County border
  - Project also funded with $41.4 M in FY 26
- $25 M for the deferred Northwest Arizona Veterans Home.

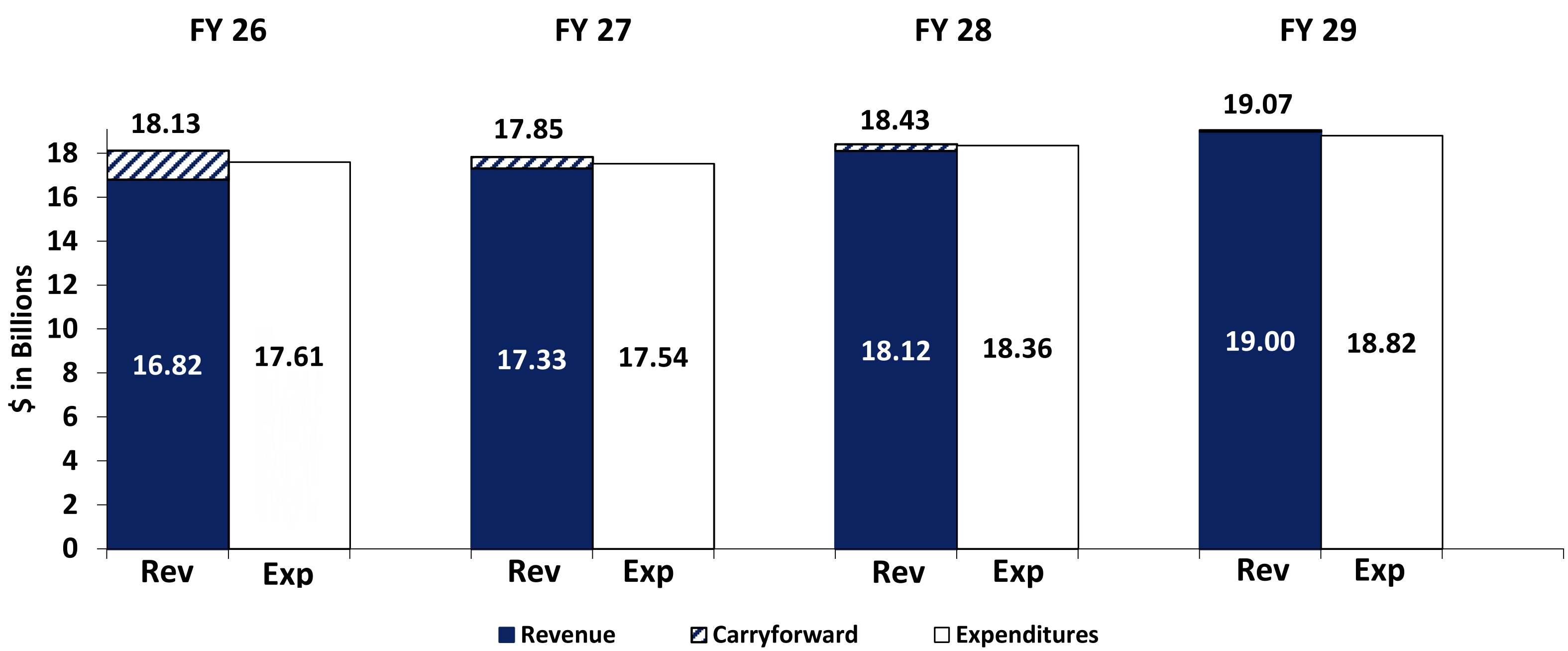
Projected Ending Balances

Excludes $1.6 B in Budget Stabilization Fund

More Information in Appendix C

Projected Balance Falls To $67 M By FY 28

- Each Year's Carryforward Is Used to Balance The Following Year Budget



Cash Balance	$519 M	$305 M	$67 M	$247 M

Is Stress Test Useful In The Current FAC Scenario?

- A stress test is a technique used by states to evaluate recession scenarios relative to reserves.
- Relative to a $67 M balance, we have already outlined $1.7 billion of "stress points" in the form of H.R. 1 and ongoing one-time spending issues.
- To test the impact of a mild recession, we would project flat revenue growth in FY 27 and 2% growth in FY 28.
    - Reduces FY 28 revenue by $(1.8) B compared to October forecast
- In contrast, the Budget Stabilization Fund balance is $1.6 B.

November Addendum to October 9th Budget Status

- Month-End October Corporate Revenues Were Much Higher than Expected

- October Corporate Income Tax collections doubled last year's amount.
- Total October General Fund revenues were $188 M above forecast.
- This new data could raise our October FAC FY 26 2% growth rate when FAC reevaluates the forecast in January.
- As a sample scenario, a 3% growth rate would increase ongoing revenues by $170 M above the October projections.
  - Total available resources through FY 28 would increase to approximately $600 M.
  - These added monies could provide some assistance but would not resolve the challenges from H.R. 1 tax and spending changes as well as "ongoing one-times."

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Appendix A: October 4-Sector Revenue Forecast

	2026	2027	2028	2029
Sales Tax				
JLBC Forecast	3.7%	4.4%	4.3%	4.3%
UA – Low	1.7%	2.8%	3.9%	4.1%
UA – Base	3.1%	3.9%	4.3%	4.5%
FAC	2.6%	2.6%	4.2%	5.0%
Average:	**2.8%**	**3.4%**	**4.2%**	**4.5%**
Individual Income Tax				
JLBC Forecast	6.5%	6.0%	5.5%	5.0%
UA – Low	4.2%	4.7%	5.6%	5.7%
UA – Base	6.0%	6.2%	6.0%	6.1%
FAC	5.3%	3.8%	6.8%	6.2%
Average:	**5.5%**	**5.2%**	**6.0%**	**5.8%**
Corporate Income Tax				
JLBC Forecast	-2.4%	3.5%	4.0%	4.0%
UA – Low	-9.6%	-1.8%	3.4%	4.1%
UA – Base	-7.6%	0.3%	3.6%	4.3%
FAC	-3.6%	0.9%	7.3%	6.6%
Average:	**-5.8%**	**0.8%**	**4.6%**	**4.8%**

JLBC Weighted Average	**4.0%**	**4.9%**	**4.7%**	**4.5%**
UA Low Weighted Average	**1.3%**	**3.0%**	**4.5%**	**4.7%**
UA Base Weighted Average	**2.9%**	**4.4%**	**4.9%**	**5.1%**
FAC Consensus Weighted Average	**2.8%**	**2.9%**	**5.5%**	**5.6%**
"Big-4" Weighted Average	**2.8%**	**3.8%**	**4.9%**	**5.0%**
Consensus Weighted Average *	**2.0%**	**3.6%**	**4.5%**	**4.8%**

* Represents ongoing revenue adjusted for small revenue categories.

Appendix B: 4-Sector Forecast FY 25 - FY 27

FORECAST REVENUE GROWTH

($ in Thousands)

	PREL. ACTUAL FY 2025	% CHANGE PRIOR YR	FORECAST FY 2026	% CHANGE PRIOR YR	$ CHANGE PRIOR YR	FORECAST FY 2027	% CHANGE PRIOR YR	$ CHANGE PRIOR YR
Sales and Use	8,151,850.1	2.7%	8,377,045.0	2.8%	225,194.9	8,663,845.9	3.4%	286,800.9
Income - Individual	5,482,950.4	13.1%	5,784,855.3	5.5%	301,905.0	6,084,773.4	5.2%	299,918.1
- Corporate	1,750,547.2	0.3%	1,649,234.3	-5.8%	(101,312.9)	1,662,137.9	0.8%	12,903.6
Property	35,136.7	35.2%	34,609.6	-1.5%	(527.0)	34,194.3	-1.2%	(415.3)
Luxury - Tobacco	16,233.8	-16.9%	16,315.0	0.5%	81.2	16,298.7	-0.1%	(16.3)
- Liquor	48,621.2	8.2%	50,614.7	4.1%	1,993.5	53,145.4	5.0%	2,530.7
Insurance Premium	923,760.0	12.6%	1,024,449.8	10.9%	100,689.8	1,069,525.6	4.4%	45,075.8
Other Taxes	19,006.4	10.5%	19,994.8	5.2%	988.3	21,074.5	5.4%	1,079.7
Subtotal - Taxes	16,428,105.8	6.3%	16,957,118.5	3.2%	529,012.7	17,604,995.7	3.8%	647,877.2
Other Non-Tax Revenues:								
Lottery	217,294.1	-2.2%	156,341.1	-28.1%	(60,953.0)	160,484.4	2.7%	4,143.3
Gaming Revenue	39,734.4	8.9%	47,075.2	18.5%	7,340.7	65,626.6	39.4%	18,551.5
Licenses, Fees and Permits	55,470.5	5.3%	58,188.6	4.9%	2,718.1	60,807.0	4.5%	2,618.5
Interest	286,881.2	-22.7%	220,000.0	-23.3%	(66,881.2)	175,000.0	-20.5%	(45,000.0)
Sales and Services	28,469.5	-7.4%	29,779.1	4.6%	1,309.6	31,119.2	4.5%	1,340.1
Other Miscellaneous	363,676.6	60.2%	363,676.6	0.0%	0.0	381,860.4	5.0%	18,183.8
Transfers and Reimbursements	111,195.3	-66.1%	52,681.2	-52.6%	(58,514.1)	49,212.0	-6.6%	(3,469.2)
Medicaid Hospital Revenue	93,526.3	3.8%	93,320.8	-0.2%	(205.5)	93,275.2	0.0%	(45.6)
Subtotal - Other Non-Tax	1,196,248.0	-11.9%	1,021,062.4	-14.6%	(175,185.5)	1,017,384.8	-0.4%	(3,677.6)
Net Ongoing Revenue	**17,624,353.8**	**4.8%**	**17,978,180.9**	**2.0%**	**353,827.1**	**18,622,380.5**	**3.6%**	**644,199.6**
Urban Revenue Sharing (URS)	(1,268,257.8)	N/A	(1,186,305.8)	N/A	81,952.0	(1,302,029.6)	N/A	(115,723.8)
Net Ongoing Revenue w/ URS	**16,356,096.0**	**7.3%**	**16,791,875.1**	**2.7%**	**435,779.1**	**17,320,350.9**	**3.1%**	**528,475.8**
One-Time Financing Sources:								
Fund Transfers	32,491.8	-96.1%	15,500.0	-52.3%	(16,991.8)	9,700.0	-37.4%	(5,800.0)
One-Time Income Tax Rebate	(16.1)	-100.0%	0.0	N/A	16.1	0.0	N/A	0.0
One-Time Revenue Forecast Adjustment	0.0	N/A	0.0	N/A	0.0	0.0	N/A	0.0
Enhanced FMAP One-Time Rev. Adjustment	131,100.0	N/A	0.0	-100.0%	(131,100.0)	0.0	N/A	0.0
Other One-Time Revenue Adjustments	71,200.0	N/A	14,574.4	-79.5%	(56,625.6)	0.0	-100.0%	(14,574.4)
Subtotal - One-Time Financing Sources	234,775.7	-58.7%	30,074.4	-87.2%	(204,701.3)	9,700.0	-67.7%	(20,374.4)
Subtotal - Revenues	**16,590,871.7**	**4.9%**	**16,821,949.5**	**1.4%**	**231,077.8**	**17,330,050.9**	**3.0%**	**508,101.4**
Balance Forward	962,823.0	-61.9%	1,308,516.1	35.9%	345,693.1	519,411.5	-60.3%	(789,104.6)
Total - Resources	**17,553,694.7**	**-4.3%**	**18,130,465.6**	**3.3%**	**576,770.9**	**17,849,462.4**	**-1.5%**	**(281,003.2)**

Appendix B: 4-Sector Forecast FY 28 - FY29

FORECAST REVENUE GROWTH

($ in Thousands)

	FORECAST FY 2028	% CHANGE PRIOR YR	$ CHANGE PRIOR YR	FORECAST FY 2029	% CHANGE PRIOR YR	$ CHANGE PRIOR YR
Sales and Use	9,025,161.9	4.2%	361,316.0	9,429,360.7	4.5%	404,198.8
Income - Individual	6,448,880.7	6.0%	364,107.4	6,819,993.0	5.8%	371,112.2
- Corporate	1,738,795.4	4.6%	76,657.5	1,821,762.4	4.8%	82,967.0
Property	34,604.6	1.2%	410.3	34,950.7	1.0%	346.0
Luxury - Tobacco	16,135.7	-1.0%	(163.0)	16,055.0	-0.5%	(80.7)
Insurance Premium	55,696.4	4.8%	2,551.0	58,202.7	4.5%	2,506.3
	1,115,515.2	4.3%	45,989.6	1,159,020.3	3.9%	43,505.1
Other Taxes	22,233.6	5.5%	1,159.1	23,367.5	5.1%	1,133.9
Subtotal - Taxes	18,457,023.5	4.8%	852,027.8	19,362,712.3	4.9%	905,688.8
Other Non-Tax Revenues:						
Lottery	164,412.1	2.4%	3,927.7	173,641.6	5.6%	9,229.5
Gaming Revenue	84,718.8	29.1%	19,092.2	88,954.8	5.0%	4,236.0
Licenses, Fees and Permits	63,239.3	4.0%	2,432.3	68,668.9	8.6%	5,429.6
Interest	120,000.0	-31.4%	(55,000.0)	112,000.0	-6.7%	(8,000.0)
Sales and Services	32,363.9	4.0%	1,244.8	33,658.5	4.0%	1,294.6
Other Miscellaneous	397,516.7	4.1%	15,656.3	413,417.4	4.0%	15,900.7
Transfers and Reimbursements	49,761.4	1.1%	549.5	50,330.4	1.1%	568.9
Medicaid Hospital Revenue	93,275.2	0.0%	0.0	93,275.2	0.0%	0.0
Subtotal - Other Non-Tax	1,005,287.6	-1.2%	(12,097.2)	1,033,946.7	2.9%	28,659.2
Net Ongoing Revenue	**19,462,311.1**	**4.5%**	**839,930.6**	**20,396,659.0**	**4.8%**	**934,347.9**
Urban Revenue Sharing (URS)	(1,338,136.1)	N/A	(36,106.6)	(1,394,444.0)	N/A	(56,307.9)
Net Ongoing Revenue w/ URS	**18,124,175.0**	**4.6%**	**803,824.0**	**19,002,215.0**	**4.8%**	**878,040.0**
One-Time Financing Sources:						
Fund Transfers	600.0	-93.8%	(9,100.0)	0.0	-100.0%	(600.0)
One-Time Income Tax Rebate	0.0	N/A	0.0	0.0	N/A	0.0
One-Time Revenue Forecast Adjustment	0.0	N/A	0.0	0.0	N/A	0.0
Enhanced FMAP One-Time Rev. Adjustment	0.0	N/A	0.0	0.0	N/A	0.0
Other One-Time Revenue Adjustments	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	600.0	-93.8%	(9,100.0)	0.0	-100.0%	(600.0)
Subtotal - Revenues	**18,124,775.0**	**4.6%**	**794,724.0**	**19,002,215.0**	**4.8%**	**877,440.0**
Balance Forward	304,892.5	-41.3%	(214,519.0)	66,610.1	-78.2%	(238,282.4)
Total - Resources	**18,429,667.5**	**3.3%**	**580,205.0**	**19,068,825.1**	**3.5%**	**639,157.6**

Appendix C: General Fund Balance Sheet

STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES
WITH ONE-TIME FINANCING SOURCES

	FY 2026 October FAC	FY 2027 October FAC	FY 2028 October FAC	FY 2029 October FAC
REVENUES				
Ongoing Revenues	$17,978,180,900	$18,622,380,500	$19,462,311,100	$20,396,659,000
Urban Revenue Sharing	(1,186,305,800)	(1,302,029,600)	(1,338,136,100)	(1,394,444,000)
Net Ongoing Revenues	$16,791,875,100	$17,320,350,900	$18,124,175,000	$19,002,215,000
One-Time Revenues				
Balance Forward	1,308,516,100	519,411,500	304,892,500	66,610,100
Marana Prison Sale Revenue	14,574,400			
Fund Transfers	15,500,000	9,700,000	600,000	
Subtotal One-Time Revenues	$1,338,590,500	$529,111,500	$305,492,500	$66,610,100
Total Revenues	$18,130,465,600	$17,849,462,400	$18,429,667,500	$19,068,825,100
EXPENDITURES				
Ongoing Operating Appropriations	$16,614,952,300	$17,309,764,700	$18,090,609,900	$18,752,448,200
Administrative Adjustments	123,500,000	145,000,000	145,000,000	145,000,000
Revertments	(206,500,000)	(200,000,000)	(200,000,000)	(200,000,000)
Subtotal Ongoing Expenditures	$16,531,952,300	$17,254,764,700	$18,035,609,900	$18,697,448,200
One-Time Expenditures				
Capital Outlay	$26,227,100		$25,000,000	
Transportation Funding	109,989,000	30,000,000	125,000,000	
FY 26 One-Time Supplementals	40,852,100			
Operating One-Time Spending	1,002,033,600	259,805,200	177,447,500	124,519,000
Hospital Assessment Savings	(100,000,000)			
Subtotal One-Time Expenditures	$1,079,101,800	$289,805,200	$327,447,500	$124,519,000
Total Expenditures	$17,611,054,100	$17,544,569,900	$18,363,057,400	$18,821,967,200
Ending Balance	$519,411,500	$304,892,500	$66,610,100	$246,857,900

Economic and Policy Considerations: Arizona 2026 and 2027

November 2025

Jim Rounds
President/CEO
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ARIZONA TAX RESEARCH ASSOCIATION

Federal Government Policies & Economic Consequences

Defining a Recession

Q: What indicators does the committee use to determine peak and trough dates?

A: The determination of the months of peaks and troughs is based on a range of monthly measures of aggregate real economic activity published by the federal statistical agencies. These include real personal income less transfers (PILT), nonfarm payroll employment, real personal consumption expenditures, wholesale-retail sales adjusted for price changes, employment as measured by the household survey, and industrial production. There is no fixed rule about what measures contribute information to the process or how they are weighted in our decisions.

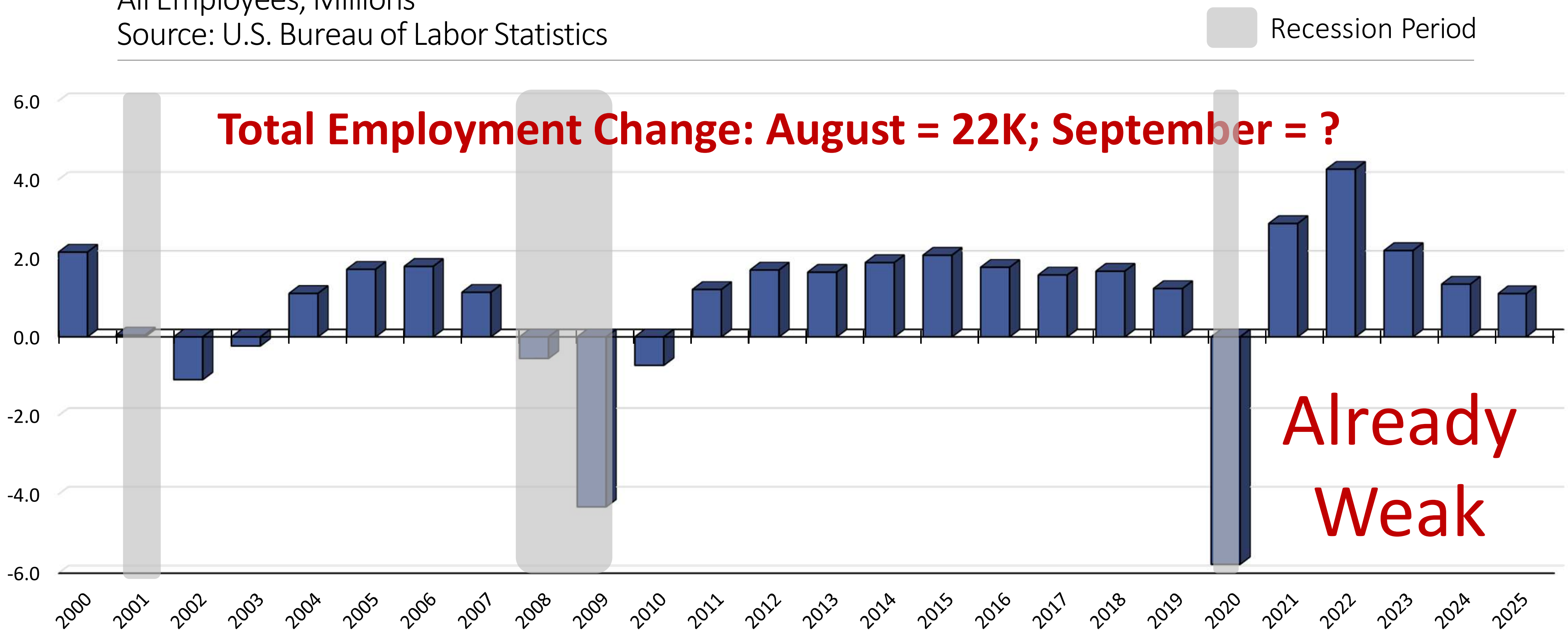
Odds of a Recession in 2025 Going Down

- Media: Changing headwinds have lessened the previously exacerbated odds of a recession this calendar year as pragmatism is now gaining influence etc. etc. etc…

- Real Answer: It's already November, so it's probably not happening this year.

U.S. Employment Percent Change

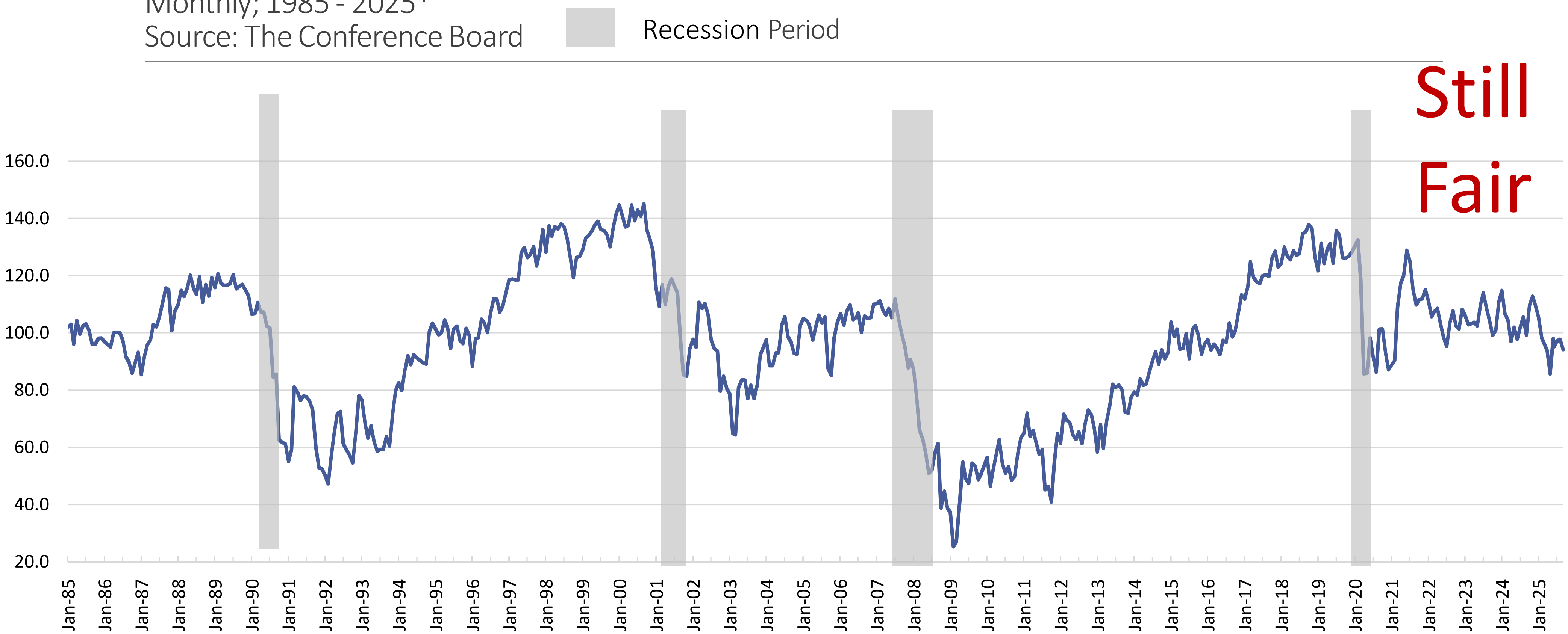
Annually, 2000 – 2025*
All Employees, Millions
Source: U.S. Bureau of Labor Statistics



*Year-to-Date through August 2025

U.S. Consumer Confidence

Monthly; 1985 - 2025*
Source: The Conference Board



*Through September 2025

Consumer Price Index

All Items CPI, Non-Seasonally Adjusted; YoY Percent Growth, 2010 - 2025*
Source: U.S. Bureau of Labor Statistics

*Through August 2025

Impact from Shutdown?

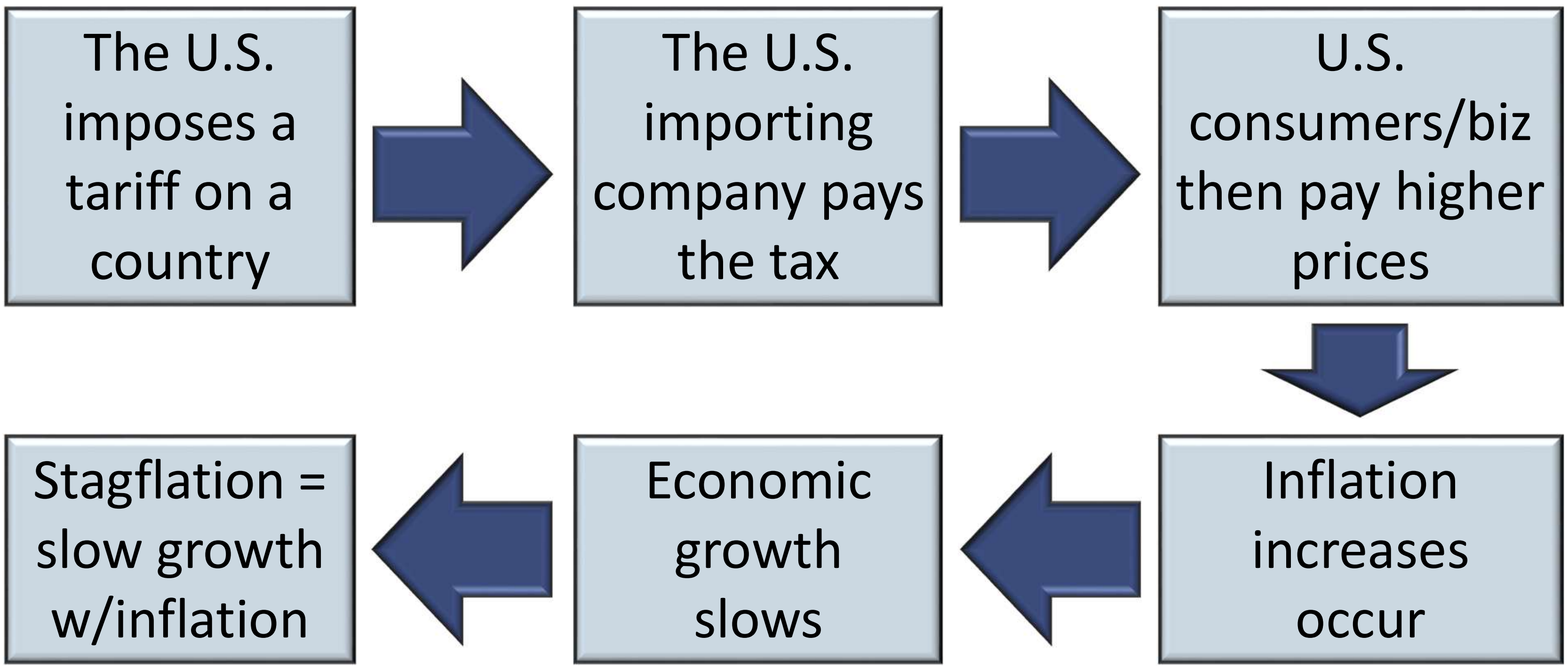
- It depends…
- Is the activity just a postponement, or is it a loss that will not be made back?
- We may see some reduced activity followed buy a partial rebound.

What's Next?

- GDP stats will be confusing for a while (tariff disruptions),
- Monthly U.S. employment trend will be falling rapidly,
- Inflation will increase,
- Fed Reserve Board will LATER be limited; better take action now,
- Massive govt cuts after massive govt spending = a recession… soon…maybe…

Additional Economic Topics of Concern

Tariffs: A Backdoor Sales Tax or a Political Strategy? (Answer: Both)



Price increases in local goods?

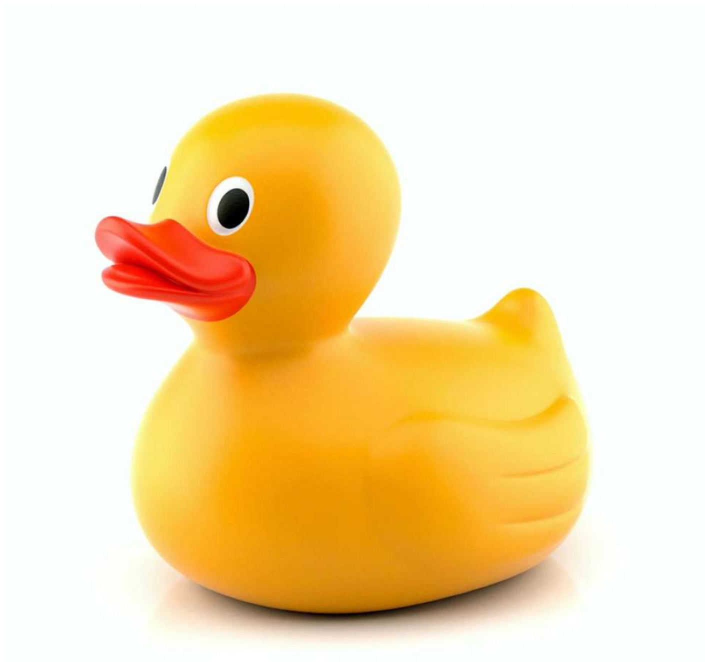
Hypothetical:

Apple becomes locally manufactured; Samsung impacted by a large tariff.

