

# OVERVIEW OF 1998 TAX RELATED LEGISLATION

The following is intended to give a brief overview of 1998 tax-related legislation impacting the Department of Revenue and is not intended to discuss the details regarding any specific enactment. Please refer to the particular legislation for more definitive information. Copies of specific bills can be obtained from the Secretary of State's Office by calling (602) 542-4086, in person, or by mail to the Secretary of State, State Capitol, West Wing, 1700 W. Washington St., 7th floor, Phoenix, AZ 85007. The first copy of each bill is free. Any additional fees must be discussed with the Secretary of State's Office. Copies can be mailed or picked up in person.

---

## ADMINISTRATIVE

## TRANSACTION PRIVILEGE / USE TAXES

## INDIVIDUAL INCOME TAX

## CORPORATE INCOME TAX

## ESTATE TAX

## WITHHOLDING TAX

## COUNTY TAXES

## PROPERTY TAX

*All changes are effective August 21, 1998 unless otherwise noted.*

---

## ADMINISTRATIVE

**HB2087 Statutory Corrections; 1998, (Chapter 113)**

Makes technical and conforming changes to Arizona statutes. Makes no substantive changes.

**Effective: Retroactive to July 21, 1997**

### **HB2118 Taxpayer Representation at BOTA; Accountants, (Chapter 115)**

Allows representation at the Board of Tax Appeals (BOTA) of a taxpayer by certain non-attorneys if the amount being protested is less than \$25,000 (previous limit was less than \$5,000). Additionally, it adds to the list of those eligible to represent taxpayers during hearings at BOTA any person authorized by the taxpayer under a properly executed power of attorney who was previously or is currently retained by the taxpayer for purposes other than representation before BOTA. It also allows BOTA to order sanctions against practitioners that do not comply with an order or rule of BOTA, including suspension from representing taxpayers before BOTA.

### **HB2495 Tax Appeals; Burden of Proof, (Chapter 174)**

In an appeal to the Arizona Tax Court, shifts the burden of proof from the taxpayer to the department. The change reads as follows:

"The department has the burden of proof by a preponderance of the evidence in any court proceeding regarding any factual issue relevant to ascertaining the tax liability of a taxpayer. This paragraph does not abrogate any requirement of this title or title 43 that requires a taxpayer to substantiate an item of income or expense. This paragraph applies to a factual issue if a preponderance of the evidence demonstrates that:

- (a) the taxpayer asserts a reasonable dispute regarding the issue.
- (b) the taxpayer has fully cooperated with the department regarding the issue, including providing within a reasonable period of time, access to and inspection of all witnesses, information and documents within the taxpayer's control, as reasonably requested by the department.
- (c) the taxpayer has kept and maintained records as required by this title, title 43 or the

department."

**Effective: Applies to court proceedings that commence from and after December 31, 1998**

### **SB1018 Title 42 Recodification; Statutory Conformity, (Chapter 1)**

Updates the statutory references in Title 42 to reflect the new numbering of Title 42 enacted by the recodification in Laws 1997, Chapter 150. Makes no substantive changes.

**Effective: From and after December 31, 1998**

### **SB1041 Confidential Tax Information; County Officials, (Chapter 107)**

This bill allows the department to provide confidential tax information relating to transaction privilege tax, use tax, and rental occupancy tax to county officials if the information relates to a taxpayer who is or may be taxable by the county.

**Effective: From and after December 31, 1998**

### **SB1229 Omnibus Taxation Act, (Chapter 283)**

Amends some of the penalty provisions. The late filing penalty is reduced to 4½% (previously 5%) per month or fraction of a month. The late payment penalty (formerly a flat 10%) is reduced to ½% per month or fraction of a month. For additional taxes assessed, the ½% penalty does not apply if the liability is paid within 21 days of notice and demand. Combined, the late filing and late payment penalties cannot exceed 25%, and the late payment penalty alone cannot exceed 10%. Also, the underpayment of estimated income taxes penalty is in lieu of any other penalty and in lieu of interest. **(Effective: For taxable periods beginning from and after December 31, 2000)**

Repeals the requirement to file certain information returns. Specifically, Arizona no longer requires copies of those required by Internal Revenue Code §§ 6041 through 6050P (generally, the 1099 series).

