

ARIZONA SUPREME COURT

KAREN FANN, <i>et al.</i> ,)	No. CV-21-0058-T/AP
Plaintiffs/Appellants,)	Arizona Court of Appeals,
v.)	Division One
STATE OF ARIZONA, <i>et al.</i> ,)	No. 1 CA-CV 21-0087
Defendants/Appellees.)	Maricopa County Superior Court
)	No. CV2020-015495
)	CV2020-015509
)	(Consolidated)
INVEST IN EDUCATION (Sponsored by AEA and Stand for Children); and DAVID LUJAN,)	
Intervenor-Defendants/Appellees.)	

**INTERVENOR-DEFENDANTS/APPELLEES’
NOTICE OF SUPPLEMENTAL AUTHORITY AND
REQUEST FOR JUDICIAL NOTICE**

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by AEA and Stand for Children) and David Lujan*

Appellees Invest in Education (Sponsored by AEA and Stand for Children) and David Lujan give notice that on July 9, 2021, Governor Ducey signed SB 1783 into law.¹ A true and correct copy of SB 1783 is attached as **Exhibit A**.

Appellees referenced SB 1783 in their Answering Brief, noting that “pending legislation could impact the already-speculative amount of revenue collected by Prop 208. Senate Bill 1783 – already approved by the Senate – would create an ‘alternate income tax’ for pass-through income in an end-run around Prop 208.[] The bill’s ‘Fiscal Note’ projects that its passage would ‘reduce revenues from [Prop 208] by an estimated \$(527.7) million annually.’” [Ans. Br. at 18] On June 25, 2021, the Joint Legislative Budget Committee provided an updated analysis of the impact SB 1783 (as amended) will have on projected Prop 208 revenues. [See email from Hans Olofsson to Rep. Mitzi Epstein, a copy of which is attached as **Exhibit B**]

¹ See Office of the Governor Doug Ducey, News Release, *Governor Ducey Cuts Taxes For Arizona Small Businesses*, July 9, 2021 <https://azgovernor.gov/governor/news/2021/07/governor-ducey-cuts-taxes-arizona-small-businesses>.

The Court can take judicial notice of the fact that (1) SB 1783 was signed into law and (2) JLBC projects that SB 1783 will reduce Prop 208 revenues “by an estimated \$292 million.” [Ex. A] These facts “are not subject to reasonable dispute” because they “can be accurately and readily determined from sources whose accuracy cannot reasonably be questioned.” Ariz. R. Evid. 201(b)(2); see also [Pedersen v. Bennett](#), 230 Ariz. 556, 559 ¶ 15 (2012) (taking judicial notice of the fact that JLBC did not include certain information in its fiscal impact estimate); [Jarvis v. State Land Dep’t City of Tucson](#), 104 Ariz. 527, 530 (1969) (taking judicial notice of state agency records).

RESPECTFULLY SUBMITTED this 13th day of July, 2021.

COPPERSMITH BROCKELMAN PLC

By /s/ D. Andrew Gaona
Roopali H. Desai
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**ARIZONA CENTER FOR LAW IN THE
PUBLIC INTEREST**

By /s/ Daniel J. Adelman
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*Attorneys for Appellees Invest in
Education (Sponsored by AEA and
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EXHIBIT A

House Engrossed Senate Bill

small businesses; alternate income tax

FILED
KATIE HOBBS
SECRETARY OF STATE

State of Arizona
Senate
Fifty-fifth Legislature
First Regular Session
2021

CHAPTER 436
SENATE BILL 1783

AN ACT

AMENDING SECTIONS 43-104 AND 43-222, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 2, ARTICLE 3, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-243; AMENDING TITLE 43, CHAPTER 3, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-302; AMENDING TITLE 43, CHAPTER 5, ARTICLE 6, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-583; AMENDING SECTION 43-1022, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1075; AMENDING SECTION 43-1311, ARIZONA REVISED STATUTES; AMENDING TITLE 43, ARIZONA REVISED STATUTES, BY ADDING CHAPTER 17; RELATING TO TAXATION OF INCOME.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 43-104, Arizona Revised Statutes, is amended to
3 read:

4 43-104. Definitions

5 In this title, unless the context otherwise requires:

6 1. "Assessment" includes A ~~---~~ proposed additional assessment~~---~~.

7 2. "Board" means the state board of tax appeals or, ~~when~~ IF
8 applicable, a division of the state board.

9 3. "Corporation" means a corporation, joint stock company, bank,
10 insurance company, business trust or so-called "Massachusetts trust",
11 investment company or building and loan association and any other
12 association whether incorporated or unincorporated.

13 4. "Department" means the department of revenue, the director or
14 ~~his~~ THE DIRECTOR'S authorized delegate, as the context requires.

15 5. "Director" means the director of the department of revenue.

16 6. "Fiduciary" means a guardian, trustee, personal representative,
17 executor, administrator, receiver or conservator, whether individual or
18 corporate, or any person acting in any fiduciary capacity for any person,
19 estate or trust.

20 7. "Fiscal year" means an accounting period of twelve months ending
21 on the last day of any month other than December.

22 8. "Foreign country" means any jurisdiction other than one embraced
23 within the United States.

24 9. "Income derived from or attributable to sources within this
25 state" includes income from tangible or intangible property located or
26 having a situs in this state and income from any activities carried on in
27 this state, regardless of whether carried on in intrastate, interstate or
28 foreign commerce.

29 10. "Income tax act of 1954" means THIS title ~~43, Arizona Revised~~
30 ~~Statutes~~, as enacted by Laws 1954, chapter 65, as amended.

31 11. "Income year" means "taxable year".

32 12. "Individual" means a natural person.

33 13. "Military or naval forces of the United States" includes the
34 army, the navy, the air force, the marine corps, the coast guard, the army
35 nurse corps, female, the women's army auxiliary corps, the navy nurse
36 corps, female, and the women's reserve branch of the naval reserve, and
37 all auxiliary branches of service.

38 14. "Nonresident" means every individual other than a resident.

39 15. "Paid or incurred" and "paid or accrued" shall be construed
40 according to the method of accounting ~~upon~~ ON the basis of which the
41 taxable income is computed under this title.

42 16. "Partner" means a member of a partnership.

