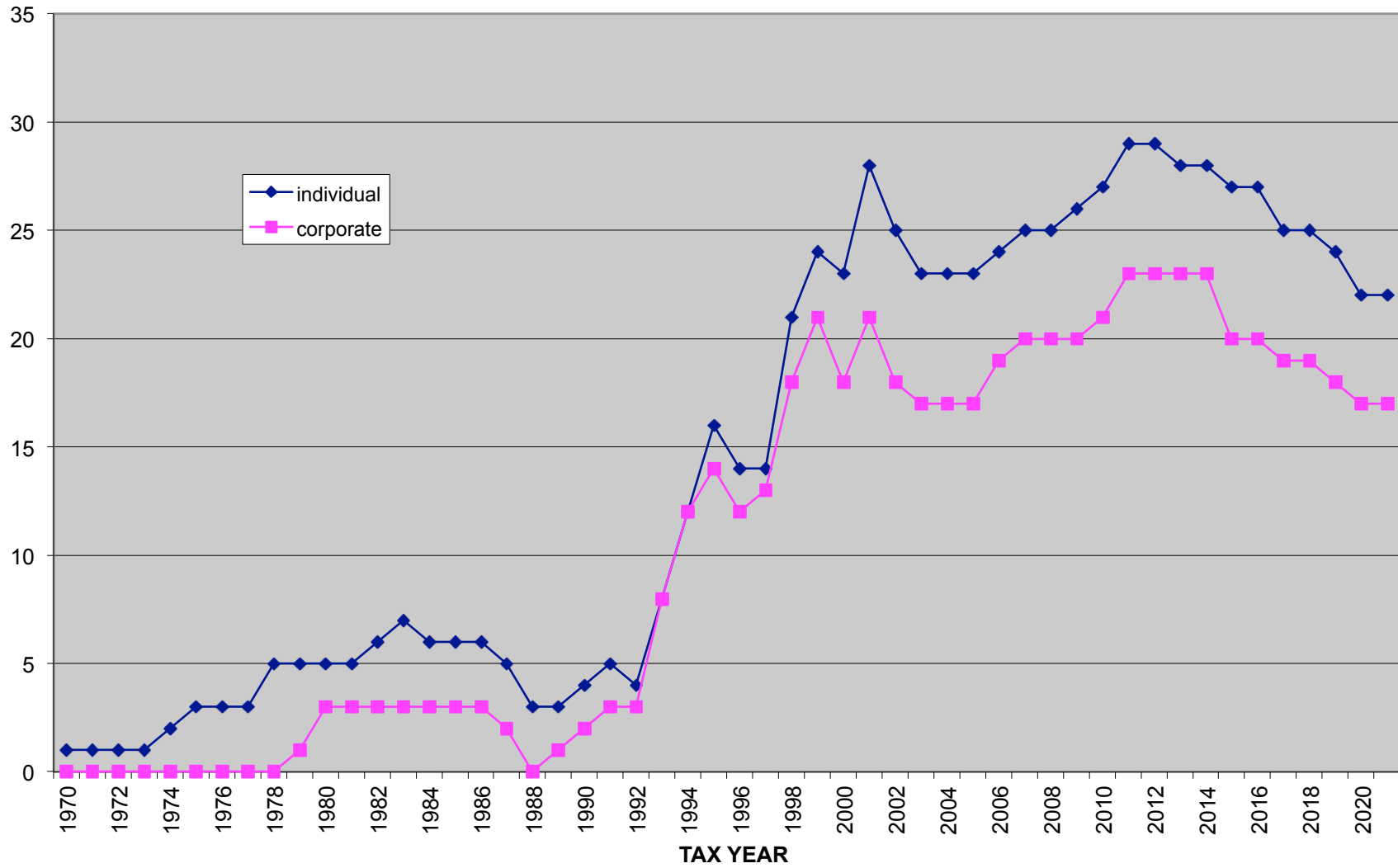


# **INCOME TAX CREDITS**

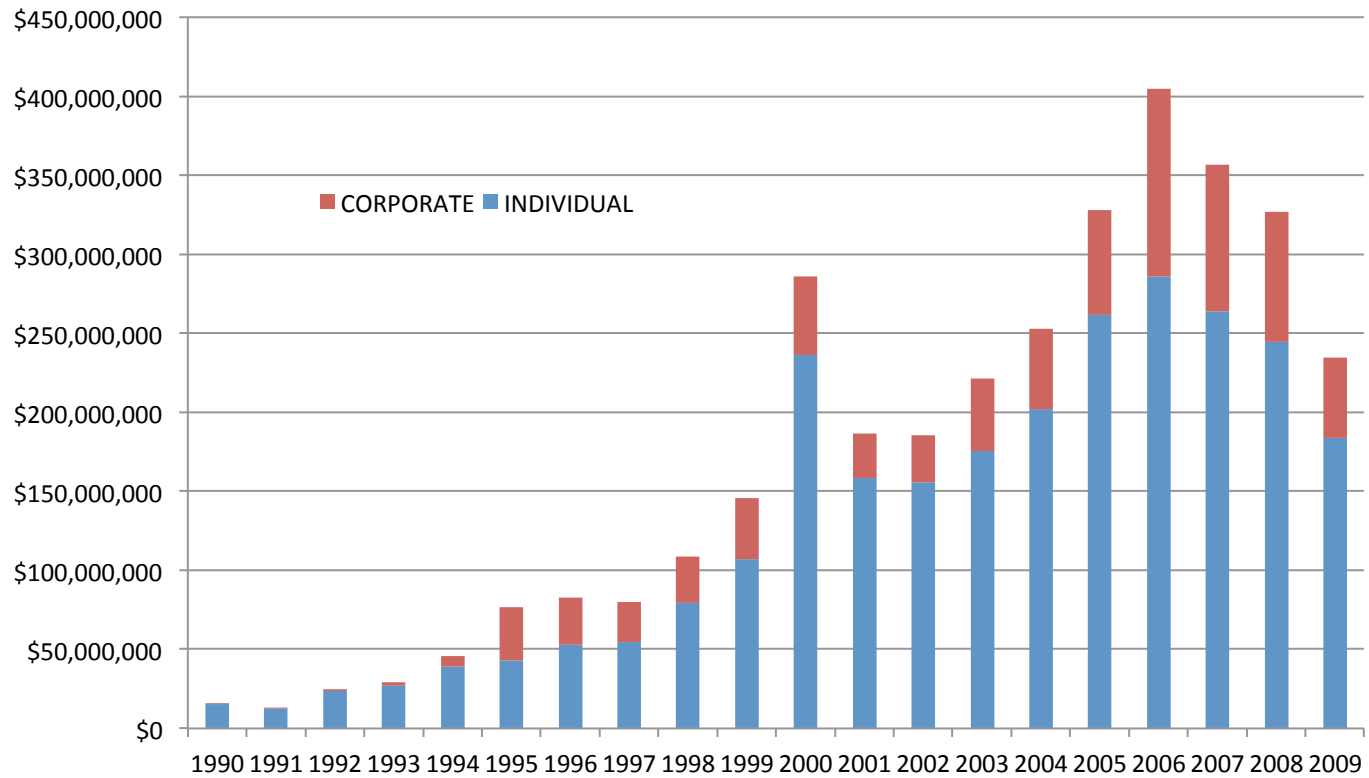
## **IMPACT ON TAX REVENUES**

**Georganna Meyer, Arizona  
Department of Revenue, October 18,  
2011**

## THE NUMBER OF INCOME TAX CREDITS IN ARIZONA



# LIABILITY OFFSET BY INCOME TAX CREDITS





	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Military Reuse Zone	1	1	1	1	1	1	1	1	1	1	1	1
Motion Picture Production Credit			1	1	1	1	1	cf	cf	cf	cf	cf
New Employment								1	1	1	1	1
Pollution Control Device	1	1	1	1	1	1	1	1	1	1	1	1
Private School Tuition Organization	1	1	1	1	1	1	1	1	1	1	1	1
Property Tax	1	1	1	1	1	1	1	1	1	1	1	1
Public School Extra Curr. Activity Fee	1	1	1	1	1	1	1	1	1	1	1	1
Qualified Health Insurance Plans									1	1	1	cf
Renewable Energy Industry							1	1	1	1	1	
Renewable Energy Production								1	1	1	1	1
Research & Development	1	1	1	1	1	1	1	1	1	1	1	1
School Site Donation	1	1	1	1	1	1	1	1	1	1	1	1
Solar Energy Device	1	1	1	1	1	1	1	1	1	1	1	1
Solar Water Heater Plumbing Stub Outs/Electric Vehicle Outlets	1	1	1	1	1	1	1	1	1	1	1	1
Solar Liquid Fuel Delivery Systems												1
Solar Liquid Fuel Production												1
Solar Liquid Fuel Research & Development								1	1	1	1	1
Taxes Paid For Coal Consumed in Generating Electrical Power	1	1	1	1	1	1	1	1	1	1	1	1
Technology Training	1	1										
Underground Storage Tanks	1											
University Research & Development									1	1	1	1
