

REFERENCE TITLE: **income tax; credit; labor costs**

State of Arizona  
Senate  
Fifty-sixth Legislature  
First Regular Session  
2023

# **SB 1108**

Introduced by  
Senators Rogers: Borrelli

AN ACT

AMENDING SECTIONS 43-206 AND 43-222, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1079; AMENDING TITLE 43, CHAPTER 11, ARTICLE 6, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1166; RELATING TO THE 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 43-206, Arizona Revised Statutes, is amended to  
3 read:

4 43-206. Urban revenue sharing fund; allocation; distribution;  
5 withholding

6 A. The urban revenue sharing fund is established. Through fiscal  
7 year 2022-2023, the fund consists of an amount equal to fifteen percent of  
8 the net proceeds of the state income taxes for the fiscal year two years  
9 preceding the current fiscal year. Beginning in fiscal year 2023-2024,  
10 the fund consists of an amount equal to eighteen percent of the net  
11 proceeds of the state income taxes for the fiscal year two years preceding  
12 the current fiscal year. The fund shall be distributed to incorporated  
13 cities and towns as provided in this section, except that a city or town  
14 shall receive at least an amount equal to what a city or town with a  
15 population of fifteen hundred or more persons would receive. The transfer  
16 of net proceeds prescribed by section 49-282, subsection B does not affect  
17 the calculation of net proceeds prescribed by this subsection.

18 B. Each city or town shall share in the urban revenue sharing fund  
19 in the proportion that the population of each bears to the population of  
20 all. Except as provided by sections 42-5033 and 42-5033.01, the population  
21 of a city or town as determined by the most recent United States decennial  
22 census plus any revisions to the decennial census certified by the United  
23 States CENSUS bureau ~~of the census~~ shall be used as the basis for  
24 apportioning monies pursuant to this subsection.

25 C. The treasurer, on instruction from the department, shall  
26 transmit, not later than the tenth day of each month, to each city or town  
27 an amount equal to one-twelfth of that city's or town's total entitlement  
28 for the current fiscal year from the urban revenue sharing fund as  
29 determined by the department.

30 D. A newly incorporated city or town shall share in the urban  
31 revenue sharing fund beginning the first month of the first full fiscal  
32 year following incorporation.

33 E. On receipt of a certificate of default from the greater Arizona  
34 development authority pursuant to section 41-2257 or 41-2258, the state  
35 treasurer, to the extent not otherwise expressly prohibited by law, shall  
36 withhold from the next succeeding distribution of monies pursuant to this  
37 section due to the city or town the amount specified in the certificate of  
38 default and immediately deposit the amount withheld in the greater Arizona  
39 development authority revolving fund. The state treasurer shall continue  
40 to withhold and deposit the monies until the authority certifies to the  
41 state treasurer that the default has been cured. The state treasurer may  
42 not withhold any amount that is necessary, as certified by the defaulting  
43 political subdivision to the state treasurer and the authority, to make  
44 any required deposits then due for the payment of principal and interest  
45 on bonds of the political subdivision that were issued before the date of

1 the loan repayment agreement or bonds and that have been secured by a  
2 pledge of distributions made pursuant to this section.

3 F. Except as otherwise provided by this subsection, on notice from  
4 the attorney general pursuant to section 41-194.01, subsection B,  
5 paragraph 1 that an ordinance, regulation, order or other official action  
6 adopted or taken by the governing body of a city or town violates state  
7 law or the Constitution of Arizona, the state treasurer shall withhold the  
8 distribution of monies pursuant to this section to the affected city or  
9 town and shall continue to withhold monies pursuant to this subsection  
10 until the attorney general certifies to the state treasurer that the  
11 violation has been resolved. The state treasurer shall redistribute the  
12 monies withheld pursuant to this subsection among all other cities and  
13 towns in proportion to their population as provided by subsection B of  
14 this section. The state treasurer shall not withhold any amount that the  
15 city or town certifies to the attorney general and the state treasurer as  
16 being necessary to make any required deposits or payments for debt service  
17 on bonds or other long-term obligations of the city or town that were  
18 issued or incurred before committing the violation.

19 G. ON NOTICE FROM THE DEPARTMENT PURSUANT TO SECTION 43-1079 OR  
20 43-1166, EACH MONTH THE STATE TREASURER SHALL WITHHOLD FROM A CITY OR TOWN  
21 AN AMOUNT EQUAL TO ONE-TWELFTH OF THE TOTAL AMOUNT OF TAX CREDITS CLAIMED  
22 UNDER SECTIONS 43-1079 AND 43-1166 FOR THE PRIOR TAXABLE YEAR BY TAXPAYERS  
23 LOCATED IN THAT CITY OR TOWN FROM THAT CITY'S OR TOWN'S DISTRIBUTION OF  
24 MONIES PURSUANT TO THIS SECTION AND DEPOSIT THAT AMOUNT IN THE STATE  
25 GENERAL FUND. THE STATE TREASURER SHALL NOT WITHHOLD ANY AMOUNT THAT THE  
26 CITY OR TOWN CERTIFIES TO THE DEPARTMENT AND THE STATE TREASURER AS BEING  
27 NECESSARY TO MAKE ANY REQUIRED DEPOSITS OR PAYMENTS FOR DEBT SERVICE ON  
28 BONDS OR OTHER LONG-TERM OBLIGATIONS OF THE CITY OR TOWN THAT WERE ISSUED  
29 OR INCURRED BY A PLEDGE OF DISTRIBUTIONS MADE PURSUANT TO THIS SECTION.