43 17. "Partnership" includes a syndicate, group, pool, joint venture
44 or other unincorporated organization, through or by means of which any

1 business, financial operation or venture is carried on and ~~which~~ THAT is
2 not, within the meaning of this title, a trust, estate or corporation.
3 18. "Person" includes individuals, fiduciaries, partnerships and
4 corporations.
5 19. "Resident" includes:
6 (a) Every individual who is in this state for other than a
7 temporary or transitory purpose.
8 (b) Every individual who is domiciled in this state and who is
9 outside the state for a temporary or transitory purpose. Any individual
10 who is a resident of this state continues to be a resident even though
11 temporarily absent from the state.
12 (c) Every individual who spends in the aggregate more than nine
13 months of the taxable year within this state shall be presumed to be a
14 resident. The presumption may be overcome by competent evidence that the
15 individual is in ~~the~~ THIS state for a temporary or transitory purpose.
16 20. "SMALL BUSINESS TAXPAYER" MEANS ANY INDIVIDUAL TAXPAYER WHO
17 REPORTS ON THE TAXPAYER'S FEDERAL INCOME TAX RETURN ANY INCOME THAT
18 CONSTITUTES ARIZONA SMALL BUSINESS GROSS INCOME AS DEFINED IN SECTION
19 43-1701.
20 ~~20.~~ 21. "State" includes the states of the United States, the
21 District of Columbia and the possessions of the United States.
22 ~~21.~~ 22. "Tax" means the taxes imposed under this title.
23 ~~22.~~ 23. "Taxable year" means:
24 (a) The calendar year or the fiscal year, ending during such
25 calendar year, ~~upon~~ ON the basis of which the taxable income is computed
26 under this title.
27 (b) If no fiscal year has been established, ~~"taxable year"~~ means
28 the calendar year.
29 ~~(b)~~ (c) In the case of a return made for a fractional part of a
30 year under this title or under rules prescribed by the department, the
31 period for which the return is made.
32 ~~23.~~ 24. "Taxpayer":
33 (a) Means any person subject to a tax imposed by this title. ~~, but~~
34 ~~in no case shall it~~
35 (b) DOES NOT include the United States, this state, counties,
36 cities, towns, school districts or other political subdivisions or units
37 of this state or the federal government.
38 ~~24.~~ 25. "Trade or business" includes the performance of the
39 functions of a public office.
40 ~~25.~~ 26. "United States", when used in a geographical sense,
41 includes the states, the District of Columbia, ~~and~~ the possessions of the
42 United States.

1 D. ON RECEIPT OF THE NOTICE REQUIRED PURSUANT TO SUBSECTION B,
2 PARAGRAPH 2 OF THIS SECTION, THE DEPARTMENT SHALL USE THE TAX RATES
3 PROVIDED IN SECTION 43-1311, SUBSECTION B, PARAGRAPH 4 FOR TAXABLE YEARS
4 BEGINNING FROM AND AFTER DECEMBER 31 OF THE YEAR IN WHICH THE NOTICE
5 REQUIRED PURSUANT TO SUBSECTION B, PARAGRAPH 2 OF THIS SECTION IS
6 RECEIVED.

7 E. THE DIRECTOR OF THE JOINT LEGISLATIVE BUDGET COMMITTEE AND THE
8 DIRECTOR OF THE GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING
9 SHALL NOTIFY THE DEPARTMENT AS REQUIRED PURSUANT TO SUBSECTION B,
10 PARAGRAPHS 1 AND 2 OF THIS SECTION ONLY ON THE FIRST OCCURRENCE THAT EACH
11 STATE GENERAL FUND REVENUE THRESHOLD IS MET.

12 Sec. 4. Title 43, chapter 3, article 1, Arizona Revised Statutes,
13 is amended by adding section 43-302, to read:

14 43-302. Arizona small business income tax return; election;
15 revocation

16 A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2020, A
17 SMALL BUSINESS TAXPAYER MAY ELECT TO FILE A RETURN FOR THE TAXABLE YEAR
18 WITH THE DEPARTMENT TO REPORT THAT SMALL BUSINESS TAXPAYER'S SHARE OF
19 ARIZONA SMALL BUSINESS GROSS INCOME. THE ELECTION SHALL BE MADE
20 SEPARATELY FOR EACH TAXABLE YEAR AND IS EFFECTIVE BY REPORTING ARIZONA
21 SMALL BUSINESS ADJUSTED GROSS INCOME ON A TIMELY FILED ARIZONA SMALL
22 BUSINESS INCOME TAX RETURN.

23 B. THE ELECTION UNDER SUBSECTION A OF THIS SECTION MAY BE REVOKED
24 ON A TIMELY FILED AMENDED ARIZONA SMALL BUSINESS INCOME TAX RETURN AND A
25 CORRESPONDING ARIZONA INDIVIDUAL INCOME TAX RETURN.

26 Sec. 5. Title 43, chapter 5, article 6, Arizona Revised Statutes,
27 is amended by adding section 43-583, to read:

28 43-583. Payment of estimated tax by small business taxpayers;
29 penalty; forms

30 A. A SMALL BUSINESS TAXPAYER THAT IS SUBJECT TO THE TAX IMPOSED BY
31 CHAPTER 17 OF THIS TITLE SHALL PAY ESTIMATED TAX DURING THE SMALL BUSINESS
32 TAXPAYER'S TAXABLE YEAR IF THE SMALL BUSINESS TAXPAYER'S TAX LIABILITY
33 UNDER CHAPTER 17 OF THIS TITLE FOR THE TAXABLE YEAR IS AT LEAST \$1,000.
34 THE TAX LIABILITY UNDER CHAPTER 17 OF THIS TITLE IS THE EXCESS OF THE TAX
35 IMPOSED BY SECTION 43-1711 OVER ANY TAX CREDITS ALLOWED BY CHAPTER 17,
36 ARTICLE 5.

37 B. EXCEPT AS OTHERWISE PROVIDED IN THIS SECTION, THE AMOUNT OF THE
38 REQUIRED ANNUAL ESTIMATED TAX PAYMENT IS THE LESSER OF:

39 1. NINETY PERCENT OF THE TAX SHOWN ON THE RETURN FOR THE TAXABLE
40 YEAR OR, IF NO RETURN IS FILED, NINETY PERCENT OF THE TAX FOR THAT YEAR.