If the price of the foreign product increases, so will the competing domestic product.

Do we want all the jobs back?

- Rubber duck factory?
- Toy truck factory?
- Other junk you find at the dollar store?



What about these?

More jobs, but higher labor costs?
Union issues?
Price increases?

Medicaid Cuts?

- **Abuse in the system needs to be eliminated.**
- We will not be able to fully adjust the budget, on the front end of a potential downturn, in just one year.
- **This is, at a minimum, a 5- to 10-year task.**

Local Economics & Public Policy Concerns

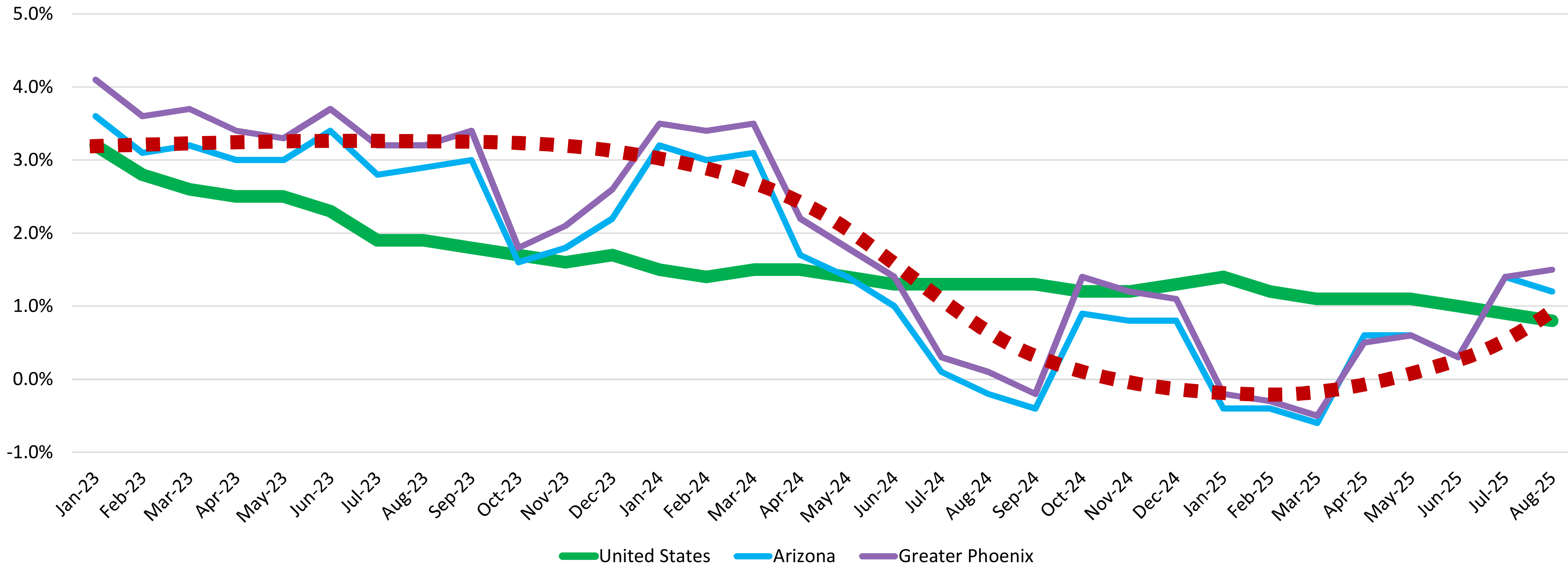
AZ Government: Getting through a recession?

- Severe Recession – Need about $2.0 – 2.5B
- Mid Level Recession – Drops to $1.5 - $2.0B
- Mild Recession – Requires about $1.0 - $1.5B
- The state will need about $1.5B

Year-over-Year Employment Percent Change Comparisons

Monthly, 2023 – 2025*

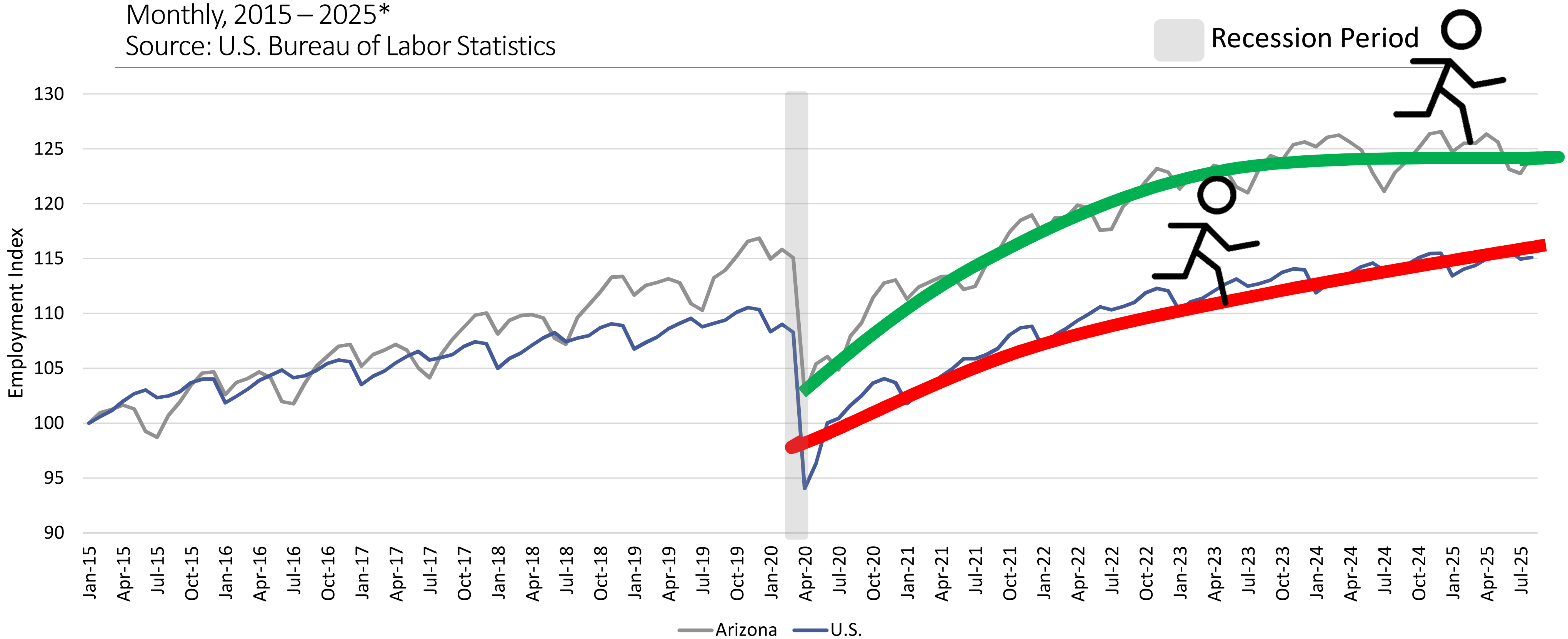
Source: U.S. Bureau of Labor Statistics



*Year-to-date through August 2025

AZ v. US Employment Growth Index

Monthly, 2015 – 2025*
Source: U.S. Bureau of Labor Statistics

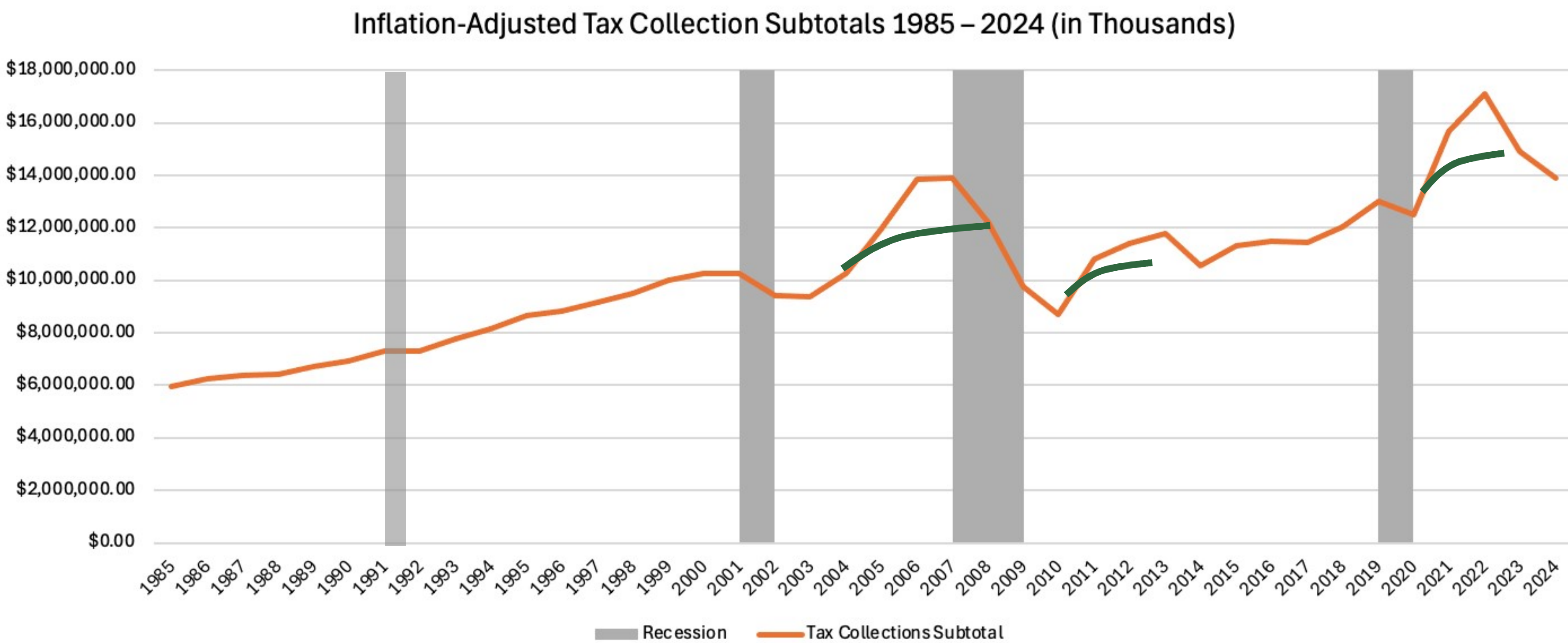


*Year-to-date through August 2025

Business and people will still need basic "stuff"

- Workforce (quality/avail/cost)
- Education Productivity
- Competitive Tax Rates
- Econ Development Programs
- Transportation Infrastructure
- Marketing
- Responsible Regulations
- Balanced Budget
- Reliable/Cost Effective Energy
- Water
- Housing Affordability

Post-Recession Revenues:



Additional Discussion Points:

- The year coming out of a recession, the state realizes roughly $250M to $500M in unanticipated tax collections.
- The next year is also large.
- **Question:** What can lawmakers do in a state that should be a growth leader post-recession?
- **Answer:** Plan now, queue the funding for FY 2027's high ROI projects, "trigger" on critical items (?).

Additional Considerations:

We need more long-term forecasting and more strategic analysis of major policy recommendations.

Static forecasting can remain, but **more consideration needs to be given to ROI analyses** that have dynamic/positive outcomes.

This coming year, support projects that have no taxpayer costs:

- **ASLD reform,**
- **K12 provisions that allow for better disposal and use of vacant property,**
- **Many others…**

Favored reactions by economists:

- When times are good: “We recommend being conservative with the forecast.”
- When times are bad: “We recommend being conservative with the forecast.”
- Other recommendations?

Be optimistic about our state:

- Mild downturn? Hopefully.
- **Be conservative with the forecast. ;-)**
- Higher wage growth to continue long term?
- **AZ – The best place to be during the remainder of the decade and beyond!**

A COST Assessment of Nationwide SALT Policies

FREDRICK J. NICELY
Senior Tax Counsel

COUNCIL ON STATE TAXATION
Washington, DC

COST
Council On State Taxation

ARIZONA TAX RESEARCH ASSOCIATION

AGENDA

- Introduction to COST’s Advocacy
- COST/STRI Business Tax Burden Study FY23
- OBBBA and Other Federal Actions: Impact on State Taxes
- Expansion of State Tax Bases
  - Corporate Income Tax
  - Indirect Taxes
- National Property Tax Trends
- COST’s Proactive SALT Legislative Initiatives

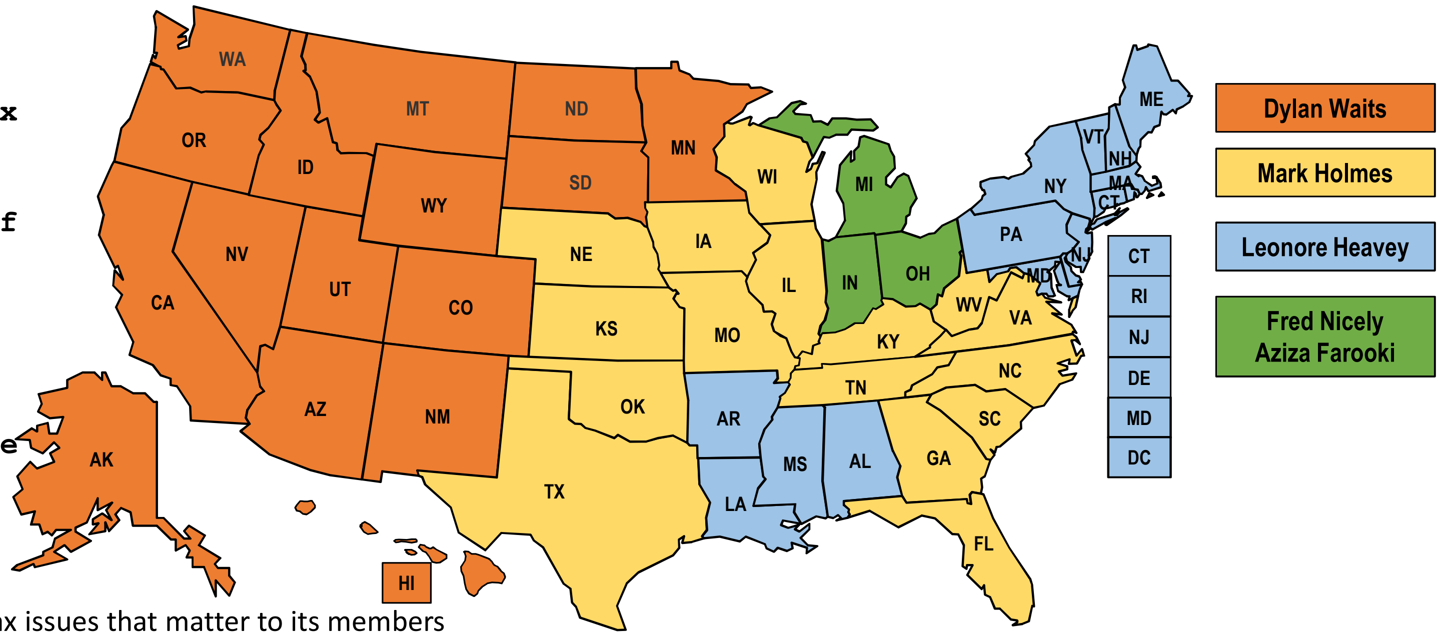
Introduction to COST's Advocacy & Advocacy Staff

What is COST?

The Council On State Taxation (COST) is the premier state tax organization representing taxpayers. COST is a nonprofit trade association consisting of approximately 500 multistate corporations engaged in interstate and international business.

Mission:

COST's objective is to preserve and promote equitable and nondiscriminatory state and local taxation of multijurisdictional business entities.



COST's advocacy program:

- focuses on active engagement in state tax issues that matter to its members
- represents corporate taxpayers in legislative, judicial, and administrative arenas
- widely respected by groups such as the National Conference of State Legislatures, the Federation of Tax Administrators, the National Governors Association, and the Multistate Tax Commission
- serves as a resource to state chambers of commerce, taxpayer associations, and other organizations on business tax matters
- shares updates on legislative, judicial, and regulatory developments, coordinates advocacy with members and allies
- files amicus briefs, provides testimony, meets with policymakers, and facilitates collaboration among members on targeted issues

State Tax Research Institute (STRI)

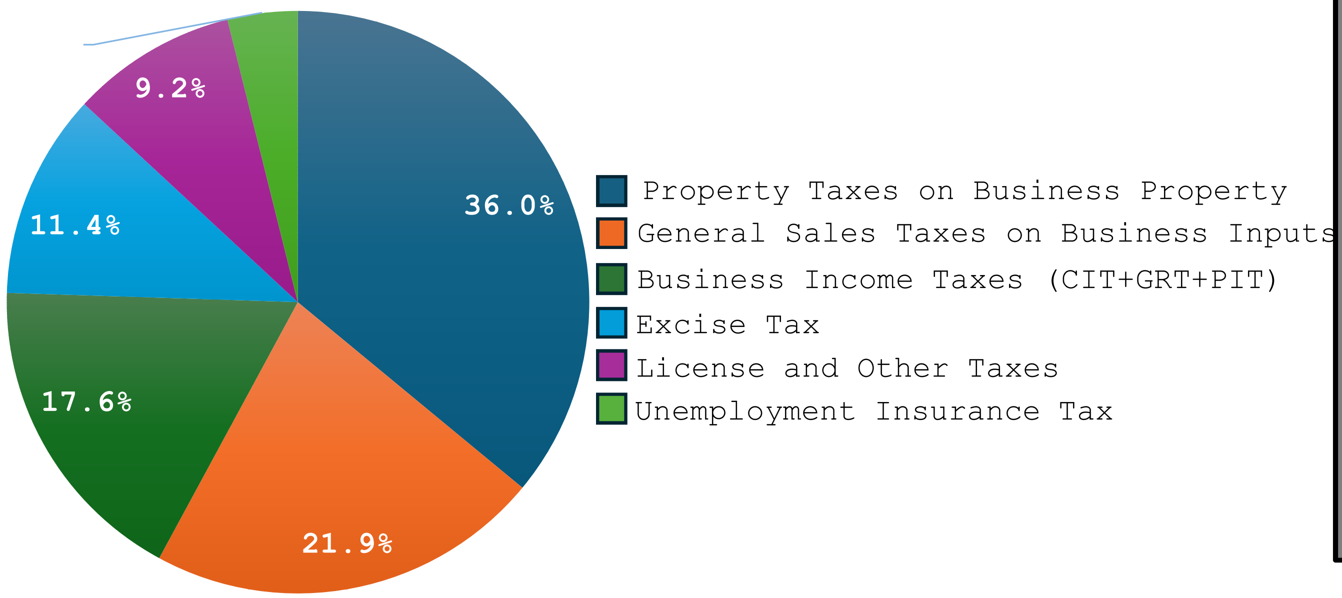
The State Tax Research Institute (STRI) is a 501(c)(3) organization established in 2014 to provide educational programs and conduct research designed to enhance public dialogue relating to state and local tax policy. STRI is affiliated with the Council On State Taxation (COST).

- **Revisiting the Debate Over State Taxation Of Foreign-Source Income** by Frieden & Lindholm, *Tax Notes State*, June 2025
- **The Boomerang Effect of the Business 'Fair Share' Tax Debate** by Frieden, *Tax Notes State*, February 2025
- **Total State and Local Business Taxes: State-by-State Estimate for FY23** by Phillips and Sallee, EY, December 2024
- **A State DAT Relabeled a 'Digital Barter' Tax Is Still Bad Tax Policy** by Frieden and Lindholm, *Tax Notes State*, August 2024
- **Is E-Invoicing Relevant in the US State Sales Tax Context?** By Phillips, Roberti, and DeSaplo, EY, May 2024
- **Wearing Blinders in the Debate Over Business's 'Fair Share' of State Taxes** by Frieden, *Tax Notes State*, April 2024
- **Mandatory Worldwide Combined Reporting: Elegant in Theory But Harmful in Implementation** by Lindholm and Wethekam, *State Tax Research Institute*, March 2024
- **State Digital Services Taxes: A Bad Idea Under Any Theory**, by Frieden and Lindholm, *Tax Notes State*, April 2023
- **Five State Tax Policy Changes That Would Modernize Laws and Ease Administration and Compliance** by Farooki and Nicely, Council On State Taxation, April 2023
- **Where in the World Is Factor Representation for Foreign-Source Income?** by Frieden and Donovan, Tax Notes State, April 2019
- **State Tax Haven Legislation: A Misguided Approach to a Global Issue** by Frieden and Hogroian, March 2016

Business Tax Burden Study

FY 2023 State and Local Business Tax Burden Study

Composition of State and Local Business Taxes by Type, FY23
United States



How Much Do Businesses Pay?

- Businesses paid more than $1.09 trillion in U.S. state and local taxes in FY23, an increase of 3.7% from FY22
- State business taxes increased by 0.9% and local business taxes grew by 7.3%
- Total Business Income Taxes revenue decreased by 7.7%; however, Corporate Income Tax revenue increased by 1.7% in FY23
- In FY23, business tax revenue accounted for 44.7% of all state and local tax revenue

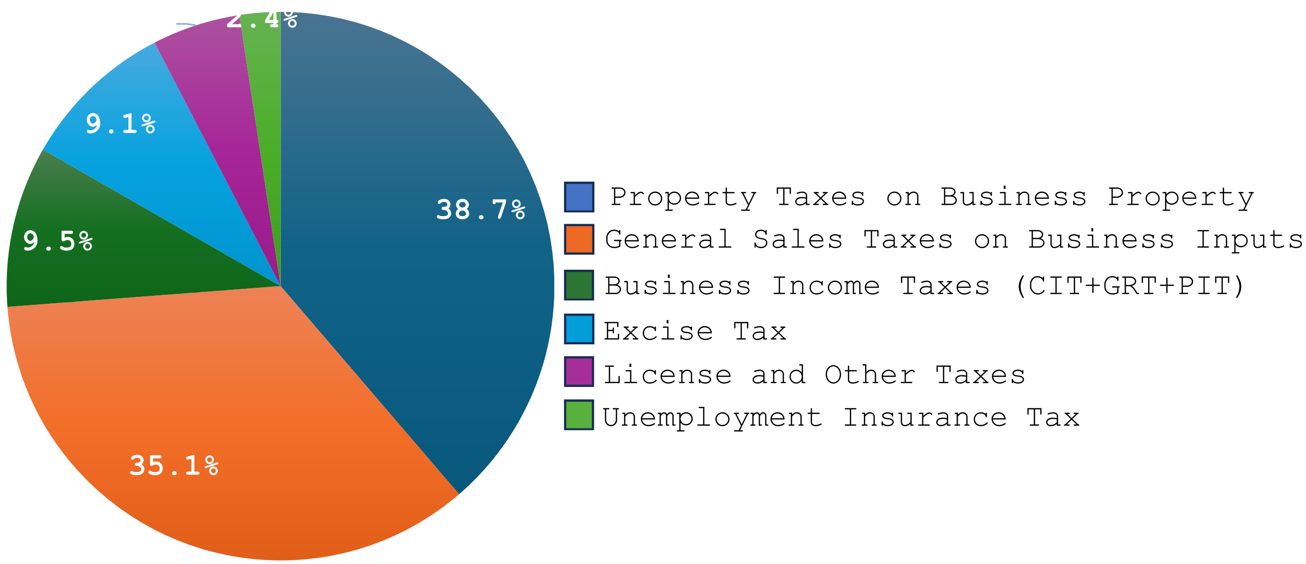
Note: Business income taxes include corporate income tax (CIT), gross receipts taxes (GRT), and individual income tax on business income (PIT).

Source: Total State and Local Business Taxes: State-by-State Estimates for FY23, prepared by Ernst & Young for COST and STRI, December 2024

FY 2023 State and Local Business Tax Burden Study

Composition of State and Local Business Taxes by Type, FY23

ARIZONA



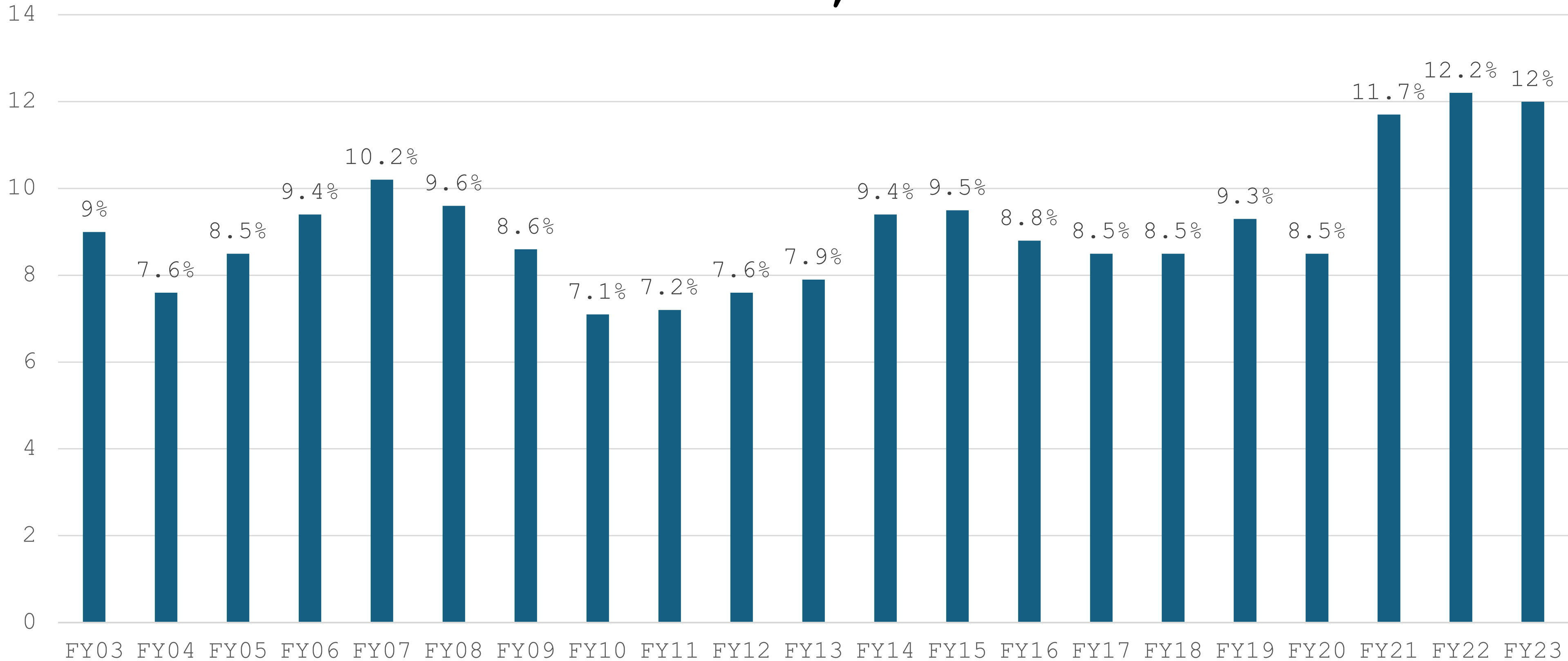
How Much Do Businesses Pay?

- Businesses paid $17.1billion in Arizona state and local taxes in FY23, an increase of 5.6% from FY22
- In FY23, business tax revenue accounted for 40.1% of all state and local tax revenue in Arizona

Note: Business income taxes include corporate income tax (CIT), gross receipts taxes (GRT), and individual income tax on business income (PIT).