*Also contains changes to individual and corporate income tax statutes.*

## **TRANSACTION PRIVILEGE / USE TAXES**

### **HB2098 Sales Tax Return Thresholds, (Chapter 165)**

Allows for a change in the transaction privilege tax return filing thresholds. Qualifying taxpayers with an estimated annual liability of \$500 or less could now file annual returns and those taxpayers with an estimated annual liability between \$500 and \$1,250 could file quarterly returns.

**Effective: For tax periods beginning from and after December 31, 1998**

### **HB2373 Revenue Law Interpretation and Application, (Chapter 248)**

Provides that new laws and changes in interpretation or application of existing laws apply prospectively only unless it is favorable to the taxpayer. Applies to transaction privilege, use, severance, telecommunications services excise, water use, jet fuel excise and use, and rental occupancy taxes.

### **HB2608 Municipal Tax Exemption; Private Prisons, (Chapter 272)**

Provides an exemption from municipal taxes for the gross income derived from incarcerating or detaining prisoners in a privately operated prison, jail or detention facility.

**Effective: Retroactive to taxable periods beginning from and after March 31, 1987**

### **HB2615 Sales Tax; Prepaid Calling Cards, (Chapter 206)**

Provides that sales of prepaid telephone calling cards or prepaid authorization numbers for telecommunications services are taxable under the retail classification, and the use of the card or authorization number is not taxable under the telecommunications classification.

### **HB2648 Sales Tax; Pipelines, (Chapter 105)**

Clarifies the exemptions from tax under the retail classification and use tax statute of pipes or valves four inches in diameter or larger by specifically including compressor units, regulators, machinery and equipment, fittings, seals, and any other part that is used in operating the pipes or valves.

**(Effective: Retroactive to from and after December 2, 1981)**

Also exempts, under the pipeline classification, the gross proceeds of sales or gross income derived from sales to certain qualified healthcare organizations and hospitals.

**(Effective: Retroactive to from and after July 1, 1989)**

### **HB2663 Electric Power Competition, (Chapter 209)**

Amends the utility classification and use tax statute to clarify taxability in conjunction with the deregulation of the electric utility industry. Also allows certain counties to impose a county general use tax on purchases of electricity from an electric supplier.

**Effective: From and after December 31, 1998**

### **SB1081 Sales and Use Tax; Printing, (Chapter 132)**

Amends the retail classification and use tax statute to exclude sales of liquid, solid or gaseous chemicals used in printing if using or consuming the chemicals, alone or as part of an integrated system of chemicals, involves direct contact with the materials from which the product is produced for the purpose of causing or permitting a chemical or physical change to occur as part of the production process. For this exemption, printing means a commercial printing operation and includes job printing, engraving, embossing, copying and bookbinding.

**Effective: January 1, 1999**

### **SB1231 Sales Tax; Short Line Railroad, (Chapter 88)**

Amends the transporting classification to exclude transporting freight or property for hire by a railroad operating exclusively within Arizona if the transportation involved is part of a single interstate shipment involving more than one railroad.

**Effective: Retroactive to taxable periods beginning from and after December 31, 1987**

### **SB1234 Sales Tax Exemption; Flight Property, (Chapter 177)**

Amends the personal property rental classification to exclude leasing or renting aircraft, flight simulators or similar training equipment to students or staff by nonprofit, accredited educational institutions that offer associate or bachelor's degrees in aviation or aerospace related fields.

**Effective: Retroactive to taxable periods beginning from and after June 30, 1988**

## **SB1253 Tax Exemptions; Deductions; Credits; Classification, (Chapter 286)**

Amends the retail classification and use tax statute to exclude sales of:

- certain machinery and equipment used in egg production facilities  
**(Effective: Retroactive from and after December 31, 1997)**
  
- certain machinery and equipment used to prevent, monitor, control or reduce land, water or air pollution  
**(Effective: Retroactive to taxable periods beginning after May 19, 1977)**
  
- certain machinery and equipment that enables a television station to originate and broadcast or receive and broadcast digital television signals
  