30 Sec. 2. Section 43-222, Arizona Revised Statutes, is amended to  
31 read:

32 43-222. Income tax credit review schedule

33 The joint legislative income tax credit review committee shall  
34 review the following income tax credits:

35 1. For years ending in 0 and 5, sections 43-1079.01, 43-1088,  
36 43-1089.04, 43-1167.01 and 43-1175.

37 2. For years ending in 1 and 6, sections 43-1072.02, 43-1074.02,  
38 43-1075, 43-1076.01, 43-1077, 43-1078, 43-1083, 43-1083.02, 43-1162,  
39 43-1164.03 and 43-1183.

40 3. For years ending in 2 and 7, sections 43-1073, 43-1082, 43-1085,  
41 43-1086, 43-1089, 43-1089.01, 43-1089.02, 43-1089.03, 43-1164,  
42 43-1165, and 43-1181.

43 4. For years ending in 3 and 8, sections 43-1074.01, 43-1079,  
44 43-1166, 43-1168, 43-1170 and 43-1178.

1           5. For years ending in 4 and 9, sections 43-1073.01, 43-1081.01,  
2 43-1083.03, 43-1084, 43-1164.04, 43-1164.05 and 43-1184.

3           Sec. 3. Title 43, chapter 10, article 5, Arizona Revised Statutes,  
4 is amended by adding section 43-1079, to read:

5           43-1079. Credit for increased hourly labor costs; definitions

6           A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2023, A  
7 CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR A PORTION OF  
8 A TAXPAYER'S INCREASED HOURLY LABOR COSTS THAT RESULTS FROM PAYING A LOCAL  
9 MINIMUM WAGE THAT IS MORE THAN THE STATE MINIMUM WAGE.

10          B. THE AMOUNT OF THE CREDIT IS TEN PERCENT OF THE DIFFERENCE  
11 BETWEEN THE AMOUNT OF HOURLY LABOR COSTS THE EMPLOYER ACTUALLY PAID TO  
12 EMPLOYEES AND THE AMOUNT OF HOURLY LABOR COSTS THAT THE EMPLOYER WOULD  
13 HAVE PAID TO EMPLOYEES IF THE LOCAL MINIMUM WAGE WAS THE SAME AS THE STATE  
14 MINIMUM WAGE.

15          C. TO QUALIFY FOR A CREDIT UNDER THIS SECTION, THE EMPLOYER SHALL:

16           1. EMPLOY EMPLOYEES WHO WORK IN A CITY OR TOWN THAT HAS ADOPTED A  
17 LOCAL MINIMUM WAGE.

18           2. CERTIFY TO THE DEPARTMENT, ON A FORM PRESCRIBED BY THE  
19 DEPARTMENT, THE AMOUNT OF HOURLY LABOR COSTS THE EMPLOYER ACTUALLY PAID TO  
20 EMPLOYEES AND THE AMOUNT OF HOURLY LABOR COSTS THAT THE EMPLOYER WOULD  
21 HAVE PAID TO EMPLOYEES IF THE LOCAL MINIMUM WAGE WAS THE SAME AS THE STATE  
22 MINIMUM WAGE.

23          D. IF THE ALLOWABLE TAX CREDIT EXCEEDS THE INCOME TAXES OTHERWISE  
24 DUE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO TAXES DUE UNDER THIS  
25 TITLE, THE AMOUNT OF THE CLAIM NOT USED TO OFFSET TAXES UNDER THIS TITLE  
26 MAY BE CARRIED FORWARD FOR NOT MORE THAN FIVE CONSECUTIVE TAXABLE YEARS AS  
27 A CREDIT AGAINST SUBSEQUENT YEARS' INCOME TAX LIABILITY.

28          E. CO-OWNERS OF A BUSINESS, INCLUDING PARTNERS IN A PARTNERSHIP AND  
29 SHAREHOLDERS OF AN S CORPORATION AS DEFINED IN SECTION 1361 OF THE  
30 INTERNAL REVENUE CODE, MAY EACH CLAIM ONLY THE PRO RATA SHARE OF THE  
31 CREDIT ALLOWED UNDER THIS SECTION BASED ON THE OWNERSHIP INTEREST. THE  
32 TOTAL OF THE CREDITS ALLOWED ALL SUCH OWNERS MAY NOT EXCEED THE AMOUNT  
33 THAT WOULD HAVE BEEN ALLOWED A SOLE OWNER.