41 2. ONE HUNDRED PERCENT OF THE TAX SHOWN ON THE SMALL BUSINESS
42 INCOME TAX RETURN FOR THE PRECEDING TAXABLE YEAR, EXCEPT THAT THIS
43 PARAGRAPH DOES NOT APPLY IF:

1 (a) THE PRECEDING TAXABLE YEAR WAS NOT A TAXABLE YEAR OF TWELVE
2 MONTHS.

3 (b) THE SMALL BUSINESS DID NOT FILE A RETURN FOR THE PRECEDING
4 TAXABLE YEAR SHOWING A LIABILITY FOR TAX.

5 3. ZERO FOR TAXABLE YEARS BEGINNING ON OR BEFORE DECEMBER 31, 2021.

6 C. FOUR INSTALLMENTS OF ESTIMATED TAX PAYMENTS ARE REQUIRED EACH
7 TAXABLE YEAR. THE DUE DATES FOR THE INSTALLMENTS ARE THE DUE DATES
8 PRESCRIBED BY SECTION 6654 OF THE INTERNAL REVENUE CODE. UNLESS OTHERWISE
9 PRESCRIBED BY THIS SECTION, THE AMOUNT OF EACH INSTALLMENT PAYMENT IS
10 TWENTY-FIVE PERCENT OF THE REQUIRED ANNUAL ESTIMATED TAX PAYMENT. IF A
11 TAXABLE YEAR BEGINS ON A DATE OTHER THAN JANUARY 1, THE INSTALLMENT
12 PAYMENTS ARE DUE DURING MONTHS OF THAT FISCAL YEAR THAT CORRESPOND TO THE
13 PRESCRIBED MONTHS OF A CALENDAR YEAR.

14 D. IF A TAXPAYER FAILS TO PAY THE FULL AMOUNT OF ESTIMATED TAX OR
15 ANY REQUIRED INSTALLMENT UNDER THIS SECTION, THE TAXPAYER IS SUBJECT TO A
16 PENALTY AS PRESCRIBED BY SECTION 42-1125, SUBSECTION Q. FOR THE PURPOSES
17 OF THIS SUBSECTION:

18 1. THE AMOUNT OF UNDERPAYMENT IS THE EXCESS OF THE REQUIRED
19 INSTALLMENT PAYMENT OVER THE AMOUNT, IF ANY, OF THE INSTALLMENT PAID ON OR
20 BEFORE THE DUE DATE FOR THE PAYMENT.

21 2. A PAYMENT OF ESTIMATED TAX SHALL BE CREDITED AGAINST UNPAID
22 REQUIRED INSTALLMENT PAYMENTS IN THE ORDER IN WHICH THE INSTALLMENTS ARE
23 REQUIRED TO BE PAID.

24 E. THE DEPARTMENT SHALL:

25 1. ADOPT RULES THAT ARE NECESSARY TO ADMINISTER AND ENFORCE THIS
26 SECTION.

27 2. MAKE AVAILABLE SUITABLE FORMS AND INSTRUCTIONS TO TAXPAYERS WHO
28 MAKE ESTIMATED TAX PAYMENTS PURSUANT TO THIS SECTION.

29 Sec. 6. Section 43-1022, Arizona Revised Statutes, is amended to
30 read:

31 43-1022. Subtractions from Arizona gross income

32 In computing Arizona adjusted gross income, the following amounts
33 shall be subtracted from Arizona gross income:

34 1. The amount of exemptions allowed by section 43-1023.

35 2. Benefits, annuities and pensions in an amount totaling not more
36 than \$2,500 received from one or more of the following:

37 (a) The United States government service retirement and disability
38 fund, the United States foreign service retirement and disability system
39 and any other retirement system or plan established by federal law, except
40 retired or retainer pay of the uniformed services of the United States
41 that qualifies for a subtraction under paragraph 27 of this section.

1 (b) The Arizona state retirement system, the corrections officer
2 retirement plan, the public safety personnel retirement system, the
3 elected officials' retirement plan, an optional retirement program
4 established by the Arizona board of regents under section 15-1628, an
5 optional retirement program established by a community college district
6 board under section 15-1451 or a retirement plan established for employees
7 of a county, city or town in this state.

8 3. A beneficiary's share of the fiduciary adjustment to the extent
9 that the amount determined by section 43-1333 decreases the beneficiary's
10 Arizona gross income.

11 4. Interest income received on obligations of the United States,
12 minus any interest on indebtedness, or other related expenses, and
13 deducted in arriving at Arizona gross income, that were incurred or
14 continued to purchase or carry such obligations.

15 5. The excess of a partner's share of income required to be
16 included under section 702(a)(8) of the internal revenue code over the
17 income required to be included under chapter 14, article 2 of this title.

18 6. The excess of a partner's share of partnership losses determined
19 pursuant to chapter 14, article 2 of this title over the losses allowable
20 under section 702(a)(8) of the internal revenue code.

21 7. The amount allowed by section 43-1025 for contributions during
22 the taxable year of agricultural crops to charitable organizations.

23 8. The portion of any wages or salaries paid or incurred by the
24 taxpayer for the taxable year that is equal to the amount of the federal
25 work opportunity credit, the empowerment zone employment credit, the
26 credit for employer paid social security taxes on employee cash tips and
27 the Indian employment credit that the taxpayer received under sections
28 45A, 45B, 51(a) and 1396 of the internal revenue code.

29 9. The amount of exploration expenses that is determined pursuant
30 to section 617 of the internal revenue code, that has been deferred in a
31 taxable year ending before January 1, 1990 and for which a subtraction has
32 not previously been made. The subtraction shall be made on a ratable
33 basis as the units of produced ores or minerals discovered or explored as
34 a result of this exploration are sold.

35 10. The amount included in federal adjusted gross income pursuant
36 to section 86 of the internal revenue code, relating to taxation of social
37 security and railroad retirement benefits.

38 11. To the extent not already excluded from Arizona gross income
39 under the internal revenue code, compensation received for active service
40 as a member of the reserves, the national guard or the armed forces of the
41 United States, including compensation for service in a combat zone as
42 determined under section 112 of the internal revenue code.