- certain machinery and equipment used in commercial agricultural operations to prevent, monitor, control or reduce air, water or land pollution  
**(Effective: From and after December 31, 1998)**
  
- the diversion of gas from a pipeline by a person engaged in the business of operating a natural or artificial gas pipeline, for the sole purpose of fueling compressor equipment to pressurize the pipeline, is not a sale of the gas to the operator of the pipeline  
**(Effective: Retroactive to taxable periods beginning from and after December 31, 1991)**

Amends the prime contracting classification to exclude the gross proceeds of sales or gross income derived from:

- a contract for the construction of an environmentally controlled facility for egg production  
**(Effective: Retroactive from and after December 31, 1997)**
  
- the installation, assembly, repair or maintenance of certain clean rooms  
**(Effective: Retroactive to taxable periods beginning from**

**and after December 31, 1989)**

- a contract with a person engaged in commercial agricultural operations for construction of something used directly and primarily to prevent, monitor, control or reduce air, water or land pollution

**(Effective: From and after December 31, 1998)**

*Also contains changes to property and corporate and individual income tax statutes.*

**SB1269 Alternative Fuels, (Chapter 221)**

Provides a deduction from the retail classification and use tax statute for sales of new alternative fuel vehicles and equipment that is installed to convert conventional motor vehicles to operate on alternative fuel. Also provides a deduction from the personal property rental classification for leases or rentals of alternative fuel vehicles that would be exempt under the retail classification if they were purchased.

**Effective: From and after December 31, 1998**

*Also contains changes to corporate and individual income tax statutes.*

**SB1323 Contracting Sales Tax; Exempt Property, (Chapter 90)**

Eliminates the need for contractors to enter into an agency agreement with property owners when selling and installing certain machinery and equipment that qualifies for deduction under the retail classification and use tax statute. In addition, prime contractors would no longer be required to enter into agency agreements when performing work for qualifying hospitals and health care centers.

**Effective: From and after December 31, 1998**

---

---

**INDIVIDUAL INCOME TAX**

**HB2207 Optional Retirement; Community College, (Chapter 236)**

Adds optional retirement programs established under section 15-1451 by

community college district boards to the list of retirement plans whose benefits, annuities and pensions are eligible for the subtraction from Arizona gross income of up to \$2,500.

### **HB2216 Tuition Tax Credit; Qualifying Schools, (Chapter 102)**

Includes non-coeducational schools in the definition of "qualifying schools" for purposes of the credit for contributions to school tuition organizations.

**Effective: Retroactive to taxable years beginning from and after December 31, 1997**

### **HB2346 Enterprise Zones; Three-Year Extension, (Chapter 121)**

Extends through June 30, 2001, the time during which a business can locate in an enterprise zone and qualify for the tax credit for net increases in qualified employment positions.

**Effective: Retroactive to taxable years beginning from and after December 31, 1997**

*Also contains changes to corporate income and property tax statutes.*

### **HB2577 Income Tax Returns; 140EZ, (Chapter 268)**

Allows the department to design a state income tax return that is the equivalent of the Federal 1040EZ. The Arizona 140EZ will be available for the 1998 taxable year.

### **HB2620 Appropriation; Welfare to Work Programs, (Chapter 208)**

Provides an income tax credit for the fair market value of any vehicle, up to \$1,500 per vehicle, that is donated to the Wheels to Work Program. The credit may not be carried forward and is in lieu of a charitable deduction.

**Effective: For taxable years beginning from and after December 31, 1998**

*Also contains changes to corporate income tax statutes.*

### **SB1007 Tax Relief Act of 1998, (Chapter 3 Fourth Special Session)**

Reduces individual income tax rates for taxable years beginning from and after December 31, 1997 through December 31, 1998 and further reduces



rates for taxable years beginning from and after December 31, 1998.

Increases the income thresholds for eligibility to claim the family income tax credit and increases the amount of the credit to \$40 per person. Increases the maximum available credit to \$240 for a married couple filing a joint return and a single person filing as head of household and to \$120 for a single person or a married person filing separately.