34          F. ON OR BEFORE THE BEGINNING OF EACH FISCAL YEAR, THE DEPARTMENT  
35 SHALL NOTIFY THE STATE TREASURER OF EACH CITY OR TOWN IN WHICH AN EMPLOYEE  
36 OF A TAXPAYER WHO CLAIMED A CREDIT UNDER THIS SECTION WORKS AND THE TOTAL  
37 AMOUNT TO WITHHOLD FROM THAT CITY'S OR TOWN'S URBAN REVENUE SHARING  
38 DISTRIBUTION UNDER SECTION 43-206 OVER THE COURSE OF THAT FISCAL YEAR TO  
39 REIMBURSE THIS STATE FOR THE AMOUNT OF TAX CREDITS CLAIMED UNDER THIS  
40 SECTION FOR THE TAXABLE YEAR.

1 G. FOR THE PURPOSES OF THIS SECTION:

2 1. "LOCAL MINIMUM WAGE" MEANS A MINIMUM WAGE ESTABLISHED BY A CITY  
3 OR TOWN PURSUANT TO SECTION 23-364, SUBSECTION I THAT IS MORE THAN THE  
4 STATE MINIMUM WAGE.

5 2. "STATE MINIMUM WAGE" MEANS THE MINIMUM WAGE ESTABLISHED BY THIS  
6 STATE PURSUANT TO SECTION 23-363.

7 Sec. 4. Title 43, chapter 11, article 6, Arizona Revised Statutes,  
8 is amended by adding section 43-1166, to read:

9 43-1166. Credit for increased hourly labor costs; definitions

10 A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2023, A  
11 CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR A PORTION OF  
12 A TAXPAYER'S INCREASED HOURLY LABOR COSTS THAT RESULTS FROM PAYING  
13 EMPLOYEES A LOCAL MINIMUM WAGE THAT IS MORE THAN THE STATE MINIMUM WAGE.

14 B. THE AMOUNT OF THE CREDIT IS TEN PERCENT OF THE DIFFERENCE  
15 BETWEEN THE AMOUNT OF HOURLY LABOR COSTS THE EMPLOYER ACTUALLY PAID TO  
16 EMPLOYEES AND THE AMOUNT OF HOURLY LABOR COSTS THAT THE EMPLOYER WOULD  
17 HAVE PAID TO EMPLOYEES IF THE LOCAL MINIMUM WAGE WAS THE SAME AS THE STATE  
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23 DEPARTMENT, THE AMOUNT OF HOURLY LABOR COSTS THE EMPLOYER ACTUALLY PAID TO  
24 EMPLOYEES AND THE AMOUNT OF HOURLY LABOR COSTS THAT THE EMPLOYER WOULD  
25 HAVE PAID TO EMPLOYEES IF THE LOCAL MINIMUM WAGE WAS THE SAME AS THE STATE  
26 MINIMUM WAGE.

27 D. IF THE ALLOWABLE TAX CREDIT EXCEEDS THE INCOME TAXES OTHERWISE  
28 DUE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO TAXES DUE UNDER THIS  
29 TITLE, THE AMOUNT OF THE CLAIM NOT USED TO OFFSET TAXES UNDER THIS TITLE  
30 MAY BE CARRIED FORWARD FOR NOT MORE THAN FIVE CONSECUTIVE TAXABLE YEARS AS  
31 A CREDIT AGAINST SUBSEQUENT YEARS' INCOME TAX LIABILITY.

32 E. CO-OWNERS OF A BUSINESS, INCLUDING PARTNERS IN A PARTNERSHIP,  
33 MAY EACH CLAIM ONLY THE PRO RATA SHARE OF THE CREDIT ALLOWED UNDER THIS  
34 SECTION BASED ON THE OWNERSHIP INTEREST. THE TOTAL OF THE CREDITS ALLOWED  
35 ALL SUCH OWNERS MAY NOT EXCEED THE AMOUNT THAT WOULD HAVE BEEN ALLOWED A  
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39 OF A TAXPAYER THAT CLAIMED A CREDIT UNDER THIS SECTION WORKS AND THE TOTAL  
40 AMOUNT TO WITHHOLD FROM THAT CITY'S OR TOWN'S URBAN REVENUE SHARING  
41 DISTRIBUTION UNDER SECTION 43-206 OVER THE COURSE OF THAT FISCAL YEAR TO  
42 REIMBURSE THIS STATE FOR THE AMOUNT OF TAX CREDITS CLAIMED UNDER THIS  
43 SECTION FOR THE TAXABLE YEAR.

1 G. FOR THE PURPOSES OF THIS SECTION:

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3 OR TOWN PURSUANT TO SECTION 23-364, SUBSECTION I THAT IS MORE THAN THE  
4 STATE MINIMUM WAGE.

5 2. "STATE MINIMUM WAGE" MEANS THE MINIMUM WAGE ESTABLISHED BY THIS  
6 STATE PURSUANT TO SECTION 23-363.

7 Sec. 5. Purpose

8 Pursuant to section 43-223, Arizona Revised Statutes, the  
9 legislature enacts sections 43-1079 and 43-1166, Arizona Revised Statutes,  
10 as added by this act, to provide relief for businesses that are affected  
11 by burdensome local minimum wage increases.