1 12. The amount of unreimbursed medical and hospital costs, adoption
2 counseling, legal and agency fees and other nonrecurring costs of adoption
3 not to exceed \$3,000. In the case of a husband and wife who file separate
4 returns, the subtraction may be taken by either taxpayer or may be divided
5 between them, but the total subtractions allowed both husband and wife
6 shall not exceed \$3,000. The subtraction under this paragraph may be
7 taken for the costs that are described in this paragraph and that are
8 incurred in prior years, but the subtraction may be taken only in the year
9 during which the final adoption order is granted.

10 13. The amount authorized by section 43-1027 for the taxable year
11 relating to qualified wood stoves, wood fireplaces or gas fired
12 fireplaces.

13 14. The amount by which a net operating loss carryover or capital
14 loss carryover allowable pursuant to section 43-1029, subsection F exceeds
15 the net operating loss carryover or capital loss carryover allowable
16 pursuant to section 1341(b)(5) of the internal revenue code.

17 15. Any amount of qualified educational expenses that is
18 distributed from a qualified state tuition program determined pursuant to
19 section 529 of the internal revenue code and that is included in income in
20 computing federal adjusted gross income.

21 16. Any item of income resulting from an installment sale that has
22 been properly subjected to income tax in another state in a previous
23 taxable year and that is included in Arizona gross income in the current
24 taxable year.

25 17. The amount authorized by section 43-1030 relating to holocaust
26 survivors.

27 18. For property placed in service:

28 (a) In taxable years beginning before December 31, 2012, an amount
29 equal to the depreciation allowable pursuant to section 167(a) of the
30 internal revenue code for the taxable year computed as if the election
31 described in section 168(k) of the internal revenue code had been made for
32 each applicable class of property in the year the property was placed in
33 service.

34 (b) In taxable years beginning from and after December 31, 2012
35 through December 31, 2013, an amount determined in the year the asset was
36 placed in service based on the calculation in subdivision (a) of this
37 paragraph. In the first taxable year beginning from and after
38 December 31, 2013, the taxpayer may elect to subtract the amount necessary
39 to make the depreciation claimed to date for the purposes of this title
40 the same as it would have been if subdivision (c) of this paragraph had
41 applied for the entire time the asset was in service. Subdivision (c) of
42 this paragraph applies for the remainder of the asset's life. If the
43 taxpayer does not make the election under this subdivision, subdivision
44 (a) of this paragraph applies for the remainder of the asset's life.

1 (c) In taxable years beginning from and after December 31, 2013
2 through December 31, 2015, an amount equal to the depreciation allowable
3 pursuant to section 167(a) of the internal revenue code for the taxable
4 year as computed as if the additional allowance for depreciation had been
5 ten percent of the amount allowed pursuant to section 168(k) of the
6 internal revenue code.

7 (d) In taxable years beginning from and after December 31, 2015
8 through December 31, 2016, an amount equal to the depreciation allowable
9 pursuant to section 167(a) of the internal revenue code for the taxable
10 year as computed as if the additional allowance for depreciation had been
11 fifty-five percent of the amount allowed pursuant to section 168(k) of the
12 internal revenue code.

13 (e) In taxable years beginning from and after December 31, 2016, an
14 amount equal to the depreciation allowable pursuant to section 167(a) of
15 the internal revenue code for the taxable year as computed as if the
16 additional allowance for depreciation had been the full amount allowed
17 pursuant to section 168(k) of the internal revenue code.

18 19. With respect to property that is sold or otherwise disposed of
19 during the taxable year by a taxpayer that complied with section 43-1021,
20 paragraph 12 with respect to that property, the amount of depreciation
21 that has been allowed pursuant to section 167(a) of the internal revenue
22 code to the extent that the amount has not already reduced Arizona taxable
23 income in the current or prior taxable years.

24 20. The amount contributed during the taxable year to college
25 savings plans established pursuant to section 529 of the internal revenue
26 code to the extent that the contributions were not deducted in computing
27 federal adjusted gross income. The amount subtracted shall not exceed:

28 (a) \$2,000 for a single individual or a head of household.

29 (b) \$4,000 for a married couple filing a joint return. In the case
30 of a husband and wife who file separate returns, the subtraction may be
31 taken by either taxpayer or may be divided between them, but the total
32 subtractions allowed both husband and wife shall not exceed \$4,000.

33 21. The portion of the net operating loss carryforward that would
34 have been allowed as a deduction in the current year pursuant to section
35 172 of the internal revenue code if the election described in section
36 172(b)(1)(H) of the internal revenue code had not been made in the year of
37 the loss that exceeds the actual net operating loss carryforward that was
38 deducted in arriving at federal adjusted gross income. This subtraction
39 only applies to taxpayers who made an election under section 172(b)(i)(H)
40 of the internal revenue code as amended by section 1211 of the American
41 recovery and reinvestment act of 2009 (P.L. 111-5) or as amended by
42 section 13 of the worker, homeownership, and business assistance act of
43 2009 (P.L. 111-92).

1 22. For taxable years beginning from and after December 31, 2013,
2 the amount of any net capital gain included in federal adjusted gross
3 income for the taxable year derived from investment in a qualified small
4 business as determined by the Arizona commerce authority pursuant to
5 section 41-1518.

6 23. An amount of any net long-term capital gain included in federal
7 adjusted gross income for the taxable year that is derived from an
8 investment in an asset acquired after December 31, 2011, as follows:

9 (a) For taxable years beginning from and after December 31, 2012
10 through December 31, 2013, ten percent of the net long-term capital gain
11 included in federal adjusted gross income.

12 (b) For taxable years beginning from and after December 31, 2013
13 through December 31, 2014, twenty percent of the net long-term capital
14 gain included in federal adjusted gross income.

15 (c) For taxable years beginning from and after December 31, 2014,
16 twenty-five percent of the net long-term capital gain included in federal
17 adjusted gross income. For the purposes of this paragraph, a transferee
18 that receives an asset by gift or at the death of a transferor is
19 considered to have acquired the asset when the asset was acquired by the
20 transferor. If the date an asset is acquired cannot be verified, a
21 subtraction under this paragraph is not allowed.

22 24. If an individual is not claiming itemized deductions pursuant
23 to section 43-1042, the amount of premium costs for long-term care
24 insurance, as defined in section 20-1691.

25 25. The amount of eligible access expenditures paid or incurred
26 during the taxable year to comply with the requirements of the Americans
27 with disabilities act of 1990 (P.L. 101-336) or title 41, chapter 9,
28 article 8 as provided by section 43-1024.