Water Conservation Credit				1	1	1	1	1	cf	cf	cf	cf

# CATEGORIES OF INCOME TAX CREDITS

- Equity
- Alleviating Tax on Low-Income or Disabled Individuals
- Environmental Concerns
- Economic Development
- Targeting Select Behaviors

# EQUITY

- To achieve fairness in taxation
- Income Tax Credit for Taxes Paid to Other States or Countries
  - Reduction in tax is necessary to insure AZ residents are not double-taxed by other states.
  - Reduces income tax collections by \$50 million to \$125 million, depending on economy.

# ALLEVIATING TAX ON LOW-INCOME OR DISABLED INDIVIDUALS

- Family Tax Credit
  - Zeroes out tax for individuals with Arizona Adjusted Gross Income of \$10,000/\$25,000 with no kids and at a higher level for those with kids.
- Increased Excise Taxes Paid Credit
  - Refundable credit to mitigate the increase transaction privilege tax rates for education (due to a voter-approved proposition)
- Property Tax
  - Refundable credit for property taxes paid if claimant is 65 or older or disabled and had income from all sources of less than \$3700/\$5000.



# ALLEVIATING TAX ON LOW-INCOME OR DISABLED INDIVIDUALS

- Reduces income tax collections by around \$45 million per year.

# ENVIRONMENTAL CONCERNS

- Some kind of environmentally-responsible behavior is being rewarded or the cost of complying to environmental laws is being alleviated.
- Agricultural Pollution Control Equipment
  - For expenses incurred to control or prevent pollution