**Effective: Retroactive to taxable years beginning from and after December 31, 1997**

Adds an exemption of \$10,000 for each parent or ancestor of a parent of a resident taxpayer, who is age 65 or older, who requires assistance with activities of daily living and who lives in the taxpayer's principal residence for the entire taxable year, if the taxpayer pays more than one-half of the person's total support and maintenance costs. This exemption is available only to resident taxpayers and is in lieu of a dependent exemption for the same person.

**Effective: For taxable years beginning from and after December 31, 1998**

*Also contains changes to corporate income and property tax statutes.*

### **SB1175 Domestic Violence, (Chapter 303)**

Adds a new voluntary contribution for the Domestic Violence Shelter Fund that will first appear on the 1998 returns.

**Effective: From and after December 31, 1998**

### **SB1225 Foreign Income Tax Credit, (Chapter 68)**

Expands the foreign tax credit for resident and non-resident individuals and estates and trusts by defining "net income taxes" imposed by another country to include those taxes that qualify for a credit under Internal Revenue Code sections 901 and 903.

**Effective: For taxable years beginning from and after December 31, 1998**

### **SB1229 Omnibus Taxation Act, (Chapter 283)**

Conforms Arizona statutory references to the Internal Revenue Code to that which was in effect as of January 1, 1998, including those provisions that

became effective during 1997 with the specific adoption of their retroactive effective dates but excluding all changes to the code enacted after January 1, 1998.

Amends the definition of "head of household" to include individuals who meet the qualifications of a surviving spouse under section 2(a) of the Internal Revenue Code. **(Effective: Retroactive for taxable years beginning from and after December 31, 1995)**

*Also contains changes to administrative and corporate income tax statutes.*

### **SB1253 Tax Exemptions; Deductions; Credits; Classification, (Chapter 286)**

Adds a new voluntary contribution for state aid to public schools. The taxpayer may contribute only the entire refund.

Creates a non-refundable credit for agricultural pollution control equipment. The credit is equal to 25% of the cost with a maximum allowable credit of \$25,000. There is a five-year carry forward for any unused credit.

**Effective: For taxable years beginning from and after December 31, 1998**

*Also contains changes to property, transaction privilege, and corporate income tax statutes.*

### **SB1269 Alternative Fuels, (Chapter 221)**

Amends the subtraction from gross income for alternative fuel vehicles and equipment to allow it to be claimed in addition to the credit and to add certain emulsions of water-phased hydrocarbon fuel to the definition of "alternative fuel."

**(Effective: Retroactive for taxable years beginning from and after December 31, 1997)**

Amends the credit for alternative fuel vehicles and equipment by including "bi-fuel vehicles," adding a credit for constructing or operating a fueling station in Arizona capable of dispensing alternative fuel, and by adding certain emulsions of water-phased hydrocarbon fuel to the definition of "alternative fuel."

**(Effective: Retroactive for taxable years beginning from and after December 31, 1997)**

Creates a credit for the purchase or lease, for at least three years, of one or more original equipment manufactured alternative fuel vehicles for use in Arizona. The credit is equal to a varying percentage of the incremental cost depending on its emission rating. There is a five-year carry forward for any unused credit amount.

**(Effective: For taxable years beginning from and after December 31, 1998)**

*Also contains changes to corporate income and transaction privilege tax statutes.*

### **SB1427: Air Quality Measures, (Chapter 217)**

Repeals the current subtraction from income for purchasing a qualified wood stove, qualified wood fireplace, or gas fired fireplace.

**Effective: For taxable years beginning from and after December 31, 1998.**

---

## **CORPORATE INCOME TAX**

### **HB2346 Enterprise Zones; Three-Year Extension, (Chapter 121)**

Extends through June 30, 2001, the time during which a business can locate in an enterprise zone and qualify for the tax credit for net increases in qualified employment positions.

**Effective: Retroactive to taxable years beginning from and after December 31, 1997**

*Also contains changes to individual income and property tax statutes.*

### **HB2365 Research and Development Tax Credit, (Chapter 122)**

Extends for five years (through December 31, 2003) the time during which expenses incurred qualify for the credit for research and development expenses.