29 26. For taxable years beginning from and after December 31, 2017,
30 the amount of any net capital gain included in Arizona gross income for
31 the taxable year that is derived from the exchange of one kind of legal
32 tender for another kind of legal tender. For the purposes of this
33 paragraph:

34 (a) "Legal tender" means a medium of exchange, including specie,
35 that is authorized by the United States Constitution or Congress to pay
36 debts, public charges, taxes and dues.

37 (b) "Specie" means coins having precious metal content.

38 27. Benefits, annuities and pensions received as retired or
39 retainer pay of the uniformed services of the United States in amounts as
40 follows:

41 (a) For taxable years through December 31, 2018, an amount totaling
42 not more than \$2,500.

43 (b) For taxable years beginning from and after December 31, 2018,
44 an amount totaling not more than \$3,500.

1 28. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2020,
2 ARIZONA SMALL BUSINESS ADJUSTED GROSS INCOME, BUT ONLY IF AN INDIVIDUAL
3 TAXPAYER HAS ELECTED TO SEPARATELY REPORT AND PAY TAX ON THE TAXPAYER'S
4 ARIZONA SMALL BUSINESS ADJUSTED GROSS INCOME ON THE ARIZONA SMALL BUSINESS
5 INCOME TAX RETURN.

6 Sec. 7. Title 43, chapter 10, article 5, Arizona Revised Statutes,
7 is amended by adding section 43-1075, to read:

8 43-1075. Credit for Arizona small business excess credit
9 amount

10 A. A CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS CHAPTER IN
11 AN AMOUNT THAT IS EQUAL TO THE EXCESS AMOUNT DETERMINED PURSUANT TO
12 SECTION 43-1742.

13 B. IF ANY PORTION OF THE ALLOWABLE CREDIT EXCEEDS THE TAXES DUE
14 UNDER THIS CHAPTER OR IF THERE ARE NO TAXES DUE UNDER THIS CHAPTER, THE
15 AMOUNT OF THE CREDIT NOT USED TO OFFSET THE TAXES UNDER THIS CHAPTER MAY
16 BE CARRIED FORWARD AS A CREDIT UNDER SECTION 43-1742 TO THE FOLLOWING
17 TAXABLE YEAR AS A CREDIT THAT IS FIRST AVAILABLE TO OFFSET THE TAX DUE
18 UNDER CHAPTER 17 OF THIS TITLE.

19 Sec. 8. Section 43-1311, Arizona Revised Statutes, is amended to
20 read:

21 43-1311. Tax imposed on estates and trusts; rates; annual
22 adjustment

23 A. Except for trusts that are taxable as partnerships or
24 corporations under the internal revenue code, the ~~taxes imposed by this~~
25 ~~title upon individuals apply to the~~ income of estates or of any kind of
26 property held in trust IS SUBJECT ONLY TO THE INCOME TAX IMPOSED BY
27 SUBSECTION B OF THIS SECTION.

28 ~~B. The tax rates that are imposed on single individuals under~~
29 ~~section 43-1011 apply to the taxable income of estates and trusts.~~

30 B. THERE SHALL BE LEVIED, COLLECTED AND PAID FOR EACH TAXABLE YEAR
31 ON THE ENTIRE TAXABLE INCOME OF EVERY RESIDENT TRUST OF THIS STATE AND ON
32 THE ENTIRE TAXABLE INCOME OF NONRESIDENT TRUST THAT IS DERIVED FROM
33 SOURCES WITHIN THIS STATE TAXES DETERMINED IN THE FOLLOWING MANNER:

34 1. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2020
35 THROUGH DECEMBER 31, 2021:

36	<u>IF TAXABLE INCOME IS:</u>	<u>THE TAX IS:</u>
37	\$0 - \$27,272	2.59% OF TAXABLE INCOME
38	\$27,273 - \$54,544	\$686, PLUS 3.34% OF THE AMOUNT 39 OVER \$27,272
40	\$54,545 - \$163,632	\$1,571, PLUS 4.17% OF THE 41 AMOUNT OVER \$54,544
42	\$163,633 AND OVER	\$5,991, PLUS 4.50% OF THE AMOUNT 43 OVER \$163,632

1 2. SUBJECT TO SUBSECTION C OF THIS SECTION, FOR TAXABLE YEARS
2 BEGINNING FROM AND AFTER DECEMBER 31, 2021 THROUGH DECEMBER 31 OF THE YEAR
3 IN WHICH NOTICE IS PROVIDED TO THE DEPARTMENT PURSUANT TO SECTION 43-243,
4 SUBSECTION A OR SUBSECTION B, PARAGRAPH 1:

5	<u>IF TAXABLE INCOME IS:</u>	<u>THE TAX IS:</u>
6	\$0 - \$27,272	2.55% OF TAXABLE INCOME
7	\$27,273 AND OVER	\$695, PLUS 2.98% OF THE AMOUNT OVER \$27,272

8
9 3. SUBJECT TO SUBSECTION C OF THIS SECTION, FOR TAXABLE YEARS
10 BEGINNING FROM AND AFTER DECEMBER 31 OF THE YEAR IN WHICH NOTICE IS
11 PROVIDED TO THE DEPARTMENT PURSUANT TO SECTION 43-243, SUBSECTION A OR
12 SUBSECTION B, PARAGRAPH 1 THROUGH DECEMBER 31 OF THE YEAR IN WHICH NOTICE
13 IS PROVIDED TO THE DEPARTMENT PURSUANT TO SECTION 43-243, SUBSECTION B,
14 PARAGRAPH 2:

15	<u>IF TAXABLE INCOME IS:</u>	<u>THE TAX IS:</u>
16	\$0 - \$27,272	2.53% OF TAXABLE INCOME
17	\$27,273 AND OVER	\$690, PLUS 2.75% OF THE AMOUNT OVER \$27,272

18
19 4. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31 OF THE
20 YEAR IN WHICH NOTICE IS PROVIDED TO THE DEPARTMENT PURSUANT TO SECTION
21 43-243, SUBSECTION B, PARAGRAPH 2, THE TAX IS 2.5% OF TAXABLE INCOME.