Source: Total State and Local Business Taxes: State-by-State Estimates for FY23, prepared by Ernst & Young for COST and STRI, December 2024

Share Of CIT in Total State and Local Business Taxes, FY02 – FY23



Source: Total State and Local Business Taxes: State-by-State Estimates (Updated Annually), COST/STRI/EY

Estimated “Excess” Business Property Taxes and Pyramided Sales Taxes on Business Inputs FY23

Amount the Largest State and Local Business Taxes Exceed Taxes Based on Deviation from Neutral Tax Design, FY23 ($ billions)

	Estimated Business Tax Paid (EY)	Estimated Tax if Business Property Is Taxed at Homeowner ETR/ tax base; and SUT on Non-Pyramided Business Inputs	Excess Tax Based on Neutral Tax Design
Property Tax on Business Property	$394.3	$251.5	$142.8
Sales Tax on Business Inputs	$240.4	$122.3	$118.1
Total Selected Taxes	$634.7	373.8	$260.9

Source: Total State and Local Business Taxes: State-by-State Estimates for FY23, prepared by Ernst & Young for COST and STRI, December 2024

Ernst & Young LLP estimates based on data from the Bureau of Economic Analysis, the U.S. Census Bureau Annual Survey of State and Local Government Finances., and the Lincoln Institute of Land Policy/Minnesota Center for Fiscal Excellence 50-state property tax comparison study

See: Karl A. Frieden, “Wearing Blinders in the Debate Over Business’s ‘Fair Share’ of State Taxes”, *Tax Notes State*, April 8, 2024 ; and Karl A. Frieden, “The Boomerang Effect of the Business ‘Fair Share’ Tax Debate,” *Tax Notes State*, February 10, 2025

Impact of OBBBA and Other Federal Actions on State Taxes

Key CIT Provisions in OBBBA

Extend and expand TCJA business provisions (generally effective in 2025 (but GILTI/NCTI in 2026)

- Revive and make permanent 100% bonus depreciation for equipment – IRC § 168(k)
- Revive and make permanent domestic R & E expensing - IRC § 174
- Revive and make permanent interest expense limit tied to EBITDA - IRC § 163(j)
- Modify international tax rates/rules (including new 14% GILTI/NCTI ETR with no QBAI deduction) - IRC § 951A
- Changes to FDII

New business tax reductions (effective in 2025)

- Allow expensing of factories through 2028 - IRC § 168(n)

State CIT tax reductions

- For conforming states, these changes are generally favorable to businesses (other than the GILTI/NCTI change)

OBBBA—SALT Provisions Left on the Cutting Room Floor

Interstate Commerce Simplification Act--Changes to PL 86-272

- House version amended PL 86-272 to make clear that "solicitation" means "any business activity that facilitates the solicitation of orders even if that activity may also serve some independently valuable business function apart from solicitation"
- Was not included in the legislative text approved by the Senate parliamentarian

Mobile Workforce State Income Tax Simplification Act (S. 1443 by Senators Thune & Masto)

- Waives compliance obligations for nonresidents working fewer than 30 days in-state
- No amendment offered to include S. 1443 in OBBBA

Limitation of SALT deduction for corporations

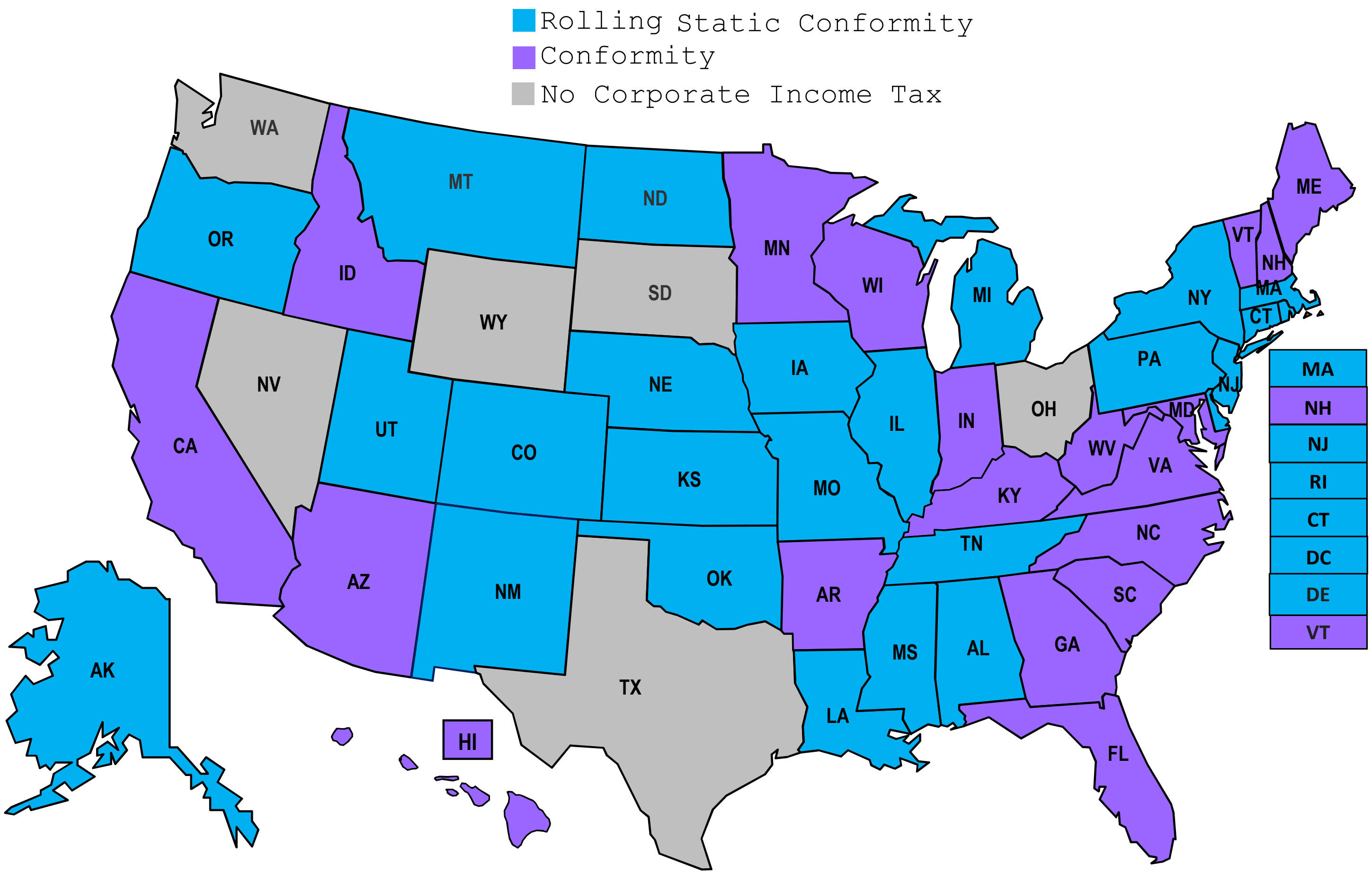
OBBBA's Net Controlled Foreign Corporation Tested Income (NCTI)

- The OBBBA makes changes to GILTI that exacerbate the differences between federal and state treatment of foreign source income (FSI), in a manner unfavorable to businesses
- At the federal level, OBBBA significantly broadens the potential FSI tax base by eliminating the QBAI deduction (that allowed a 10% return on tangible asset investment) and reducing the I.R.C. section 250 deduction from 50% to 40%
- However, for federal purposes, **OBBBA offsets these unfavorable changes by increasing the foreign tax credit (FTC) from 80% to 90%** and revising the rules for the allocation of interest and research and development deductions in a manner that increases the availability of the FTC
- **After OBBBA, state taxation of FSI (through conformity with NCTI) is increasingly divorced from both the goals and design of the federal approach that generally includes only low-taxed FSI in the CIT tax base**

COST State Conformity with OBBBA Maps:

- State CIT "general" conformity to the Internal Revenue Code
- Section 174 -- (domestic R&E expensing)
- Section 168(n) -- (expensing of factories)
- Section 168(k) -- (100% bonus depreciation for equipment)
- Section 163(j) -- (interest expense limit tied to EBITDA)
- GILTI/NCTI; Section 951(A) -- (taxation of foreign source income)

General IRC Conformity for State CITs



Arkansas: State only adopts certain provisions of IRC and IRC dates vary.

Maryland: Maryland is a static conformity state, because it does not conform if State revenue impact is over $5 million for a tax year.

Michigan: Taxpayers can use the IRC as of 1/1/25 or elect to use the IRC in effect for the tax year (H.B. 4961 (2025)).

New Jersey: Some IRC provisions are static.

Ohio: Ohio for other taxes is a static conformity state (e.g., municipal income tax).

Oregon: Static conformity for items not related to the computation of taxable income.

Pennsylvania: Status of rolling conformity currently subject to litigation.

Rhode Island: Rhode Island DOR has promulgated rules to preserve tax base, e.g., ADV 2025-18.

Texas: Texas is "technically" static with the IRC of 2007 for any IRC references.

Virginia: Virginia is a static conformity state because it has halted its rolling conformity status until 2027.

Disclaimer: This map generally groups the state CITs as either a rolling or static conformity state; however, many states have nuances on how they couple with certain IRC provisions. This information should be used for general guidance and not relied upon for compliance.

Source: Council On State Taxation (COST) – As of October 1, 2025

2025 State Conformity Legislation

Arizona H.B. 2688 *January 1, 2025*

California S.B. 711 *January 1, 2025*

Florida H.B. 7031 *January 1, 2025*

Georgia H.B. 290 *January 1, 2025*

Hawaii S.B. 1464 *December 31, 2024*

Idaho H.B. 3 January 1, 2025

Kentucky H.B. 775 *December 31, 2024*

Maine HP 2, LD 28 *December 31, 2024. Applies to tax years beginning on or after January 1, 2024, can also apply to earlier tax years if the federal tax code (as updated through December 31, 2024) specifies*

Michigan H.B. 4961 *signed by Governor on October 7, 2025, with immediate effect, specifically decouples from five key OBBA provisions: IRC Sections 174A, 168(n), 168(k), 163(j), and 179 to mitigate projected $540 million reduction in FY25-26 revenues*

Ohio H.B. 14 *incorporates into Ohio income tax law changes made to the IRC since March 15, 2023, effective as of tax year 2024*

Rhode Island H.B. 5076 (budget bill) *forms a study group to study the impacts of the federal tax changes and issue report by October 31, 2025*

South Carolina S.B. 507 *December 31, 2024. If any federal tax provisions expiring at the end of 2024 are later extended by Congress in 2025 without changes, they will automatically be extended for South Carolina taxes*

South Dakota H.B. 1028 *January 1, 2025*

Vermont H.B. 493 *December 31, 2024*

Virginia H.B. 1600 *halts its rolling conformity status for any federal amendments enacted between January 1, 2025 and January 1, 2027, that would increase or decrease general fund revenues by any amount*

West Virginia H.B. 2025 *conforms to any IRC amendments made between January 1, 2024, and December 31, 2024*

State Conformity – Pending Updates

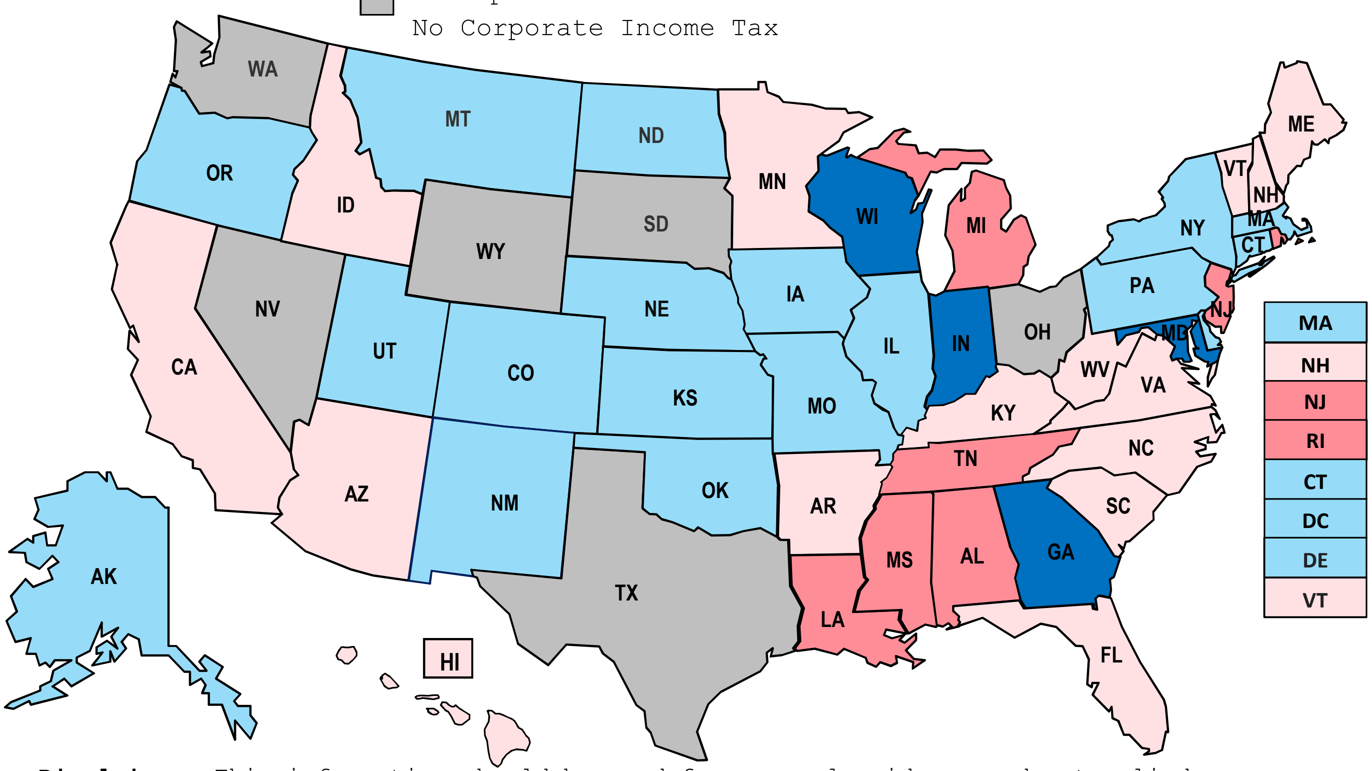
- **Delaware:** Pending legislation H.B. 255 includes various OBBBA decoupling provisions. Specifically, it continues expensing provisions for domestic research and experimental expenditures through December 31, 2025, decouples from OBBBA's full expensing provisions for certain business property, and decouples from the special depreciation allowance for qualified production property
- **District of Columbia**: D.C. City Council unanimously approved emergency resolution to sever the District's conformity to many of the provisions of OBBBA to avoid a negative revenue impact to the City, allow the Council more time to review which federal tax changes should be adopted, and give the Office of Tax and Revenue more time to develop forms and guidance on the tax changes in OB3. Following approval of the resolution, the Council also unanimously approved the "D.C. Income and Franchise Tax Conformity and Revision Emergency Amendment Act of 2025" (Bill B26-0457), which is a temporary 90-day measure under which the District would decouple from most OBBBA provisions, including IRC § 168(k) (bonus depreciation), IRC § 168(n) (bonus depreciation for qualified production property), IRC § 174A (full expensing of domestic Research & Experimental expenditures), and the amendments to IRC § 163(j) (interest expense disallowance).
- **Indiana**: Governor Mike Braun has signed a proclamation calling for a special legislative session in part to address OBBBA.
- **Iowa:** The Iowa Department of Revenue has issued guidance saying that Iowa law provides no exclusion or other adjustment for NCTI. Therefore, the 60% of NCTI still included in federal taxable income after the application of the section 250 deduction will be subject to Iowa income tax. As with GILTI, the law does not treat NCTI as a foreign dividend, or as subpart F income, and no portion of NCTI should be used in calculating a corporate taxpayer's Iowa foreign dividends received deduction. Iowa fully conforms with the federal deduction under IRC section 250(a)(1)(A) for FDII (2019-2025) and FDDEI (2026 and later).
- **Illinois:** During its recent veto session, Illinois lawmakers passed Senate Bill 1911, which now awaits Governor's signature. The bill decouples the State from IRC § 168(n) (bonus depreciation for qualified production property), updates State law to conform with the OBBBA provision's replacement of GILTI with NCTI. Illinois earlier this year had enacted a measure allowing a corporation to deduct only 50 percent of its GILTI (now NCTI). S.B. 911 removes the January 1, 2026 sunset date on the State's elective pass-through entity tax, making permanent this workaround to the federal SALT deduction limit.
- **Minnesota:** A static conformity state that conforms to the Internal Revenue Code, as amended through May 1, 2023. The Minnesota Department of Revenue has published draft versions of their 2025 Corporate Franchise tax forms (not for filing), reflecting how OBBBA changes affecting tax year 2025 will affect Minnesota corporate tax returns. Notably, the Department directs taxpayers to use Schedule M4NC (Federal Adjustments) to calculate nonconformity adjustments related to federal tax changes.
- **Pennsylvania**: FY2025-26 budget enacted 135 days late on November 12, 2025; H.B. 416 decoupled from some of the OBBBA provisions such at IRC §§ 174, 168(n), and 163(j).

COST Council On State Taxation

State Conformity with OBBBA - Sec. 174*

(Research & Experimental Expenditures)

- Rolling conformity
- Rolling Conformity - Decoupled
- Static Conformity
- Static Conformity - Decoupled
- No Corporate Income Tax



Alabama: Alabama uses IRC § 174, as it existed in 2021.

Arkansas: Arkansas uses IRC § 174 as it existed on 1/1/2019.

California: California uses IRC §174 as it existed on 1/1/2025.

Louisiana: For tax years beginning on or after 1/1/2025 a taxpayer may elect to deduct research and development expenses. The deduction cannot duplicate the amortization taken for federal purposes.

Maryland: Is a static conformity state because if the revenue impact is over $5 million Maryland it will decouple from the change. It is listed as currently decoupled.

Michigan: MI decoupled from IRC 174 (H.B. 4961 (2025)).

Rhode Island: Rhode Island DOR issued ADV 2025-18 stating it decoupled from IRC § 174.

Tennessee: Tennessee uses I.R.C. § 174 as it existed immediately before the enactment of the Tax Cuts and Jobs Act of 2017.

Virginia: Virginia is a static conformity state because it has halted its rolling conformity status until 2027.

Disclaimer: This information should be used for general guidance and not relied upon for compliance.

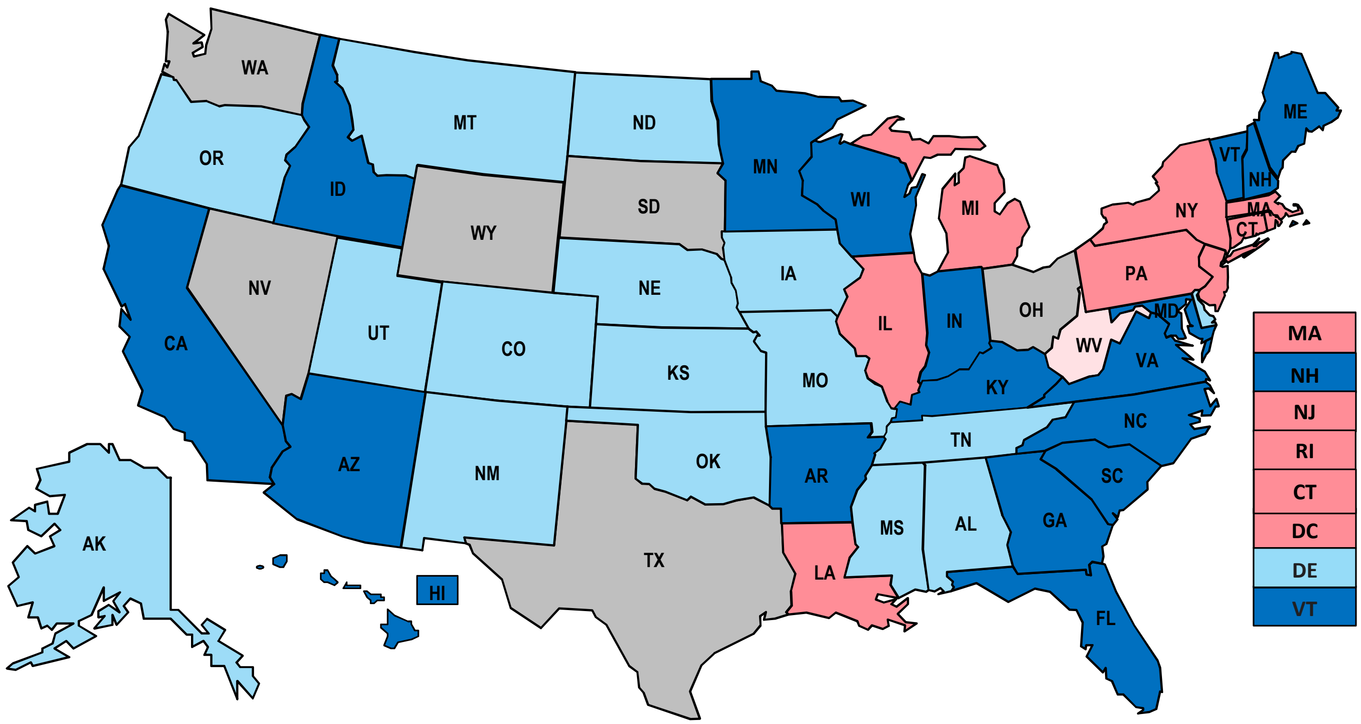
Source: Council On State Taxation (COST) - As of October 31, 2025

* This map incorporated IRC Section 174A

State Conformity with OBBBA – Sec. 168(k)

(100% Equipment Bonus Depreciation)

- Rolling conformity
- Rolling Conformity – Decoupled
- Static Conformity
- Static Conformity – Decoupled
- No Corporate Income Tax



Alaska: Oil and gas companies are decoupled.

Arkansas: State only adopts certain provisions of IRC and IRC dates vary. It is decoupled from IRC §168(k).

Louisiana: For qualified property placed in service after 1/1/2025 a taxpayer may elect to take bonus depreciation. If elected by the taxpayer, any depreciation claimed by the taxpayer may not duplicate any depreciation or bonus depreciation allowable on the taxpayer's federal income tax return for the taxable year.

Maryland: Is a static conformity state because it does not conform if State revenue impact is over $5 million for a tax year.

Michigan: MI decoupled from IRC 168(k) (H.B. 4961 (2025)).

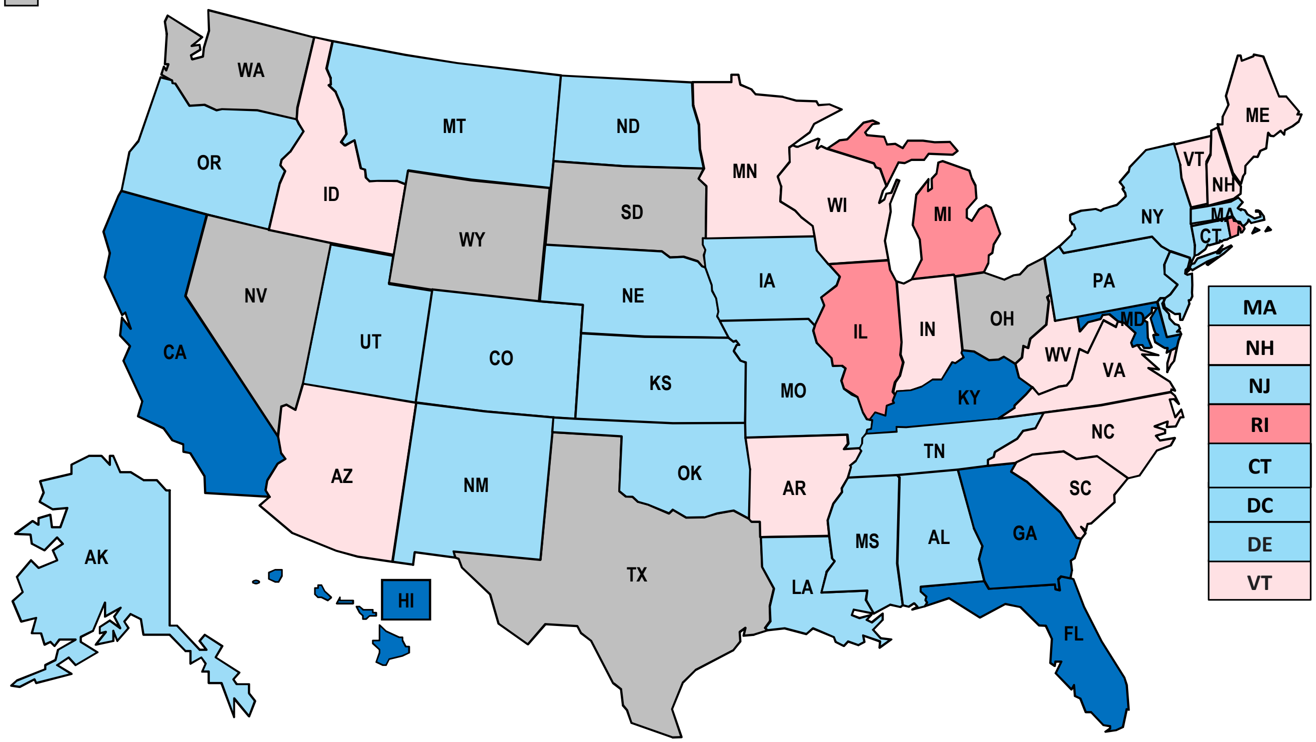
Virginia: Virginia is a static conformity state because it has halted its rolling conformity status until 2027.

Disclaimer: This information should be used for general guidance and not relied upon for compliance.
Source: Council On State Taxation (COST) – As of October 31, 2025

168(n)

(Production/Factory Expensing)

- Rolling conformity
- Rolling Conformity – Decoupled
- Static Conformity
- Static Conformity – Decoupled
- No Corporate Income Tax



Alaska: Oil and gas companies are decoupled.

Arkansas: Adopts selective sections of the Code as of a specific date.

Maryland: Is a static conformity state because it does not conform if State revenue impact is over $5 million for a tax year.

Michigan: MI decoupled from IRC 168(n) (H.B. 4961 (2025)).

Rhode Island: Rhode Island DOR has promulgated rules to preserve tax base, e.g., ADV 2025-18.

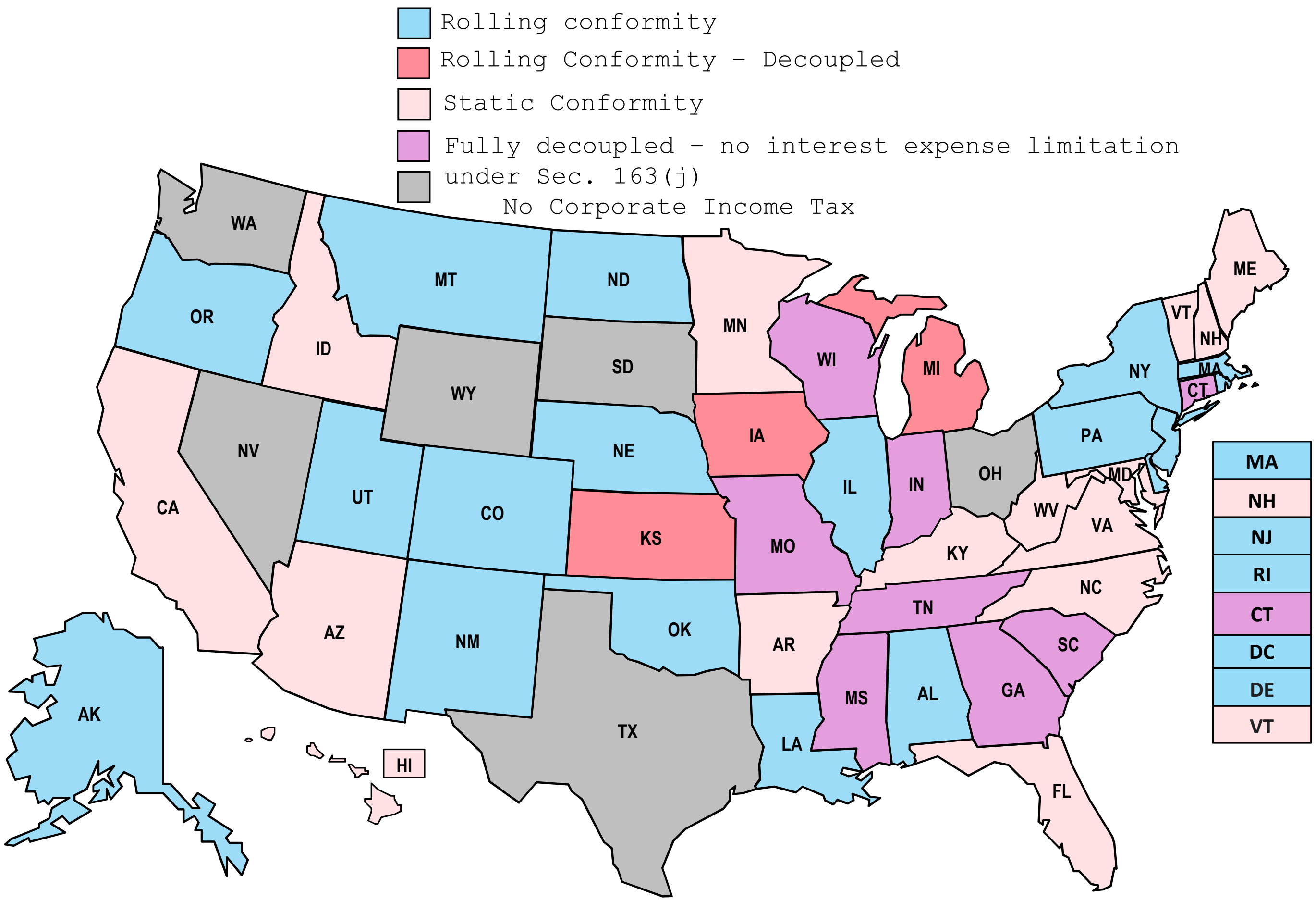
Virginia: Virginia is a static conformity state because it has halted its rolling conformity status until 2027.

Disclaimer: This information should be used for general guidance and not relied upon for compliance.

Source: Council On State Taxation (COST) - As of October 31, 2025

163(j)

(Interest Expense Limitations)



Arkansas: Adopts selective sections of the Code as of a specific date. It conforms to IRC §163(j) as it was in effect on 1/1/2017.

California: SB 711 enacted this year revised the conformity date to 1/1/2025.

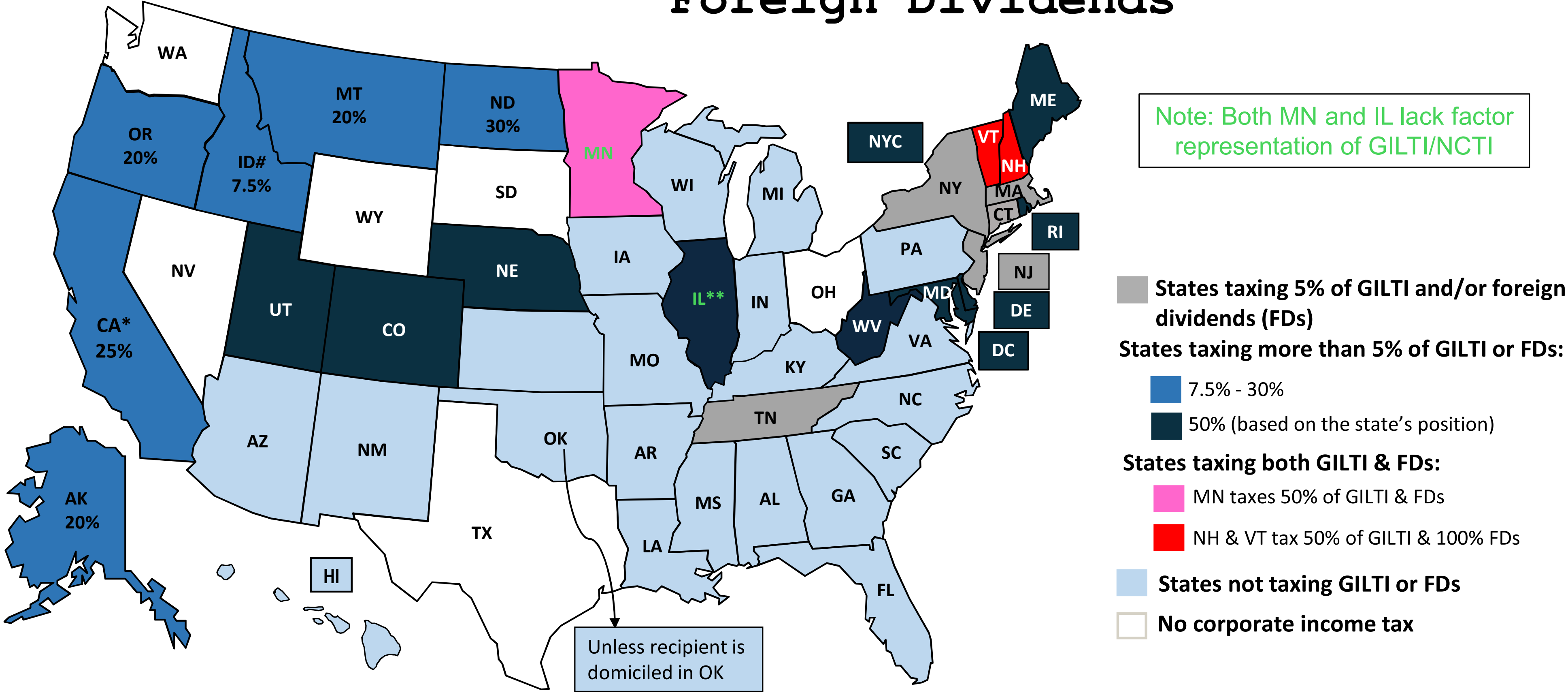
Maryland: Is a static conformity state because it does not conform if State revenue impact is over $5 million for a tax year.