- Agricultural Water Conservation System
  - For expenses incurred to conserve water relating to agriculture, in conjunction with a conservation plan filed with the USDA Soil Conservation Service.

# ENVIRONMENTAL CONCERNS

- Commercial & Industrial Solar Credit
  - For installing solar energy devices for commercial or industrial purposes.
  - Requires pre-approval with no more than \$1 million per calendar year to be approved.
- Healthy Forest Credit
  - For enhancing or sustaining forest health, sustaining or recovering watershed or improving public safety
  - Requires pre-approval to claim the credit.

# ENVIRONMENTAL CONCERNS

- Pollution Control Device Credit
  - For expenses incurred for purchasing property used to control or prevent pollution that is used, constructed or installed due to EPA rules or regulations
- Solar Energy Device Credit
  - For installing a solar energy device in the taxpayer's residence.

# ENVIRONMENTAL CONCERNS

- Solar Hot Water Heater Plumbing Stub-Outs and Electric Vehicle Recharge Outlets Credit
  - For costs incurred in installing these stub-outs or outlets
- Water Conservation Credit
  - For installing a water conservation system (rainwater harvesting or gray water recycling) in the taxpayer's residence
  - Requires pre-approval; has a \$250,000 annual aggregate credit limit

# ENVIRONMENTAL CONCERNS

- Reduces income tax collections by about \$6 million a year.