22 C. FOR EACH TAXABLE YEAR BEGINNING FROM AND AFTER DECEMBER 31,
23 2020, THE DEPARTMENT SHALL ADJUST THE INCOME DOLLAR AMOUNT FOR EACH RATE
24 BRACKET PRESCRIBED BY SUBSECTION B, PARAGRAPHS 2 AND 3 OF THIS SECTION,
25 AS APPLICABLE, ACCORDING TO THE AVERAGE ANNUAL CHANGE IN THE METROPOLITAN
26 PHOENIX CONSUMER PRICE INDEX PUBLISHED BY THE UNITED STATES DEPARTMENT OF
27 LABOR, BUREAU OF LABOR STATISTICS. THE REVISED DOLLAR AMOUNTS SHALL BE
28 RAISED TO THE NEAREST WHOLE DOLLAR. THE INCOME DOLLAR AMOUNTS FOR EACH
29 RATE BRACKET MAY NOT BE REVISED BELOW THE AMOUNTS PRESCRIBED IN THE PRIOR
30 TAXABLE YEAR.

31 Sec. 9. Title 43, Arizona Revised Statutes, is amended by adding
32 chapter 17, to read:

33 CHAPTER 17
34 SMALL BUSINESSES
35 ARTICLE 1. GENERAL PROVISIONS

36 43-1701. Definitions

37 IN THIS CHAPTER, UNLESS THE CONTEXT OTHERWISE REQUIRES:

38 1. "ARIZONA SMALL BUSINESS" MEANS AN ACTIVITY THAT GENERATES
39 ARIZONA SMALL BUSINESS GROSS INCOME.

40 2. "ARIZONA SMALL BUSINESS ADJUSTED GROSS INCOME" OF A RESIDENT
41 TAXPAYER MEANS THE ARIZONA SMALL BUSINESS GROSS INCOME SUBJECT TO THE
42 ADJUSTMENTS PROVIDED IN ARTICLE 3 OF THIS CHAPTER.

1 ARTICLE 3. ADJUSTMENTS TO ARIZONA SMALL BUSINESS GROSS INCOME
2 43-1721. Additions and subtractions to Arizona small business
3 gross income

4 IN COMPUTING ARIZONA SMALL BUSINESS ADJUSTED GROSS INCOME, THE
5 ADDITIONS AND SUBTRACTIONS PROVIDED IN SECTIONS 43-1021 AND 43-1022 SHALL
6 BE MADE BUT ONLY TO THE EXTENT THE ADDITIONS AND SUBTRACTIONS DIRECTLY
7 RELATE TO ARIZONA SMALL BUSINESS GROSS INCOME. THE SUBTRACTION PROVIDED IN
8 SECTION 43-1022, PARAGRAPH 28 MAY NOT BE INCLUDED AS A SUBTRACTION UNDER
9 THIS CHAPTER.

10 ARTICLE 4. DEDUCTIONS

11 43-1731. Deductions

12 DEDUCTIONS OTHER THAN THOSE DEDUCTIONS ALREADY REFLECTED IN THE NET
13 AMOUNTS REPORTED ON THE FEDERAL SCHEDULES PRESCRIBED IN SECTION 43-1701
14 MAY NOT BE TAKEN AGAINST ARIZONA SMALL BUSINESS ADJUSTED GROSS INCOME IN
15 COMPUTING ARIZONA SMALL BUSINESS TAXABLE INCOME.

16 ARTICLE 5. CREDITS

17 43-1741. Credit for income taxes paid to other states:
18 definitions

19 A. SUBJECT TO THE FOLLOWING CONDITIONS, RESIDENTS OF THIS STATE ARE
20 ALLOWED A CREDIT AGAINST THE TAXES IMPOSED BY THIS CHAPTER FOR NET INCOME
21 TAXES IMPOSED BY AND PAID TO ANOTHER STATE OR COUNTRY ON INCOME TAXABLE
22 UNDER THIS CHAPTER:

23 1. THE CREDIT IS ALLOWED ONLY FOR TAXES PAID TO THE OTHER STATE OR
24 COUNTRY ON INCOME THAT IS DERIVED FROM SOURCES WITHIN THAT STATE OR
25 COUNTRY AND THAT IS TAXABLE UNDER ITS LAWS IRRESPECTIVE OF THE RESIDENCE
26 OR DOMICILE OF THE RECIPIENT.

27 2. THE CREDIT IS NOT ALLOWED IF THE OTHER STATE OR COUNTRY ALLOWS
28 RESIDENTS OF THIS STATE A CREDIT AGAINST THE TAXES IMPOSED BY THAT STATE
29 OR COUNTRY FOR TAXES PAID OR PAYABLE UNDER THIS CHAPTER.

30 3. THE CREDIT MAY NOT EXCEED THE PROPORTION OF THE TAX PAYABLE
31 UNDER THIS CHAPTER AS THE SMALL BUSINESS INCOME SUBJECT TO TAX IN THE
32 OTHER STATE OR COUNTRY AND ALSO TAXABLE UNDER THIS CHAPTER BEARS TO THE
33 TAXPAYER'S ENTIRE SMALL BUSINESS INCOME ON WHICH THE TAX IS IMPOSED BY
34 THIS CHAPTER.

35 B. IF ANY TAXES PAID TO ANOTHER STATE OR COUNTRY FOR WHICH A
36 TAXPAYER HAS BEEN ALLOWED A CREDIT UNDER THIS SECTION ARE AT ANY TIME
37 CREDITED OR REFUNDED TO THE TAXPAYER:

38 1. THE TAXPAYER SHALL IMMEDIATELY REPORT THAT FACT TO THE
39 DEPARTMENT.

40 2. A TAX EQUAL TO THE CREDIT ALLOWED FOR THE TAXES CREDITED OR
41 REFUNDED BY THE OTHER STATE OR COUNTRY IS DUE AND PAYABLE FROM THE
42 TAXPAYER ON NOTICE AND DEMAND FROM THE DEPARTMENT.

43 3. INTEREST SHALL BE ADDED TO AND COLLECTED AS A PART OF THE TAX AT
44 THE RATE DETERMINED PURSUANT TO SECTION 42-1123 FROM THE DATE THE CREDIT
45 WAS ALLOWED UNDER THIS CHAPTER TO THE DATE OF THE NOTICE AND DEMAND.