Michigan: MI decoupled from IRC 163(j) (H.B. 4961 (2025)).

Virginia: Virginia is a static conformity state because it has halted its rolling conformity status until 2027.

Disclaimer: This information should be used for general guidance and not relied upon for compliance.
Source: Council On State Taxation (COST) – As of October 31, 2025

State Taxation of GILTI (now NCTI) and Foreign Dividends



CA taxes 25% of foreign dividends.

****Effective 1/1/2025 Illinois taxes 50% of GILTI but allows a DRD for both foreign and domestic dividends.**

Disclaimer: *This map is based on the best available information, but several states do not have clear guidance on GILTI. Therefore, this information should be used for general guidance and not relied upon for compliance.*

Source: Council On State Taxation (COST): June 2025.

COST
Council On State Taxation

Related STRI Articles on Foreign Factor Representation and Tax Havens

STRI
State Tax Research Institute

VIEWPOINT

state tax notes®

Where in the World Is Factor Representation For Foreign-Source Income?

by Karl A. Frieden and Joseph X. Donovan

Karl A. Frieden Joseph X. Donovan

Karl A. Frieden is the vice president and general counsel of the Council On State Taxation and Joseph X. Donovan is counsel with Sullivan & Worcester LLP. The authors thank Madison Barnett, Deborah Bierbaum, Bob Burgner, Nikki Dobay, Aziza Farooki, Caroline Kupiec, Doug Lindholm, Douglas Stransky, and Steve Wlodychak for reviewing and commenting on this article.

In this viewpoint, Frieden and Donovan discuss global intangible low-taxed income and IRC section 965 repatriated income and argue that states should allow foreign factor representation for apportionment of this income.

I. Executive Summary

income under Internal Revenue Code section 951A or the foreign-source income deemed repatriated under IRC section 965, or both, to their state income taxes.

We have previously asserted that state taxation of GILTI, in particular, constitutes a vast and unwarranted expansion of state taxation of foreign-source income.[1] This article does not repeat that analysis, but rather focuses on how states that do conform to these new federal tax provisions choose to apportion such foreign-source income.

To date, nearly all attention has been focused on the state-by-state consideration of conformity to or decoupling from the new provisions. Meanwhile, a less noticed but disturbing trend has developed regarding state guidance on the other key element of the state income tax equation: apportionment.[2] States generally fall into three categories relating to the application of factor representation to GILTI or section 965 repatriated income: (1) those that allow no factor representation; (2) those that allow only the net taxable foreign-source income, and not the gross receipts of the foreign corporation, to be included in the denominator of the sales factor; or (3) states that have not provided any new guidance. For states in the last category, the likely result is the same answer as in the second category, based on the existing state default apportionment rules.

STRI
State Tax Research Institute

Federal Grants to State and Local Governments

- Federal grants to state and local governments in 2023 totaled an estimated $1.1 trillion, or about 4% of GDP
- **Federal grants have contributed 25% to 35% of all state revenues over the last 50 years with post-COVID grants averaging close to 35% of all state revenues**
- Federal grant outlays are concentrated in health care, income security, education, transportation, and community and regional development
  - Federal grants for Medicaid assistance make up about 60% of the total
- **OBBBA will result in substantial reductions in federal grants-in-aid or adversely impact other state revenues, potentially creating budget shortfalls for many states**
  - Most of the large Medicaid cuts are phased in after 2026

Federal "Common Cents Act" Legislation

U.S. Treasury - announced several months ago it would stop minting the penny – net savings around $60 million

S. 1525 and H.R. 3074 have been introduced and are currently in committee:

- Eliminate the production of pennies starting in 2026
- Provide rounding rules to nearest 5 cents for cash transactions based on "total transaction" amount (which includes taxes)
  - Amounts ending in 1, 2, 6, or 7 cents would be rounded down
  - Amounts ending in 3, 4, 8, or 9 cents would be rounded up
- Pennies would still be both legal tender and a legal denomination

NCSL, SSUTA, and FTA are examining the state sales tax implications of halting the production of the penny

COST is also formulating a policy position that rounding should not alter the state's sales tax collection (up or down) and/or require extensive POS changes

U.S. Data on Imposition of Tariffs

COST
COUNCIL ON STATE TAXATION

Figure 1a. Tariffs Revenue as a Share of Total Federal Receipts, 1798-2023

Percentage

Council of Economic Advisers

Sources: White House Historical Tables; Census - Historical Statistics of the United States; CEA calculations.

Note: The data for years prior to 1940 does not match current fiscal year convention.

As of June 20, 2024 at 12:00pm.

COST
Council On State Taxation

Tariffs Impact on SALT

- Tariffs are generally part of the COGS, so tariffs will increase sales price and/or gross receipts
- Purchasers using/consuming imported products themselves are encouraged to be the importer of record to directly pay the tariff (tax) to Customs
- Impact on tariffs to each state’s economy is still an unknown
- Increased prices due to tariffs will put some businesses over the economic nexus thresholds states have with their sales, GRT, and corporate income taxes
- Property taxes also impacted with increased inventory costs and states using RCNLD indexing increasing cost base for lumber, steel, etc.
- Corporate income tax transfer pricing agreements may need adjusted to deal with tariffs

Expansion of Indirect Tax Base

Proposed and Actual Expansion of State Indirect Tax Bases

- In the past few years, many states have proposed expanding the indirect tax base to include non-traditional transactions and services, while considering more targeted taxes aimed at industries

Broad sales tax base expansion

- Indiana
- Louisiana
- Maryland
- Minnesota
- Missouri
- Nebraska
- South Dakota
- West Virginia
- Virginia
- Washington

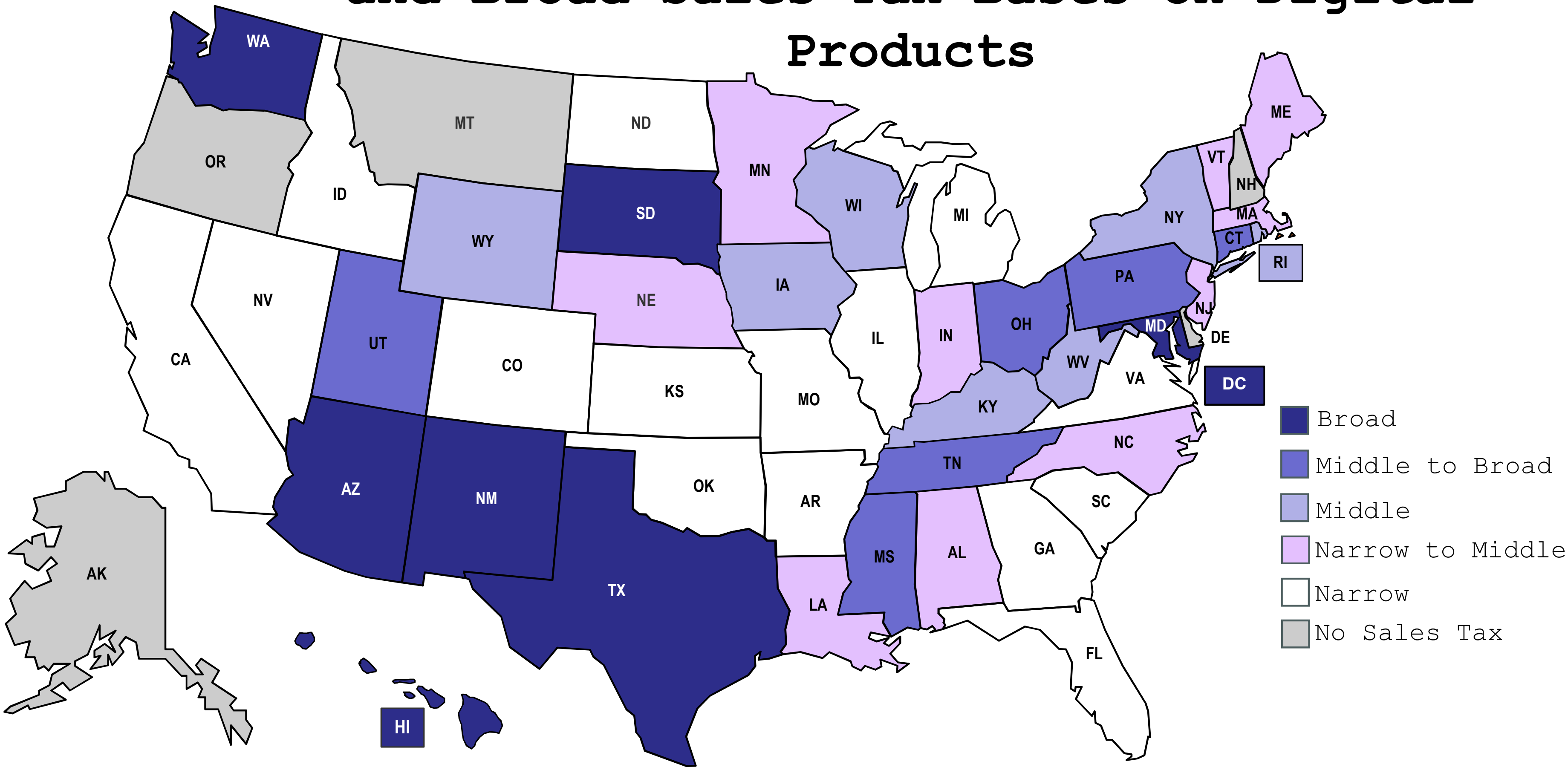
Digital services tax

- Maryland (effective 2022)
- California
- Hawaii
- Massachusetts
- Michigan
- Minnesota
- Montana
- Nebraska
- New York
- Nevada
- Rhode Island
- Tennessee
- Washington (effective 10/1/25)

Retail delivery fee

- Colorado (effective July 1, 2023) – 29 cents
- Minnesota (effective July 1, 2024) – 50 cents
- Connecticut
- Hawaii
- Illinois
- Indiana (county option)
- Maryland
- Mississippi
- Nebraska
- New York
- Tennessee
- Utah
- Vermont
- Washington

State Sales Tax Systems: Narrow, Middle, and Broad Sales Tax Bases on Digital Products



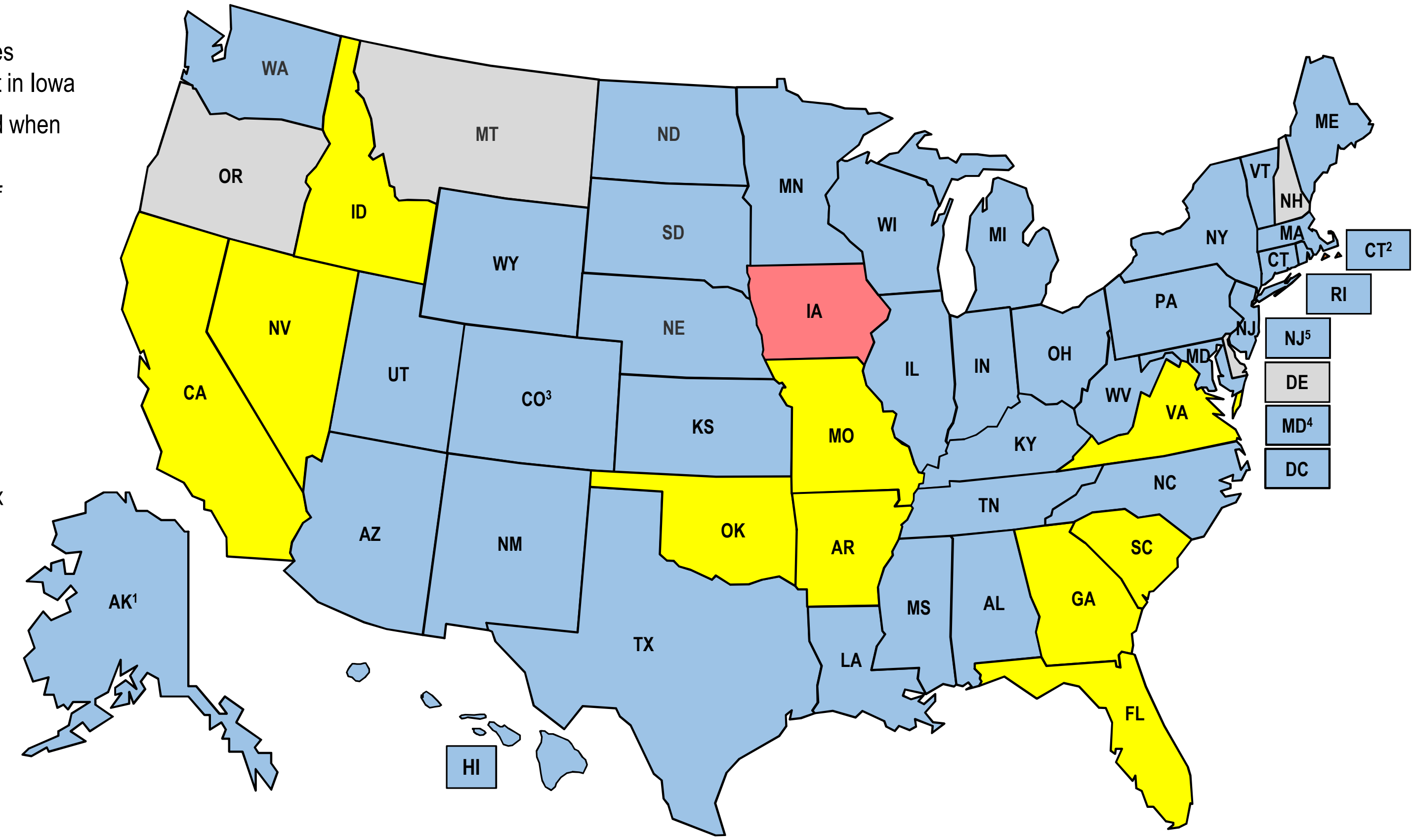
Source: Preliminary MTC Survey Results (2023)

State Sales Tax Systems Scorecard: Tax on Software

Tax on Prewritten Software (Including Electronic Delivery)

- Tax is imposed but business purchases ("commercial enterprises") are exempt in Iowa
- Tax imposed both in tangible form and when delivered electronically
- Tax imposed in tangible form but not if delivered electronically
- No sales tax

[1]AK: Data is based on local municipalities since Alaska does not have a statewide sales tax
[2]CT: Software delivered electronically is taxed at a 1% rate for businesses
[3]CO: State and local tax bases differ – tax imposed by some localities on electronic delivery
[4]MD: Some business purchases of electronically delivered software are exempt
[5]NJ: All software is taxable; however, business purchases of electronically delivered software is exempt



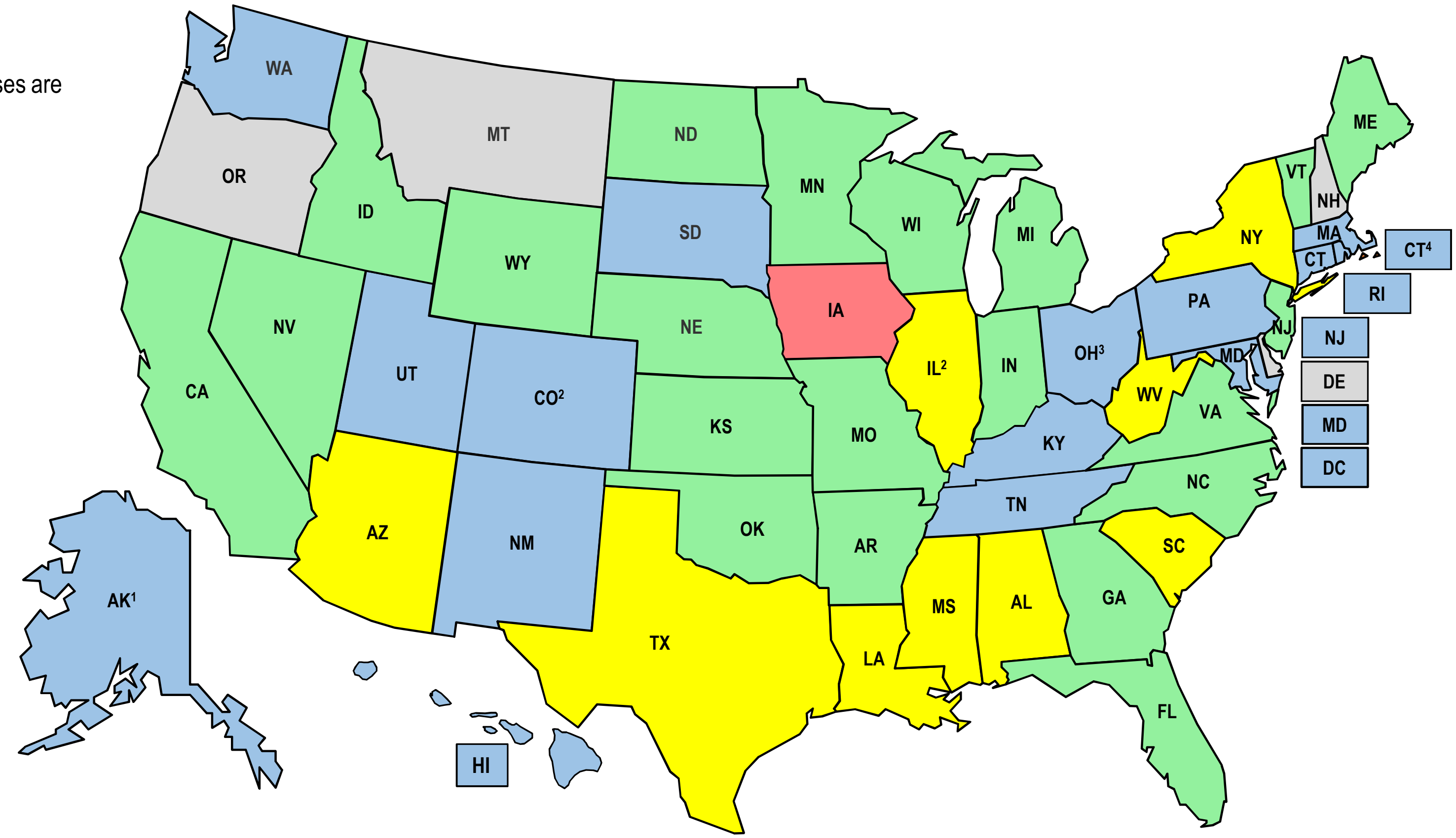
Disclaimer: This information should be used for general guidance and not relied upon for compliance
Source: Council On State Taxation (COST)

State Sales Tax Systems Scorecard: Tax on Software

Tax on Digital Software Accessed Remotely (SaaS)

- Tax is imposed but business purchases are exempt in Iowa
- No tax imposed
- Tax imposed
- Tax asserted without clear authority
- No sales tax

[1]AK: Data is based on local municipalities since Alaska does not have a statewide sales tax
[2]CO / IL: State does not impose a tax, but tax may be imposed by some localities
[3]OH: Tax only applies to businesses
[4]CT: Electronically delivered software is taxed at a 1% rate for businesses



Disclaimer: This information should be used for general guidance and not relied upon for compliance
Source: Council On State Taxation (COST)

The Sales Taxation of Digital Business Inputs

- **Key finding of 2022 COST Study*:** The sales taxation of business purchases of digital products (*e.g.*, digital business inputs) is not just commonplace, but the overwhelming norm among states that tax software and digital products. The COST study researched six categories of software and digital products
  - Canned software (including electronic delivery)
  - Custom software
  - Digital software accessed remotely (SaaS)
  - Digital information services
  - Data processing services
  - Specified digital products (video, audio, books)
- **In each of the six categories of software and digital products, over 90% of the taxing states include both business and consumer purchases in the sales tax base**
- Currently **only one state (Iowa) has a broad exemption for business purchases of software and digital products,** and several other states have narrow exemptions or rate reductions

**The Best and Worst of State Sales Tax Systems,* Dec. 2022, by Frieden, Nicely, and Nair. Available at www.cost.org

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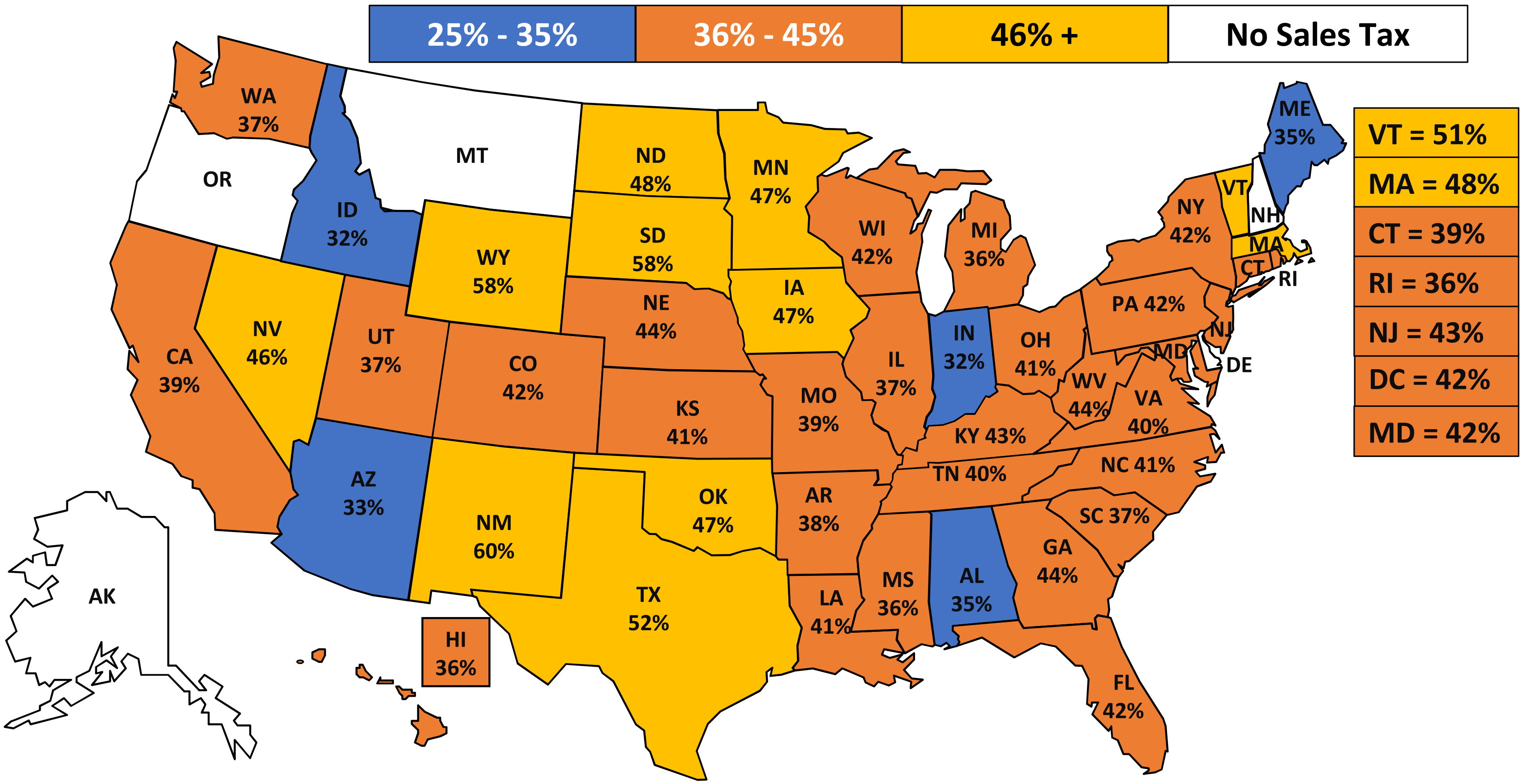
Business Inputs Make Up 42% of All State and Local Sales Taxes
Business Inputs Share of Total Sales Tax Collected



The Impact of Imposing Sales Taxes on Business Inputs, study prepared by Ernst & Young LLP for the State Tax Research Institute and the Council On State Taxation (May 2019)

Disclaimer: This information should be used for general guidance and not relied upon for compliance.

The Sales Taxation of Digital Products

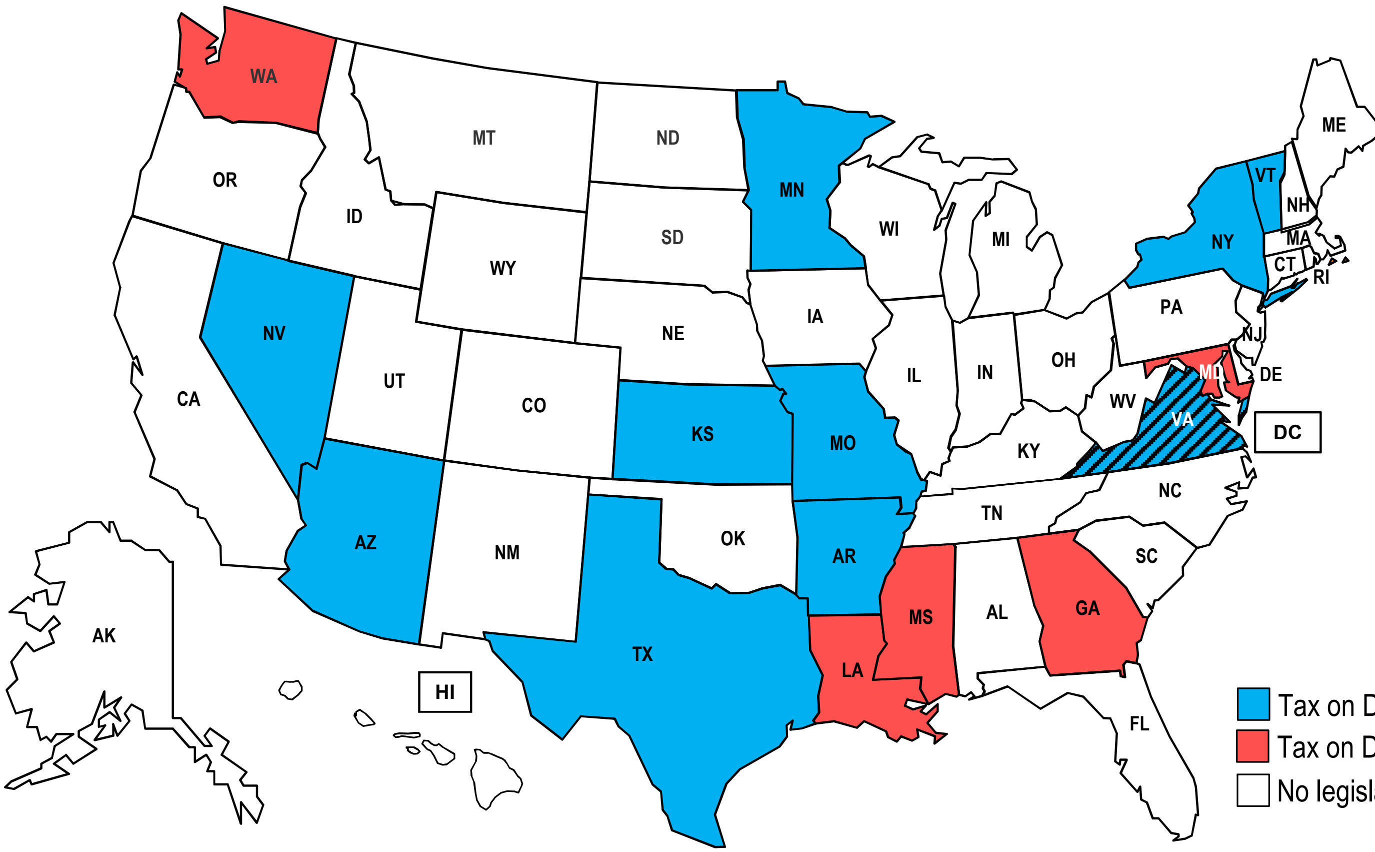
MTC, SSUTA, and NCSL have projects to address the sales taxation of digital products

MTC – project started in June 2021, initiated by Washington DOR, and the MTC is working on putting forth a white paper to address digital products and bundling issues associated with taxing those products. COST/Other business interest are pushing for B2B exemption and ITFA compliance.