### **HB2620 Appropriation; Welfare to Work Programs, (Chapter 208)**

Provides an income tax credit for the fair market value of any vehicle, up to

\$1,500 per vehicle, that is donated to the Wheels to Work Program. The credit may not be carried forward and is in lieu of a charitable deduction.  
**Effective: For taxable years beginning from and after December 31, 1998**

*Also contains changes to individual income tax statutes.*

### **SB1007 Tax Relief Act of 1998, (Chapter 3 Fourth Special Session)**

Reduces corporate income tax rate to eight per cent of net income or fifty dollars, whichever is greater. Amends the addition to Arizona gross income for income taxes paid and the subtraction for state income refunds received to include Arizona income taxes. Eliminates the "throwback rule" used in the sales factor of the apportionment formula.

**Effective: Retroactive to taxable years beginning from and after December 31, 1997**

*Also contains changes to individual income and property tax statutes.*

### **SB1008 Tax Exempt Organizations; Filing Date, (Chapter 11)**

Conforms the filing and payment due dates for S corporations and tax exempt organizations to the federal due dates.

**Effective: For taxable years beginning from and after December 31, 1997**

### **SB1229 Omnibus Taxation Act, (Chapter 283)**

Conforms Arizona statutory references to the Internal Revenue Code to that which was in effect as of January 1, 1998, including those provisions that became effective during 1997 with the specific adoption of their retroactive effective dates but excluding all changes to the code enacted after January 1, 1998.

*Also contains changes to administrative and individual income tax statutes.*

### **SB1244 Consolidated Corporate Tax Returns, (Chapter 89)**

Under specific conditions, provides relief to corporations whose election to file consolidated returns for 1986-1993 was denied due to the absence of written consents from former corporate subsidiaries of the common parent corporation of the affiliated group that were not members of the group as of

December 31, 1994. The application for relief must be submitted to the department by December 31, 1998.

### **SB1253 Tax Exemptions; Deductions; Credits; Classification, (Chapter 286)**

Creates a non-refundable credit for agricultural pollution control equipment. The credit is equal to 25% of the cost with a maximum allowable credit of \$25,000. There is a five-year carry forward for any unused credit.

**Effective: For taxable years beginning from and after December 31, 1998**

*Also contains changes to property, transaction privilege, and individual income tax statutes.*

### **SB1269 Alternative Fuels, (Chapter 221)**

Amends the subtraction from gross income for alternative fuel vehicles and equipment to allow it to be claimed in addition to the credit and to add certain emulsions of water-phased hydrocarbon fuel to the definition of "alternative fuel."

**(Effective: Retroactive for taxable years beginning from and after December 31, 1997)**

Amends the credit for alternative fuel vehicles and equipment by including "bi-fuel vehicles," adding a credit for constructing or operating a fueling station in Arizona capable of dispensing alternative fuel, and by adding certain emulsions of water-phased hydrocarbon fuel to the definition of "alternative fuel."

**(Effective: Retroactive for taxable years beginning from and after December 31, 1997)**

Creates a credit for the purchase or lease, for at least three years, of one or more original equipment manufactured alternative fuel vehicles for use in Arizona. The credit is equal to a varying percentage of the incremental cost depending on its emission rating. There is a five-year carry forward for any unused credit amount.

**(Effective: For taxable years beginning from and after December 31, 1998)**

*Also contains changes to individual income and transaction privilege tax statutes.*

## **SB1320 Income Tax Credit; Coal Taxes, (Chapter 137)**

Creates a credit for a taxpayer that purchases coal consumed in generating electrical power in Arizona. The credit is equal to 30% of the transaction privilege or use tax paid on the purchase and is in lieu of a deduction for those taxes. There is a five -year carry forward for any unused credit.

**Effective: Retroactive for taxable years beginning from and after December 31, 1997**

---

## **ESTATE TAX**

### **HB2667 Estate Tax; Repeal Consent Requirements, (Chapter 279)**

Repeals the requirement to obtain Department of Revenue consent to allow access to the safe deposit box of a decedent, transfer a decedent's assets or transfer ownership of shares of stock from a decedent.

---

## **WITHHOLDING TAX**

### **SB1158 Income Tax Withholding, (Chapter 130)**

Adds a 17% withholding rate that is the new minimum percentage for employees earning \$15,000 or more and may be elected by any employee. Also adds a 0% rate that can be elected by an employee who had no Arizona income tax liability in the preceding taxable year and expects to have no Arizona income tax liability for the current taxable year.