1 4. IF THE TAX AND INTEREST ARE NOT PAID WITHIN TEN DAYS AFTER THE
2 DATE OF NOTICE AND DEMAND, THERE SHALL BE COLLECTED AS A PART OF THE TAX
3 INTEREST ON THE UNPAID AMOUNT OF TAX AND INTEREST AT THE RATE OF TWELVE
4 PERCENT A YEAR FROM THE DATE OF THE NOTICE AND DEMAND UNTIL THE AMOUNT IS
5 PAID.

6 C. THE CREDIT AGAINST THE TAXES IMPOSED BY THIS CHAPTER FOR NET
7 INCOME TAXES PAID TO ANOTHER STATE OR COUNTRY IS NOT ALLOWED TO ANY
8 TAXPAYER OR ANY CLASS OF TAXPAYERS IF THE ALLOWANCES OF THE CREDIT WILL
9 RESULT IN ANY INVALID OR ILLEGAL DISCRIMINATION AGAINST ANOTHER TAXPAYER
10 OR ANOTHER CLASS OF TAXPAYERS.

11 D. SUBJECT TO THE FOLLOWING CONDITIONS, A RESIDENT OF THIS STATE,
12 WHO IS ALSO CONSIDERED TO BE A RESIDENT OF ANOTHER STATE UNDER THE LAWS OF
13 THE OTHER STATE, IS ALLOWED A CREDIT AGAINST THE TAXES IMPOSED BY THIS
14 CHAPTER FOR NET INCOME TAXES IMPOSED BY AND PAID TO THAT STATE ON INCOME
15 TAXABLE UNDER THIS CHAPTER AS FOLLOWS:

16 1. THE CREDIT IS ALLOWED ONLY IF THE OTHER STATE TAXES THE INCOME
17 TO THE RESIDENT OF THIS STATE AND DOES NOT ALLOW THE TAXPAYER A CREDIT
18 AGAINST TAXES IMPOSED BY THAT STATE ON THAT INCOME FOR TAXES PAID OR
19 PAYABLE ON THAT INCOME UNDER THIS CHAPTER.

20 2. THE CREDIT IS ALLOWED ONLY FOR THE PROPORTION OF THE TAXES PAID
21 TO THE OTHER STATE AS THE INCOME TAXABLE UNDER THIS CHAPTER AND ALSO
22 SUBJECT TO TAX IN THE OTHER STATE BEARS TO THE ENTIRE INCOME UNDER THIS
23 CHAPTER ON WHICH THE TAXES PAID TO THE OTHER STATE ARE IMPOSED.

24 3. THE CREDIT MAY NOT EXCEED THE PROPORTION OF THE TAX PAYABLE
25 UNDER THIS CHAPTER AS THE INCOME TAXABLE UNDER THIS CHAPTER AND ALSO
26 SUBJECT TO TAX IN THE OTHER STATE BEARS TO THE ENTIRE INCOME TAXABLE UNDER
27 THIS CHAPTER.

28 4. FOR THE PURPOSE OF THE CREDIT ALLOWED UNDER THIS SUBSECTION,
29 "INCOME TAXABLE UNDER THIS CHAPTER AND ALSO SUBJECT TO TAX IN THE OTHER
30 STATE" MEANS INCOME THAT WOULD BE SOURCED TO THE OTHER STATE IF THE OTHER
31 STATE WERE IMPOSING ITS INCOME TAX ON THE TAXPAYER AS IF THE TAXPAYER WAS
32 A NONRESIDENT OF THAT OTHER STATE.

33 E. THE TAXPAYER MAY APPLY THE ALLOWABLE CREDIT ONLY AGAINST ARIZONA
34 INCOME TAX FOR THE SAME TAXABLE YEAR IN WHICH THE INCOME IS SUBJECT TO TAX
35 IN THE OTHER STATE.

36 F. A SMALL BUSINESS TAXPAYER WHO PARTICIPATES IN A COMPOSITE INCOME
37 TAX RETURN IN ANOTHER STATE MAY CLAIM A CREDIT FOR TAXES PAID TO THE OTHER
38 STATE IF THE TAXPAYER MEETS ALL THE REQUIREMENTS OF THIS SECTION AND THE
39 TAXES PAID TO THE OTHER STATE ARE IMPOSED ON AND PAID DIRECTLY BY THE
40 SMALL BUSINESS TAXPAYER AND NOT THE ENTITY. FOR THE PURPOSES OF THIS
41 SUBSECTION, TAXES ARE CONSIDERED TO BE IMPOSED ON AND PAID DIRECTLY BY THE
42 SMALL BUSINESS TAXPAYER UNDER ONE OR MORE OF THE FOLLOWING CIRCUMSTANCES:

43 1. THE SMALL BUSINESS TAXPAYER MAKES DIRECT PAYMENT TO THE OTHER
44 STATE.

1 2. THE SMALL BUSINESS TAXPAYER MAKES DIRECT PAYMENT TO THE ENTITY
2 FILING THE COMPOSITE INCOME TAX RETURN.

3 3. THE ENTITY CHARGES THE SMALL BUSINESS TAXPAYER'S LOAN ACCOUNT
4 FOR THE AMOUNT OF THE TAX.

5 4. THE ENTITY REDUCES THE SMALL BUSINESS TAXPAYER'S CAPITAL
6 ACCOUNT.

7 G. IF THE TAXPAYER CLAIMS THE CREDIT FOR TAXES PAID TO A FOREIGN
8 COUNTRY, THE TAXPAYER SHALL USE THE CONVERSION RATE IN EFFECT ON THE DATE
9 THE TAXPAYER PAID THE TAXES TO THE FOREIGN COUNTRY.

10 H. FOR THE PURPOSES OF THIS SECTION:

11 1. "COMPOSITE INCOME TAX RETURN" MEANS A SINGLE INCOME TAX RETURN
12 THAT IS FILED WITH ANOTHER STATE ON BEHALF OF A GROUP OF SMALL BUSINESS
13 TAXPAYERS WHO ARE PARTNERS OR SHAREHOLDERS OF THE PARTNERSHIP OR S
14 CORPORATION THAT FILED THE RETURN ON THEIR BEHALF.

15 2. "ENTIRE SMALL BUSINESS INCOME ON WHICH THE TAX IS IMPOSED BY
16 THIS CHAPTER" MEANS ARIZONA SMALL BUSINESS ADJUSTED GROSS INCOME AS
17 DEFINED AND COMPUTED UNDER SECTION 43-1701.