SSUTA – recently initiated a SLAC workgroup to look at potentially adding new definitions to address digital products, such as SaaS. The SSUTA bundling rules may also be reviewed

NCSL – NCSL staff worked with the business community and others and has issued a white paper highlighting issues state legislators should consider when looking at taxing digital products

Taxation of Digital Products and Economy 2023 - 2025



2025 Proposals:

- **VA** H.B. 1755 sales tax on services and digital personal property
- **MD** H.B. 414 digital social media gross revenues tax
- **MD** S.B. 1045 / H.B. 1554 sales tax on B2B services
- **MD** H.B. 352 (BRFA) ENACTED
- **WA** H.B. 1887, S.B. 5814 ENACTED

Tax on Digital Goods and Economy Proposed (2023 - 2025)

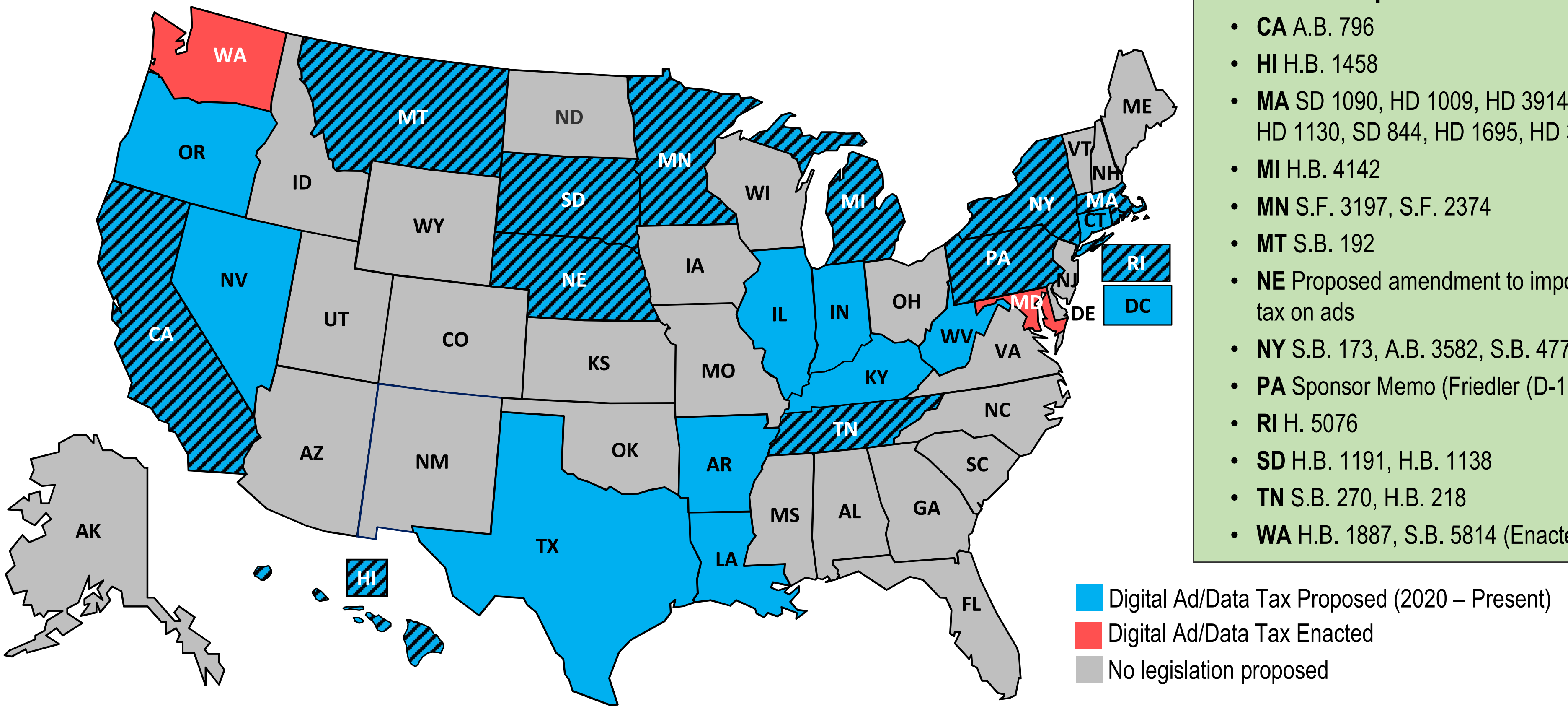
Tax on Digital Goods and Economy Enacted (2023-Present)

No legislation proposed in 2025 (as of August)

Disclaimer: This information should be used for general guidance and not relied upon for compliance

Source: Council On State Taxation (COST)

State Digital Advertising Services and Data Mining Tax Proposals (2020 – 2025)



2025 Proposals:

- **CA** A.B. 796
- **HI** H.B. 1458
- **MA** SD 1090, HD 1009, HD 3914, HD 3665, HD 1130, SD 844, HD 1695, HD 3138
- **MI** H.B. 4142
- **MN** S.F. 3197, S.F. 2374
- **MT** S.B. 192
- **NE** Proposed amendment to impose sales tax on ads
- **NY** S.B. 173, A.B. 3582, S.B. 4778
- **PA** Sponsor Memo (Friedler (D-184))
- **RI** H. 5076
- **SD** H.B. 1191, H.B. 1138
- **TN** S.B. 270, H.B. 218
- **WA** H.B. 1887, S.B. 5814 (Enacted)

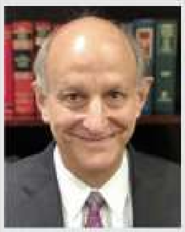
Source: Council On State Taxation research. Proposals include both digital services taxes (DSTs) and their sales tax equivalents

Disclaimer: This information should be used for general guidance and not relied upon for compliance

Related Articles on DSTs/DATs by STRI

State Digital Services Taxes: A Bad Idea Under Any Theory

by Karl A. Frieden and Douglas L. Lindholm



Karl A. Frieden

Douglas L. Lindholm

Karl A. Frieden is the vice president and general counsel of the Council On State Taxation. Douglas L. Lindholm is COST's president and executive director and an attorney.

In this article, Frieden and Lindholm critique the policy arguments made in favor of a "permanent" digital services tax at the state level in the United States.

Introduction

Digital services taxes are barely five years old, but they have captured the imagination of some (and the scorn of others) both within the United States and abroad. In Europe and other countries, many national governments enacted DSTs as temporary measures to address perceived gaps in corporate income tax systems. They did so with despite the absence of similar gaps, Maryland enacted a state-level DST on a permanent basis, and other states are considering similar measures that impose gross receipts taxes on digital advertising, data mining, and other types of digital platform revenues (see Figure 1).

The debate over DSTs, both internationally and domestically, is now centered on trade and legal issues. The U.S. government has threatened trade retaliation against other national governments that adopt DSTs, which the United States, under both the Trump and Biden administrations, views as discriminatory against U.S. technology companies. That dispute is temporarily sidelined as both sides await the fate of the pillar 1 reforms.[2]

The Maryland DST is embroiled in a high-stakes lawsuit brought by affected businesses arguing that the state-level DST violates the anti-discrimination provisions of both the Internet Tax Freedom Act and the Constitution's commerce clause. The trial court in Maryland ruled in favor of the taxpayers on both statutory and constitutional grounds, and the case is now on appeal.[3]

[2]Frieden and Do, *supra* note 1; *see* OECD, "Pillar One — Amount A: Draft Multilateral Convention Provisions on Digital Services Taxes and Other Relevant Similar Measures" (Dec. 20, 2022).

[3]The Maryland DST statute, which imposes a gross receipts tax on digital advertisers with more than $100 million in global revenues and $1

A State DAT Relabeled a 'Digital Barter' Tax Is Still Bad Tax Policy

by Karl A. Frieden and Douglas L. Lindholm

Karl A. Frieden

Douglas L. Lindholm

Karl A. Frieden is the vice president and general counsel of the Council On State Taxation. Douglas L. Lindholm served as COST's president and executive director for 25 years and is now special counsel to COST and chair of the advisory board to COST's State Tax Research Institute.

In this article, Frieden and Lindholm analyze California's proposed digital advertising tax (DAT), comparing it with the existing Maryland DAT, and provide their rebuttal to Young Ran (Christine) Kim and Darien Shanske's flawed characterization of and justification for the California DAT legislation as a digital barter tax.

constitutional grounds (the commerce clause and First Amendment). Indeed, one lower Maryland state court found that the Maryland DAT violated both federal statutory and constitutional requirements, but the decision was reversed by the state's highest court on procedural grounds (failure to exhaust administrative remedies).[2] Now a new cycle of litigation is occurring in Maryland (based on refund applications), but we may not know the ultimate outcome until 2025.

In the interim, DAT or similar digital services tax proposals have been introduced in about 20 states.[3] None have been enacted, in part because of the issues surrounding the legality of such statutes, and in large measure because of serious questions raised about the policy implications of DATs. In 2024 the California DAT legislation has progressed further than in any of the other states. The proposed California legislation, S.B. 1327, which would create a new "data extraction mitigation fee," recently passed the California Senate by a two-thirds vote and was transmitted to the Assembly for consideration.[4]

The California DAT legislation reflects in large part the intellectual contributions of Darien Shanske, a California-based law professor, and Young Ran (Christine) Kim, a New York-based law professor. Over the last few years, Kim and Shanske have laid out an elaborate justification for

Digital Advertising Taxes -- Litigation

- **<u>Maryland</u>**
- In 2021, Maryland became the first state to adopt a digital advertising services tax on annual gross receipts derived from digital ad services in the state
  - Imposed on entities with global gross revenue of at least $100 million
  - Entities with $1 million of digital ad revenue from MD sources required to file
  - Tax rates range from 2.5% to 10% based on amount of annual global gross revenue
- Status of current litigation challenging the tax:
  - Federal lawsuit (*U.S. Chamber of Commerce*): largely dismissed for lack of jurisdiction under federal Tax Injunction Act, on appeal to Fourth Circuit Court of Appeals
  - State lawsuit (*Comcast/Verizon*): MD state trial court struck down the tax in Oct. 2022 on Internet Tax Freedom Act, Commerce Clause, First Amendment grounds; MD Supreme Court dismissed lawsuit on procedural grounds in May 2023 – tax stands for now
  - Late 2023: Apple and 13 other companies filed appeals in MD Tax Court, asking for refund of estimated taxes paid during 2022 – revives substantive arguments not addressed by MD Supreme Court; MD Tax Court most recently ruled that *Apple* litigation may proceed
    - Key arguments are the Internet Tax Freedom Act "discrimination" argument and Commerce Clause violations

Washington – Tax Omnibus Legislation (Enacted)

- H.B. 2081 dealing with B&O tax rate changes and the B&O advanced computing surcharge
- S.B. 5814 extends the retail sales tax to select services that are mostly, if not exclusively, purchased by businesses (**including advertising**)
- H.B. 2015 dealing with local option taxes
- H.B. 2020 dealing with payment card processors
- S.B. 5167 dealing with waived penalties for voluntary disclosure

Litigation Update: On September 9, 2025, Comcast filed a lawsuit against the Washington Department of Revenue in Thurston County, challenging the constitutionality of S.B. 5814's imposition of sales and use tax on digital advertising services.

National Property Tax Trends

State Legislatures Focus on "Voter" Property Tax Relief

Residential Property Tax Relief

- Many states continue to seek harnessing the growth in property taxes due to property valuation increases. Increasing homestead exemptions and capping valuation increases are the two popular methods

Business Concerns

- Some of the proposals to provide residential property tax relief increase the property tax burden imposed on business. On average in the U.S., 54% of all property taxes are paid by business
- **The average effective tax rate (ETR) on business real property is 1.7%, while the ETR for residential property is 1.2%.** In addition, businesses paid $22.8 billion more in personal property tax as compared to personal property subject to tax on residents (*e.g.*, some states impose tax on motor vehicles)
- If the ETR for business property and the personal property tax was the same as residential, businesses would have paid $142.8 billion less in property taxes ($120 billion (ETR)) in 2023

Source: COST/EY 2024 50-State Business Tax Burden Study; available at: score ey-50-state-tax-burden-study final 121824.pdf

Personal Property Tax Exemption Thresholds

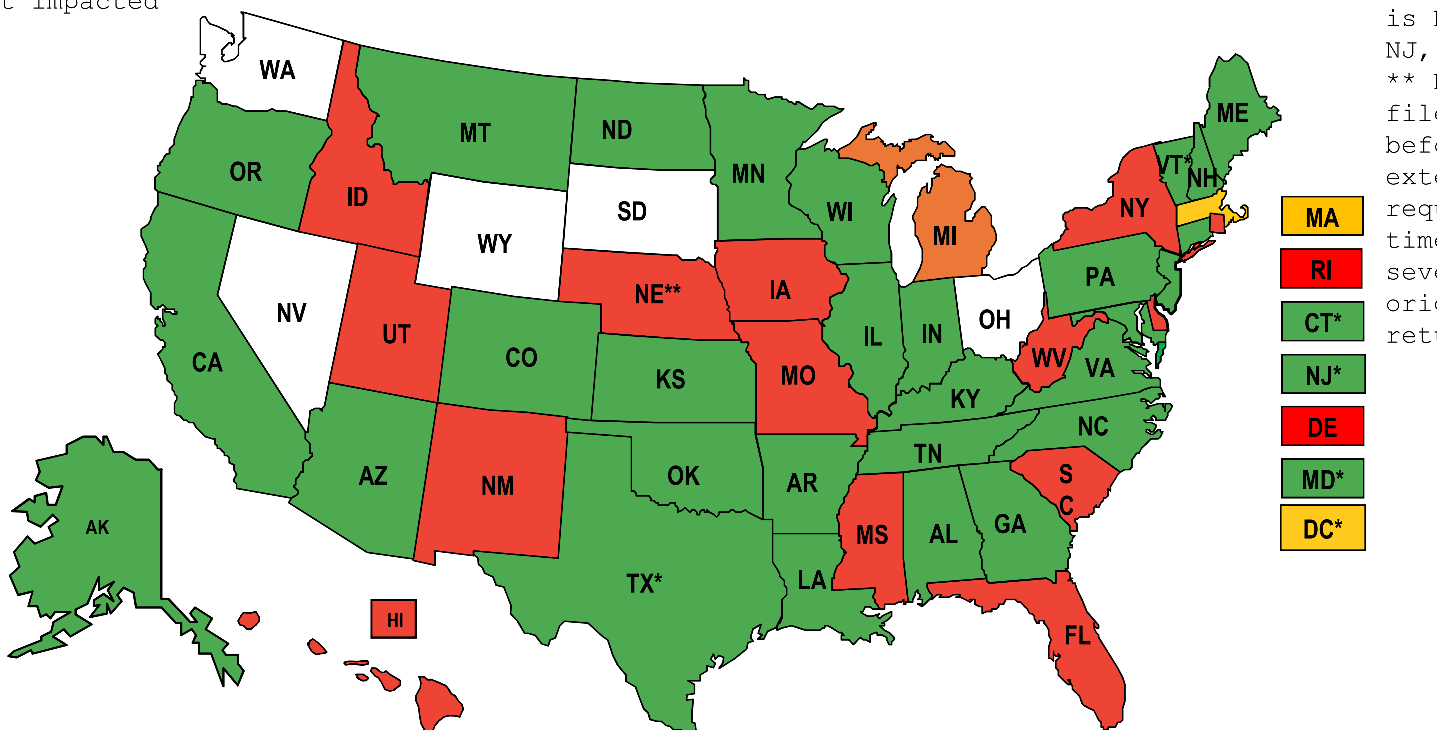
2025 (Positive) Trend for U.S. Personal Property Taxes

- Several states increased their exemptions for personal property tax assessment:
  - **Alabama** – H.B. 543, increased $40k exemption to $100k
  - **Arizona** – S.B. 1749, increased $207,366 exemption to $500k
  - **Indiana** – S.B. 1 & H.B. 1427, in 2026 exemption increased from $80k to $2m (increase to $1 m for 2025 removed); 30% valuation floor also removed for property placed in service after 1/1/25
  - **Ohio** – H.B. 15 reduces personal property assessment rate on some public utility personal property
  - **Texas** – H.B. 9 will increase the exemption for BPP to $125,000 (from $2,500) subject to voter approval
    - H.B. 9 exempts $125,000 of BPP at each business location within a taxing unit, except that lessors of BPP are entitled to only one exemption of $125,000 within a taxing unit
  - **Wyoming** – S.F. 48, exempts first $75k of personal property owned by a business in each county

COST’s Proactive Legislative Initiatives

One Month Extension Beyond the Federal Extended Due Date for Filing Corporate Income Tax Returns

- Original or extended return deadline at least one month after federal
- Original or extended return deadline at least one month after federal for combined filers only
- Original and extended return deadline less than one month after federal
- MI has an 8-month extension (2 months after federal extended due date) but taxpayer must file tentative return and copy of federal extension request by original due date
- States not impacted



* Original or extended return deadline one month after federal but extension is NOT automatic (CT, MD, NJ, TX, VT, DC)

** NE requires taxpayer to file NE Form 7004N on or before the date the federal extension expires to request an extension of time that cannot exceed seven months after the original due date of the return

Disclaimer: This information should be used for general guidance and not relied upon for compliance

Source: Council On State Taxation (COST)

30-Day Safe Harbor for Nonresident Traveling Employees

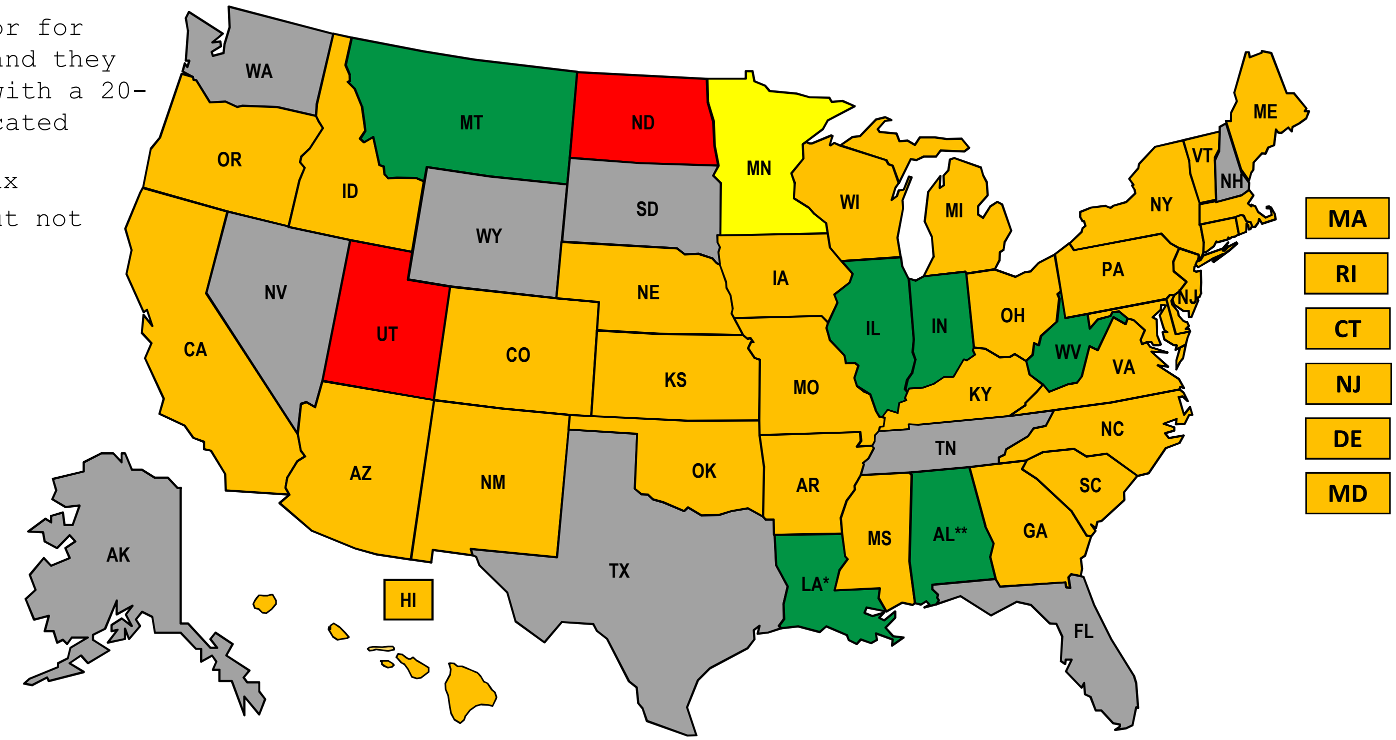
COST
Council On State Taxation

- State has enacted a 30-day threshold for both filing and withholding
- States that need a 30-day safe harbor for both filing and withholding obligations (AZ and HI have a 60-day, and VT has a 30-day threshold for withholding only)
- States that need a 30-day safe harbor for filing and withholding obligations and they have enacted the MTC model statute with a 20-day threshold and additional complicated provisions based on wages earned
- No general state personal income tax
- State with legislation introduced but not enacted in 2025

On April 10, 2025, Senators Thune (R-SD) and Cortez Masto (D-NV) reintroduced the federal legislation as

*LA H.B. 567 (2025) enacted, extends the 25-day threshold

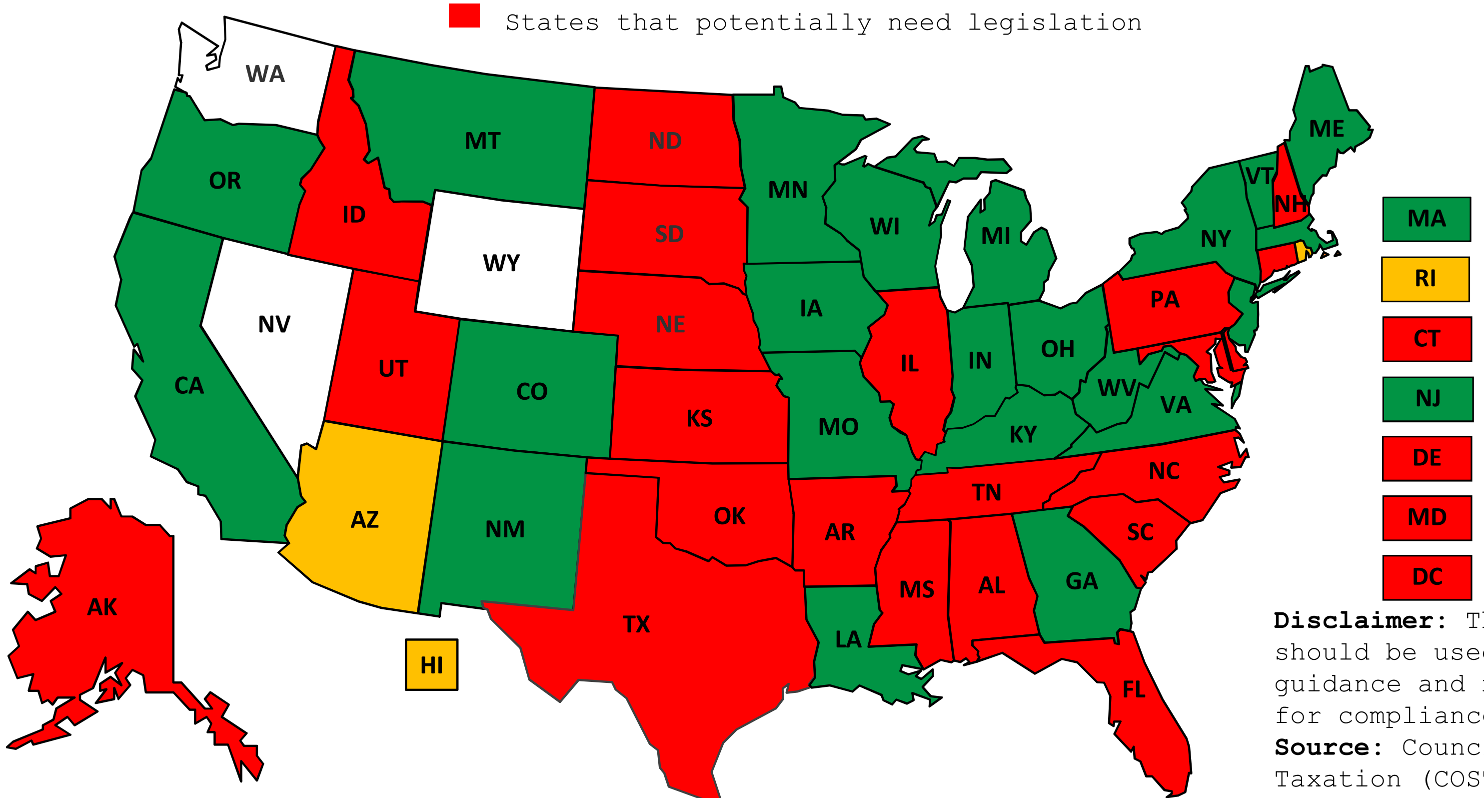
**AL H.B. 379 (2025) enacted May 14, 2025



Disclaimer: This information should be used for general guidance and not relied upon for compliance
Source: Council On State Taxation (COST)

MTC Consensus Model for Federal Audit Change Reporting

- States that have enacted legislation
- States that have enacted legislation, but need improvement to more closely follow MTC Consensus Model
- States that potentially need legislation



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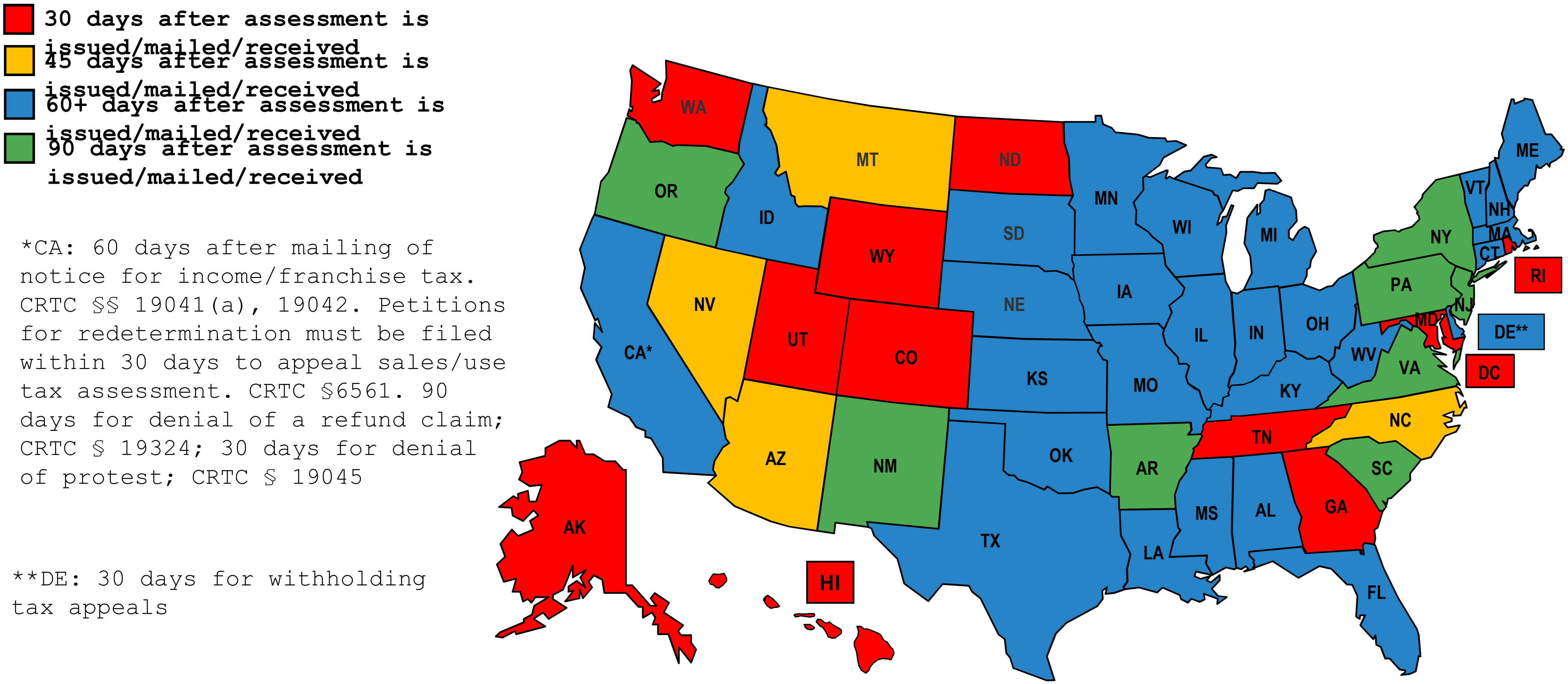
Source: Council On State Taxation (COST)

Updated: 5.16.25

90-Day Appeal Period



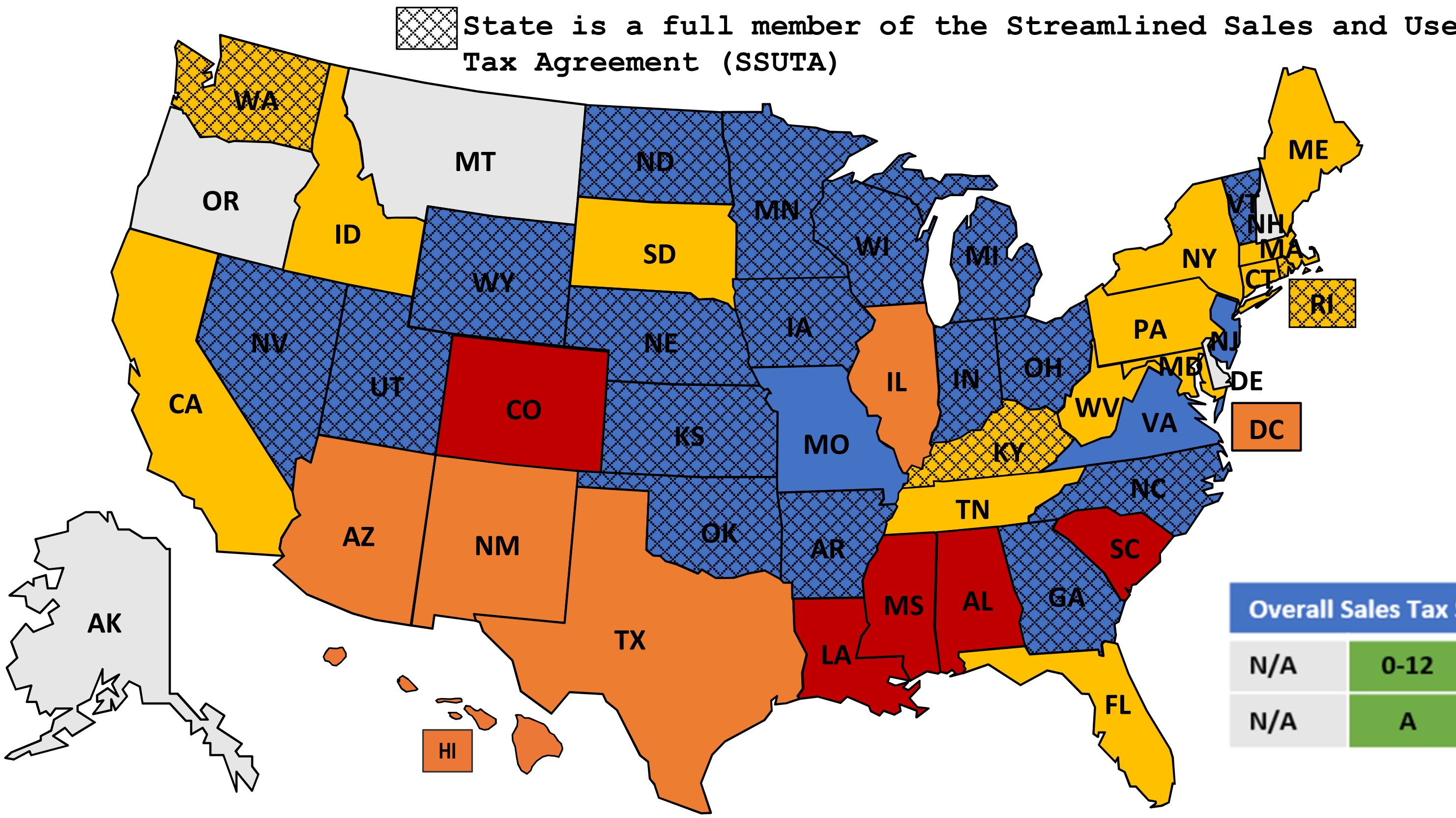
*CA: 60 days after mailing of notice for income/franchise tax. CRTC §§ 19041(a), 19042. Petitions for redetermination must be filed within 30 days to appeal sales/use tax assessment. CRTC §6561. 90 days for denial of a refund claim; CRTC § 19324; 30 days for denial of protest; CRTC § 19045

**DE: 30 days for withholding tax appeals

Disclaimer: This information should be used for general guidance and not relied upon for compliance
Source: Council On State Taxation's (COST) State Tax Administration Scorecard, December 2023

COST
Council On State Taxation

Sales Tax Scorecard: State Grades



Overall Sales Tax Scorecard Grades					
N/A	0-12	13-20	21-26	27-29	30+
N/A	A	B	C	D	F

Note: Because Alaska has no statewide sales tax, its was not given an overall grade

What is Streamlined Sales Tax® (SST)?

