

Arizona Competitiveness Package

Legislative Agenda:

Repeal the 50+ statutory mandates and functions of the Department of Commerce.
Enact the proposed Competitiveness Package below.

1. Arizona Commerce Authority

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.

2. Arizona Competes – Deal Closing Fund

Purpose: Make Arizona competitive to attract global high-impact base industry projects that provide stable, high-wage jobs.

Funds for deal closing would only be utilized in highly competitive situations and only for projects with a substantial economic and fiscal impact to a state and community.

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 our 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.

3. Arizona Job Training Program

Reauthorize the existing Job Training Program, a job-specific reimbursable grant program that supports the design and delivery of customized 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 nation.**

4. 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	Minimum # of Net New Jobs and Capital Investment	Qualified job
Metro	Counties with a population of 750,000 or more, excluding municipalities of 50,000 or less	25 Jobs \$5M	100% of median county wage and 65% of health insurance costs
Rural	Counties with a population of less than 750,000, and municipalities of less than 50,000 within counties of more than 750,000.	5 Jobs \$1M	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.

5. 100% Sales Factor

Three factors are currently employed to determine the percentage of corporate income that is subject to taxation in the state of Arizona – payroll, property value, and sales. Companies may elect to employ the 80% Sales Factor formula, which assigns a higher apportionment to the in-state sales factor to calculate state taxes. This reduces taxes for export based companies, while encouraging capital investment and employment growth.

Under proposed legislation, the electable sales factor for multi state corporations would be **increased incrementally from 80% to 100%** between FY 2015 and FY 2018.

This change would 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.**

6. Corporate Income Tax

Reduce the corporate tax rate from 6.97% to 4.9% between FY 2015 and FY 2018.

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

7. Property Tax Reform

- 1) Enhance accelerated depreciation schedules for personal property by an additional 5% for prospective acquisitions of commercial personal property initially placed on the tax rolls on or after 2012.
- 2) Increase the exemption on personal property using the Employment Cost Index.
- 3) Reduce the business property tax (class 1) assessment ratio incrementally from 20% to 18% by 2016.
- 4) Reduce the agricultural (class 2) assessment ratio from 16% to 15% in 2016.
- 5) Adjust the homeowner rebate to offset the impact on owner-occupied homes (class 3) and reform the homeowner rebate process to ensure that class 3 includes only primary residences.

8. Small Business Capital Investment/Capital Gains

This program encourages investors to investment in Arizona small businesses. The proposed legislation would extend this program for five more years and will include the following:

- **Eliminate** capital gains tax on income derived from investments in qualified small businesses, as certified by the Arizona Commerce Authority.
- **Expand** eligibility criteria to increase the number of qualified small businesses.

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

9. R&D Tax Credit

The state currently 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.

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

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