

Arizona Competitiveness Package

HB 2001 Summary



Arizona Commerce Authority

Repeals the Department of Commerce and creates the new Arizona Commerce Authority. This will have the effect of eliminating waste in government and creating a private sector entity made up of 17 top CEO's in the state. Arizona's State Speaker and Senate President will be ex officio members.

Focus: Business attraction, retention and expansion in key base industries: aerospace and defense, renewable energy and science-technology.

Governance: 17 private sector voting members and ex-officio members, including the Senate President and the Speaker of the House.

Funding: Growth in payroll withholdings (not a new tax - utilizing existing withholdings). Annual operations (\$10M) and Deal Closing Fund (\$25M) will be funded from incremental growth of payroll withholdings.

Arizona Competes Fund

This has also been labeled the "Deal Closing Fund." To qualify, a company will need to achieve certain performance measures, average employees' wages above the county's average wage, and other requirements similar to the existing Job Training program. The Arizona Competes Fund will generate dollars for investment in business projects that stimulate and promote industries that provide stable, high-wage jobs. The program will be funded through increases in corporate income tax withholding, and capped at \$25 million.

Why: Arizona will join the top-third of states with closing funds. Nineteen states including Texas, Florida, Virginia and North Carolina have aggressive programs. This will replace Arizona's inactive Commerce and Economic Development Commission (CEDC) deal closing fund.

Safeguards: Funds provided to projects must be **performance-based** and result in a **net benefit** to the state; consistent with the statutory gift clause.

An **economic impact analysis by an independent third party** will be conducted on all projects to determine potential return on investment benefits to the State. All funds will be awarded with contractual provisions for performance and "claw-back" of funds for non-performing projects.

Arizona Job Training Program

Reauthorizes the existing job training program, a job-specific reimbursable grant program that provides training plans for employers creating new jobs or increasing the skill and wage levels of current employees.

This program is recognized as one of the best program models in the country.

Quality Jobs Tax Credit

Replace Arizona’s expiring Enterprise Zone Program with a new Quality Jobs Tax Credit for new job creation statewide. This tax credit is performance based on **net new job creation** with discreet eligibility qualifications for urban and rural businesses as follows:



Area	Definition	Min. # of New Jobs	Min. Capital Investment	Qualified Job
Metro	Counties with a population of 800,000 or more, excluding municipalities of 50,000 or less	25	\$5M	Pays 100% of median county wage and 65% of health insurance costs
Rural	Counties with a population of less than 800,000, and municipalities of less than 50,000 within counties of more than 800,000	5	\$1M	Pays 100% of median county wage and 65% of health insurance costs

Tax credit for each new qualified job created is **\$3,000 per year for three years** and is limited to 400 jobs per employer per year. Credits can be carried forward for five years. The program is capped at 10,000 jobs per year.

Currently, 38 States offer job tax credits. This program will increase Arizona’s competitiveness ranking from number 9 to number 3 in the Mountain West.

100% Sales Factor

Increases the electable sales factor for multi-state corporations from 80% to 100% between FY 2014 and FY 2017. The increase is to occur in equal increments over a four-year period. A corporation that conducts business both in-state and out-of-state must apportion its income from business activity based on the ratio of property, payroll, and sales in Arizona compared to the corporation’s property, payroll, and sales everywhere.

This change will make Arizona one of 18 states that have a 100 percent sales factor. Our competitiveness ranking will jump from 19 to one of the most competitive nationally.

Corporate Income Tax

Reduces the corporate income tax rate from 6.97% to below 4.9%, between FY 2014 and FY 2017. The reduction is to occur in equal increments over a four-year period.

This change will improve Arizona’s national ranking from 24 to number 5 nationally, and from 6 to number 3 in the Mountain West.

Property Tax Reform

Personal Property: Accelerated Depreciation - Accelerates depreciation schedules for prospective acquisitions of commercial personal property.

Personal Property Exemption - Increases the exemption on personal property from the current \$67,000 in Tax Year 2010 to \$79,000 in Tax Year 2011 by using the Employment Cost Index (ECI) rather than the Gross Domestic Product Implicit Price Deflator (GDP IPD).

Commercial Property: Reduces the commercial property assessment ratio to 18%. Increases in the Homeowners Rebate to offset change in the assessment ratio.



Angel Tax Credit/Capital Gains

- **Increases** the eligibility criteria for the Angel Investment Tax Credit for a qualified small business from \$2 million to \$10 million in total assets.
- **Eliminates** the capital gains tax on income derived from investments in qualified small businesses that have been certified by the Arizona Commerce Authority.
- **Decreases** long-term capital gains (investments held longer than a year).

This unique program advances Arizona's competitive position in encouraging small business growth.

R&D Tax Credit

Arizona provides a tax credit for investments in research and development in excess of expenditures from the previous year. The existing program provides a state tax credit between 15% and 24% of qualified R&D expenses, depending on the level of the increase.

The Arizona Competitiveness Package legislation enhances the tax credit by 10% if increased R&D expenditures are made in cooperation with an Arizona university. The enhancement to the program is capped at \$10 million in tax credits per year, which will represent an increase in \$100 million of research conducted in partnership with our public universities.

Arizona will be among the top three states with tax credits to encourage such private sector/public research university collaboration.

For more information contact:
Arizona Commerce Authority (ACA) at 602-771-1100 or www.azcommerce.com

For a summary of HB2001, or to view the bill in its entirety, go to:
<http://www.azleg.gov/DocumentsForBill.asp?Bill Number=HB2001&Session ID=105>.