- **Started in 1999:** National Governors Association, **National Conference of State Legislatures,** Federation of Tax Administrators and Multistate Tax Commission requested tax administrators to develop a simpler sales tax system:
  - Address complexities faced by multistate businesses
  - Address the unlevel playing field for merchants
  - Addresses loss of revenue from states unable to efficiently collect taxes already imposed

An ongoing NCSL SALT Task Force was instrumental in working on SSUTA issues and helped garner support for legislative action in the SSUTA states to conform to the Agreement

Streamlined's Goals

01

Create a simpler system for administering the various state and local sales taxes

02

At least make processes uniform if they cannot be made simple

03

Balance the interests of a state's sovereignty with the interests of simplicity and uniformity

04

Leverage the use of technology to ease the retailer's tax collection and reporting

Key Features of SSUTA

- State level administration of local sales and use taxes
- Common state and local tax bases within a state
- Uniform destination-based sourcing rule for goods and services
- One-stop central registration system
- Uniform definitions
- Uniform simplified electronic return (SER)
- Rate and boundary databases
- Product Taxability matrix
- Simplified exemption administration
- Customer refund provisions
- Liability relief provisions
- Certified Service Providers (CSPs)

Not an SSUTA State?

- Regardless of whether a state is participating in the SSUTA, states are encouraged to improve their sales tax administrative practices by adopting some of the SSUTA procedures
- Goal is to have non-SSUTA states:
- Increase uniformity
- Makes collection and remittance more efficient
- Reduce complexity and administrative burdens
- Participate in SSUTA process to be a stakeholder on current and future SSUTA endeavors

Not an SSUTA State?

- We (COST and SSUTA staff) have drafted several standalone model bills for non-SSUTA states to consider enacting
- These are initial drafts and we encourage input from all interested parties on suggested revisions to the model bills
- None of the model bills would require a state to become an SSUTA state; however, we encourage all states to participate in the SSUTA meetings, workgroups, etc.
- The model bills are intended to create a win-win situation by improving the sales tax administration process for both tax administrators and businesses

Not an SSUTA State?

(Please let me know if you want a copy of the model bills.)

- The following are the model bills included:
- Local Rate and Boundary Changes Administrative Act
- Uniform Destination-Based Sourcing Act
- Uniform Exemption Administration Act
- Uniform Over-collected Tax Customer Refund Procedures Act
- Disclosure of Product Taxability Administration Act
- Specified Digital Products Act
- Remote Seller Registration Requirement Act
- Remove Number of Transactions From Economic Nexus Threshold Calculation Act

ARIZONA TAX RESEARCH ASSOCIATION

Major Public Finance and Tax Issues

- Tax System Update
- Sales Tax Administrative Complexity
- School Finance: Litigation & Bonds

The taxpayer's watchdog for 85 years

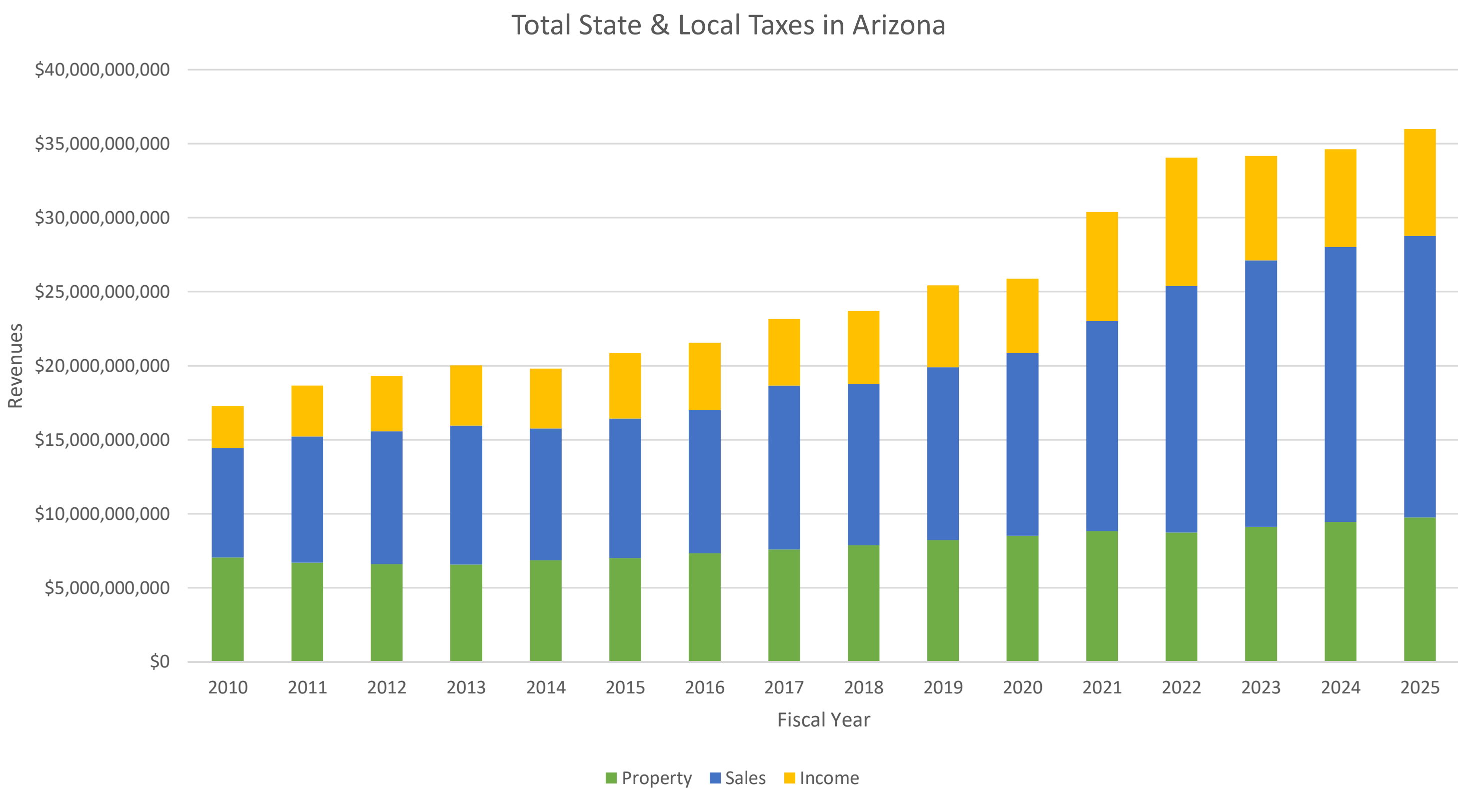
Tax System Update

- System should generate adequate revenue for state and local governments
- System should be efficient: Broad bases & low rates
- Generally speaking, Arizona is now a low tax/high growth state that generates significant revenues

ATRA's Criteria for Judging Tax Policy

- **Simplicity** – Minimize fiscal compliance and administrative costs. Tax system should be easily understood by taxpayers and tax collection agencies
- **Efficiency** – Broad base and low rates. Seek low tax/high growth vs high tax/low growth
- **Predictability** – Avoid frequent ad hoc changes to the fiscal system. Seek a predictable fiscal system for taxpayers, administrators, and policymakers
- **Neutrality** – Avoid discriminatory treatment of similar economic activities
- **Competiveness** – Pursue a fiscal system that does not deter economic growth and prosperity
- **Accountability** – Provide links between the revenue raising responsibility and the spending authority so voters can hold elected officials accountable for both revenue and spending decisions

15-Yr Big Three Total State & Local Taxes



The taxpayer's watchdog for 85 years

Big Three Total State and Local Taxes in Arizona

	FY 2024	FY 2025	% Increase	% of Total
Sales	$18,597,643,937	$19,044,243,076	2.4%	52.9%
Property	$9,436,672,220	$9,753,099,826	3.4%	27.1%
Income	$6,591,838,874	$7,234,723,667	9.8%	20.1%
Subtotal	**$34,626,155,031**	**$36,032,066,569**	**4.1%**	**100.0%**

Property Tax Revolts

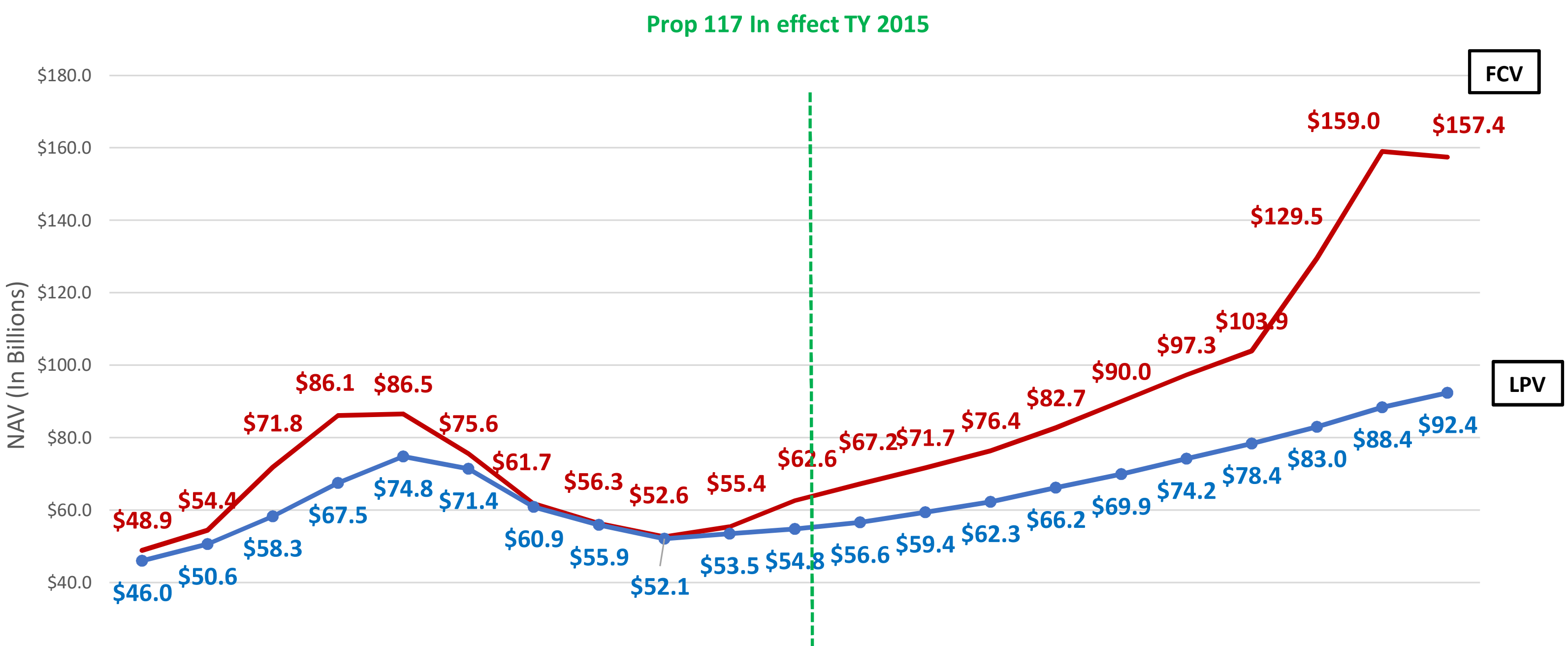
Colorado	**Indiana**	**Montana**	**North Carolina**
Connecticut	**Iowa**	**Nebraska**	**North Dakota**
Florida	**Kansas**	**New Hampshire**	**Pennsylvania**
Georgia	**Maryland**	**New Jersey**	**South Dakota**

Source: Tax Foundation

AZ's Controls on Property Tax Growth

- Prop 117 Value Growth Limit
  - LPV limited to 5% increase annually on all locally assessed, not to exceed market value (full cash value/FCV)
  - FCV (market value) no longer taxable
- Levy Limits
  - Constitutional 2% limit (plus new construction) on the primary levies for counties, community colleges, cities & towns
  - Statutory limit on fire districts & Maricopa County special healthcare district
- Tax Rate Caps
  - Some special taxing districts (fire, jail, public health services & other special taxing districts)
- Truth in Taxation (Transparency & Accountability)
  - K12 Qualifying Tax Rate – Legislature's continued adherence since 1998
  - Local governments – counties (some countywide special taxing districts), community colleges, cities & towns

20-Year Property Values

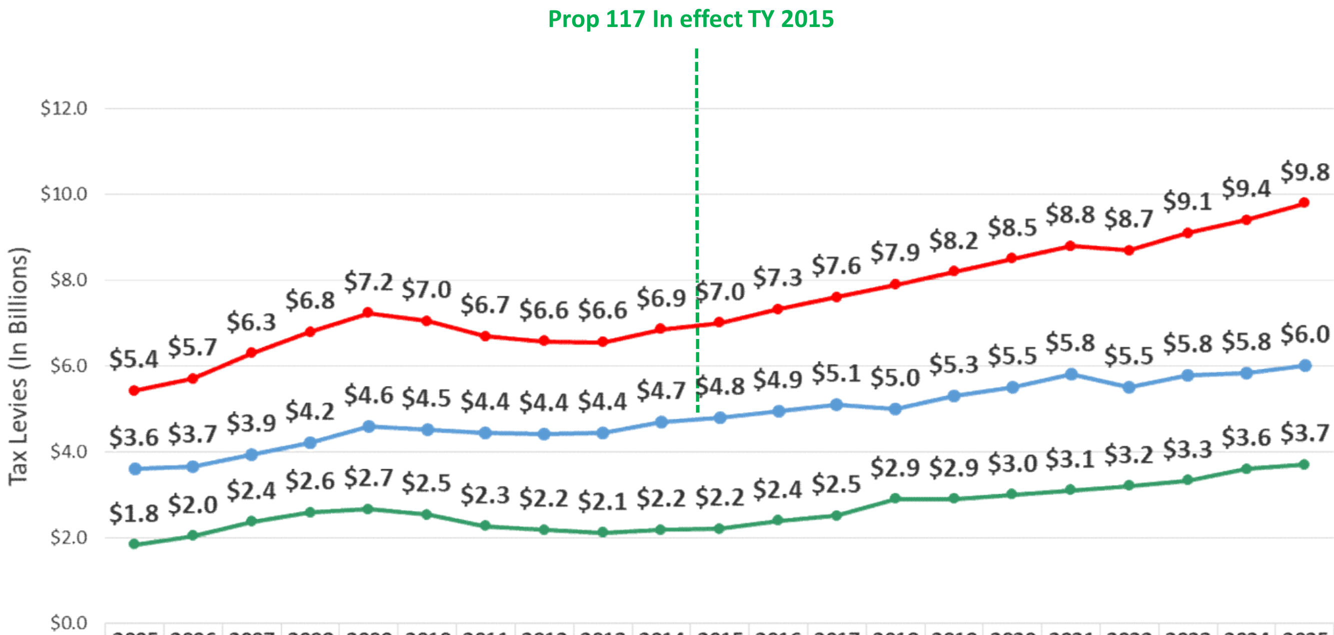


	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
FCV	$48.9	$54.4	$71.8	$86.1	$86.5	$75.6	$61.7	$56.3	$52.6	$55.4	$62.6	$67.2	$71.7	$76.4	$82.7	$90.0	$97.3	$103.9	$129.5	$159.0	$157.4
LPV	$46.0	$50.6	$58.3	$67.5	$74.8	$71.4	$60.9	$55.9	$52.1	$53.5	$54.8	$56.6	$59.4	$62.3	$66.2	$69.9	$74.2	$78.4	$83.0	$88.4	$92.4

Tax Year

The taxpayer's watchdog for 85 years

20-Yr Property Tax Levies

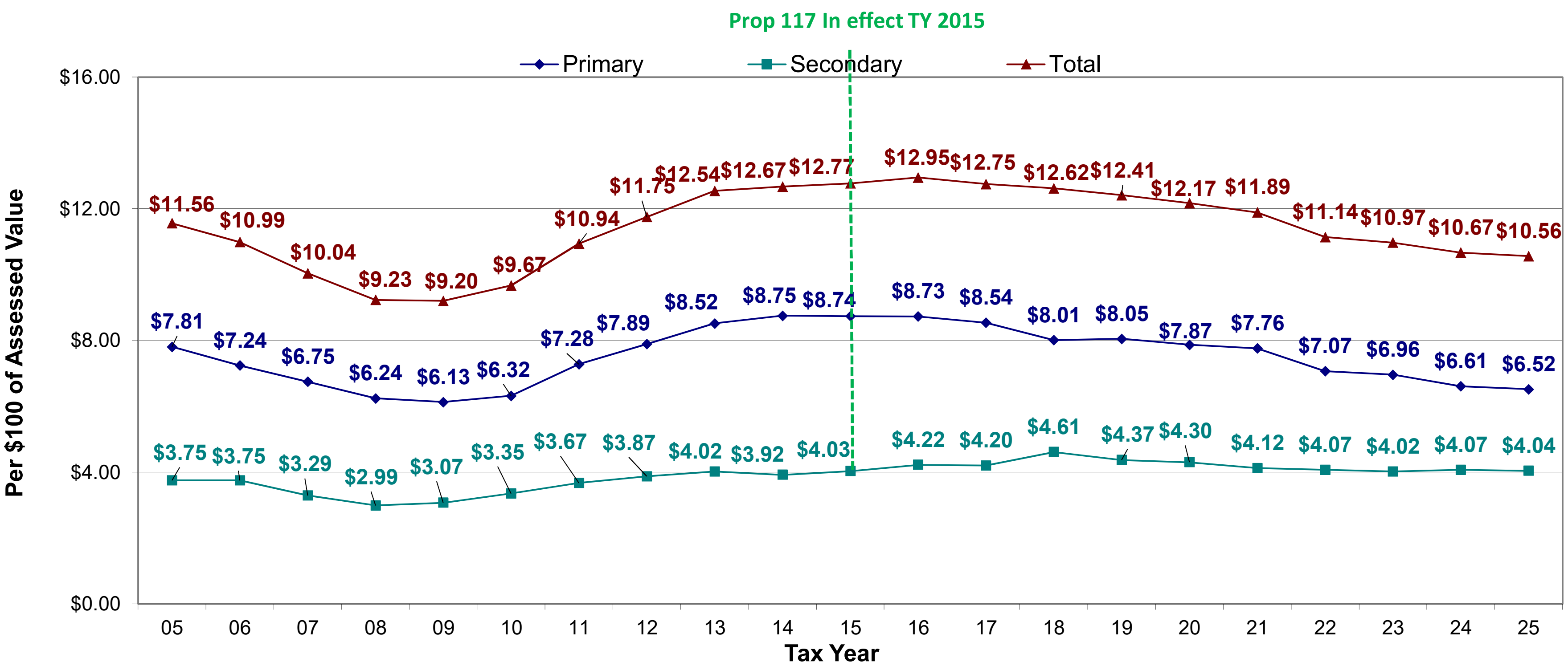


	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Primary	$3.6	$3.7	$3.9	$4.2	$4.6	$4.5	$4.4	$4.4	$4.4	$4.7	$4.8	$4.9	$5.1	$5.0	$5.3	$5.5	$5.8	$5.5	$5.8	$5.8	$6.0
Secondary	$1.8	$2.0	$2.4	$2.6	$2.7	$2.5	$2.3	$2.2	$2.1	$2.2	$2.2	$2.4	$2.5	$2.9	$2.9	$3.0	$3.1	$3.2	$3.3	$3.6	$3.7
Total	$5.4	$5.7	$6.3	$6.8	$7.2	$7.0	$6.7	$6.6	$6.6	$6.9	$7.0	$7.3	$7.6	$7.9	$8.2	$8.5	$8.8	$8.7	$9.1	$9.4	$9.8

Tax Year

The taxpayer's watchdog for 85 years

20-Yr Statewide Average Property Tax Rates



The taxpayer's watchdog for 85 years

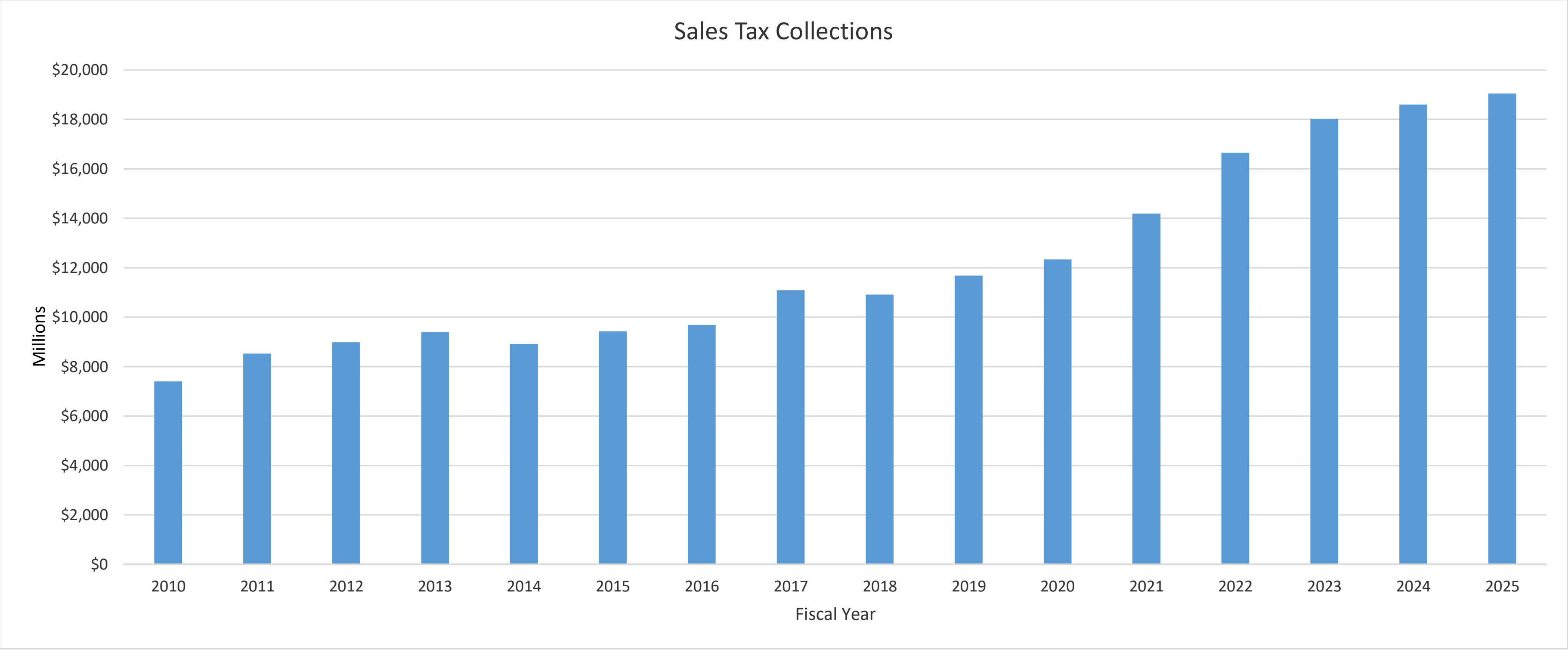
Property Tax Oversight Commission (PTOC)

- ADOR staffs the PTOC
- PTOC is responsible for reviewing the primary levies of counties, community colleges, cities & towns, and K12 schools and secondary levies for all, including fire districts and countywide special taxing districts, but excluding K12 bonds & overrides
- For Tax Year 2025, of the $9.8B levied in primary and secondary taxes, PTOC reviewed $7.5B (77%)
- Major errors or illegal levies discovered and fixed every year

Business Personal Property (BPP) Tax

- ATRA has long supported, for decades, reducing reliance on BPP. The 2025 session included more progress
- 2025 legislation increased BPP exemption to $500k (up from the current $269.9k
- Effective beginning TY 2022, a 2.5% valuation factor is applied to all newly acquired BPP
- The combination of these two reforms exempts up to $20 million in newly acquired BPP

15-Yr State & Local Sales Taxes



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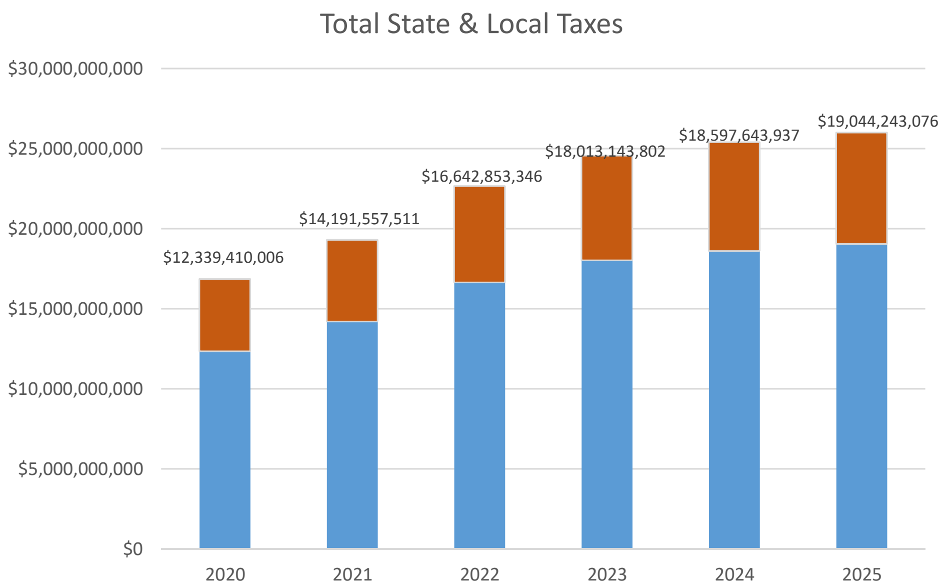
5-Yr Total State & Local Sales Taxes



5-YR Growth: $6.7 Billion
(54% or 10.8% per Yr)

Fiscal Year	State	Local	Total	% Growth
2025	**$12,090,752,272**	**$6,953,490,804**	**$19,044,243,076**	**2.4%**
2024	$11,798,063,530	$6,799,580,407	$18,597,643,937	3.2%
2023	$11,461,991,191	$6,551,152,611	$18,013,143,802	8.2%
2022	$10,619,467,199	$6,023,386,147	$16,642,853,346	17.3%
2021	$9,080,204,889	$5,111,352,622	$14,191,557,511	15.0%
2020	$7,820,211,650	$4,519,198,356	$12,339,410,006	5.6%

Remote Seller (RS) /Marketplace Facilitator (MF) Revenues

Fiscal Year	State GF	Education	State Revenue Sharing: County	State Revenue Sharing: City	City Taxes	County Taxes	Total Revenue
FY 2020 (8 mos.)	$128,626,160	$20,915,956	$28,243,513	$17,429,964	$58,052,074	$25,392,133	$278,659,801
FY 2021	$307,484,901	$50,000,255	$67,517,011	$41,666,879	$149,797,140	$60,373,721	$676,839,907
FY 2022	$381,449,596	$61,182,450	$83,758,053	$51,689,739	$186,203,267	$73,905,121	$838,188,225
FY 2023	$451,206,582	$70,939,988	$99,075,173	$61,142,417	$222,404,140	$83,117,935	$987,886,235
FY 2024	$502,314,641	$80,478,576	$110,297,393	$68,068,004	$247,162,429	$94,678,477	$1,102,999,520
FY 2025	$558,449,224	$89,717,766	$122,623,329	$75,674,728	$279,686,621	$106,102,376	$1,232,254,044
TOTALS	**$2,329,531,104**	**$373,234,991**	**$511,514,472**	**$315,671,731**	**$1,143,305,671**	**$443,569,763**	**$5,116,827,732**

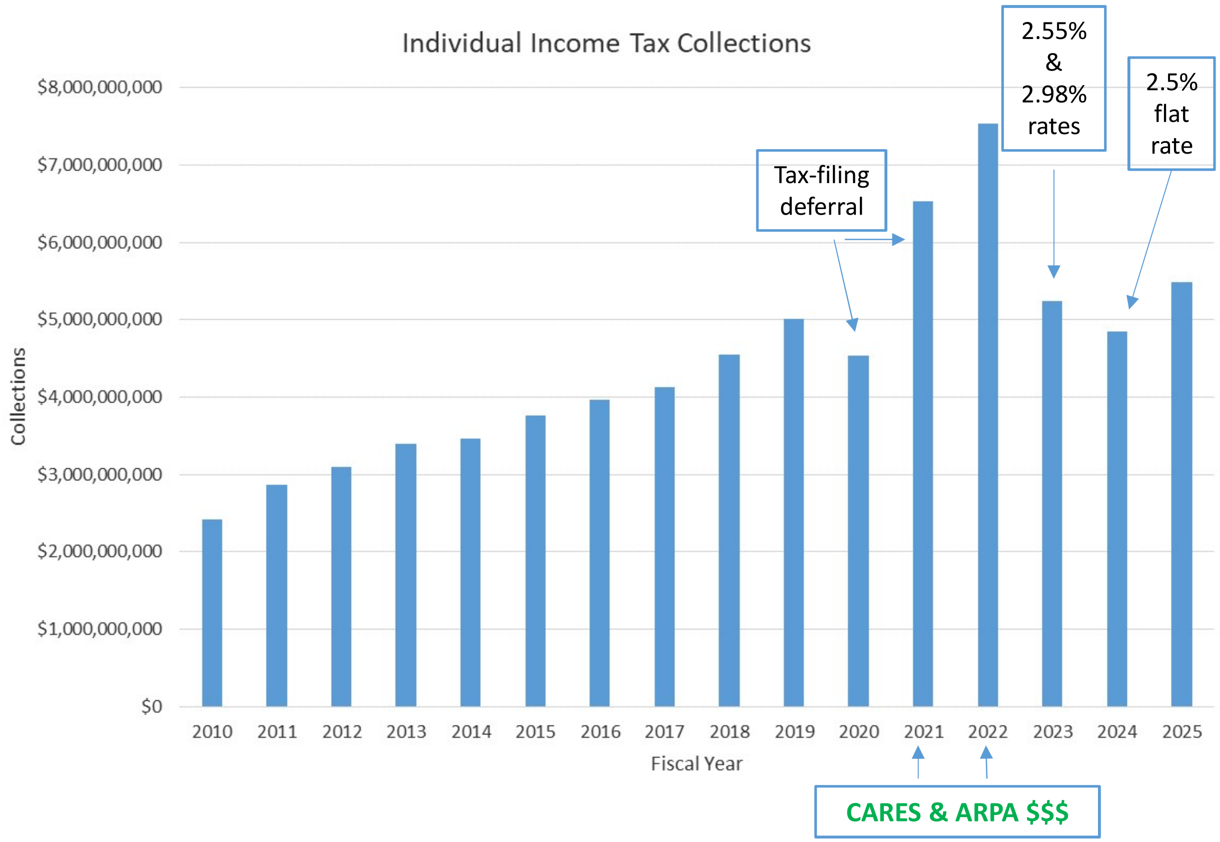
- $5.1 Billion in total State & Local online remote sales revenues
- Total state GF revenues $2.3 Billion vs. county and city revenues (including state revenue sharing) of $2.8 Billion

