

The background of the slide features a large, faint, circular seal of the Arizona State Legislature. The seal contains the text "SEAL OF THE STATE OF ARIZONA" around the top and "LEGISLATURE" around the bottom. In the center, there is a shield with a sun, a plow, and a sheaf of wheat, with the year "1912" at the bottom. The seal is rendered in a light brown color.

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

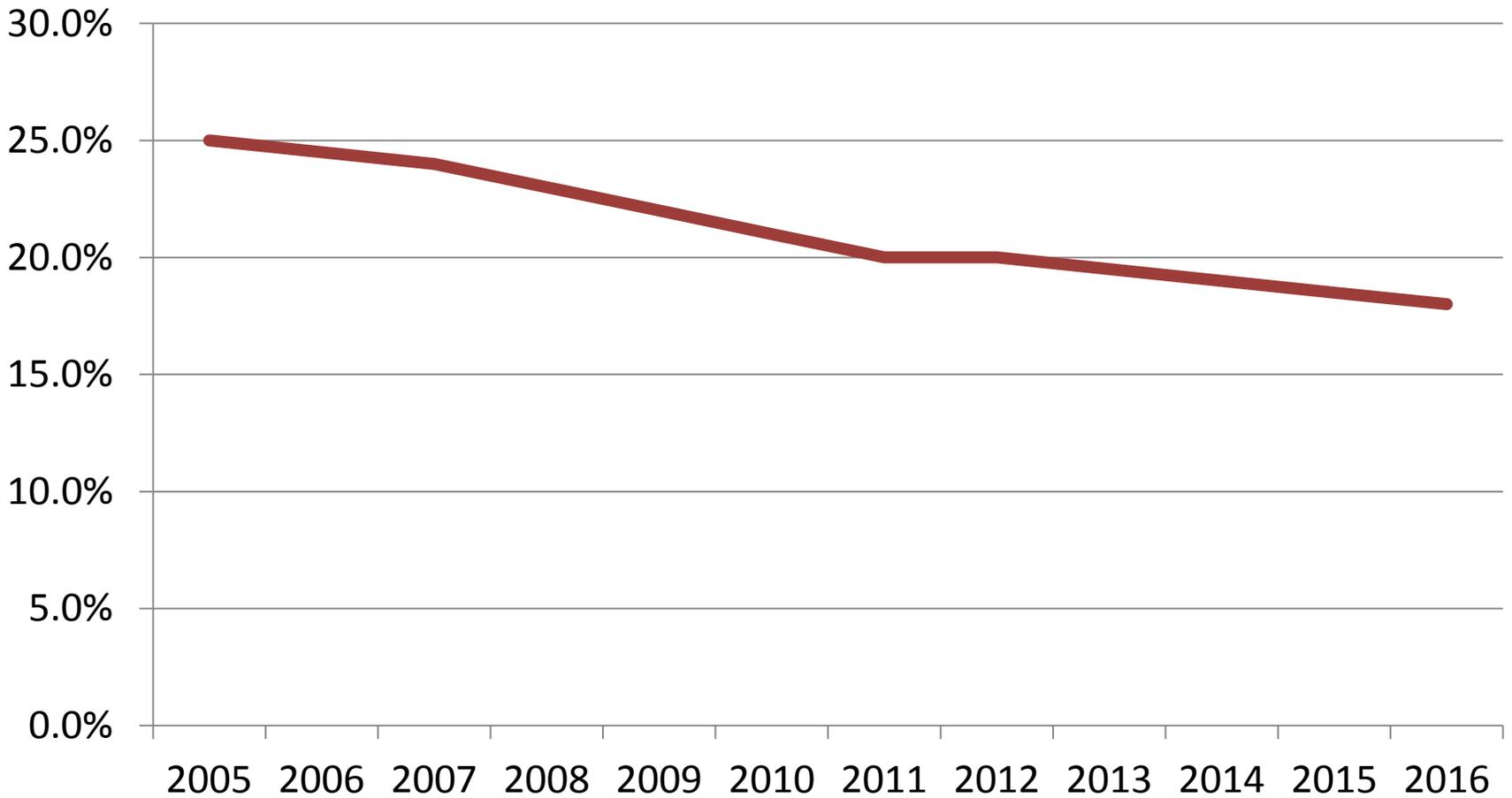


Flatter & fairer: The corporate income tax rate goes to 4.9%





Flatter & fairer: Class 1 assessment ratios go to 18% of full cash value



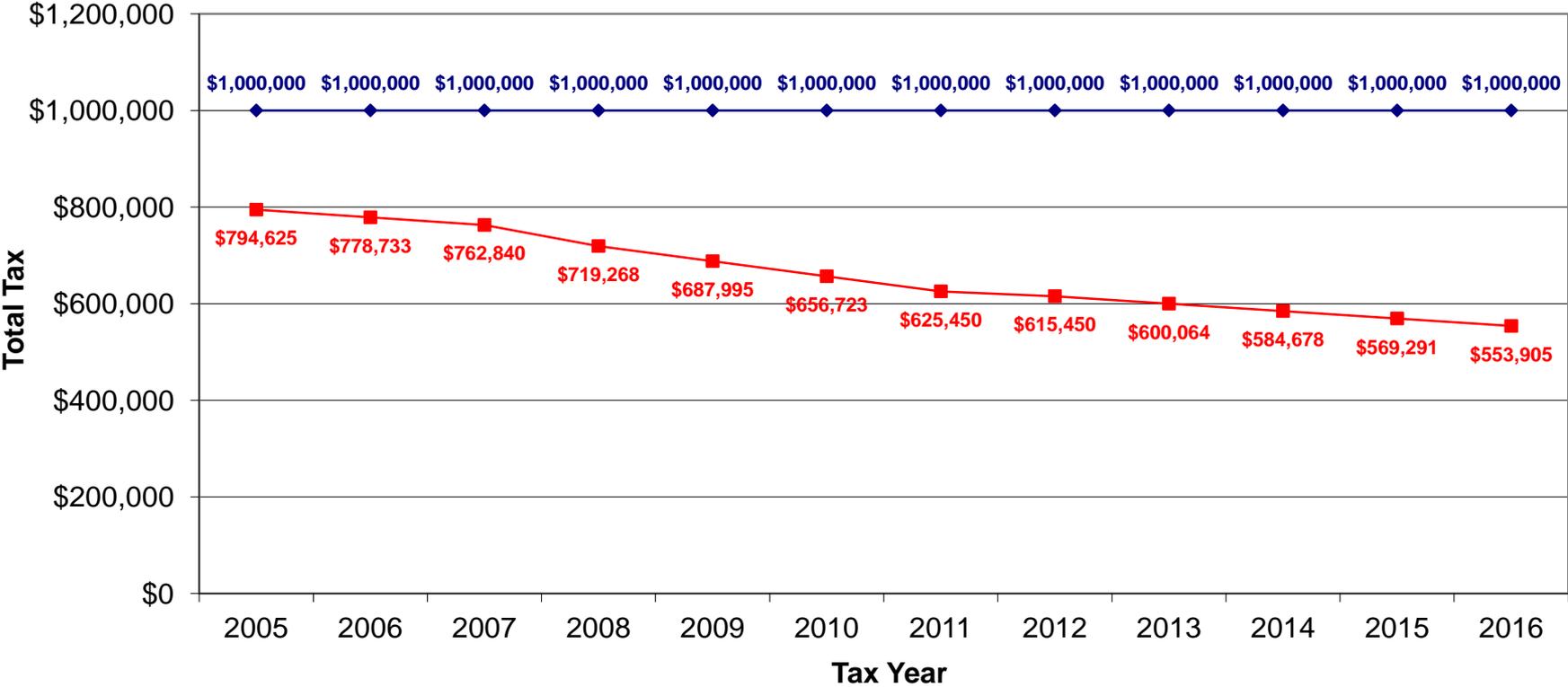


Example: \$25 M land and building, \$15 M machinery, equipment, computers

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**



TPT Simplification Task Force

- 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