Preparing Arizona for a Second Century of Prosperity: Competitive Taxation

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The Competitiveness Package is already improving Arizona’s reputation as a business friendly state

- Significant across-the-board business tax reforms and incentives
  - Corporate income tax rate reduction
  - Elective sales factor to 100%
  - Decrease shift to business property
  - Relieve burdens on personal property
Flatter & fairer: The corporate income tax rate goes to 4.9%
Flatter & fairer: Class 1 assessment ratios go to 18% of full cash value
Example: $25 M land and building, $15 M machinery, equipment, computers

Industrial Property Taxes

- Total Tax w/o accelerated dep. & 25% assmt. Ratio
- Total Tax w/accelerated dep. & phased-down assmt. Ratio

Assumes a standard $10 tax rate
Moving forward: Problem solving

- Address specific problems that still remain in the tax code
- Emphasize easing financial and administrative burdens on small businesses
- Modernize and simplify the tax code to improve taxpayer understanding, predictability and compliance
- Focus on implementing enacted reforms
Identifying “Leading Areas of Opportunity”

- Conducted extensive interactive interviews and problem-solving sessions with business community and economic development organizations
- Focused on consensus, practical solutions to problem areas in the tax code
- Resulted in a list of leading areas of opportunity for tax reform
Hard and fast rules for continued tax reform

- Move Arizona closer to fair and equitable taxation
- Cherish existing ventures as much as new ventures
- Equal protection is not just a legal concept
- Granted tax breaks should stand on their own merits not set a precedent for more
- Make tax code simpler, easier to understand, cheaper to comply with and administer
- Reconcilable with the state’s budget position
- Effective after the sunset of Prop. 100
Competitive taxes remains a key objective of the Governor’s First Cornerstone of Reform

- Personal property tax
  - Exemption indexing
  - Acquisition cost vs. replacement cost new
  - Intangible personal property (software)

- Income tax
  - Capital gains
  - Net operating loss carryforward
  - Elective sales factor for services

- Transaction privilege tax
  - Modernize and simplify the tax code
Clarity in the taxation of machinery, equipment & other personal property

- Exemption indexing
  - Small businesses have benefited only modestly from laws that allow an inflation increase on the constitutional personal property exemption
  - Revise the statutory inflation index to increase exemption

- Acquisition cost vs. replacement cost new
  - There appears to be a lack of consistency in the reporting requirements of their personal property inventories
  - Clarify that the starting point for valuation and depreciation is the item’s acquisition cost

- Define intangible personal property (software)
  - Assessors and auditors have ramped up efforts to tax software
  - Define intangible personal property to clarify when software is taxable and to alleviate taxpayer confusion and frustration
Making taxes on business investments more competitive

- Treatment of capital gains in individual income tax
  - Arizona, unlike the federal government and many other states, taxes capital gains like any other income
  - Pursue options for reducing the effective tax rate on capital gains from business growth

- Net operating loss carryforward
  - Most states allow a longer carryforward limit than Arizona’s 5 years
  - Adjust the NOL carryforward limit to be more in line with other states by measuring business profitability over a longer period of time

- Elective sales factor for services
  - Certain Arizona-based, multi-state corporate taxpayers may be exposed to paying income taxes on the same service revenues both in this and in other states
  - Enact a phased-in addition to existing law that would allow the service revenues to be apportioned to the location of the customer
Establish a task force of experts to study and report to the Governor, Speaker and President by December 31, 2012

Objectives:
- Alleviate taxpayer frustration
- Improved simplification and compliance
- Explore options for single point administration to avoid redundancies
- Identify differences between state statute and the Model City Tax Code