# ECONOMIC DEVELOPMENT

- Each of these credits was created with a specific taxpayer, industry or location in mind. The intent was to lure business to the state or make sure a certain type of business stays.
- Enterprise Zone – New Employment
  - The “old” enterprise zone credit was changed to a new employment credit with less restrictive location requirements but more restrict investment or employee requirements.
  - Pre-approval required to claim the credit

# ECONOMIC DEVELOPMENT

- Environmental Technology Facility
  - For expenses incurred in constructing a qualified technology manufacturing, producing or processing facility used predominantly for things involving recycled materials or renewable energy.
  - Corporation must be certified to claim the credit.
- Investment in Qualified Small Business
  - For investments made in qualified small businesses (emphasis on rural location or bioscience enterprise).
  - Pre-approval required; no more than \$20 million in credit can be approved over the life of the program



# ECONOMIC DEVELOPMENT

- Military Reuse Zone Credit
  - For increases in employment in a military reuse zone, primarily engaged in providing aviation or aerospace services.
- Motion Picture Production Credit
  - I think you all are familiar with this one.
  - Pre- and post-approval was required
- Renewable Energy Industry Credit
  - Refundable credit for expanding or locating headquarters for or manufacturers of systems or components used in manufacturing renewable energy equipment.
  - Pre-approval required; no more than \$70 million annually can be approved.

# ECONOMIC DEVELOPMENT

- Renewable Energy Production Equipment Credit
  - For production of electricity using solar, wind or biomass.
  - Pre-approval required; No more than \$20 million in credit annually can be approved.
- Research & Development Credit
  - Uses the same basis as the federal credit. Smaller businesses (less than 150 employees) can opt for a refundable credit.

# ECONOMIC DEVELOPMENT

- Solar Liquid Fuel Delivery Systems
  - For converting or modifying existing motor vehicle fuel service stations for the retail sale of solar liquid fuel
- Solar Liquid Fuel Production
  - For producing solar liquid fuel in commercial quantities.
- Solar Liquid Fuel Research & Development Credit
  - For research & development associated with solar liquid fuel.

# ECONOMIC DEVELOPMENT

- Reduces income tax collection by \$22 million to \$80 million in the most recent 9 years of available information. Generally around \$60 million.
- Biggest component of this group is the Research & Development Credit.

# TARGETING SELECT BEHAVIORS

- The goal is to encourage a certain contribution or purchasing behavior.
- Clean Elections
  - For contributions to the Clean Elections Fund
- Contributions to Charities Providing Assistance to the Working Poor
  - Approved charities must provide basic needs
- Contributions to School Organizations
  - This corporate credit must be pre-approved and has an annual limit. In FY2012, that limit is \$24.9 million and increases every fiscal year by 20%.

# TARGETING SELECT BEHAVIORS

- Contributions to School Tuition Organizations for Disabled/Displaced Student Scholarships
  - This corporate credit requires pre-approval and is limited to \$5 million annually in aggregate.
  - The students receiving scholarships must also be approved. (ADOR maintains a list.)
- Donations to Military Family Relief Fund
- Employing National Guard Members

# TARGETING SELECT BEHAVIORS

- Employment of TANF Recipients Credit
- Private School Tuition Organization Credit
  - For individual donations to school tuition organizations providing scholarships to private schools.
- Public School Extra Curricular Activity Fee
  - For individual donations to public schools in support of extra curricular activities or character education.

# TARGETING SELECT BEHAVIORS

- Qualified Health Insurance Plans
  - For an employer that provides a qualified health insurance plan who have not provided coverage in the preceding 90 days, pays a minimum of \$360 for premiums per employee and offers the insurance for a year.
- School Site Donation
  - For donations of real property and improvements to a school district or charter school for use as a school.



# TARGETING SELECT BEHAVIORS

- Taxes Paid for Coal Consumed in Generating Electrical Power
  - Credit for electricity producers for buying their coal in Arizona rather than New Mexico.
- University Research & Development
  - Another R&D credit for businesses that pay state universities for doing R&D for them.
  - Pre-approval required with a \$10 million annual limit.

# TARGETING SELECT BEHAVIORS

- Reductions to income tax receipts has grown from \$40 million in 2000 to around \$120 million in 2006, 2007 and 2008.

# SUMMARY OF INCOME TAX REDUCTION

CREDIT CATEGORY	APPROX. ANNUAL COST
Equity	\$100 million
Alleviating Tax on Low-Income	\$45 million
Environmental Concerns	\$6 million
Economic Development	\$60 million
Targeting Specific Behaviors	\$120 million