Source: ADOR Annual Reports

Retail v. RS/MF State GF TPT Collections

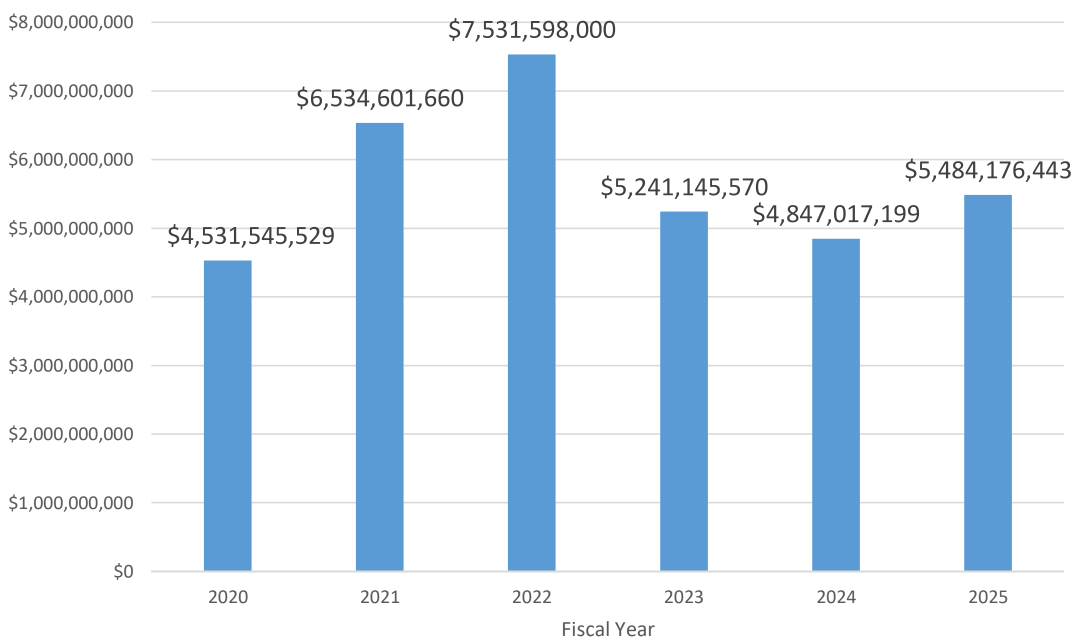
Fiscal Year	Retail	% Chg	Remote Sellers	% Chg	Combined	% Chg
2014	$2,762,875,219					
2015	$2,923,177,232	5.8%				
2016	$3,080,715,464	5.4%				
2017	$3,196,120,271	3.7%				
2018	$3,371,484,225	5.5%				
2019	$3,583,229,740	6.3%				
2020	$3,735,621,348	4.3%	$174,299,637		$3,909,920,985	
2021	$4,312,419,552	15.4%	$416,668,791	139.1%	$4,729,088,343	20.95%
2022	$4,859,333,467	12.7%	$516,897,387	24.1%	$5,376,230,854	13.68%
2023	$4,996,389,333	2.8%	$611,424,172	18.3%	$5,607,813,505	4.31%
2024	$5,104,943,544	2.2%	$680,680,038	11.3%	$5,785,623,582	3.17%
2025	$5,174,638,748	1.4%	$756,747,281	11.2%	$5,931,386,029	2.52%

15-Yr Individual Income Taxes



The taxpayer's watchdog for 85 years

5-Yr Individual Income Tax Collections



Source: Arizona Department of Revenue

5-YR Growth: $952 Million
(21% total or 4.2% per Yr)

Fiscal Year	Total	% Chg
2025	**$5,484,176,443**	**13.1%**
2024	$4,847,017,199	-7.5%
2023	$5,241,145,570	-30.4%
2022	$7,531,598,000	15.3%
2021	$6,534,601,660	44.2%
2020	$4,531,545,529	-9.8%

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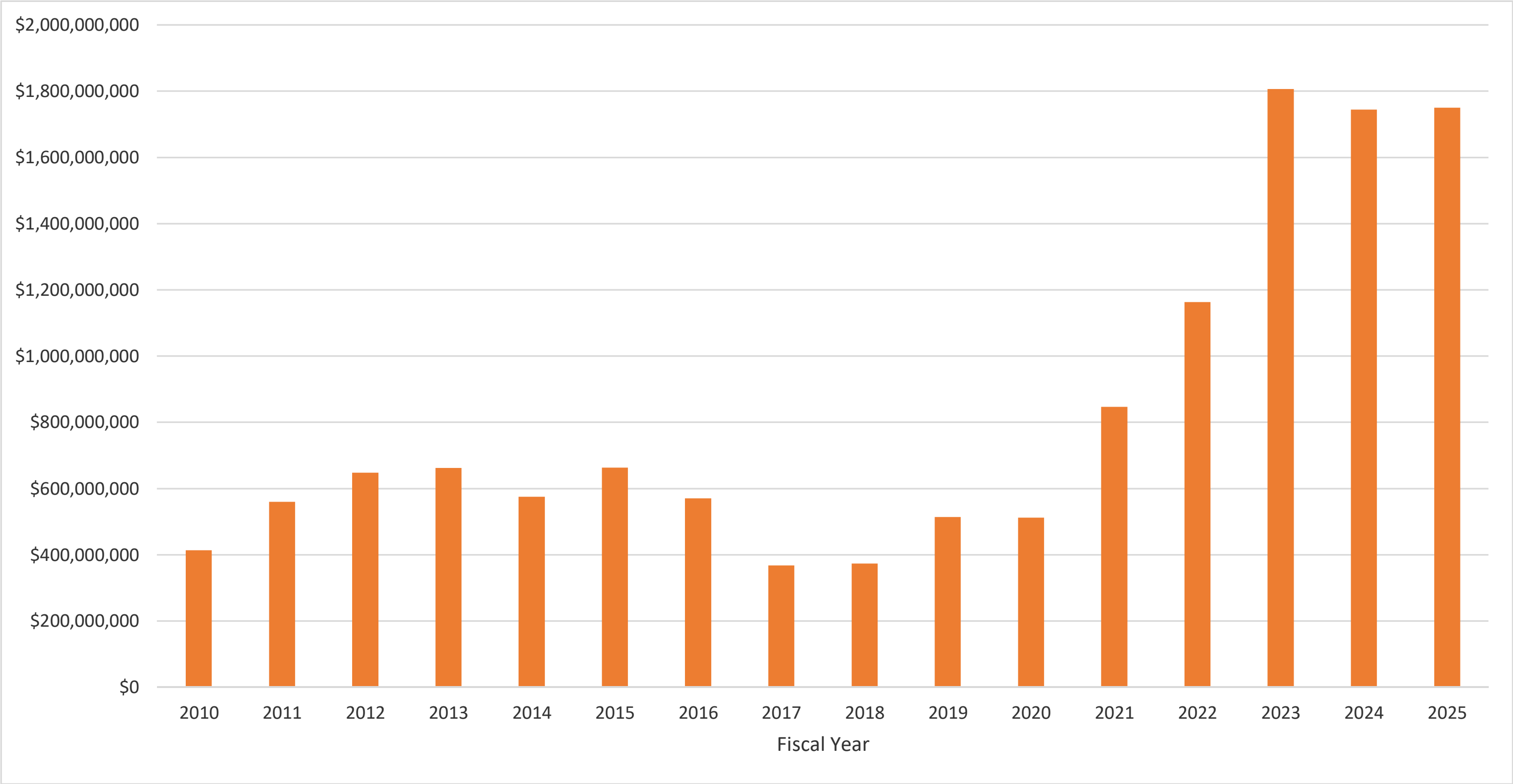
15-Yr Corporate Income Taxes



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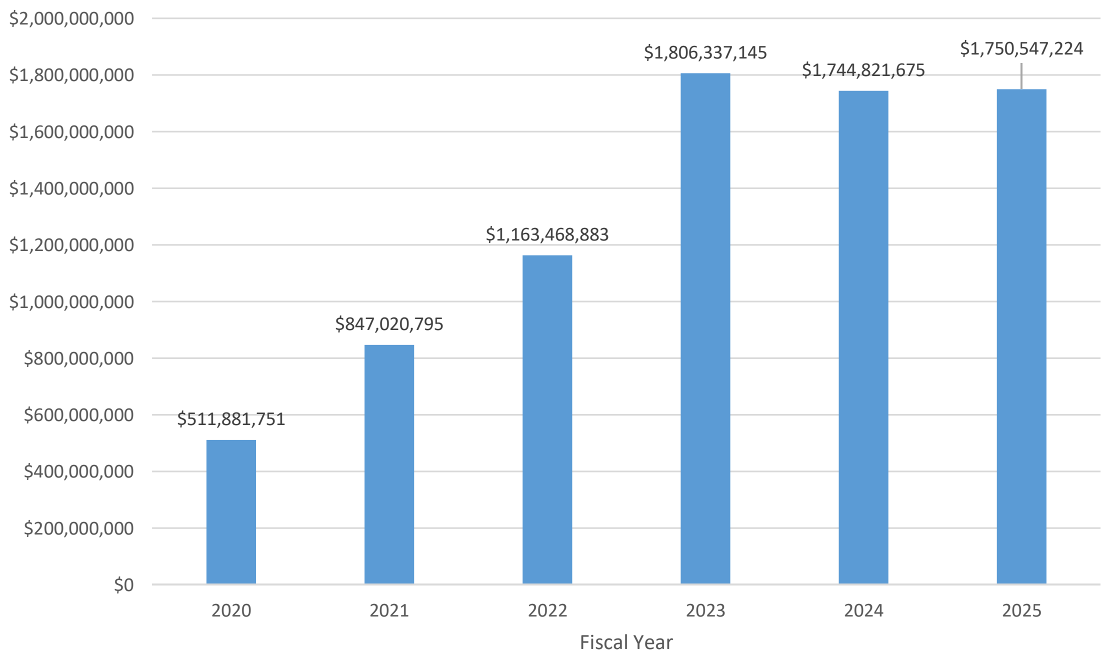
Corporate Income Tax Collections



5-YR Growth: $1.2 Billion (242% total or 48% per Yr)

Fiscal Year	Collections	% Chg
2025	**$1,750,547,224**	**0.3%**
2024	$1,744,821,675	-3.4%
2023	$1,806,337,145	55.3%
2022	$1,163,468,883	37.4%
2021	$847,020,795	65.5%
2020	$511,881,751	-0.5%

Local Govt's Raise Taxes Despite Revenue Growth

- Despite steady revenue growth, many local government's raised taxes in the last year:
  - Cities:
    - Sales: 13 cities & towns increased sales tax rates
      - (2025) Gilbert, Phoenix, City of Maricopa, Clifton, Thatcher, Holbrook, Prescott, Flagstaff
      - (2024) Sahuarita, Williams, Payson, Surprise, Page
    - Property: Cities & towns increased property taxes $7M
      - Phoenix ($2.7M/1.2%); Tucson ($1.3M/6.6%); Tempe ($450k/2%); Lake Havasu ($314k/4.6%); Peoria ($194k/3.1%)
  - Counties: 11 counties increased property taxes $44M
    - Pima ($24.4M/5.3%); Maricopa ($12.2M/1.8%); Mohave ($3.1M/7%); Yavapai ($2.1M/3.4%)
  - Colleges: 8 CCDs increased property taxes $19.8M
    - Maricopa ($18.2M/2.9%); Cochise ($557k/2%); Navajo ($375k/2%); Coconino ($318k/2%)

Local Gov FY 26 GF Beginning Fund Balances

Jurisdiction	GF Fund Balances
Cities	$4,379,118,333
Counties	$1,051,403,323
Community Colleges	$556,828,255
Total	**$5,987,349,911**

Jurisdiction	GF Balance	GF Expenditures	% of Exp
Navajo CCD	$83,300,000	$40,225,908	207%
Litchfield Park	$30,188,407	$13,373,914	226%
Queen Creek	$137,541,525	$61,133,494	225%
Dewey-Humboldt	$11,208,048	$5,721,158	196%
Cave Creek	$27,467,487	$14,235,767	193%
Eloy	$35,529,438	$20,694,930	172%
Graham County	$37,561,131	$62,809,992	60%
Greenlee County	$13,148,263	$22,134,729	59%
Mohave County	$76,186,872	$140,630,372	54%
Yavapai County	$88,753,964	$164,780,700	54%
Mesa	**$290,135,505**	**$893,118,448**	**32%**

"Mesa closes $18M budget gap with reserve funds"
(The Mesa Tribune, June 9, 2025)

Mesa Manager Butler comments on ATRA's April 2025 newsletter article on City Revenues….

"They were criticizing some cities, frankly for being too quick to raise taxes, too quick to just go to their voters or if they were able to, without going to the voters, raise their taxes," Butler said. "And they said cities have built up reserves for this very moment. That's what Mesa has done."

Sales Tax Administrative Complexity

- Quick History: Arizona is one of four states that allow for an independent municipal sales tax structure causing considerable compliance challenges for Arizona businesses
- ATRA and Arizona business community have been in pursuit of uniformity and administrative relief for decades – with some success
- 2013 Sales Tax Reform
- Wayfair – Retail Preemption
- Model City Tax Code and Muni Tax Code Commission were **NOT** reforms – they were taxpayer losses

2013 Sales Tax Reform

- 2013 reforms brought important administrative relief. However, active city sales tax enforcement has undermined some of the success
- Scope, Sourcing and Audit disputes continue to fragment what should be a uniform system administered through ADOR
- While state statutes create the appearance of consistency with scope interpretations, the reality is much different
- A.R.S § 42-6005: “If the state statutes and model city tax code are the same and the department has issued written guidance, the department's interpretation is binding on cities and towns.”

Taxpayer’s Facing Problems with Scope, Sourcing and Refund Disputes

- Recent disputes at the Capitol on Arizona’s retail sourcing law are a prime example of a system turned upside down
- In 2024, cities were at the Capitol advocating for a dramatic change to the retail sourcing statute created in 2013 while simultaneously enforcing that proposed change in an audit
- The 2013 sourcing law was an important part of the sales tax reform effort because it protected Arizona businesses from being pushed into a destination based sourcing regime for in-state transactions
- Sales tax refund requests are too often stymied by cities. City involvement often extends the request for several years

School Finance & Litigation

- In August, Arizona lost another school finance lawsuit (Glendale El v State of Arizona). Plaintiffs argued the state was not meeting general and uniform requirements of Students FIRST (1998)
- The judge ruled the state is failing to maintain minimum adequacy guidelines (MAG)
- As was the case in the original school capital lawsuit (Roosevelt v. Bishop) in 1994, the plaintiffs leaned heavily on the obvious inequities created by local bond elections.
- Despite the court's repeated findings that the inequity caused by bonds is not unconstitutional, those inequities play a major role in these cases
- Notably, the court decision in the Glendale El case goes beyond finding the state has failed to meet its constitutional obligation to provide adequate funding to meet the MAG. The decision puts the state in the impossible position of being responsible for all facility maintenance – regardless of funding

School Finance & Litigation

- In other words, for the system to be constitutional, the state would have to take over all school district facility management
- This decision will obviously be appealed by House and Senate leadership
- Frustration surrounding the impossible position the decision places the state in may jumpstart new conversations about school finance reform and equitable funding and could lead to efforts to eliminate K12 bonds altogether

School Bond Elections

- Third year in a row of major bond questions. Almost $8B in questions on the last three ballots with $5.08B approved
- Bonds now are adding to the K12 inequity as more declining districts turn to bonds to support operational costs. What used to be a source to build new schools has now become a competitive advantage in the marketplace
- In recent years, ATRA has focused on the increased electioneering in the publicity pamphlets. This year Gov. Hobbs vetoed HB2515
- Publicity pamphlets have largely become taxpayer financed advocacy pieces. Legislature should consider reforms
- Taxpayers don’t get to say NO

K-12 Bond Requests 2024 v. 2023

2024 School District Bond Requests			
County	School District	2024 Bond Request	Result
Maricopa	Agua Fria Union	$ 138,000,000	Pass
Maricopa	Balsz Elementary	$ 35,000,000	Pass
Maricopa	Buckeye Union	$ 155,000,000	Fail
Maricopa	Chandler Unified	$ 487,450,000	Fail
Maricopa	Creighton Elementary	$ 85,000,000	Pass
Maricopa	Deer Valley Unified	$ 325,000,000	Fail
Maricopa	Dysart Unified	$ 127,000,000	Fail
Maricopa	Glendale Union	$ 195,000,000	Pass
Maricopa	Higley Unified	$ 83,100,000	Fail
Maricopa	Laveen Elementary	$ 50,000,000	Pass
Maricopa	Peoria Unified	$ 120,000,000	Fail
Maricopa	Roosevelt Elementary	$ 150,000,000	Pass
Maricopa	Tolleson Union	$ 125,000,000	Pass
Maricopa	Wilson Elementary	$ 10,500,000	Pass
Mohave	Littlefield Unified	$ 3,500,000	Fail
Navajo	Kayenta Unified	$ 8,500,000	Pass
Pima	Amphitheater Unified	$ 84,000,000	Pass
Pinal	Apache Junction Unified	$ 20,000,000	Fail
Pinal	Toltec Elementary	$ 9,000,000	Fail
Pinal	Maricopa Unified	$ 70,000,000	Pass
Yuma	Yuma Elementary	$ 77,000,000	Fail
Yuma	Somerton Elementary	$ 14,000,000	Fail
Total Ask		**$ 2,372,050,000**	
Total Passed		**$ 951,000,000**	

2023 School District Bond Requests			
County	School District	2023 Bond	Result
Apache	Window Rock USD	$ 20,000,000	Pass
Apache	Round Valley USD	$ 15,000,000	Pass
Cochise	Willcox USD	$ 15,000,000	Pass
Maricopa	Agua Fria Union HSD	$ 197,000,000	Pass
Maricopa	Avondale ESD	$ 75,000,000	Pass
Maricopa	Deer Valley USD	$ 325,000,000	Fail
Maricopa	Fountain Hills USD	$ 25,000,000	Fail
Maricopa	Gilbert USD	$ 100,000,000	Fail
Maricopa	Glendale ESD	$ 40,000,000	Pass
Maricopa	Kyrene ESD	$ 161,000,000	Pass
Maricopa	Liberty ESD	$ 97,400,000	Fail
Maricopa	Litchfield ESD	$ 97,400,000	Pass
Maricopa	Madison ESD	$ 105,000,000	Pass
Maricopa	Mesa USD	$ 500,000,000	Pass
Maricopa	Osborn ESD	$ 100,000,000	Pass
Maricopa	Paradise Valley USD	$ 340,000,000	Pass
Maricopa	Pendergast ESD	$ 100,000,000	Pass
Maricopa	Phoenix Union HSD	$ 475,000,000	Pass
Maricopa	Queen Creek USD	$ 98,000,000	Fail
Maricopa	Tolleson ESD	$ 30,000,000	Pass
Maricopa	Tolleson Union HSD	$ 125,000,000	Pass
Navajo	Blue Ridge USD	$ 12,000,000	Fail
Navajo	Snowflake USD	$ 18,000,000	Pass
Pima	Tucson USD	$ 480,000,000	Pass
Pima	Sahuarita USD	$ 50,000,000	Pass
Santa Cruz	Nogales USD	$ 26,000,000	Pass
Yuma	Crane ESD	$ 20,000,000	Pass
Total Ask		**$ 3,646,800,000**	
Total Passed		**$2,989,400,000**	

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K-12 Bond Requests 2025

2025 School District Bond Requests			
County	School District	2025 Bond Request	Result
Maricopa	Buckeye Union	$ 163,000,000	Fail
Maricopa	Chandler Unified	$ 271,500,000	Pass
Maricopa	Dysart Unified	$ 127,000,000	Fail
Maricopa	Isaac Elementary	$ 10,000,000	Pass
Maricopa	Nadaburg Unified	$ 15,000,000	Fail
Maricopa	Pendergast Elementary	$ 60,000,000	Fail
Maricopa	Saddle Mountain Unified	$ 150,000,000	Fail
Maricopa	Tempe Elementary	$ 196,500,000	Pass
Maricopa	Tolleson Union	$ 125,000,000	Fail
Maricopa	West-MEC	$ 415,000,000	Pass
Pima	Flowing Wells USD	$ 30,000,000	Pass
Pima	Sunnyside USD	$ 120,000,000	Pass
Pinal	Casa Grande ESD	$ 48,000,000	Pass
Pinal	Casa Grande UHSD	$ 48,000,000	Pass
Pinal	Florence USD	$ 98,000,000	Fail
Pinal	JO Combs USD	$ 80,000,000	Fail
Total		**$ 1,957,000,000**	
Toal Passed		**$ 1,139,000,000**	

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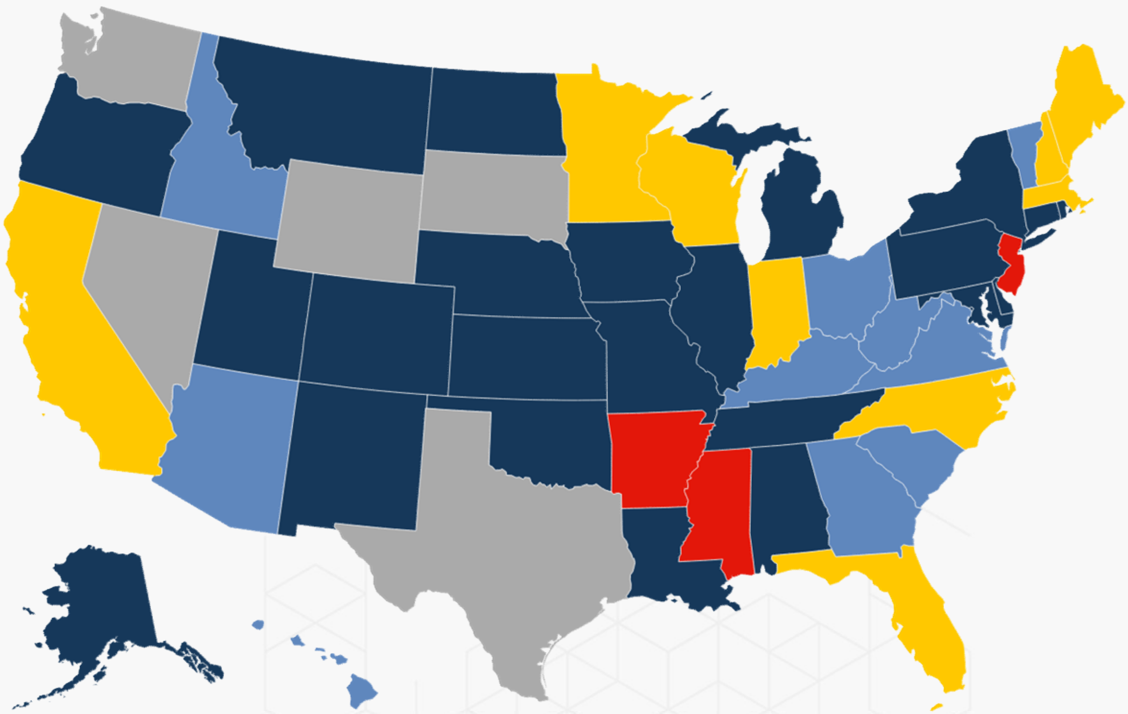
TAX FOUNDATION

State Tax Conformity and Tax Competitiveness Post-OBBBA

Jared Walczak, Tax Foundation
jmw@taxfoundation.org

State Conformity to the Internal Revenue Code

Individual and Corporate Income Tax Conformity Status

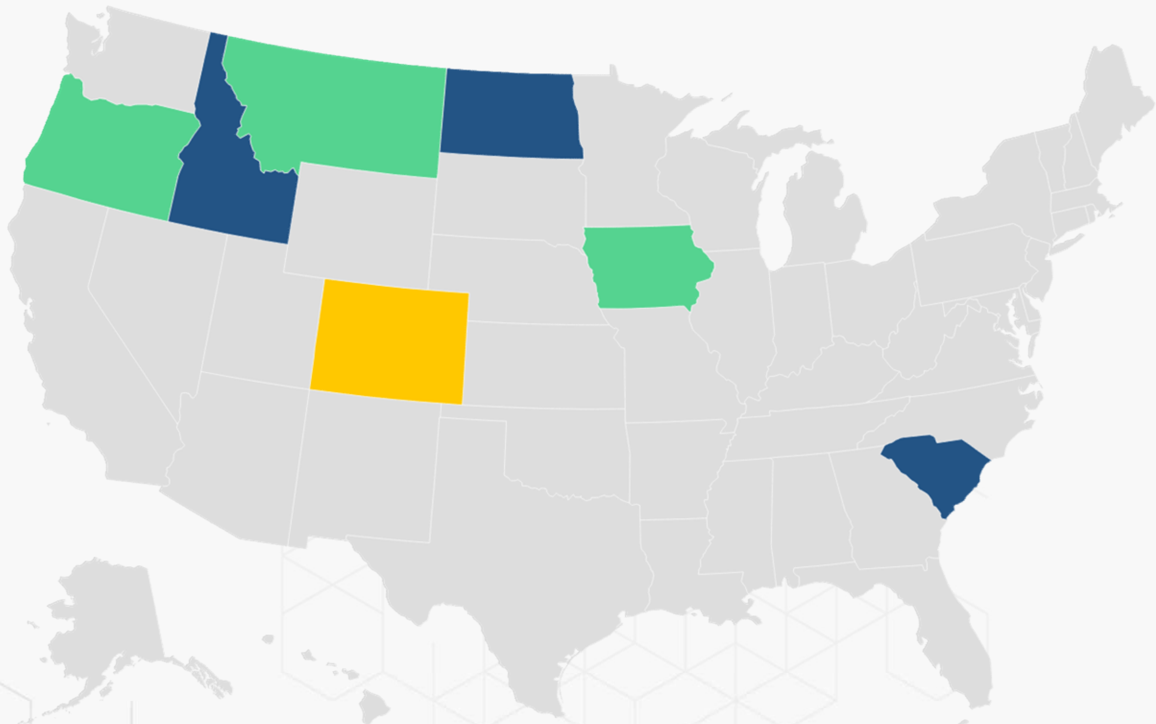


Rolling | Static - Current | Static - Lagged | Selective | No Income Tax

Note: Static conformity is considered "current" if presently aligned to 12/31/2024 or 1/1/2025. For states with CITs but not PITs, CIT conformity is indicated. Massachusetts has rolling conformity for its corporate income tax but lagged static conformity for its individual income tax. Mississippi and New Jersey have selective conformity but incorporate many corporate tax provisions on a rolling basis.
Source: State statutes; Tax Foundation research.

TAX FOUNDATION

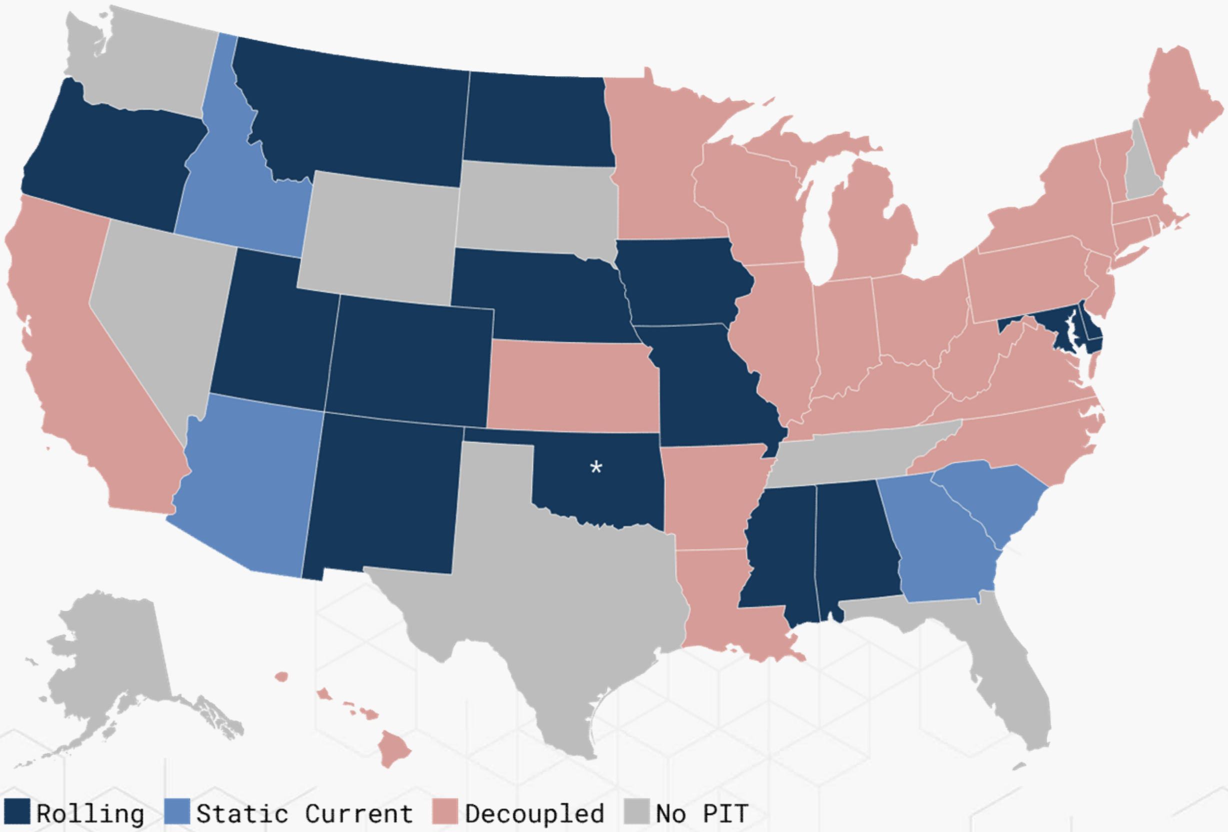
State Conformity to the OBBBA's Temporary Personal Deductions



Source: State statutes; tax forms; Tax Foundation research.