## **COUNTY TAXES**

### **SB1213 Stadium District RV Surcharge Exemption, (Chapter 149)**

Gives a County Stadium District Board of Directors the discretion to exempt from the 50¢ a day surcharge leases or rentals of recreational vehicle parking spaces for a total of at least twelve consecutive months if

the recreational vehicle is registered in Arizona.

### **SB1426 County Jail Facilities Excise Tax, (Chapter 225)**

Allows the Maricopa County Board of Supervisors to place the issue of a jail facilities excise tax on the ballot of the 1998 general election. If approved by the voters, the tax would take effect January 1, 1999.

---

## **PROPERTY TAX**

### **HB2346 Enterprise Zones; Three-Year Extension, (Chapter 121)**

Extends through June 30, 2001, the time during which a business can qualify for the enterprise zone property tax incentives.

**Effective: Retroactive to tax years beginning from and after December 31, 1997**

*Also contains changes to corporate and individual income tax statutes.*

### **HB2463 Property Tax Appeals, (Chapter 261)**

Makes several technical corrections to real and personal property tax statutes and increases both the exemption allowed for widows, widowers and disabled persons and the qualifying income threshold for the exemption.

**Effective: From and after December 31, 1998**

### **HB2469 Property Classification; Agricultural Employee Dwellings, (Chapter 172)**

Classifies rent-free, employer-owned residential dwellings occupied by agricultural employees as Class 6 property.

**Effective: From and after December 31, 1998**

### **HB2623 Property Tax Liens; Merger, Discharge, (Chapter 93)**

Provides that a delinquent property tax lien on property acquired by a political subdivision of Arizona is enforceable in the same manner as other delinquent tax liens and cannot be abated, extinguished, discharged or merged in the title to such property unless approved by the appropriate

Board of Supervisors.

**Effective: From and after December 31, 1998**

**HB2644 Property Tax Exemption; Fraternal Societies, (Chapter 275)**

Exempts from property tax property that is owned by a fraternal society or organization recognized under Section 501(c)(10) of the Internal Revenue Code if no portion of the property is used for the sale of food or beverage to the general public or for consumption of alcoholic beverages by nonmembers or is used or held for profit. The

property must be used predominately for educational, charitable or religious purposes and for the purposes authorized under Section 501(c)(10).

**Effective: Retroactive to tax years beginning from and after December 31, 1997**

**SB1007 Tax Relief Act of 1998, (Chapter 3 Fourth Special Session)**

Allows businesses with multiple locations to exclude from property taxation up to \$50,000 of personal property at each location. Leasing companies, taxpayers whose property is valued by the Department of Revenue and leasing subdivisions of any business entity are exceptions and allowed only one \$50,000 exemption for the entity.

Also modifies the accelerated depreciation schedule for business personal property.

**Effective: From and after December 31, 1998**

*Also contains changes to corporate and individual income tax statutes.*

**SB1026 Property Tax; Installment Payment Threshold, (Chapter 160)**

Changes the threshold for payment of property tax in two installments from \$25 to \$50. If the tax due is less than \$50, the entire amount is due and payable on October 1.

**Effective: From and after December 31, 1998**

**SB1137 Telecommunications; Public Highways, (Chapter 220)**

Reclassifies all real and personal property used to provide local



telecommunications service from Class 2 to Class 3 and changes the valuation method from standard appraisal methods to historical cost less depreciation.

**Effective: From and after December 31, 1998**

**SB1253 Tax Exemptions; Deductions; Credits; Classification, (Chapter 286)**

Reclassifies real and personal property used specifically to respond to the release or threatened release of environmentally hazardous substances as class 8 property.

**Effective: From and after December 31, 1998**

*Also contains changes to transaction privilege and corporate and individual income tax statutes.*

**SB1294 Airport Fuel Delivery Companies; Taxes, (Chapter 49)**

Establishes a statutory valuation method for the real and personal property of certain airport fuel delivery companies and classifies them as class 2 property.

**Effective: Retroactive to from and after December 31, 1997**