18 3. "INCOME SUBJECT TO TAX IN THE OTHER STATE OR COUNTRY AND ALSO
19 TAXABLE UNDER THIS CHAPTER" MEANS THE PORTION OF INCOME THAT IS INCLUDED
20 IN THE ENTIRE INCOME ON WHICH THE TAX IS IMPOSED BY THIS CHAPTER THAT IS
21 ALSO INCLUDED IN THE ENTIRE SMALL BUSINESS INCOME ON WHICH THE OTHER
22 STATE'S OR COUNTRY'S TAX IS IMPOSED. THE TAXPAYER SHALL INCREASE OR REDUCE
23 THE PORTION OF INCOME THAT IS INCLUDED IN THE ENTIRE SMALL BUSINESS INCOME
24 ON WHICH THE TAX IS IMPOSED BY THIS CHAPTER BY ANY RELATED ADDITIONS UNDER
25 SECTION 43-1021 AND BY ANY RELATED SUBTRACTIONS UNDER SECTION 43-1022. THE
26 TAXPAYER SHALL INCREASE OR REDUCE THE PORTION OF INCOME THAT IS INCLUDED
27 IN THE ENTIRE SMALL BUSINESS INCOME ON WHICH THE OTHER STATE'S OR
28 COUNTRY'S TAX IS IMPOSED BY ANY RELATED ADDITIONS AND SUBTRACTIONS UNDER
29 THE OTHER STATE'S EQUIVALENT OF SECTIONS 43-1021 AND 43-1022, AS
30 APPLICABLE.

31 4. "NET INCOME TAX":

32 (a) MEANS:

33 (i) A TAX THAT GRANTS DEDUCTIONS OR EXEMPTIONS FROM GROSS INCOME.

34 (ii) ANY TAX IMPOSED BY ANOTHER COUNTRY THAT QUALIFIES FOR A CREDIT
35 UNDER SECTIONS 901 AND 903 OF THE INTERNAL REVENUE CODE AND THE
36 REGULATIONS UNDER THOSE SECTIONS, EVEN IF WITHHELD FROM INCOME.

37 (b) EXCEPT AS SPECIFICALLY INCLUDED IN SUBDIVISION (a) OF THIS
38 PARAGRAPH, DOES NOT INCLUDE:

39 (i) A SYSTEM OF TAXATION THAT ASSESSES TAXES ON GROSS INCOME, GROSS
40 RECEIPTS OR GROSS DIVIDENDS.

41 (ii) TAXES WITHHELD FROM INCOME.

42 5. "SMALL BUSINESS INCOME ON WHICH THE OTHER STATE'S OR COUNTRY'S
43 TAX IS IMPOSED" MEANS THE OTHER STATE'S OR COUNTRY'S INCOME COMPUTED UNDER
44 THE EQUIVALENT OF SECTION 43-1094 BUT DOES NOT INCLUDE ANY EXEMPTION
45 ALLOWABLE UNDER THE EQUIVALENT OF SECTION 43-1023.

Passed the House June 25, 2021,

by the following vote: 31 Ayes,
25 Nays, 4 Not Voting

[Signature]
Speaker of the House
Pro Tempore

[Signature]
Chief Clerk of the House

Passed the Senate March 3, 2021,

by the following vote: 16 Ayes,
14 Nays, 0 Not Voting

[Signature]
President of the Senate

[Signature]
Secretary of the Senate

**EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF GOVERNOR**

This Bill was received by the Governor this

_____ day of _____, 20____,

at _____ o'clock _____ M.

Secretary to the Governor

Approved this _____ day of

_____, 20____,

at _____ o'clock _____ M.

Governor of Arizona

S.B. 1783

**EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF SECRETARY OF STATE**

This Bill was received by the Secretary of State

this _____ day of _____, 20____,

at _____ o'clock _____ M.

Secretary of State

SENATE CONCURS IN HOUSE
AMENDMENTS AND FINAL PASSAGE

Passed the Senate June 29, 2021

by the following vote: 16 Ayes,

13 Nays, 1 Not Voting

Karen Farn

President of the Senate

Susan Reeves

Secretary of the Senate

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF GOVERNOR

This Bill received by the Governor this

30 day of June, 2021

at 11:05 o'clock A M.

Ryan Sells

Secretary to the Governor

Approved this 9 day of

July 2021

at 8:22 o'clock A M.

Douglas Ducey

Governor of Arizona

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF SECRETARY OF STATE

This Bill received by the Secretary of State

this 9th day of July, 2021

at 3:45 o'clock P M.

[Signature]

Secretary of State

S.B. 1783

EXHIBIT B

From: Hans Olofsson <HOlofsson@azleg.gov>

Sent: Friday, June 25, 2021 10:10 AM

To: Mitzi Epstein <mepstein@azleg.gov>

Cc: Paulino Valerio <pvalerio@azleg.gov>; Richard Stavneak <jlbcDirector@azleg.gov>; Stefan Shepherd <SShepherd@azleg.gov>; Jack Brown <JBrown@azleg.gov>

Subject: Impact of SB 1783 on Proposition 208 Revenues

Representative Epstein,

This email is in response to your request for the impact of the attached SB 1783 amendment on Proposition 208. SB 1783 establishes new tax rates for certain types of income. Under Proposition 208, taxpayers pay a 3.5% surcharge if their income is above \$250,000 for a single household and \$500,000 for a married filing jointly household. Due to provisions in the Revenue BRB, these households will pay an overall income tax rate of 4.5%. Given that the 4.5% income tax rate is higher than the SB 1783 rates, we assume that the \$250,000/\$500,000 households will shift their SB 1783 income to the lower tax rates.

Proposition 208 is estimated to generate \$836 million annually from the 3.5% surcharge. Our analysis assumes that slightly less than 35% of this amount, or about \$292 million, is generated from taxable income as defined in SB1783. Due to the lower rates, we assume that taxpayers would shift their SB 1783 taxable income from the regular income tax, which is subject to the Proposition 208 surcharge to SB1783, which is not subject to the surcharge. This means that Proposition 208 revenues would be reduced by an estimated \$292 million.

Please let us know if you have any additional questions.

Hans Olofsson, JLBC

602-926-5490