TAX FOUNDATION

Property Tax Deduction Cap

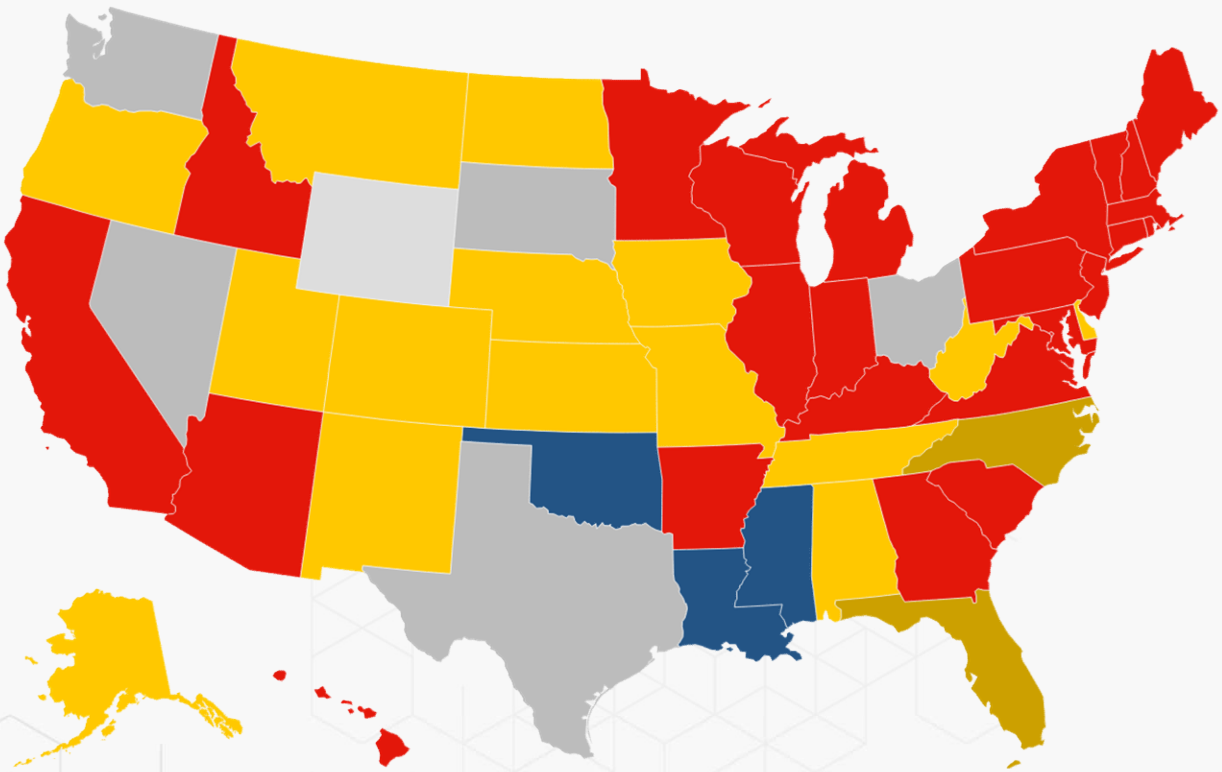


Source: State statutes; budget bills; Tax Foundation research.

Map: Jared Walczak

TAX FOUNDATION

State Conformity to § 168(k) Bonus Depreciation

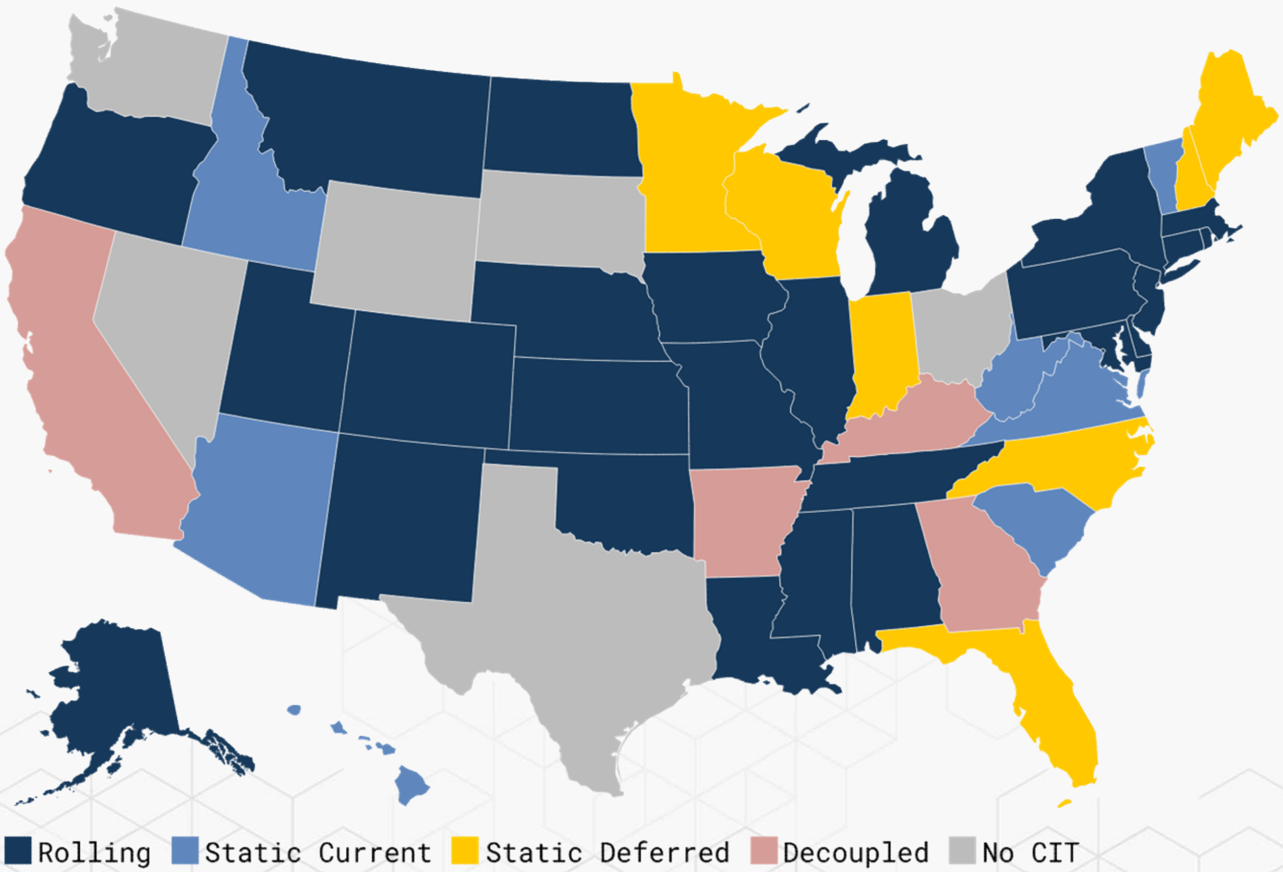


Permanent 100% Follows Federal Fractional Decoupled No CIT

Note: Florida provides 1/7th of the federal deduction, while North Carolina incorporates 15%.
Source: State statutes; Tax Foundation research.

TAX FOUNDATION

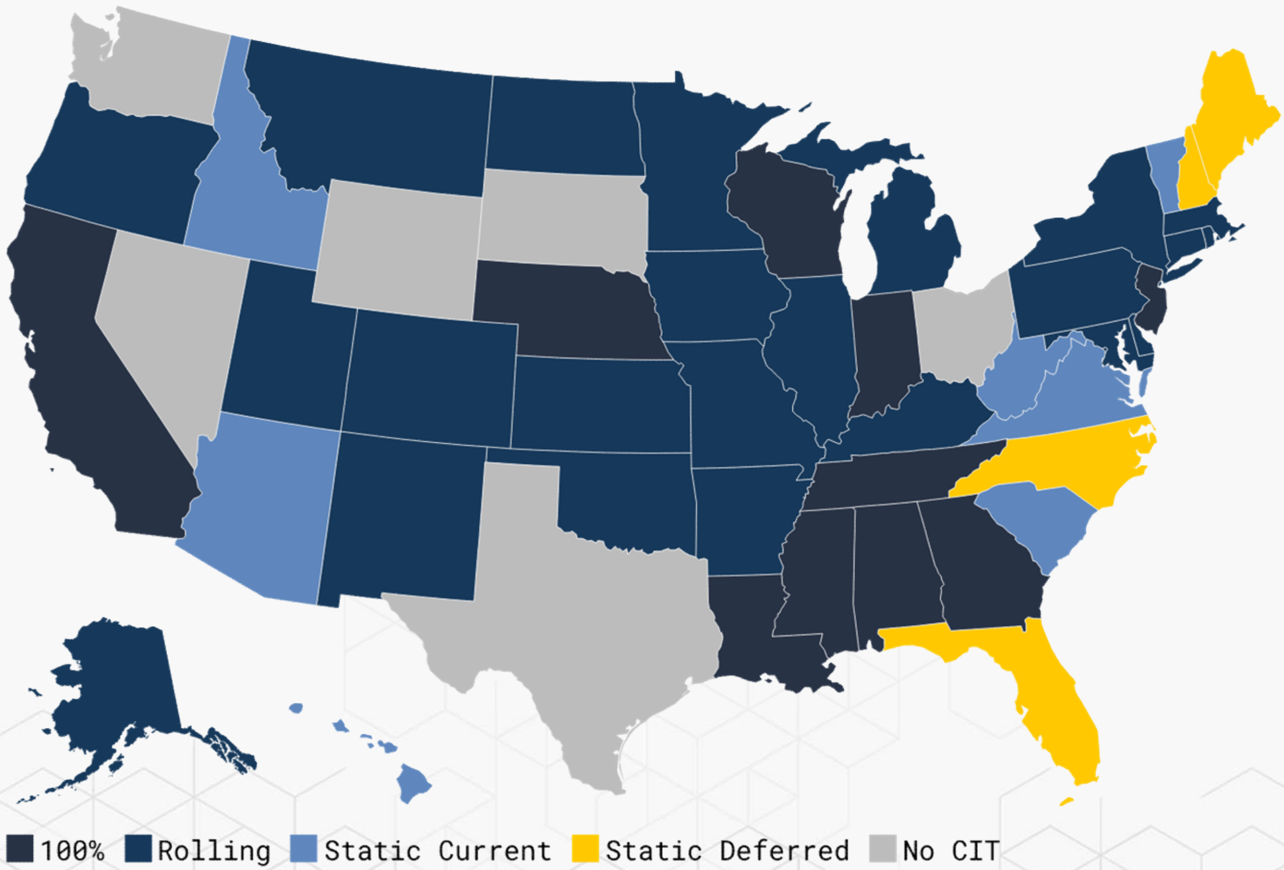
Conformity to § 168(n) for Structures



Source: State statutes; budget bills; Tax Foundation research.

TAX FOUNDATION

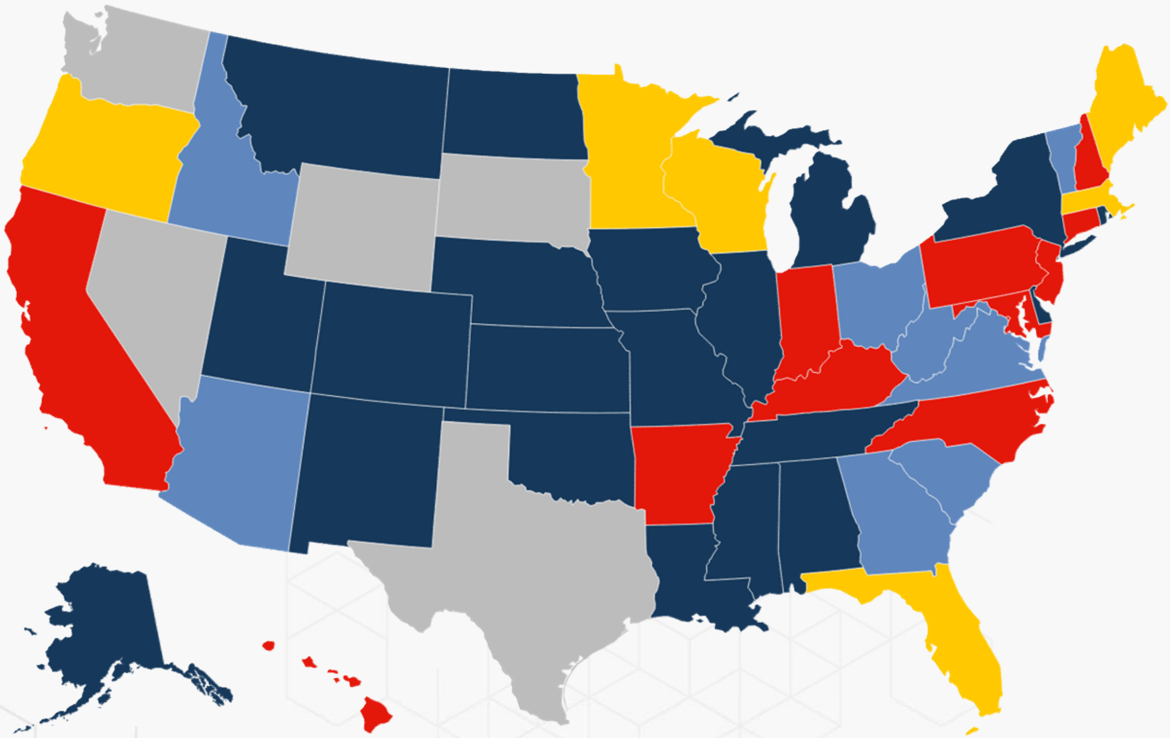
Conformity to § 174 for R&D Expensing



Source: State statutes; budget bills; Tax Foundation research.

TAX FOUNDATION

State Conformity to § 179 Small Business Expensing

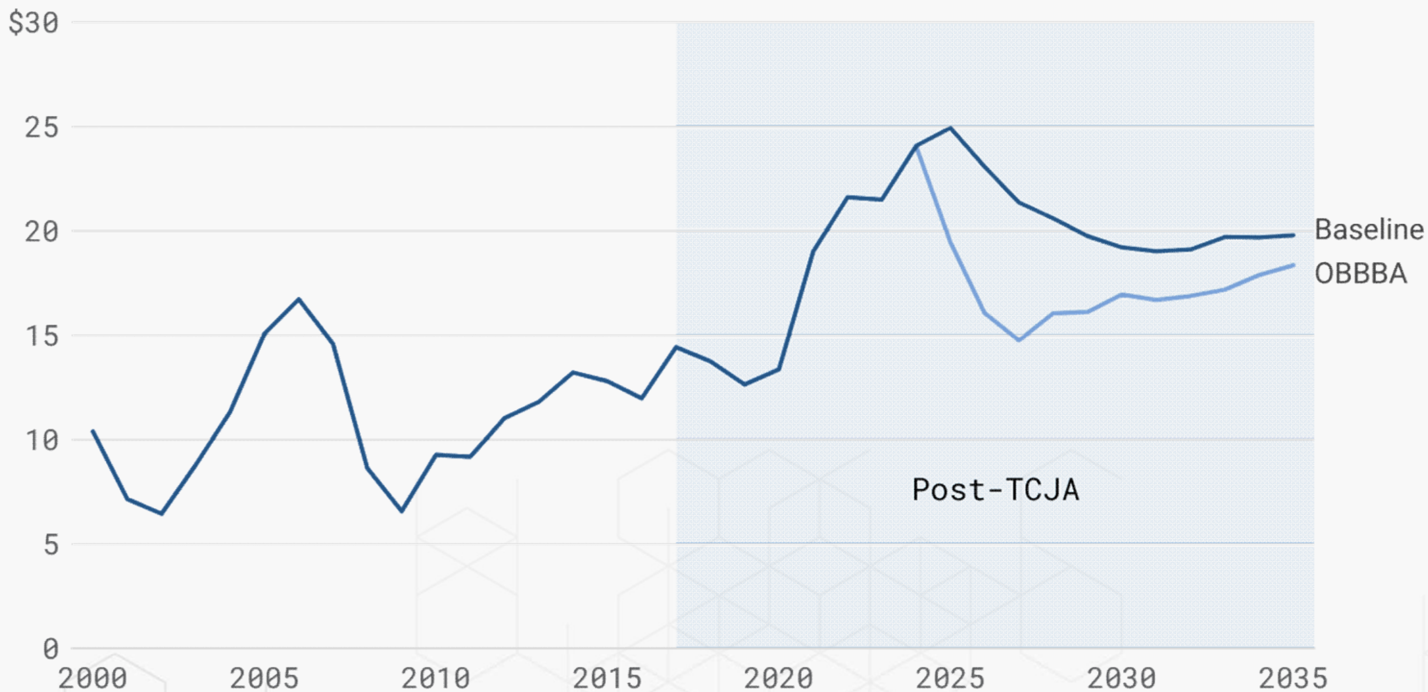


Note: § 179 expensing is available against both corporate and indiviudal income tax liability.
Source: State statutes; Tax Foundation research.

TAX FOUNDATION

Federal CIT Collections per Rate Percentage Point

Federal corporate income tax collections, in billions of constant dollars, per percentage point on the rate, actual and projected, with and without enactment of the OBBBA

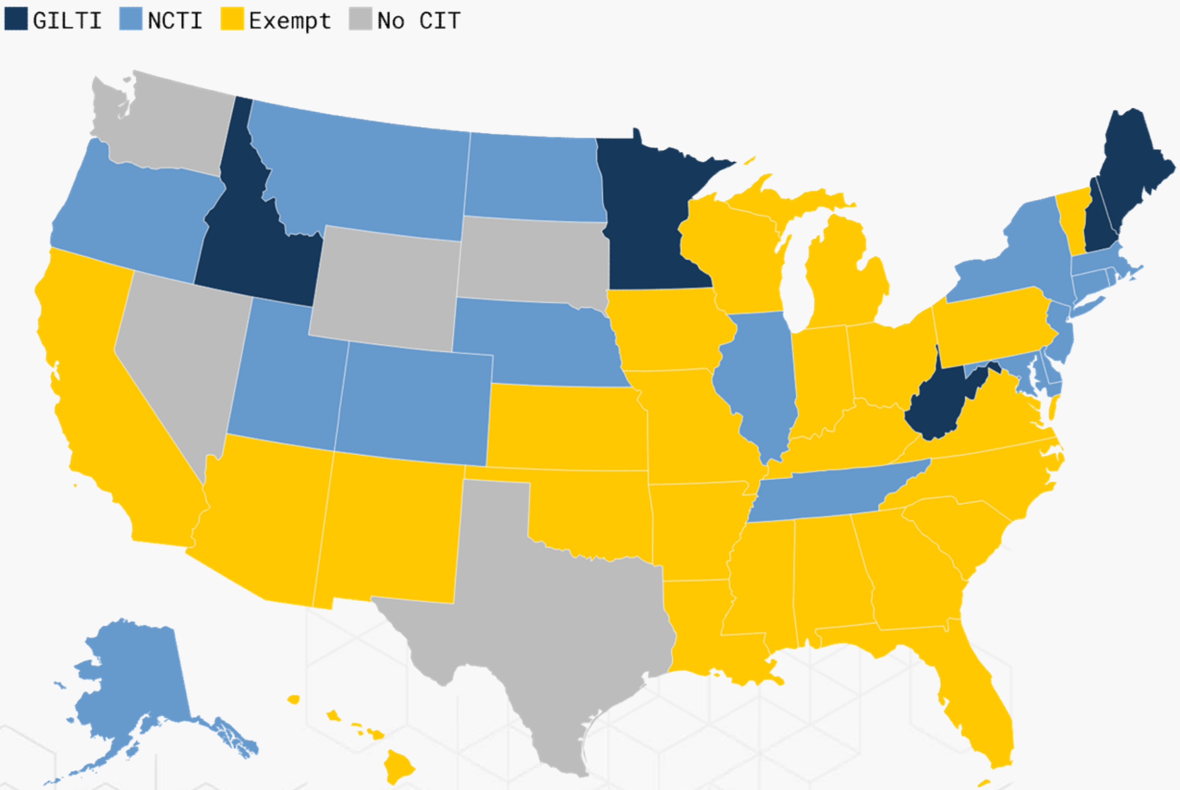


Note: Tax Foundation projections based on the CBO's forecasts, accounting for estimates of the dynamic cost of corporate income tax provisions and adjusted by the CBO's inflation baselines to yield constant 2025 dollars.
Source: Congressional Budget Office, "10-Year Budget Projections"; US Bureau of Economic Analysis, "Tax Receipts on Corporate Income"; Tax Foundation modeling of the OBBBA.

TAX FOUNDATION

Some States Would Convert GILTI to NCTI, but Not All

GILTI-Taxing States' Conformity to a Post-One Big Beautiful Bill Act Internal Revenue Code



Note: GILTI refers to global intangible low-taxed income and NCTI refers to net CFC-tested income. Among the five states with static (fixed date) conformity, Idaho and West Virginia have the most current IRC conformity and may be most likely to see a post-OBBB legislative update as a matter of routine, but all five static conformity states would continue to tax based on GILTI parameters unless lawmakers expressly update the state's IRC conformity date.
Source: State statutes; Tax Foundation research.

TAX FOUNDATION

Other Significant Provisions

Provider Tax Restrictions

Safe harbor cap phasing down from 6.0% to 3.5% for expansion states (excludes LTC, etc.)
Tightening of “uniform and redistributive waiver” (up to 3 years’ transition)
Restriction of future authority to impose provider taxes

SALT Cap Changes

Cap raised to $40,000 with phasedown to $10,000 for high earners; no change for PTETs

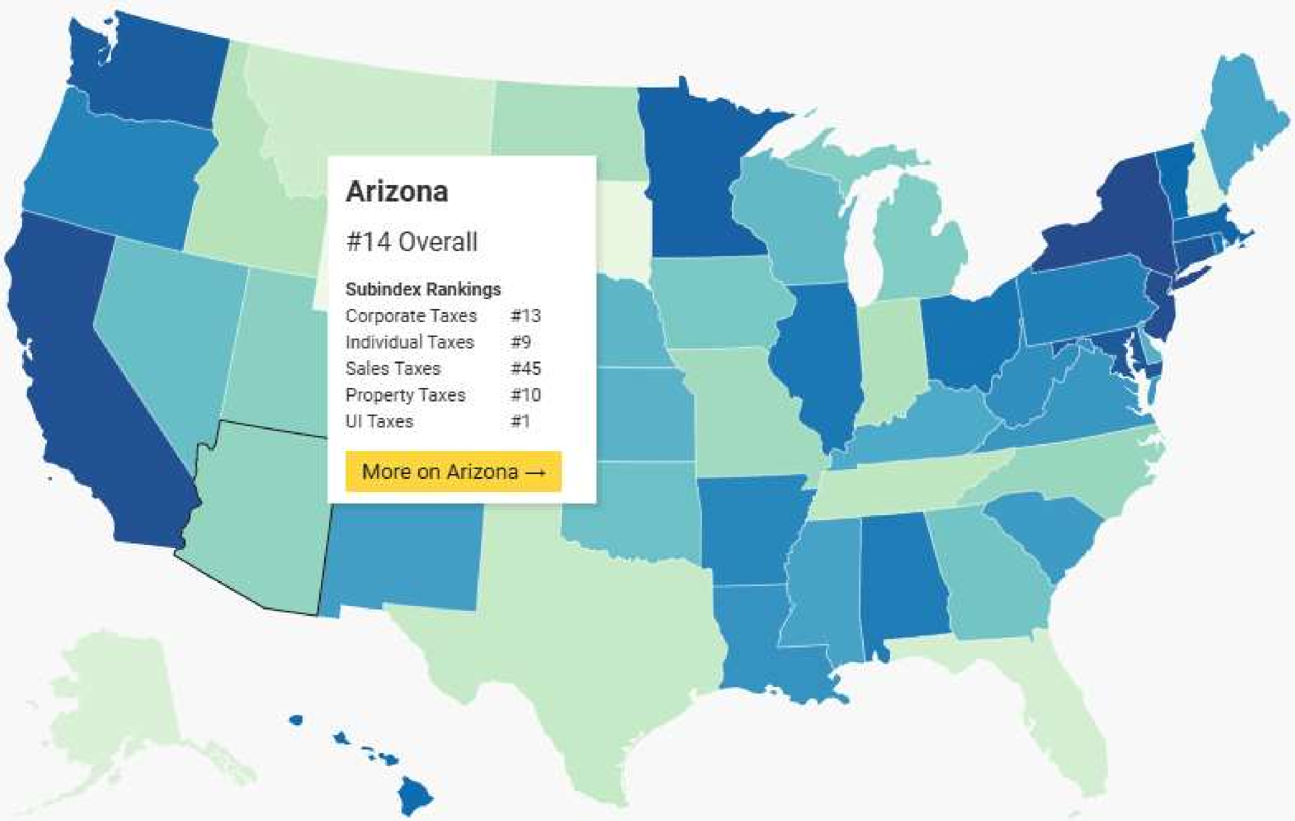
Other Relevant Tax Provisions

Permanently higher AMT threshold
Permanent reinstatement of EBITDA-based net interest deduction limit
Non-itemizer $1,000 charitable contribution deduction + 0.5% floor for itemizers
Higher estate tax exemption

Select Notable Non-Tax Provisions

SNAP cost sharing and Medicaid work requirements

State Tax Competitiveness Index



2014 Rank: #27

2026 Rank: #14

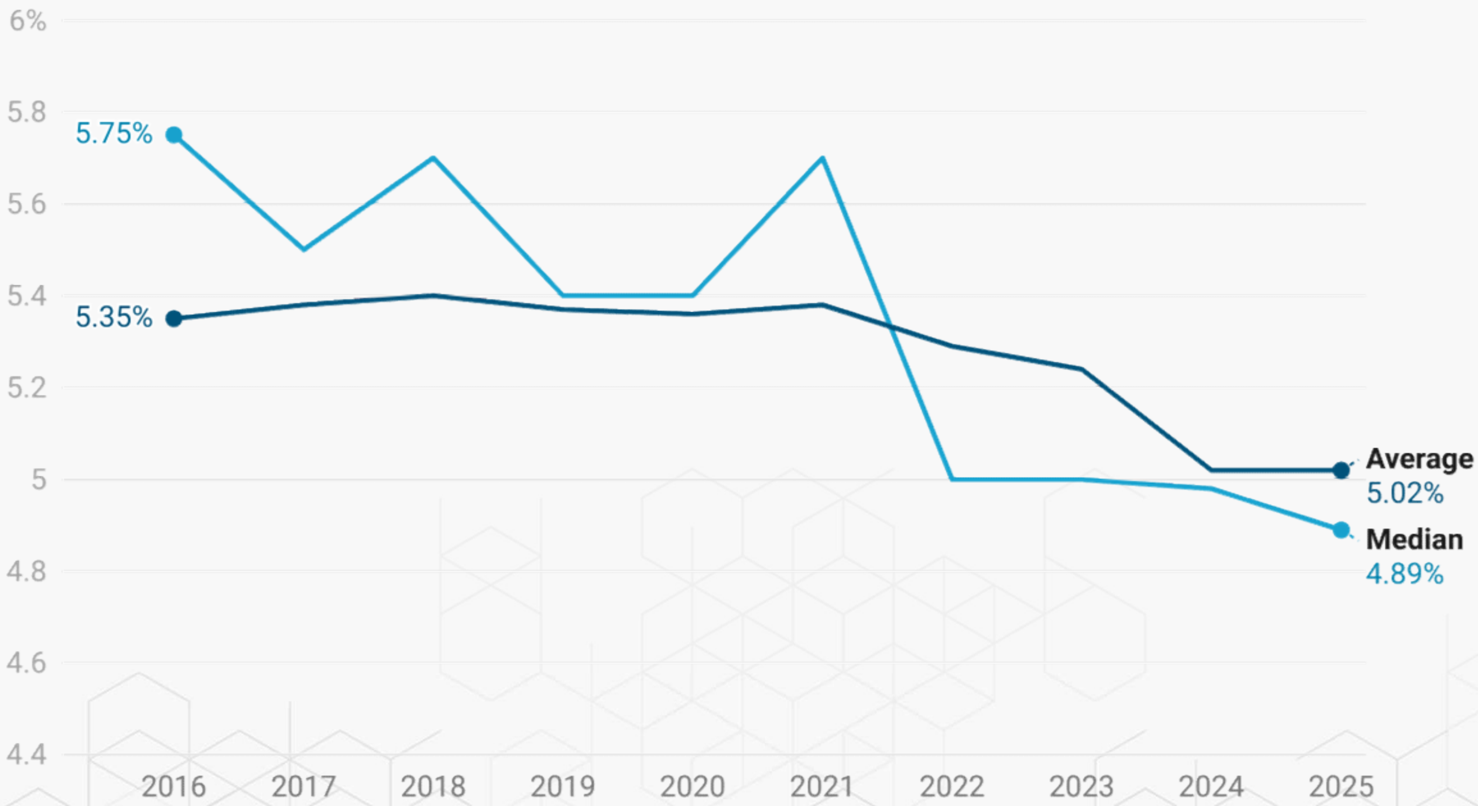
NEIGHBORING STATES

#15	Utah
#20	Nevada
#28	New Mexico
#33	Colorado
#48	California

TAX FOUNDATION

State Individual Income Tax Rates Are Declining

Median and Average Top Rates, All States, 2016-2025



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